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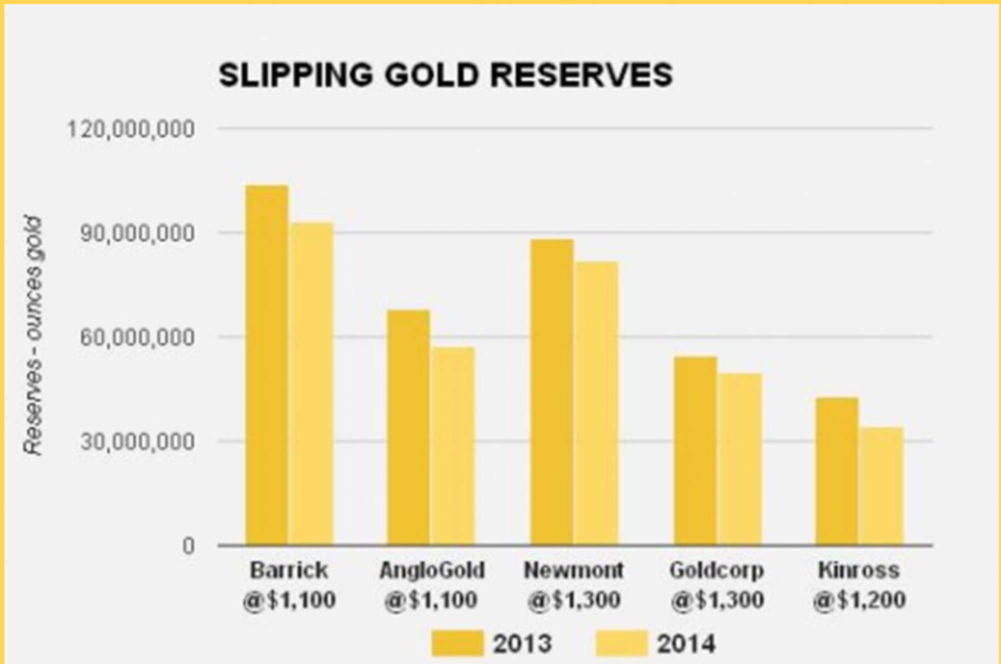
RESOURCES BULLETIN by Gavin Wendt

Sliding gold reserves

In my view one of the most concerning aspects (or encouraging, depending on your point of view) of the world gold scene at the present time is that of gold supply. If we take a quick look at the reserves position of the world's Top 5 gold producers (Barrick, AngloGold, Newmont, Goldcorp and Kinross) there is a glaring problem – gold reserves are on the slide for all of the top miners.

The latest data underlines what is a deteriorating trend - on average proven and probable gold reserves slipped by 12% from 2013 to 2014 among the top five gold miners. The reserve declines ranged between 9% and 20%, representing between 5 million and 11 million ounces gold.



Significantly too, all top five gold miners used the same gold price assumptions in 2013 and 2014 in calculating their own reserves, which means that reserve declines reflected asset sales and depletion more than they have in recent years (when variations in the underlying gold price had more of an impact).

As gold producers have reduced corporate risk (by way of reduced asset purchases, corporate deals, takeovers etc) and eliminated exploration risk (by way of massive cuts to exploration programs), new discoveries have fallen - and so too has the capacity for gold producers to boost (or even maintain) gold reserves. This has been exacerbated by an industry focused on cost control, after criticism for years of maintaining operations with marginal or sub-par returns.

All of this reinforces our positive outlook on gold – with strong Asian gold demand and the transfer of gold from West to East, combining with a clouded future supply-side picture. I maintain my $1,200 gold support level for 2015, as any move on US interest rates seems unlikely anytime soon.

Mining chiefs share positive outlook on copper

I've long held the view that one of the most dangerous pastimes as far as market-watchers are concerned is to predict surpluses in the copper market. Whenever experts stick their necks out and point to excess stockpiles in their market and production gluts, something untoward tends to happen. In the copper market this tends to involve any (or all) of the following at the world's major mines – labour unrest, geological issues, political unrest, social unrest and grade issues.

