Mineral sands put gloss on mining minnows

By Emiko Terazono in London


Getty

The construction boom in China and other emerging countries has transformed sludge from the beaches of Africa and Australia into gold dust for a handful of mining companies.

The price of a group of obscure commodities used to produce pigments – including ilmenite, rutile, and zircon – has soared this year, in some cases trebling as the rapid urbanisation of China, India and the Middle East boosts demand for paint.

Matthew Hope, analyst at Credit Suisse in Sydney, said: “The price growth has been phenomenal.”

Ilmenite and rutile are processed into titanium dioxide, used as a pigment in paints, plastics, papers and cosmetics while zircon is mainly used in ceramics and tiles.

Together, they are known in the mining industry as “mineral sands”. The main sources of supply are not traditional large mines, but sand from beaches and shallow waters in remote areas of Australia, Mozambique, Senegal and Kenya.

The demand spike has strained the industry, which has not invested enough to develop new sources of mineral sands because of a period of low prices in the 1990s and 2000s.

Some miners also went bust as orders plummeted in 2008 during the global financial crisis, while consumers drew down their stocks. The combination of low supplies and nearly empty inventories has forced up prices sharply this year.

The jump in prices has put hitherto little-known mining companies on the investment map. The price of Australia's Iluka – the world's largest zircon producer – has more than doubled from a year ago, while shares in Ireland's Kenmare – an FTSE 250 company which produces about 8 per cent of global minerals for titanium oxide – have also doubled.

Michael Carvill, managing director of Kenmare, said the cost of ilmenite had risen from $100 to $300 a tonne in six month from late 2010. The average rutile contract price has surged from $553 a tonne last year to $1,050 this year, while zircon prices have more than doubled from $913 a tonne to $1,900 a tonne, RBC Capital Markets estimates.

The question is whether mineral sand prices will continue to rise amid worries that the global economy slips into another recession. Growth in the Chinese construction market has been slowing this year causing prices for iron ore to fall sharply in the last two weeks. Analysts worry the effect will be felt in other commodities and possibly the mineral sands.

To quell investor jitters over falling prices, Iluka took the rare step this month of disclosing its quarterly price contract with customers. The company said it had reached an average 10 per cent increase from the previous quarter for zircon contracts to over $2,400 a tonne.

It said: "Given the economic conditions and the market, we have provided the outcome of our pricing discussions with customers".

Company executives and analysts believe that although demand growth may slow, tight supplies will prevent any sharp decline in prices in 2012.

With no new production facilities coming on line before 2014, and the Chinese government pushing ahead with its goal to complete 36m units of subsidised social housing in the next five years, the supply and demand balance will be in equilibrium.

Mr Carvill said: "Assuming that there isn't a financial crisis, we cannot see any reason for prices to significantly come back".

Additional reporting by Leslie Hook