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TGS → Elk Valley

Elk Valley Coal Greenhills

Base metals strong in thin markets

THE price of three-months zinc on the London Metal Exchange has broken through the psychologically important US$1,000/t level for the first time since March 2001.

Zinc's move higher, together with those of the other LME-traded metals, was aided by the thin holiday markets. Very little buying activity was required to produce a significant 'gap up' in prices.

Angus MacMillan, a minerals strategist with metals broker Prudential-Bache, noted that the latest data from the International Lead Zinc Study Group show that stocks of metal held by consumers, producers and merchants are little changed from a year ago: an indication that movement in LME stocks is an accurate reflection of the market balance. Mr MacMillan forecasts that LME stocks will fall significantly from the current 740,000 t. However, given the high level of LME stocks, the impact of the price decline will be minimal.

Nickel has continued its climb. The three-months price reached a fresh high of US$16,600/t – its highest level since March 1989. Three-months copper reached US$2,283/t on December 29 but its strength will be tested by the resolution of the industrial dispute at Chuquicamata (see right).

Coking-coal price to rise 20% on Chinese demand

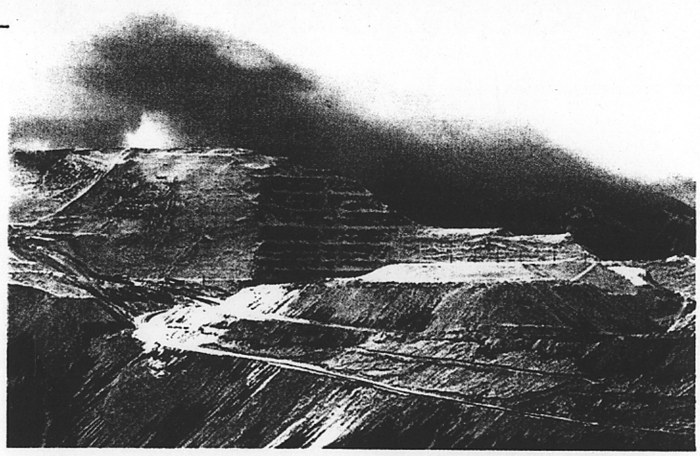
ELK Valley Coal Corp, the world's second-largest producer of coking coal, says it has made "substantial progress" in its annual price and volume negotiations with its export customers for the 'coal year' commencing April 1, 2004.

The company says that, allowing for the normal level of sales carried over from the 2003 coal year, the average price for coal sales during the 2004 coal year is expected to be US$51/t, a rise of 20% compared with the average realised price in 2003.

Elk Valley's six mines have a combined capacity of more than 25 Mt/y and account for 20% of the global seaborne coking-coal market. The company's chief executive, Jim Gardiner, said: "Market conditions at this time are very favourable, for seaborne and North American hard-coking coal…

"The tight coal supply situation that currently exists in the face of strong demand from our traditional coal customers and from new customers in China has sharply increased the value of our coal while accelerating the negotiation and settlement process."

Elk Valley says more than 80% of coal available for sale in the 2004 coal year has now been priced and contracted.



Elk Valley's Cougar North mine at Greenhills, British Columbia

Average prices for the producer's fiscal year ending December 31, 2004 are forecast to be US$48/t, an increase of 13% over 2003.

The company says that, assuming an exchange rate of C$1.30/US$ and taking into account Elk Valley's foreign-currency hedging position, the average Canadian dollar price of coal is expected to increase by 9% to C$67/t in the 2004 fiscal year.

Teck Cominco Ltd, which owns a 35% equity interest and a 41% economic interest in Elk Valley, said that some of the increase in prices will be offset by higher rail and port charges, which are linked to coal prices. However, it notes that operational efficiencies, synergies and declining stripping ratios will reduce production costs at the Elk Valley mines in the coming four years.

Fording Canadian Coal Trust holds the balancing 65% equity interest in Elk Valley (*MJ*, January 17, 2003, p33).

Talks fail to bridge concentrate gulf

NEGOTIATIONS between major copper producers and various Japanese smelters found the two sides far apart.

The smelters are reported to be seeking a treatment charge (TC) of US$50/dmt, a 5 c/lb refining charge (RC) and conventional price participation (which has turned in the smelters' favour, now that copper prices are over 90 c/lb).

