

TRANSAMINE

non - ferrous metals and concentrates worldwide

MONTHLY METALS REVIEW

58th yearAugust 31st, 2011

N° 725

Overview

The month of August was not only marked by volatile markets triggered by sovereign debt problems on both sides of the Atlantic, but also rioting on the streets of English cities, continuing and impending strikes in Chile and Indonesia, hurricanes in the USA, Philippines and Taiwan.

The sell-off in global equities accelerated sharply when Washington stepped back from the brink of a potential US debt default by raising its debt ceiling. The heightened mood of risk aversion continued to fuel demand for the safety of gold, which reached a record high above \$1.882,25 an ounce, as well as German, UK and – somewhat paradoxically – US government bonds as S&P's move failed to shake investor faith in the Treasury market.

Some analysts believe that although ratings downgrade by S&P was justified it will only be temporary. In a speech in Jackson Hole, Ben Bernanke, try to provide optimism for the future of long-term economic growth. Though no new quantitative easing program was declared, a strong and serious appeal was made to the US government to act effectively to promote macroeconomic and financial stability; to adopt effective tax, trade, and regulatory policies; encourage productive investment, both private and public and provide appropriate support for research and development and the implementation of new technologies. Bernanke also pointed out that temporary factors, including the run-up in commodity prices on consumer and business budgets and the effect of the Japanese disaster on global supply chains and production, played a significant part in the weak economic performance of the first half of 2011, however, growth in the second half looks likely to improve. Mr. Bernanke also expressed his belief that the European colleagues fully appreciate what is at stake in the difficult issues they are now confronting and that, over time, they will take all necessary and appropriate steps to address those issues effectively and comprehensively.

During this month investors underlined that high oil and food prices are forcing emerging countries' central banks to tighten monetary policy. It leads to slowing economic growth in China, India and other big commodity consumers that consequently decreases their demand in base-metals. There was a view expressed that plummeting share prices could mean either that a double-dip recession is all but certain, or that it may be averted as lower prices attract investors.

The list of tumbling resources stocks included Xstrata, which fell 8.5 per cent, Royal Dutch Shell, Europe's, which fell 5.2 per cent, and Vale of Brazil 6.3 per cent. Kazakhmys and Vedanta Resources fell also as another wave of heavy selling sent the FTSE's mining index to a one-year low.

Glencore International was one of the sharpest faller losing 7 pct since the IPO pulling the FTSE 100 to an eight-month low. Nevertheless Commodity giant Glencore posted a 50 percent rise in first-half profit despite tough trading markets and said it saw potential opportunities emerging from current market turbulence, as commodity demand remains strong.

During August traders have complained of cases of lengthy and costly delays to withdraw their holdings of key industrial metals from warehouses approved by the London Metal Exchange (LME). The Malaysian port of Johor was one of them. This has once again aroused criticism that the LME has not done enough to ensure timely delivery. In its turn the LME has said that as the global economy improves it is quite typical that metals demand increases and that this may incur logistical challenges.

Nowadays state of affairs testifies to the tight interdependence of world's markets. It appeals to the elaboration of mutually supportive, socially oriented and environmentally safe economic mechanisms that will underpin further stability of the world economy sustainable development.



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LEAD	LME CASH	LME 3 Months	STOCKS	ZINC	LME CASH	LME 3 Months	STOCKS
	\$/mt	\$/mt	(mt)		\$/mt	\$/mt	(mt)
Aug 01	2'627.5	2'642.5	310'750	Aug 01	2'478.5	2'508.5	889'300
Aug 31	2'555.0	2'545.5	318'250	Aug 31	2'258.5	2'285.5	855'850

Lead & Zinc

In London, the Lead cash settlement price decreased to US\$ 2'555 per ton while the Zinc cash settlement price rose to US\$ 2258.5 per ton on the 31st of August 2011.

