FEATURE
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Junior miners taking stock

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This is based on the rough rule of thumb that the 650 listed exploration companies need at least $500,000 a year (for salaries, rent, admin, ASX and ASIC fees) while those actively exploring need at least $1 million a year.

The cash position of juniors is at an all-time low, however.

In an analysis of 125 junior exploration companies listed on the ASX between December 1998 and December 2014, Mr Schodde found the median rate of companies' cash position was currently $1 million, down from a peak median cash reserve rate of $4.8 million in 2007.

And based on December quarter results, Mr Schodde found the lowest quartile had about $290,000 in cash reserves, while the highest quartile had about $2.8 million – also both down on peak cash reserves in 2007 and 2010.

"A quarter of the industry's only got a quarter of a million dollars in the bank, which is a pretty stressful position to be in given that it's very difficult for companies to raise money at the moment," Mr Schodde said.

"But there's always been a quarter of companies in a difficult position at any one time even during the good times."

He said a better predictor of a company's success was not how much money it had in the bank, but rather its market cap.

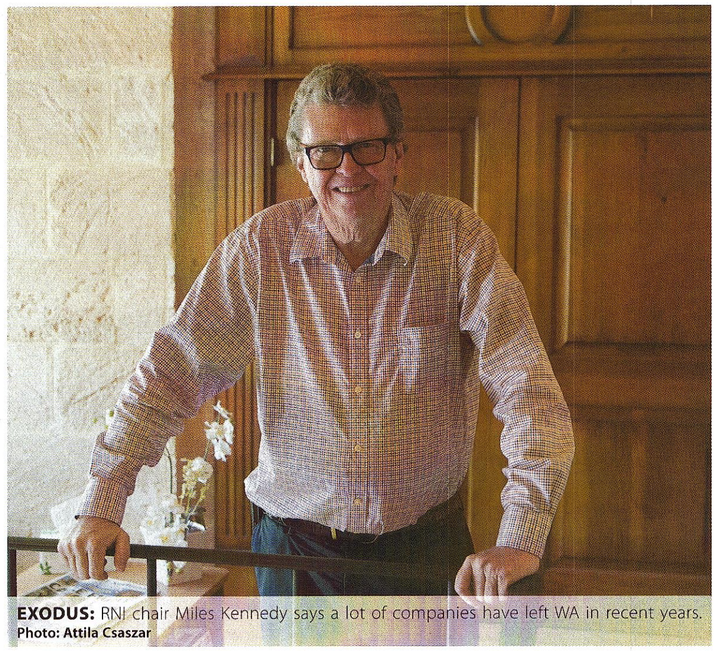
> **"It's a hard market for the resource sector and at times of hard markets you need clarity and certainty, you don't need grey** - Miles Kennedy

Companies with larger market caps had an easier time raising funds.

Juniors were spending on average an equal amount of money on fieldwork and administration fees, whereas in better times during 1998 to 2008 they were spending two to three times more on exploration and development, he said.

Denham Capital managing director Bert Koth said the market was now correcting itself after a bullish period of investing in mining.

"In the bull market a lot of capital was flowing into investment propositions that in a more realistic market would have never been funded, and now we have a drought that might last a couple of years," he said.



EXODUS: RNI chair Miles Kennedy says a lot of companies have left WA in recent years. Photo: Attila Csaszar

"After the largest mining boom in history comes one of the longest hangovers in history."

Accounting firm EY's partner in M&A, Roger Dartnell, said while some entrepreneurial companies were viewing depressed times as a good opportunity to try and secure projects at a bargain price, most WA companies were unwilling to offload assets unless they could get a good return.

"At this point in the market no-one really wants to sell an asset unless they have to, but they might be willing to sell down an interest if it gives them some funding to get a project going," he said.

Accounting firm Grant Thornton's national head of energy and resources, Holly Stiles, said companies were becoming more creative in their search for greater value.

"A good example of a company taking an innovative and creative approach to adding shareholder value is Poseidon Nickel," she said

"They've undertaken low cost acquisitions and other transactions which have cut the capital costs of their projects dramatically."

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India may change iron ore fortunes

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A DEPRECIATING currency and encouraging demand over the medium term spells good news for the state's mining juniors, if they can ride out short-term fluctuations.

> **"Prices will firm in 2018 as the surplus diminishes, but supply will remain well above historic levels for the rest of the decade** - ANZ

The Australian dollar gold price in particular has been gathering steam in recent months, helping the S&P ASX All Ordinaries Gold index to rally above 2,600 points from a low of just 1,700 at the start of December.

Newcrest intensified interest in the sector this month with the announcement it was considering the sale of its Telfer mine.

By contrast, the news for Western Australia's single largest export, iron ore, has been softer.

ANZ Research said it expected the surplus of iron ore to grow to 85 million tonnes for at least the next two years.

"It's important to remember while the price slump has been dramatic and hard to monitor, 85 per cent of the seaborne market is still making money," ANZ said in a recent update on the bulk commodity.

