

Metal Tiger...

***From the February 2010 HRA Dispatch
David Coffin & Eric Coffin, HRA Advisories***

A sign of the times is seen in the deal the CME Group (CME-N), umbrella for the Chicago and NYMEX commodity bourses, is buying 90% of the Dow Jones index system from News Corporation (NWS-Q). The traditional newspaper business is having a tough go competing with the internet, which prompts the sale. One could argue this is another example of the commodities space taking up some of the ground opened by the past decade's bear market for equities. Others might point out that Chicago will be deciding what New York favors, though in practice the same folks that have been keeping the lists will continue to. What may become the point of greatest interest is the main US options trading group will own the best known set of US equity indices. That could greater criticism about neutrality when index adjustments are made. Betting the farm could take on a new meaning.

Certainly the strength of the **copper** market continues speaking to a warm commodities future. The red metal bounced off of the \$2.90 level and hasn't really looked back. Though warehouse stocks have seen only minor reductions, they are holding steady. Chinese New Year and the week of rest that comes with it are now in swing, and this has become one of the market's true testing grounds each year. This year just starting is a Tiger, which may prove apt it is the year in which China solidifies its status as the global economy's rising star. It's not any tiger though; it's a Metal Tiger that opens on Valentines Day. Perhaps we will shift to a stronger stance on copper before stocks are reduced, but not before the lunar New Year festival is behind us and we see the results of its annual soul searching and chat-fest.

If there are to be heated metal discussion it will likely be around the **iron ore** market. Reports indicate that **Vale**, the conservative mostly privatized Brazilian miner that ships the largest tonnage of iron ore each year is agreeing with its more aggressive Australian peers that the old system of prices set by annual contract is waning. Spot pricing for iron ore has stayed well above last year's fix and this year's negotiations will likely be tough. For decades the first contract rate, usually between a Japanese foundry and an Aussie supplier, has set the price for the industry. That was simple enough when price shifts were small, but no more.

China, now the biggest buyer, is miffed it is not the lead on this year's negotiation. As with other smelters, China's capacity has grown beyond immediate need in part due to subsidized power costs. These will not last forever, and there is no fluid, open call market for iron ore that can adjust quickly to changing costs. Japanese smelters have cut margins to the bone in other subsectors to ensure supply, and may do the same here. That is good news for **Cons Thompson (CLM-T)** and other emerging iron ore producers, at least near term.

It also fits our presumption that the Yuan should/will be allowed to strengthen and reduce Chinese import costs. That mightn't fix the world's other currency issues as some would like to think it could. It would better balance China's own shift from an export to an import driven economy, and reduce the impact of its holding the dodgy IOUs most resources are priced in.



The HRA - *Journal*, *HRA-Dispatch* and *HRA- Special Delivery* are independent publications produced and distributed by Stockwork Consulting Ltd, which is committed to providing timely and factual analysis of junior mining, resource, and other venture capital companies. Companies are chosen on the basis of a speculative potential for significant upside gains resulting from asset-base expansion. These are generally high-risk securities, and opinions contained herein are time and market sensitive. No statement or expression of opinion, or any other matter herein, directly or indirectly, is an offer, solicitation or recommendation to buy or sell any securities mentioned. While we believe all sources of information to be factual and reliable we in no way represent or guarantee the accuracy thereof, nor of the statements made herein. We do not receive or request compensation in any form in order to feature companies in these publications. We may, or may not, own securities and/or options to acquire securities of the companies mentioned herein. This document is protected by the copyright laws of Canada and the U.S. and may not be reproduced in any form for other than for personal use without the prior written consent of the publisher. This document may be quoted, in context, provided proper credit is given.

©2009 Stockwork Consulting Ltd. All Rights Reserved.

Published by Stockwork Consulting Ltd.
Box 85909, Phoenix AZ , 85071 Toll Free 1-877-528-3958
hra@publishers-mgmt.com <http://www.hraadvisory.com>