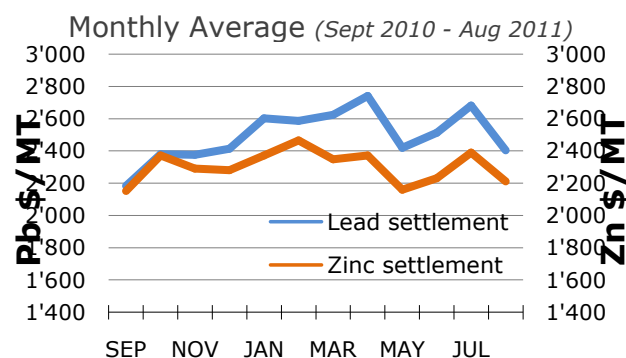
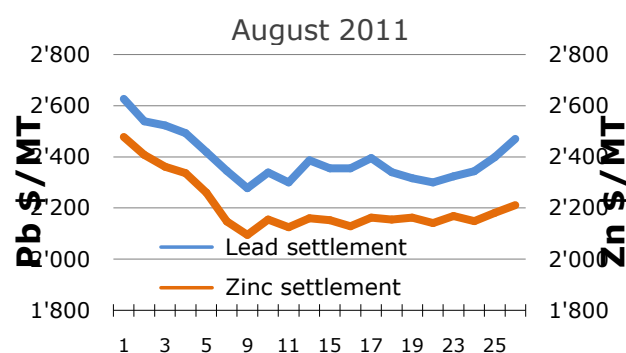
The Chinese Government has decided to implement a stricter environmental legislation on lead producers as part of multi-year plan to reduce energy-intensive and polluting industries. According to local sources the new measures will affect up to 660,900 tons of lead smelting capacity. Furthermore, small factories producing less than 30,000 tons of lead a year are requested to stop before 2013. Eventough the amount in question is considerable it might have no effect in the overall market scenario since most of the big lead producers in China are producing at a level below design capacity.

Zinc price gains in July were more than offset in early August as worries intensified about the global economic situation. Market analysts consider a zinc price of \$2,000 the breakeven point for a substantial amount of tonnage produced in China, so if the zinc price goes below this number we should expect the same affecting China's zinc mine production. According to the National Bureau of Statistics China produced 2,574,000 tons of refined zinc in the first half of the year, up 6.1 percent from the same period last year. Output of mined zinc rose by 10.3 percent over the same period to reach 1,891,000 tones.

Terramin Australia expects to resume full operations at its Angas lead and zinc mining operations by August 31st. The facility near Adelaide in South Australia has been operating since 2008 and forecasted to produce 47,000 tons of zinc concentrate and 18,500 tons of lead concentrates this year.

Exxaro plans to cease operations at its unprofitable Zincor refinery in South Africa. Exxaro wants to exit the zinc business and focus on its coal and iron ore business.

LME Lead stocks rose to 318'250tons and zinc stocks decreased to 855'850 tons.



COPPER	LME CASH	LME 3 Months	COMEX
	\$/mt	\$/mt	Cents/Lb
Aug 01	9'827.0	9'846.5	440.4
Aug 31	9'197.0	9'218.5	418.0

Copper

In London, the Copper settlement price declined to US\$ 9'197 a ton with a contango of US\$ 21.5 on the 31st of August 2011.

Notwithstanding a U.S. credit downgrade that reignited concerns over global economic growth earlier this month the red metal did break above the \$9,000 mark on the 26th of August. The July strike at the Grasberg mine and other worker-related disruptions in Chile boosted copper prices to a three-month high.

Analysts are forecasting a fall in demand during the third quarter but are not ruling out a rally in the 4th Quarter, as they believe that copper remains in a structural deficit. The world-refined consumption exceeds supplies. The average of 24 forecasts showed the copper market would have a deficit of 343,150 tons this year, down from a 444,000 tons deficit forecast in January. It was said by one of the market players that China has rapidly depleted its stores of copper from 700,000 tons to less than 300,000 tons over the first six months. This could pave the way for renewed Chinese importing activity, supporting copper prices.

In fact, China stepped up refined copper imports in both June and July and further increased buying in early August. It took advantage of lower prices on the LME than on the Shanghai Futures Exchange.

