CRITICAL STRATEGIC METALS

Volume 3 - Issue #10 October ~ 2012

Your monthly guide to the latest information on the world's strategic metals

Silvers Seasonal Swing

It's that time of the year again when it makes perfect sense to invest in silver. Based on data compiled over the last 20 years, silver prices are known to peak during April-May and then again towards the end of the year. Between May and October, silver prices reach a low and then plateau out. The price of silver has grown from around USD 3.66 per ounce in early January 1993 to a high of USD 48.7 per ounce in April 2011—an amazing increase of 1230%.

Silver prices normally follow gold prices and one can expect the seasonal rallies of silver to closely follow gold price rallies. It is pertinent however to note that in the last two decades, silver prices have seen more dramatic peaks and troughs when compared to the movement of gold prices. The reason for silver's erratic price movements is that this metal has both investment and industrial demand often resulting in a conflict between the two. On the one hand the current industrial slowdown has impacted the price of silver, while on the other the price of silver is also driven by investment strategy, interest rates and the central banks' moves to control inflation.

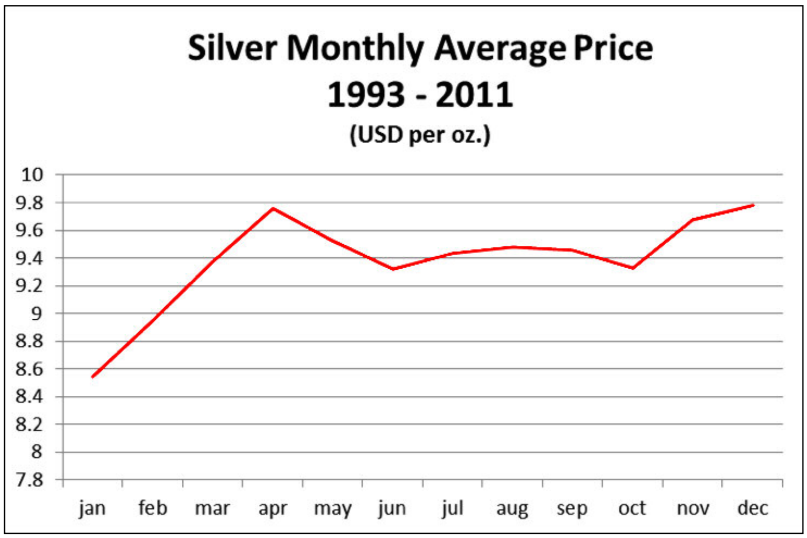

Fig. 1 Silver Monthly Average Price 1993 - 2011

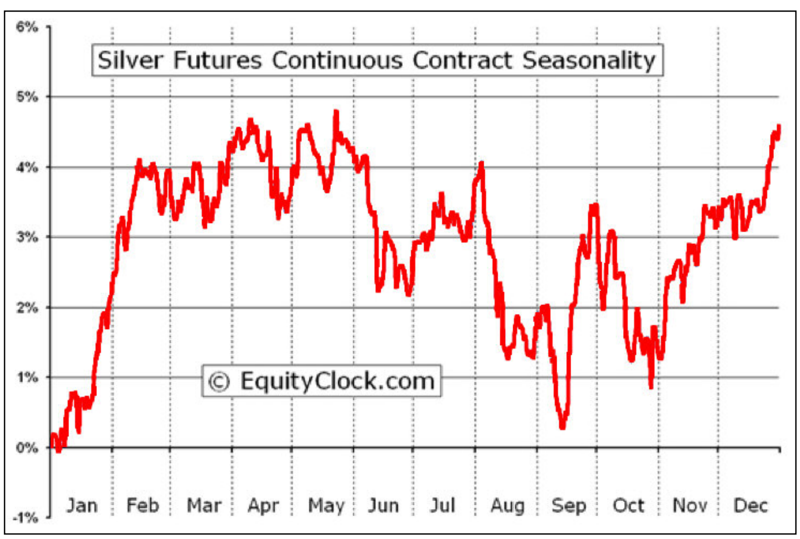

Fig. 2 Silver Futures Continuous Contract Seasonality

The chart in Fig. 2 was published by EquityClock.com and it shows the silver investment pattern over the last 20 years. The trend of buying silver in mid-September and selling in April-May in the last 10 years has yielded returns of about 33.78% .