The miners are understood to be seeking TC/RCs around US$40/dmt and 4 c/lb, and one of the major producers is believed to want the dropping of the production problem at PT Freeport's Grasberg mine (*MJ*, December 19/26, 2003, p5) is creating further uncertainty in the negotiating process.

In zinc, there have been preliminary meetings between a major Australian seller and Asian buyers, which proved inconclusive. The feeling in the market seems to be that settlement on Asian sales is likely only in February or March.

Talks between one European buyer and various Canadian concentrates sellers have been held recently, also without been that European smelters are hoping for better terms to reflect the freight differentials for delivery of South American material to Asia versus Europe.

In lead, recent meetings between a major Australian seller, and European and Asian buyers also failed to reach agreement. The general expectation is of an agreement being reached early in the new year at terms similar to the 2003 settlements. Even if there were little, or no, change in the basic TCs, the higher lead price will give smelters higher revenues

■ BHP BILLITON JOB CUTS

The South African National Union of Mineworkers has claimed publicly that the BHP Billiton group plans to cut the workforce at its South African coal mines by 400. The union said that if the company axes the jobs its members will call a strike next month. BHP Billiton's local spokesman, Michael Campbell, declined to comment on the statement, noting that the company was still in talks with the union. The union represents 5,300 of 8,000 employees of BHP Billiton's subsidiary Ingwe Coal.

■ CODELCO STRIKE AVERTED

Union members at Codelco's Chuquicamata operation have voted to accept the company's final wage offer. Under the terms of the new three-year agreement, the 6,250 union members at the mine have accepted a 3.15% wage increase, a one-off payment equivalent to US$3,349 each if the workers agreed not to strike, a US$670 payment linked to the increase in the copper price and a loan of up to US$2,680. Workers had initially asked for a 6% wage increase. An eleven-day strike at Codelco's Andina mine was resolved just before Christmas (*MJ*, December 19, 2003, p5)

■ RAND SQUEEZES DE BEERS

De Beers says it has shed 442 jobs from its South African operations. The company blamed the rand's gains against the US dollar. The jobs were axed through a voluntary programme. De Beers said: "Efforts continue by several task teams set up across the company's operations to seek opportunities to minimise the impact of the exchange rate."

■ CHINESE COAL MERGERS

The Xinhua News Agency reports that a number of state-controlled Chinese coal producers are to merge. Citing the Chinese Society of the Coal Industry, eight to ten companies will be created, each with an annual capacity of 50 Mt/y. Four or five of these are each to have a mine capacity of 100 Mt/y. The move is believed to be an attempt by the Chinese Government to address a severe shortage of thermal coal (*MJ*, December 12, 2003, p5). Currently, four of China's coal producers can produce more than 30 Mt/y. Meanwhile, Pu Hongju, the deputy chairman of the China Coal Industry Association, says Chinese coal output will rise by 6.3% in 2004 to 1,700 Mt. Chinese electricity producers will need an additional 60-70 Mt of coal this year as new power stations are brought on line.

SHIPPING RATES

Representative dry cargo single voyage rates (Oct 21)

Route/Size ('000 dwt)	US$/t	% change on week	% change on year
Coal			
Richards Bay-ARA (100-150)	16.9	4.2	-18.8
E Aus-South Korea (120-160)	19.3	10.6	-14.1
E Aus-ARA (100-150)	21.6	0.8	-29.0
Puerto Bolivar-ARA (100-150)	17.2	-2.1	-15.9
Iron ore			
Narvik-ARA (100-150)	7.2	6.7	-7.7
Brazil-ARA (100-150)	16.7	-1.6	-15.3
Brazil-China (100-150)	32.1	-1.3	-7.0
W Aus-China (120-160)	13.2	1.3	-19.1
W Aus-ARA (120-160)	16.7	12.5	-19.0
Saldanha Bay-China (100-150)	23.9	12.2	-12.8

Source: Drewry Shipping Consultants Ltd

BULK MINERALS

		% change on week	% change on year
Alumina fob US$/t	500	0.0	17.6
Rutile Aus export fob US$/t†	455	0.0	0.0
Ilmenite export fob US$/t†	89	0.0	11.3
Zircon export fob US$/t†	700	0.0	34.6
globalCOAL RB™ Index US$/t (Oct 21)‡	40.46	-0.9	-31.4
globalCOAL NEWC™ Index US$/t (Oct 21)‡	40.18	-1.1	-25.1
	2005	**2004**	**2003**
Thermal coal annual contract US$/t	53	45	26.5
Coking coal annual contract US$/t	125	58	46
Iron ore fines annual contract US$ c/dmtu	61.72	35.99	31.32
Iron ore lump annual contract US$ c/dmtu	78.77	45.93	39.98