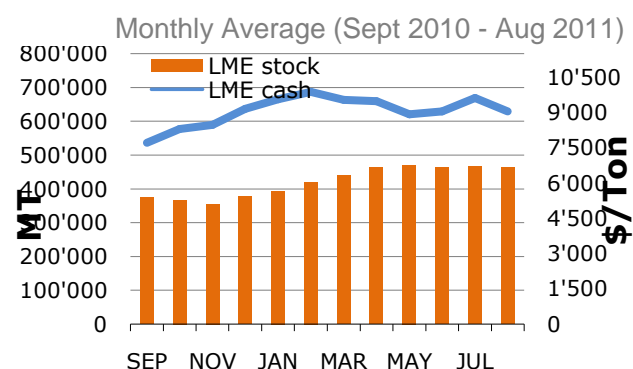
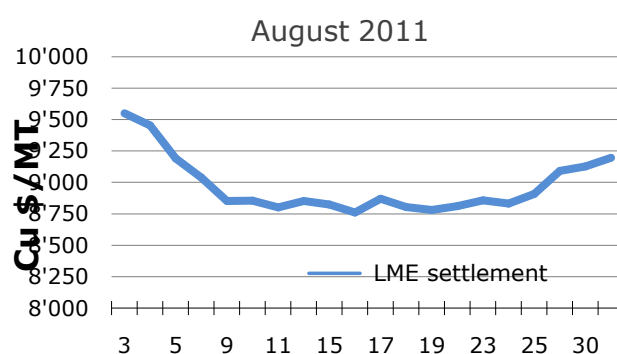
Chilean Antofagasta confirmed Chinese demand remained strong over the period, with import declines largely reflecting the running down of stocks, and saw recovering demand in Japan and the United States. It also pointed to an underperforming supply side, hit by strikes and declines in ore grades, technical failures, the slow ramp-up of new projects and bad weather. In addition the impact of strikes at mines in Chile (Codelco including El Teniente & Minera Escondida) and at Freeport Grasberg are being felt as we see the spot market tightening and also requests for additional material in the 4th Quarter.

In Peru mining firms have agreed to pay higher royalties set by President Ollanta Humala's government. Under the new system, companies would pay royalties based

on their operating profits instead of their sales. The new system would be similar to one used in Chile. Mining sector accounts for 60 percent of Peru's exports. The country is the world's second most important producer of copper and silver producer and is ranked sixth gold production.

Analysts expect markets to remain volatile, especially in the near-term, but they remain confident that copper fundamentals will underpin a strong price, particularly as Asian demand is expected to remain robust.

LME stocks have slightly decreased to 464'272 tons this month.



TIN	LME CASH \$/mt	LME 3 Months \$/mt	KLTM CASH \$/mt	LME STOCKS (mt)
Aug 01	28'560	28'625	28'100	21'465
Aug 31	24'200	24'075	23'500 (29/08)	22'645

Tin

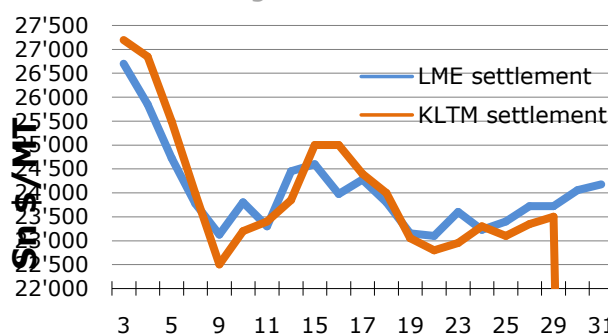
In London, the tin settlement price decreased to US\$ 24'200 per ton with a backwardation of US\$ 125 on the 31th of August 2011.

The Indonesian government announced in August that was maintaining the current tax rate on tin exports. Indonesia charges a 3% royalty on exports of tin metal. A ministry official clarified that any new tax changes (if applied) will only be imposed on domestic sales. South-east Asia's largest economy expects to produce 90,000 tons of refined tin this year, up from 78,965 tons in 2010, on expectations of improved market conditions.

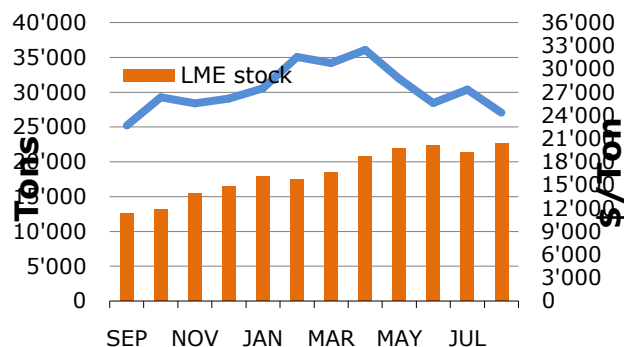
JFE Steel Corp will increase its annual tin plate capacity to about 4.4 million tons by 2020. The group's current annual capacity is close to 3 million tons. The company is considering upgrading existing plants as well as building new production facilities in India, Vietnam and the Middle East. The market for such anti-corrosive steel is expanding very rapidly as living standards improve in emerging countries. The total estimated investment in these projects is of about 20 billion yen (\$261.2 million) and they will be pursued as joint ventures with local firms. Its rival Nippon Steel Corp is spending 24 billion yen to build a tin plate factory in China jointly with Wuhan Iron and Steel (Group) Corp which is scheduled to open in 2013.

