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What does 2010 hold for investors?

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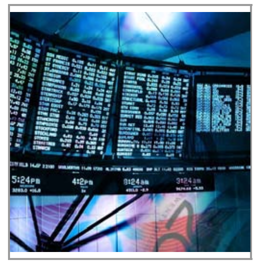
THE pace of the resource sector recovery in the wake of the global financial crisis has been extraordinary. But what does 2010 hold in store for investors and will we see a continuation of the same positive environment? Mine Life analyst Gavin Wendt reports.



Let's begin with some of the commodities to watch during the coming year. I can see no logical reason why we won't continue to see further price strength with respect to the big gainers over the past 12 months, namely gold, copper and coal. And into the mix we can throw iron ore, given the seemingly endless Chinese demand for the steelmaking component.

The key with respect to all these commodities is that they are the staples of economic growth and are being consumed on an ever-increasing scale by the world's emerging economies, particularly China and India, which have a seemingly insatiable industrial, residential and energy demand for such resources.

I believe we are looking at a price increase of at least 30% and possibly closer to 50% for iron ore during price negotiations in 2010, given the strength of demand in both China and India. With respect to copper, I believe we are looking at a price of around $US8000 per tonne in 2010, as demand for the red metal stays firm.

The enormous economic growth underway in places like China and India is set in stone for decades to come. And my personal view is that demand from the emerging Asian and South American economic powerhouses will largely offset the impact of the cloud that will continue to overhang the established economies of the USA, Europe and Japan this year.

The good news is that this will ensure that resource-driven economies like Australia should perform well during not only 2010 but also the years ahead. This is based on my firm belief that there is only one way for commodity prices to go and that is up. I don't believe that we will see the industry's supply-side issues ease to any significant extent during 2010, but demand-side momentum will continue.

I can easily envisage a scenario where we see gold prices hit $US1500 per ounce during the year, driven by a complete breakdown with respect to investor confidence in the US currency. There is no reason at all why any sane investor would willingly choose to invest in the US dollar, given the unresolved issues afflicting the American economy. And while the US currency remains weak, gold will continue to thrive.

Elsewhere, the other commodities that could soon return to favour are the recent laggards, nickel, oil and aluminium. The prices for all three have been decimated since their all-time highs, but there is little evidence of any substantial new world-class finds on the horizon for these commodities.

First Quantum's recent purchase of BHP's mothballed Ravensthorpe operation in Western Australia demonstrates the tide is turning for nickel, and Rio Tinto in time will come to reap the benefits of its ill-timed acquisition of Alcan, primarily through the low-cost production provided by Alcan's cheap power assets. I would expect nickel prices to exceed $US20,000 a tonne during 2010.

Oil cannot continue to live in gold's shadow for much longer, given the historic price parallels between these two commodities and the longer term supply problems. I expect oil prices to climb to as high as $US110 a barrel in 2010, driven also by global security and supply concerns and steadily recovering US demand. The first couple of months of the new year are typically good ones for crude oil, so oil should start the year on a strong note.

The other continuing themes in 2010 will be a continuation of takeover/consolidation activity in the resource sector, with Chinese investment at the forefront of all this. We are witnessing the second wave of Chinese investment, with many of the new players funded by wealthy private interests rather than the government-associated entities we have seen up until now.

These new investors are smarter and are looking to fund emerging resource opportunities with a slightly longer timeline to production, rather than simply having a crack at the larger, established industry players. So the growing influx of Chinese cash into the resource sector is going to be an even more pressing issue for which governments like Australia will have to reiterate and present clear positions.

Resource juniors to watch in 2010

Western Desert Resources (WDR) **Iron ore will be a continuing theme during 2010 with prices likely to rise by well above current consensus estimates of 20-30%. In our view prices could leap by as much as 50% on the back of surging Chinese demand. Although not a producer yet, WDR is ideally placed to benefit from the positive rub-off.**

There are a couple of factors that differentiate it from the bulk of its peers at the smaller end of the iron ore scene. For starters, the company's Roper Bar project in the Northern Territory is in many respects unique, primarily due to its location and style of mineralisation. Most importantly, logistics, the major stumbling block for most budding iron ore hopefuls, does not appear to be a problem, given the project is near the coast.

The good news doesn't stop there. WDR's second main project, the Rover JV, also in the Northern Territory, has the potential to host high-grade Tennant Creek-style copper-gold mineralisation. The company has two very high-profile and successful neighbours, Westgold Resources and Adelaide Resources, which have both been generating exciting results recently from their adjacent acreage.

Marenica Energy (MEY) **If the world is in any way serious about viable energy alternatives then uranium has to be on the agenda. Remember it wasn't that long ago the price of uranium had surged well above $US130 per pound in direct correlation with the rising oil price, which almost hit $150/bbl. Given the extraordinary success of emerging Namibian uranium company Extract Resources and the abundance of corporate activity in the Namibian uranium space over recent years, investors can be forgiven for wanting to identify the next Extract.**

One company I believe has the potential is Marenica Energy. The company has achieved two milestones: an extension of its exploration licence and an upgrade in its resource base. Marenica is a quiet achiever that has a nice ground position and could well generate strong price appreciation for investors over the next couple of years as exploration activity increases.

Excalibur Resources (EXM) **This Northern Territory gold player has been overshadowed by its higher profile neighbours, Emmerson Resources and Westgold Resources, but the company's exploration appeal is at least as attractive. Not only has the latest program generated high-grade drilling intercepts like 6m at 22.19 grams per tonne gold from 32m depth and 3m at 13.23gpt from 25m, but the company plans to commence engineering and feasibility studies early next year with the aim of commencing production in 2011 from Tennant Creek. This is way in advance of its neighbours.**

The key assets include Juno, which is one of the highest grade gold mines ever operated in Australia, having previously produced 815,000 ounces of gold between 1966 and 1977 from 452,000 tonnes with an average recovered grade of 56.1gpt gold. In addition, there is Nobles Nob, which produced 1.11 million ounces of gold from 1.996 million tonnes at an average recovered grade of 17.3gpt gold. Excalibur has completed extensive exploration drilling on many of these areas since 2007, resulting in a resource upgrade from 532,244oz to 1,177,637oz.

Tanami Gold (TAM) **Continuing the gold theme is another emerging producer, Tanami Gold. The company's story has been a long slow one, with some major hiccups along the way, but the trigger was the arrival on the scene of managing director Graeme Sloan and his management team. He has turned the company's production and financial performance around, from a struggling gold start-up in WA's remote Tanami desert to the achievement of consistent and improving production levels over at least the past two** consecutive quarters of operation.

The company is on track to meet annualised production of 50,000oz, which it eventually hopes to boost to well over 100,000oz through new resource development and exploration success. Tanami is also on the acquisition trail, which means growth is likely to arrive faster than it would otherwise.

Kasbah Resources (KAS) **Tin is not the sexiest commodity, but what is appealing about tin is the looming supply crisis caused by a dramatic drop-off in terms of grade and output from the world's established mines. This is causing a massive headache for the world's tin consumers and smelters, which are desperately looking around for future product. So the price outlook for tin is extremely good, that is if you can get your hands on the stuff in the first place.**

This brings us to Kasbah Resources, which is set to develop one of the world's few new tin deposits in Morocco in 2012. The project is around double the grade of anything else on the development horizon and geographically much better placed than competing projects in such places as Rwanda, Uganda, the Democratic Republic of the Congo and Kazakhstan.

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