http://www.mining-journal.com/opinion/mj-comment/mongolian-bellwether/

Mongolian bellwether - Mining Journal

www.mining-journal.com

I make no apologies for this mild obsession. As an industry, whether a resources companies with direct exposure to prices or a services provider (including media), we ...

Like many people in mining, I'm guilty of being a little preoccupied with trying to gauge where we are in the cycle: are we in a bump up as we bump along the bottom; or are we in the early stages of the next cyclical upswing; or have we seen the better part of the upswing already as we move to more moderate cycles?

Chris Cann I 31 Aug 2017 I 17:00 I Opinion

I make no apologies for this mild obsession. As an industry, whether a resources companies with direct exposure to prices or a services provider (including media), we are all at the whim of the commodity cycle. To paraphrase Sprott US Holdings chief executive Rick Rule, a lifetime of wealth can be created in the space of one bull run in the commodities cycle. It can also be lost if investors don't recognise when to get out.

There are a handful of advisories that publish a 'Resource/Commodity Cycle Clock', which ticks off milestones to indicate how far round we are from six o'clock (the bottom of the bust) on the way to midnight (the peak of the boom). These often track exploration spend and M&A patterns. Those who publish them would not advise investors peg their hopes and dreams to these instruments but they are useful tools for tracking the market and promoting discussion.

Like most, I take what these firms have to say on board, However, like most, I also have other indicators.

Last month, something happened to one of my personal, and slightly obscure, industry bellwethers.

Kincora Copper is a TSX-V listed junior capitalised at just over C$20 million (US$16 million), which, in itself, is fairly unremarkable and places it in league with about 500 other resources firms. But I watch Kincora because it has a handful of other interesting qualities.

First, it is an explorer, which, as we all know, is the last place investors are willing to place capital until they are confident there will be a corresponding reward associated with the risk. That reward is leverage to a rising commodity price.

Second, it is focused on Mongolia. Mongolia was a short-term darling of the commodities boom but its failure to successfully negotiate the construction of the Oyu Tolgoi copper-gold project in a timely manner cost it leverage to the best of commodity prices.

This is not really the government's fault. It was and is, after all, a novice in the resources world and a project slated to make up around a third of the country's GDP is worth taking some time considering to give oneself the best chance of not completely messing it up.

Still, the fact remains: Mongolia is a risk. It is almost devoid of a mining culture, has a politically changeable view when it comes to its fledgling mining industry, has next to zero infrastructure of note and the government is likely to want a big chunk of whatever an explorer might find so that discovery needs to be big enough to share.

The point is, Mongolia represents a risk and so even when investors are starting to come back to exploration stories, they are likely to look first in the Western world's mining strongholds of North America, Northern Europe and Australia.

Third, it is chasing copper, which in its own right is the industry bellwether as far as commodities are concerned. If copper plays are favoured, it is a strong sign for the overall industry.

Fourth, it is listed in Toronto, the market on which the majority of the publicly-traded resources world is listed.

And finally, it is a sound company. It is run by good people who are managing an exploration portfolio that makes sense – they are chasing copper porphyries along the same structure that hosts Oyu Tolgoi and has seen limited modern exploration. This means investment is likely to come because of, or in spite of, the previous qualities mentioned as opposed to baseless marketing.

Kincora moved into Mongolia around the same time as many others. The difference was that it stayed when commodity prices turned. For several years, across what I'm confident was the bottom of the cycle, the junior struggled to raise capital, generate news flow or keep a smile on its corporate face.

When I caught up with chief executive Sam Spring nine months ago, commodity prices seemed to have turned a corner but there was little talk of exploration and Mongolia, for most, was off the table. However, he reported a smattering of interest from select investors and, sure enough, Kincora closed a placement to raise just over C$500,000 just before Christmas.

It wasn't a huge amount of cash but it kept the lights on and, in the context of the industry at the time, it felt like something of a harbinger.

Last month, Kincora closed another placement, but this time for more than C$4.5 million. It is no longer concerned about lighting the office and instead plans to "explore identified tier-one targets across [an] enlarged portfolio, including at least 16,000m of drilling at two priority targets".

Spring and his cohorts didn't come down in the last shower so you can be sure the timing of this raising, just has copper hits its straps in its latest price run, is no coincidence – copper is up around 18% over the past two months to US6,600 per tonne.

The metal has shaken off some of the lethargy shown earlier in the year when it actually lost ground despite the largest copper mines in the world being crippled by industrial disputes and political manoeuvring. There are several forecasters saying the run is overdone but, regardless of whether or not copper corrects to some degree, its general trajectory is clear – it is up 38% from this time last year and 17% year-to-date.

It of course is not alone, with zinc reaching a decade-high late last month at around US$3,150/t and aluminium also on a run of sorts, though this is on the whim of Chinese environmental policy in similar circumstances to that which supported the iron ore and metallurgical coal runs of last year and their relative collapses this year.

Other commentary out this week to back the 'Kincora metric' came from Shaw and Partners in Australia, which was the latest to describe the commodities tailwinds at the back of the industry; while RBC analyst Sam Crittenden cited increased M&A in the Toronto markets as larger miners attempted to make up for half-a-decade of lost exploration spending by scooping up currently cheap reserves through juniors.

Some commentators will insist we haven't moved too far round from the six o'clock mark and I imagine, according to certain metrics, we haven't. China still looks shaky as the underpinning factor for ongoing demand and there is idled production from the boom that hasn't been on ice long enough to cause a great problem in bringing it back online.

But, based on a few strong signs I've seen across August – a traditionally sleepy month in the northern hemisphere – there is enough to convince me the clock is definitely ticking and we are only increasing the material distance already travelled from six o'clock.