LME tin inventories increased to 22'645tons at the end of the month.

August 2011



Monthly Average (Sept 2010 - Aug 2011)



GOLD	PM FIXING	SILVER	FIXING
	London \$/Oz		London \$/Oz
Aug 01	1'623.0	Aug 01	39.31
Aug 31	1'816.5	Aug 31	41.35

Gold & Silver

In London, the Gold P.M fixing rose to US\$ 1'816.5 per ounce on 31th of August 2011 (MTD: +11.15%, YTD: +31.93%), while Silver climbed to US\$ 41.35 per ounce (MTD: +4.93%, YTD: +54.37%).

A downgrade of the U.S. sovereign debt rating amid a deteriorating outlook for the world's largest economy, as well as a spreading European debt crisis, have triggered a rush to gold that has boosted prices by 14 percent this month.

There are good reasons that gold has outperformed: it does not share other metals' reliance on industrial demand, and so is a truer haven in times of market turmoil. It has been and still remains a pretty good hedge against inflation historically, giving it a zero real yield.

August is traditionally a slow month for Chinese jewelers, but many shops in Shanghai visited by Reuters reported surprisingly solid gold sales over the last few weeks, with shoppers unfazed by gold's stellar price gains over the past few months.

Reuters supposes that the attitude of Chinese consumers, who are expected to soon overtake Indians as the world's top buyers of gold, will be an important influence on longer-term trends.

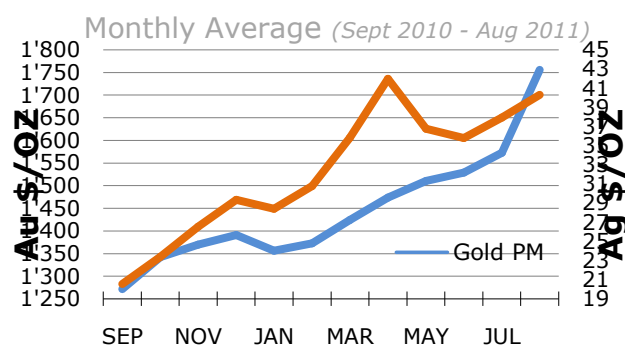
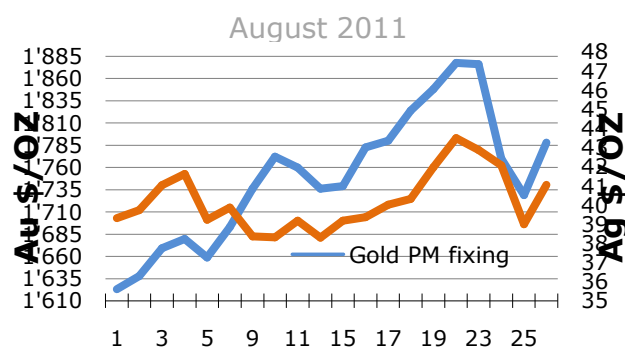
Demand from the world's most populous country, which is adding hundreds of thousands of people to the ranks of affluent and middle-income consumers every year, implies that the long-term price floor for gold is set for a steady increase.

The situation is different in Japan where gold selling had been unusually strong in recent weeks – in contrast to some other parts of the world where people have been holding on to their gold in the hope of even higher prices. Japanese families are rushing to sell their gold jewelry, sake cups to cash in on surging gold prices. The desire to sell gold is so intense that shops buying the precious metal are struggling to cope and are even having to turn some disappointed customers away. The devastating March 11 earthquake and tsunami may be stoking the

The steady rise in gold prices in the past few years has been pulling up GDP in several countries such as South Africa and smaller countries headed by Papua New Guinea and Mali. At the moment they need to put extra efforts into attracting foreign investors and overcome concerns about their political stability.