Silver's seasonal investment trend can be attributed to heightened buying spells during the Chinese New Year, Indian festivals of Akshaya Trithiya in April and Dhanteras in November, and to Christmas gifting and bullion coin releases for the New Year.

The charts (Fig. 3) for 2010 and 2011 show that silver made some of its

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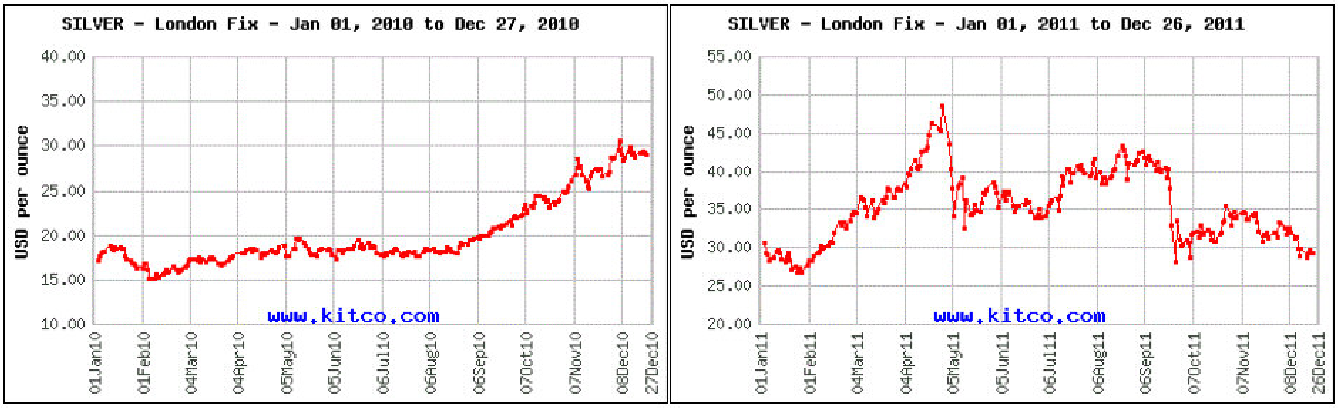

Fig. 3 Silver Prices in 2010 and 2011

most dramatic gains between September 2010 and April 2011. After the seasonal lows during May–July, silver prices rallied to levels of USD 42 per oz. during August–September 2011 before tapering off to lower levels at the end of the year. From September 2011 to March 2012 silver was actually down by 12.39%. One of the reasons for this poor performance was the major flood situation in Thailand which caused many of the country's manufacturing facilities to be shut down. Thailand is the world's largest manufacturer of electronic assemblies.

