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METALS OUTLOOK

The fundamental view on metal markets p.12

TAKARA RESOURCES
Women in action p. 28

Future looks bright for ALAMOS GOLD p.8

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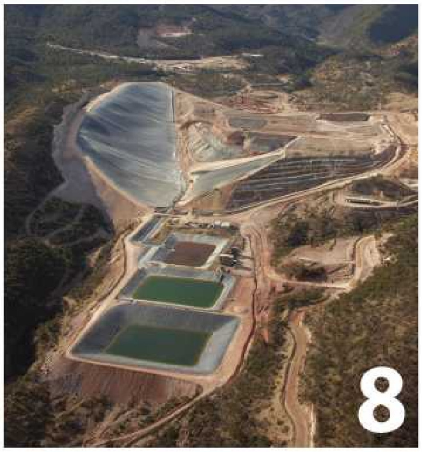

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Resource World is now entirely printed on Forest Stewardship Council certified paper. FSC certification ensures that the paper in our magazine contains fiber from well-managed and responsibly harvested forests that meet strict environmental and socioeconomic standards.

Braveheart

I was channel surfing the other day and came across the movie *Braveheart* and the classic scene where Mel Gibson, as commoner William Wallace, was rallying his small band of Scottish freemen against the much larger and better equipped English army. You may remember, Wallace urging his troops to hold their position a number of times, as the massive English force lines up opposite his men.

"Hold!" cries Wallace. Then, as English arrows rain down upon them, "Hold!" And as the cavalry begins its charge, "Hold!' And finally, just before the charging horses run head long into the Scottish, extra long spears, he cries out once more, "Hold!" And of course, the Scots hold to the very last second, only to raise their spears into the charging beasts and go on to win the most famous battle is Scottish history.

I found the above scenario very similar to the current state of the junior resource companies trading on the TSX Venture Exchange, in that most of the issues on the exchange moved up about 35% early in the new year, and now, this little band of companies has been fighting for the last three months to hold a combined Venture Exchange level of over 900 in the face of some of most bearish economic news of recent generations. This includes a record drop in U.S. home prices, record American and Canadian jobs lost, the Dow Jones Industrial Average and the S&P 500 Index fall to new 12-year lows as well as negative investor sentiment at its highest level ever.

And hold they have. Under the greatest onslaught of negativism this broker has ever experienced, investors of resource issues have stood in there and supported their favourite issues, banding together and refusing to let them fall back to their lows of last fall. Now, as I write this column in mid-March, the major North American markets are once again turning positive. Some corporations are turning down emergency financial aid. And U.S. new home starts for February suddenly rose by 22%, breaking the longest housing downturn of the last 18 years. On the resource side, copper has moved up another US $0.20 in the last two months to US $1.75 a pound, and crude oil is bumping up against US $50 a barrel. The economic engine is showing some life.

Has the greatest economic battle in history been won? I would suggest that it's a little too early to tell, but if the Braveheart TSX Venture Exchange doesn't falter, and can continue to rally investors, then higher highs could lie ahead and victory will be ours. Hold!

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IRON ORE MARKET OUTLOOK

by Sandy Chim

Iron may be one of the cheapest metals in the world, but the world's largest mining companies like it – CVRD, BHP and Rio Tinto have iron ore mines as major revenue and profit contributors. Like most other metals in the down cycle, spot prices of iron ore have declined from their peak due to the global recession. Unlike most other minerals, iron is not traded on the London Metal Exchange and does not have a futures market. Its performance depends on economics.

The outlook for iron ore is tied to global economic recovery, but one customer can make all the difference. China produced about 20% of global steel in 2002, which grew to 500 million tonnes (mt) by 2008, representing a 37.5% market share. While everyone else is shrinking, China's share reached half of the global market in January 2009. China is the most important factor in the recovery of this sector.

China's economic problems are different from the rest of the world's, though it has an export sector (25%–30% of the economy) depending on the West. Its banking system has remained relatively intact despite the financial crisis, providing needed stability. Its key strength is its domestic consumption from a growing middle class in the world's most populous country. China's downturn is partly the result of government fiscal and monetary policies designed to curb inflation and contain its bubbling real estate market in the last two years. With the exception of a battered export sector, fundamentals of the Chinese economy are comparatively in much better shape than other countries.

Following governments around the world, China announced a US $600 billion economic stimulus package last November; however, the money is going "into the ground" instead of rescuing crumbling financial institutions. With 38% of the package allocated to infrastructure, 25% rebuilding the Sichuan earthquake zone and 9% for rural development, its total fixed asset investment comes to about US $450 billion. This should generate some 100 mt of demand for steel, or 150 mt of mill-feed grade iron ore over 2009 and 2010. This is substantial considering China imported 444 mt of iron ore in 2008, representing roughly half of the global seaborne iron ore market.

In the short term, the China factor is expected to keep the 2009 iron ore contract price at about the 2007 level and the 2009 volume from a sharp fall. Over the long run when the multiplier economic impact of the package sets in, its steel industry should resume its substantial growth in a couple of years' time, continuing the super cycle at a moderate pace.

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