Which brings us to the current copper market. As Bloomberg pointed out recently in an interesting article, "The world's biggest mining companies haven't agreed on much lately as they argue about how to deal with a glut of iron ore and coal. When the subject turns to copper, however, they're on the same wavelength. Executives of BHP Billiton Ltd., Antofagasta Plc, Rio Tinto Group, Freeport-McMoRan Inc. and Glencore Plc all pointed to copper in comments this month as the one commodity not dogged by oversupply."

Copper demand continues to prove the doubters wrong with its resilience, driven by China's response to an economic slowdown where it's sanctioned a large number of previously-delayed infrastructure projects. In an interview last week with Bloomberg, the head of BHP Billiton Andrew Mackenzie said that in all the minerals markets in which it operates, any demand increase can too "easily' be met by expanding existing mines. However the one exception he sees is copper.

Bloomberg data shows that China's copper imports last month rose to their highest level in a year, as tighter supplies of scrap led fabricators to use more refined metal. This has had a corresponding impact on spot copper prices – which are up 13% from this year's low during mid January. This compares with gains of 0.3% and 8.5% for aluminum and zinc, and a 15% drop for iron ore over the same period.

Jean-Sebastien Jacques, the head of Rio's copper unit, said in an interview that "supply is very challenging in copper and when you look at the next 10 years there's a clear shortfall of around 8 million tons." That's equivalent to about eight mines the scale of Escondida in Chile, the largest copper mine. "It took nearly 25 years to build Escondida, so therefore we're pretty bullish about copper," he said.

"The fundamentals mid-to-long term in the copper business are as strong as any commodity could be, supported by demand from global growth and also by significant supply constraints," Richard Adkerson, CEO of Phoenix-based Freeport McMoRan, told a conference in Barcelona last week.

Glencore CEO Ivan Glasenberg commented "We believe copper is moving into a deficit. Consensus has always said there is a surplus. The grades are going down. People are struggling to hold their current production levels."

Japan's third nuclear reactor restart edges closer

Japan's Nuclear Regulation Authority (NRA) this week vouched for the safety of Shikoku Electric Power Company's Ikata 3 reactor. The safety stamp of approval is just one of three steps required before the NRA gives final approval for the reactor to restart, but it's a positive development. Ikata 3 is located within Shikoku Electric's Ikata nuclear power plant and is only the fifth reactor across three power plants that have gained safety approval from the NRA.

Even so, it's unlikely to be smooth sailing for Shikoku Electric as it will have to gain the approval of local authorities for the restart, and Ikata 3 will have to undergo operational checks. Furthermore, it's likely that the company will face legal challenges similar to those encountered by Kansai Electric Power Company and Kyushu Electric Power Company.

Kansai Electric Power Company, which owns the Takahama nuclear power plant, saw its plans to restart two reactors at the plant rejected by the courts last month due to safety concerns – which was the first injunction against a nuclear plant in Japan in 50 years. Reactor restarts at the latter's Sendai nuclear power plant had similar problems when local residents voiced safety concerns, though ultimately a Japanese court rejected the bid to block the reactors from reopening.

Those opposed to the Ikata 3 reactor will get a chance to voice their concerns now that the NRA has given the safety nod. The process should take place over a one-month period. Shikoku Electric spokesman Shoichiro Mori told Bloomberg that the company plans to restart the reactor by the end of the year if it gains approval.

Industry expert Cantor Fitzgerald is forecasting a mid-2016 restart for Ikata 3, with an overall expectation that two reactors will restart in 2015 — specifically the Sendai reactors — seven in 2016 and another 14 in 2017 as opposition to reactor restarts decreases. Furthermore they have a positive outlook on uranium prices.

Cantor Fitzgerald Canada Research continues to hold the view that a violent upward move in the price of uranium is inevitable based on an unavoidable supply deficit occurring in 2020 where uranium supply from all sources (mine level and secondary) does not meet increased demand (particularly China).

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