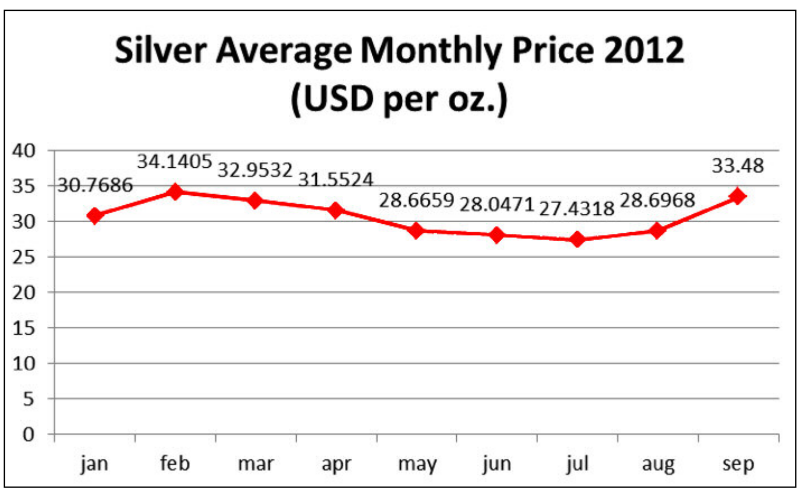

Fig. 4 Silver Average Monthly Price in 2012

However, the recessional forces sweeping the US, the European debt crises and the general global economic depression haven't dampened silver investment completely. Traditionally there's more investment activity in gold, silver and precious metals during economic downturns.

Industry pundits expect the demand for silver to reach new heights in Q4 of 2012 on the back of Thailand's recovery from the flood disaster. There is also intense speculation that silver will outperform gold this year as the U.S. Federal Reserve and central banks across the world make stimulus moves to boost growth. This should get silver back on track to achieve the anticipated seasonal gains by April 2013.

Expect the industrial use of silver to grow in the coming years with the growth of green technologies and the mushrooming electronics industry. The industrial demand for silver could grow to levels that would seriously challenge the supply-demand balance which in turn could further impact the seasonal movement of silver prices.

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The Advantages & Pitfalls of Mining Manganese Worldwide

Nearly 90% of the global manganese production each year is used in the production of steel. It's no wonder then that prices of manganese and steel are closely tied together. South Africa accounts for 80% of the world's manganese reserves while China, South Africa, Brazil and Australia are the leading producers of manganese.

One of the biggest challenges faced by South Africa's mining industry is the lack of sufficient infrastructure, especially the rail network and the severe power crunch. Most of the manganese mined in South Africa is exported from Port Elizabeth. The railway networks that are used for transporting the ore to processing facilities or export destinations have become congested and haven't kept pace with the demands of the country's growing mining industry. However, the announcement of new rail capacity at the Port of Ngqura in the Eastern Cape has brought much cheer to the mining companies. In a recent development, a distributed power train with 208 wagons has been announced to increase the volume of manganese exports from Port Elizabeth and from Coega.

South Africa has to increase investment in new rail capacity and availability of economical power supply for manganese production in order to be competitive in the global manganese market.

Brazil accounts for around 18% of the global manganese production. The bulk of the country's manganese reserves are concentrated in the Minas Gerais with smaller mines in Mato Grosso and Para. The biggest challenge for most Brazilian mining companies is poor logistical network, energy infrastructure and heavy rains. The country's manganese production was severely impacted in April 2012 due to prolonged wet weather conditions. In the coming years, Brazilian mining companies could face a lot of heat from environmental groups due to the adverse impact of mining on the Amazon forests.

Vale, the most significant Brazilian mining company, accounts for 95% of Brazil's manganese production. Originally state owned, Vale was privatized in 1997. Though the left-leaning government now owns only a 5.6% stake in the company, its national interest policy decisions are sometimes in contradiction to the company's interests. The key to Vale's dominance over manganese mining in Brazil is its ownership and access to vast infrastructure that includes more than 10,000 km of railroad, locomotives, ports and a huge shipping fleet. With the decline of the European markets, Brazilian companies are looking to export to the Asian giants and gearing up to face the cost pressures of shipping ore halfway across the world.

Manganese mines in Indonesia are logistically best placed to serve the Asian and European markets. High grade ore, proximity to shipping avenues and low labor costs make for low production costs. However, the country's regime has imposed a steep tax on export of unprocessed minerals, including manganese, effective from May 2012. The tax is a move to increase investment in domestic ore processing facilities and is seen in some quarters as a precursor to a total ban on export of raw minerals and a means to weed out smaller players. However, foreign mining companies that have invested in Indonesia are concerned that the new policies will negate the advantages of low production costs. In recent years, powerful anti-mining protests that have erupted across Indonesia have put a question mark on the feasibility of operating mines in the country. The Islamic country is also very susceptible to unrest due to global politico-religious situations.