"ANZ's forecasts for 2016 and 2017 have been downgraded ... not tracking any higher than the existing spot price of $US63 a tonne.

"Prices will firm in 2018 as the surplus diminishes, but supply will remain well above historic levels for the rest of the decade."

In the longer term, India could drive growth in the demand for iron ore.

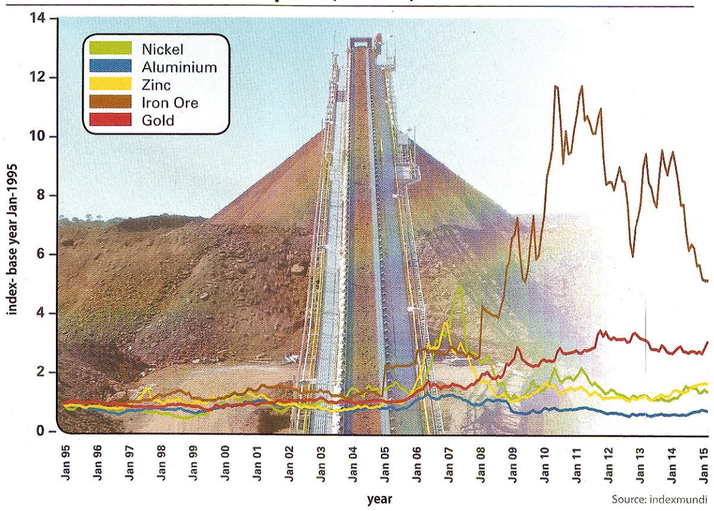
In a 2014 report, EY noted that steel consumption per capita had a positive relationship with GDP per capita, with India still low in both.

As with China, steel intensity grows most strongly before a country reaches a per capita GDP of $15,000, EY found.

That means India could play a bigger role in the future movement of the price of iron ore.

Nickel and zinc prices surged strongly in the early years of the commodity boom but tailed off as the GFC struck.

Australian dollar commodities prices (nominal)



Source: indexmundi

Zinc prices close to $US2,100/t are roughly in line with long-term trends, according to modelling from Credit Suisse in 2011.

The metal reached as high as $US2,400/t last year, however in Australian dollar terms the price has pushed upwards as the currency depreciates.

Closures of zinc mines later this year, including Australia's largest, near Cairns, might also place upward pressure on prices.

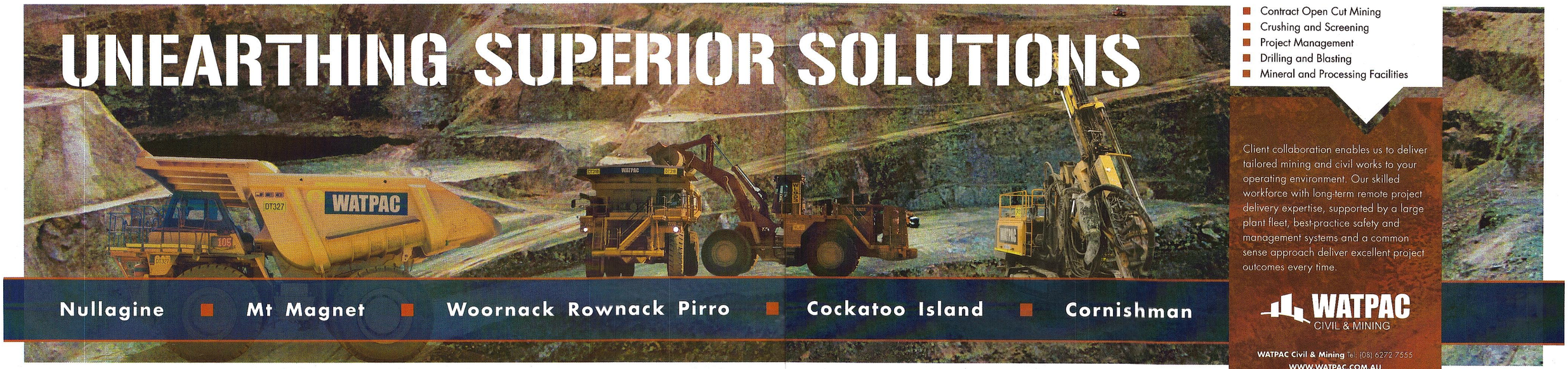
Similarly, nickel production could be in deficit this year, according to recently reported comments by Japanese producer Sumitomo Metal Mining, as stockpiles in China are exhausted.

St George Bank senior economist Hans Kunnen said the global metals demand was around trend and growing.

"The US, the biggest industrial complex in the world, continues to grow more robustly than it has," he said.

"Japan has introduced policies that will encourage its economy to grow."

Mr Kunnen said India and China would also deliver reasonable growth, giving hope for efficient producers.

"(Iron ore) won't get to the highs of four years ago," he said.

But times had definitely changed since the days when it sold for $15/t, he said.