

The Australian

Zircon producers may start calling the tune as shortages loom

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WHILE we've all been in a tizz about gold, copper, tin and rare earths, there's been a barely detected boom in the zircon market.

We have heard from a couple of reliable sources who were in Melbourne during the week for the Minsands (or mineral sands) conference that Chinese zircon buyers at the meeting were breaking out in sweats over the looming (and severe) shortages that could occur as early as 2011. And they have to import 85 per cent of their zircon needs for their ceramics manufacturing.

Well, it's really chickens coming home to roost. The mineral sands business has been a bit of a mug's game in recent years, with cost increases outstripping prices and the consumers of zircon have had a pretty good run.

Now the boot is on the other foot, and we're going to see the producers starting to call the tune a lot more.

Which means that investors will need to do some quick homework on this sector.

Zircon was under \$US400 a tonne 10 years ago; now contracts are being signed at up to \$US1100/tonne (with some spot sales rumoured at \$US1300) while industry forecasts are for \$US1500 by 2015. That will almost certainly prove to be conservative.

Iluka Resources (ILU) hit a 52-week high on Friday, closing at \$8.58. In January, you could buy the stock for \$3.38. Ditto **Gunson Resources (GUN)**, -- it also hit a 52-week high on its Friday close at 23c, against just 5.6c only four months ago.

However, those companies that are still in the exploration phase have languished. **Image Resources (IMA)** closed at 43c compared to a year high of \$1.14, while the 6.8c on Friday for **Diatreme Resources (DRX)** is a long way from 13.5c last December. Any signs that either is getting a wriggle-on should prove a tonic for their prices. There's also **Matilda Zircon (MZI)**, which doesn't seem to have attracted much investor interest, and early-stage explorer Australia Minerals & Mining Group (AKA).

But on Friday, we saw what happens if you have a fresh story. The \$7 million IPO for **Sheffield Resources (SFX)** closed a week early and substantially oversubscribed. Pure Speculation alerted readers last month to this float. The company came to market with a team that had already built (and sold) a successful exploration company and which has mineral sands deposits in the North Perth Basin, near Iluka's West Australian ground. Iluka, incidentally, is now talking about rationing zircon to clients.

The improved bargaining hand is evidenced by Gunson. It has seven companies interested in partnering up to develop its Gunson deposit in WA. Managing director David Harley has laid down some tough conditions: the potential partners cannot have just an offtake agreement, they must invest in the project.

And, when they do invest, they can have a maximum of 40 per cent, not 51 per cent, so Gunson will be running the show.

It's a seller's market when it comes to zircon. It looks as if, by 2015, that market will be in deficit to the tune of 300,000 tonnes a year. Present production is 1.4 million tonnes.

The problem is that you cannot make tiles (and many other products) without zircon. Well, the Chinese might try to do it, but the tiles won't be any good. If you want to think tile demand, then think of all those new kitchens and bathrooms being installed in all those new apartment towers in China and the rest of Asia.

Here's the rub. According to Gunson's Minsands presentation, there are no -- repeat, no -- zircon projects now under construction around the world. And only two have completed their definitive feasibility studies and are near ready for development: the Senegal project owned by **Mineral Deposits (MDL)** and Gunson's Coburn.

Uranium awakes

SOUTH Korea's government has announced plans to build a further 14 nuclear power plants by 2024, adding to the 20 already in operation. There will also be another 13 coal-fired plants and 19 using liquefied natural gas.

So, unless Bob Brown and his followers manage to put a stop to any more uranium mines, or head off the coal and LNG carriers with a flotilla of kayaks, this should mean some good extra business for Australia.

Uranium is shaping up, like zircon, for a substantial supply squeeze in coming years. A sampling of the uranium explorers reveals that it's been a while since many of them made substantial progress, but the sector is awakening.

Over the past week we've seen a flurry of announcements which support the feeling that the recent rise in the spot price has put hope back into the sector, and you can expect other explorers to stir over the next few months.

Here's a sample of the activity.

PepinNini Minerals (PNN) is to drill 10 areas in South Australia looking for uranium, gold and base metals. Uranex (UNX) has reported a new uranium discovery on its ground in Tanzania adjoining the Nyota project owned by Mantra Resources (MRU) where there's a 46,000-tonne resource.

Three rigs will soon be in action to enlarge the Salamanca resource in Spain being explored by Berkeley Resources (BKY), while drilling by Thundelarra Resources (THX) in the Northern Territory has intersected significant uranium and copper at the Allamber project.

Summit Resources (SMM) has produced a resource estimate for its Odin deposit of 4685 tonnes of contained uranium -- only problem, it's in Queensland, the uranium hold-out state. Uranium Equities (UEQ) says it has intersected significant uranium at its Nabarlek project in the NT.

Raisama (RAI) and Monitor Energy (MHL) have high-grade uranium hits at their Kashkasu II discovery in Kyrgyzstan.

Meanwhile, in Namibia, Bannerman Resources (BMN) has issued a highly detailed report on its advanced Etango project from which it expects to extract 48,000 tonnes of uranium oxide over the mine's life. It says the project has been substantially de-risked.

Aura Energy (AEE) has begun more drilling at its Mauritania ground while East Africa Resources (EAF) has raised \$3.4m for its two Tanzanian properties. And iron ore explorer Royal Resources (ROY) is now in a uranium joint venture in Colorado.

The uranium announcement flood has only just begun.

Fertile ground

AND, to finish, the third member of the resource boom troika: the fertiliser minerals.

UBS has upgraded its ratings on the three big North American potash and phosphate producers.

Locally, Rum Jungle Resources (RUM) has announced what it calls a "huge" phosphate find near Barrow Creek in the NT. Nine holes returned assays up to 30.2 per cent -- and the phosphate starts just 3m from surface. Rum is earning a 70 per cent interest from Aragon Resources (AAG).

And Minbos Resources (MNB) jumped 23 per cent after CPS Securities sent out a very bullish note, saying this newcomer with its projects in Democratic Republic of Congo and Angola is a "potentially world class phosphate" play.

We noticed that Elemental Minerals (ELM), with its potash in the other Congo, put on quite a spurt last week without any news.

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