South Africa's AngloGold Ashanti has invested in Ghana, Mali, Tanzania and Guinea over the past few years and started exploration in Gabon and the Democratic Republic of Congo.

Harmony, with a strong position in its home of South Africa, has expanded exploration in Papua New Guinea, where it operates a gold mine in Hidden Valley.



NICKEL	LME CASH London US\$/LB	COBALT	Cobalt min 99.8% London US\$/LB	Cobalt min 99.3% London US\$/LB
Aug 01	11.37	Aug 03	17.000	16.000
Aug 31	10.00	Aug 31	17.500	16.275

Nickel & Cobalt

In London, Nickel decreased by 13.7% to US\$ 10.00 per lb, on the 31st of August 2011, while cobalt min. 99.3% traded at US\$ 16.275 per pound.

Continuing deteriorating demand from stainless steel mills and rising mine production are likely to push the nickel market into surplus in the second half of the year and put modest pressure on prices.

Meanwhile, analysts reckon China's production of nickel pig iron, a lower grade of the metal valued for its anti-corrosive properties, could climb above 200,000 tons this year, with some estimates as high as 250,000 tons.

This month a diversified miner Xstrata disclosed its plans to invest \$530 million to develop new mining projects at its Raglan mine in northern Quebec.

The Raglan property operated by Xstrata Nickel, consists of a series of high-grade ore deposits. It currently produces about 30,000 tons of nickel-in-concentrate per year.

Analysts cite higher production costs as one reason for predictions that prices will hold up. Another reason is Chinese nickel pig iron, which analysts estimate cost between \$16,000 and \$20,000 a ton to produce.

If prices fall below \$20,000 a ton some Chinese production may start diminishing and the expectations of a slowdown might weigh on demand and prices. When stainless mills think prices of raw materials are likely to fall, they will try to defer purchases.

That perhaps is one explanation that stocks of nickel in London Metal Exchange approved warehouses have risen nearly 2 percent since July 21 to near 103,000 tons. Xstrata Nickel said the proposed investment will increase nickel-in-concentrate production to 32,000 tons a year by 2014.

The board of Russia's Norilsk Nickel plans to discuss a new share buyback in August.

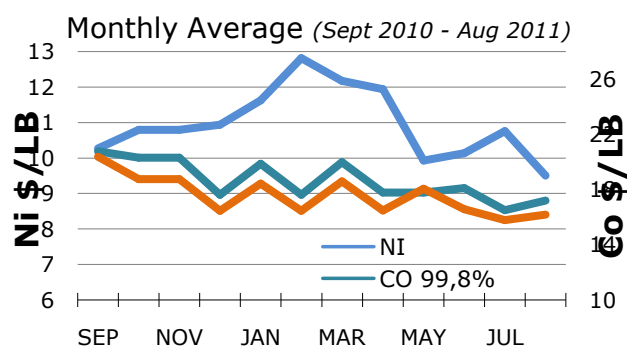
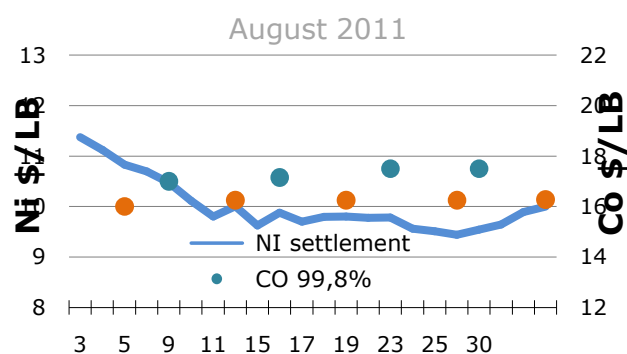
Currently, in the conditions of high volatility and falling global markets, a buyback would be the best investment

As a result Norilsk shares rose by around 3 percent in Moscow following the announcement.

Analysts said last week that RUSAL, which has a 25 percent stake in Norilsk, received an offer from Norilsk to buy back 15 percent of its stock for \$8.75 billion but it is supposed to be rejected.

HudBay, which has operations spread across the Americas, recently announced plans to sell its Fenix ferro-nickel project in Guatemala to Russia's Solway Group for US\$170 million, as it did not fit into the company's strategy.

LME nickel stocks slightly rose to 16.275 tons in August.



tool for the company, a source close to the Norilsk board told Reuters.