Source: † TZ Minerals International Ltd, ‡ Global Coal Ltd (www.globalcoal.com)

LEAD CONCENTRATES

Spot TC, clean 55/65% lead concentrate, cif main port China/Japan/Europe
Payable lead, 95% recovered (minimum deduction of 3% from concentrate grade)

Mine/smelter terms	Spot terms: Current	Last month	Year ago
Price basis: US$/t	800/800	800/800	800/800
TC (US$/dmt)	75	75	80/100
Price basis: actual	1,000	933	876
TC (US$/dmt) (adjusted for escalator/descalator)	170	75	80/111

	Contract terms: Current	2004	2003	Average last 5yrs
Price basis: US$/t	850	500	475	500
TC (US$/dmt)	148	125	122	143
Price basis: actual	1,000	887	514	557
TC (US$/dmt) (adjusted for escalator/descalator)	170	164	128	143

ZINC CONCENTRATES

Spot TC, clean 50/53% zinc concentrate, cif main port China/Japan/Europe
Payable zinc, 85% recovered (minimum deduction 8%)[1]

Mine/smelter terms	Spot terms: Current	Last month	Year ago
Price basis: US$1,000/t			
TC (US$/dmt)	20	30	100
Price basis: actual	1,474	1,397	1,065
TC (US$/dmt) (adjusted for escalator/descalator)	96	94	112

	Contract terms: 2005	2004	Average last 5yrs	Average last 10yrs
Price basis : US$1,000/t				
TC (US$/dmt)	126	142	167	171
Price basis: actual	1,468	1,047	N/A	N/A
TC (US$/dmt) (adjusted for escalator/descalator)[2]	201	150	N/A	N/A

1 Zinc smelters generally achieve recovery rates of mid to upper 90%s, but many modern plants are at the top end of this range and some may be above 98%. However, miners are paid assuming an 85% recovery but with a minimum deduction of 8% from the concentrate grade – ie, if a concentrate has a zinc content of 50%, payment will be made on the basis of a zinc content of 42% (instead of 42.5%). If the zinc content is 53.33% or above, payment is made on the basis of an 85% recovery.
2 The average escalator in 2003 term contracts was +16/-14%, price basis US$1,000/t

SPECIALITY METALS

	Bid / Ask	% change on week	% change on year
Antimony US$/t cif	3,700 / 3,800	0.0	31.6
Arsenic (Rotterdam 99%) US$ c/lb cif	0.40 / 0.50	0.0	0.0
Bismuth US$ c/lb cif	4.60 / 4.80	1.1	34.3
Cadmium (99.99%) US$ c/lb cif	1.75 / 1.95	0.0	270.0
(99.95%) US$ c/lb cif	1.65 / 1.85	0.0	288.9
Cobalt (cut cathodes 99.8%) US$/lb*	13.00	-2.3	-32.5
Germanium dioxide US$/kg cif	400.0	0.0	0.0
Indium US$/kg	880.0 / 950.0	-2.1	7.6
Manganese metal (99.7%) US$/t	1,425	0.0	-9.5
Mercury (99.99%) US$/flask	700 / 800	0.0	25.0
Selenium US$ c/lb cif	45 / 49	0.0	67.9

Mittal buys Ukrainian steel maker

MJ – Oct. 28/05

ROTTERDAM-BASED steel producer Mittal Steel Co NV gained a majority share in Ukrainian-based steel producer KryvorizhStal, after winning an auction this Monday.

Mittal Steel will acquire 93% of the share capital of KryvorizhStal for around US$4.8 billion, beating off rival bids from Arcelor SA and LLC Smart Group of the Ukraine.

The transaction will be financed using Mittal Steel's own cash resources and credit lines. In addition, Mittal Steel recently signed a US$3 billion loan agreement with Citigroup.

KryvorizhStal is the Ukraine's largest steel-long products producer. Last year the plant produced 7.0 Mt of crude-steel, 6.0 Mt of rolled-products and 15.5 Mt of iron-ore. KryvorizhStal operates a single integrated steel plant located within an iron-ore mining complex.

The KryvorizhStal iron ore mines currently provide 84% of the steel plant's requirements. However, Mittal Steel may expand the iron-ore mines to double their combined current capacity of 13.6 Mt/y. Mittal may also expand steel production capacity to 9.1 Mt/y from about 6.8 Mt/y.

Commenting on the purchase, Lakshmi Mittal, chief executive of Mittal Steel, said: "Strategically this is a key acquisition for Mittal Steel, as it provides us with a large low-cost production platform in a core and fast growing market… KryvorizhStal could over the years become our largest steel plant in the region and offers significant flexibility regarding the development of its product range."

Mr Mittal added: "KryvorizhStal will add valuable mining reserves to the group. Overall, we expect to generate over US$200 million of pre-tax synergies by the end of next year."

Straits' record output

STRAITS Resources Ltd's Sebuku open-pit coal mine in Indonesia has set a new production record in the September quarter.

The mine produced 809,000 t of high-volatile bituminous coal, up 16% compared with the June quarter and 15% year-on-year.

Straits Resources' chief executive, Milan Jerkovic, said: "Sebuku continues to perform exceptionally well, and remains on track to meet its 3 Mt/y production and sales target."

In addition, Straits Resources has increased the total resources at Sebuku by 49% to 24.9 Mt (*MJ*, September 9, p7). "Drilling is now focused at the Tanah Putih pit with two rigs currently operating. It is anticipated that further resource upgrades will result over the course of the 12-18 month programme," Mr Jerkovic added.

Glencairn gold sales up

GLENCAIRN Gold Corp has reported record gold sales of 8,177 oz last month, including 4,100 oz from its Bellavista open-pit heap-leaching gold mine in Costa Rica.

Bellavista, which is nearing commercial production, is expected to produce 60,000 oz/y of gold, over an eight-year period, at a total cash operating cost of US$234/oz.

Chief executive Kerry Knoll said: "Bellavista is proving to be an excellent operation… Although mining began later than originally anticipated, both the grade of the ore and tonnes mined per month have exceeded the estimates in our feasibility study."

■ELK VALLEY OFF-TAKE

Canadian coal producer Elk Valley Coal Partnership (EVCP) and JFE Steel Corp of Japan have signed a letter of intent whereby JFE will secure 2.5 Mt/y of coking coal from EVCP over a ten-year period. The proposed contract will run from next year to 2015. The chief executive of EVCP, Jim Popwich, said: "We are very pleased to be strengthening our relationship with JFE Steel through this agreement. EVCP, a joint venture between Fording Canadian Coal Trust (60%) and Teck Cominco Ltd (40%), is the world's second-largest exporter of coking coal. "The long-term nature of the agreement brings significant value to ECVP and the unit-holders of Fording Canadian as its helps stabilise coal sales volumes going forward."

■POLIMETALL OUTPUT RISE

Gold production for Russian-based precious metals producer OAO Polimetall rose to 181,000 oz in the nine months to September 30, 2005, up 18% compared with the same period last year. Conversely, silver output fell slightly year-on-year to 13.89 Moz. The increase in gold production was attributed to higher output at the company's Khakandzhinskoye operation in the far eastern Khabarovsk region, and the decline in silver production to lower ore grades at the Lunnoye and Dukat silver-gold operations in the Magadan region.

■EASTALCO CLOSURE LOOMS

The world's largest aluminium producer, Alcoa Inc, may close its 195,000 t/y Eastalco smelter in Maryland, US, citing high power costs. If Alcoa cannot secure a competitive power deal before the current power-supply contract expires on December 31, then the company will cease operations at Eastalco within the next two months. Over 600 workers at Eastalco have been informed of the deadline. Eastalco is 62%-owned by Alcoa, with the balance owned by Japanese-based Mitsui & Co Ltd.

■ALCAN SMELTER CLOSURE

Canadian-based aluminium producer Alcan Inc will start closing its 43,000 t/y Lannemezan aluminium smelter in France by June next year. The closure is expected to be completed by 2008. The costs of the closure will be reflected in Alcan's December quarter results. Earlier this year, Alcan indicated it may need to close the bulk of its European smelt-