SE Drilling Down Under; Blog

HD **Australia notches 10-year high for gold production, but impact of shutdowns to hit home**

BY Angela Kean

WC 1,345 words

PD 7 March 2014

SN SNL Metals & Mining Daily: East Edition

SC SNLMMDE

VOL Issue: 79552

LA English

LP

Australia hit a 10-year high for gold production in 2013, with 8.6 million ounces produced, according to statistics compiled by SNL Metals & Mining, but this is not expected to be a sustained increase as the impact of recently mothballed operations is felt across the country.

While collective statistics for the country represent the highest level of annual gold production for the past 10 years, individual statistics for each state and territory are already starting to show a decline from 2012 levels.

TD

In 2013, Western Australia produced 13,707 ounces fewer than 2012, at 6.1 million ounces, while Tasmania's gold production fell by 27,205 ounces year over year, to 87,465 ounces, according to SNL statistics.

Jim Pollock, a spokesman for mining consultancy firm Surbiton Associates, told ABC News on March 4 that Western Australia has been the "mainstay" for Australian gold production. "It still produces about 70% to 75% of all Australia's gold," he said.

The state's drop in production was largely due to lower output from Gold Fields Ltd.'s Agnew and Lawlers mines and the suspension of operations at Focus Minerals Ltd.'s Laverton and Coolgardie mines.

New South Wales was the main exception, with its production increasing to more than 1 million ounces in 2013, from 832,761 ounces in 2012. However, 2013 production was still lower than the state's peak in 2007, which saw 1.1 million ounces produced.

While they may be only marginal decreases, the forecast is for a further drop in production due to more operations shutting down as companies decide they cannot sustain barely break-even gold mines.

MineLife senior resource analyst Gavin Wendt told SNL that to date it has mostly only been the "grossly" uneconomic operations that have been taken offline, while operations with costs close to the current US$1,337-per-ounce spot price have been kept running.

But he does not see the situation continuing indefinitely. "I think companies will do that on a temporary basis," Wendt said. "During the course of this year we'll probably see companies biting the bullet and probably being a bit tougher in terms of the operations that they keep running.

"I don't think companies will, for too much longer, want to continue with operations that are just barely breaking even."

The most recent example of this is Silver Lake Resources Ltd.'s move to place its Murchison operations in Western Australia on care and maintenance by June.

Managing Director Les Davis said at the end of February that continuing production at the Murchison operations at the current gold price is unsustainable.

This is one example of where there is too much of a differential between the price being received for a product and what it's costing to dig it out of the ground and produce it, Wendt said. "What we're seeing is the more glaring examples of high-cost operations — those are the ones that are being shut down."

Driving force behind 10-year high

A combination of old mines being brought back into operation, the expansion of existing mines and new discoveries are attributing factors to Australia's reaching a 10-year peak.

Adding to production in 2013 was AngloGold Ashanti Ltd. and Independence Group NL's Tropicana mine, which was brought onstream in late September.

Tropicana is expected to be a low-cost mine with cash operating costs in the first three years estimated to be between A$590 and A$630 per ounce for the production of 470,000 ounces to 490,000 ounces of gold.

"Despite a lot of the doom-and-gloom talk, the strong gold price over the past decade has led to a lot of exploration money being spent on new discoveries, and there have been some new discoveries," Wendt said. "They are now hitting their straps and just coming into production."

With the gold price hitting a peak of about US$1,800 an ounce, some operations that may have been mothballed because they were uneconomic at prices of about US$270 an ounce were brought back into production.

Wendt said that with the rising gold price over the past decade, the dynamic has changed and the economics of the projects have improved

"A lot of those old projects have been dusted off, they've been looked at, they've been re-evaluated, further work has been done on them and a lot of those old operations have been recommissioned."

Flurry of activity in the gold space

The historically high gold price has also been a factor in the increase in activity in the gold sector in the past decade. The consensus among industry watchers is that the level of activity is higher lately.

"More activity than we've seen for some time, and I think following the period of subdued gold prices some of the overseas companies have decided to pull their horns in a little bit, sell their Australian operations, and look for better prospects elsewhere," Surbiton Associates' Pollock told ABC News.

Canada's Barrick Gold Corp. was one such player that sold off some of its Australian assets in 2013, with South Africa-based Gold Fields picking up the company's Granny Smith, Lawlers and Darlot mines in Western Australia, and Australian producer Northern Star Resources Ltd. buying its Kanowna Belle, Kundana and Plutonic mines, also in Western Australia.

Meanwhile, Wendt said that while the gold price has fallen from its record high, it is still very strong viewed historically.

"It's still a strong incentive for companies to go out there and make discoveries and to mine and produce," he said. "Maybe it isn't as economic as what it was when it was US$1,800 an ounce, but this is still a very strong price."

Wendt noted that there is also a high level of interest in corporate activity in the sector, with 2014 likely to see a number of deals, not just in the Australian gold industry but globally.

"I think we're starting to see, and most people seem to agree, that 2014 will be a year in which we see a lot of corporate activity — companies with cash that are eyeing off companies that have attractive projects but can't get them developed," he said.

Rising gold demand could cause supply deficit in 2014

Growing demand from China could force gold supply into a deficit in 2014, according to the World Gold Council.

Managing Director of investment strategy, Marcus Grubb, told Mining Weekly following the release of the World Gold Council's 2013 Gold Demand Trends report in mid-February that the gold market is moving back toward a balance and even a deficit quite quickly with a shift in demand from the West to the East.

Wendt told SNL that he did not see China easing up on its gold buying anytime soon as the nation tries to achieve its ambition of making the Chinese yuan a world currency.

"I think over the next few years that there's every chance that China's currency could become an alternative world currency, and the best way for the Chinese to try and enforce their argument about their currency being a world currency is to back it with gold," he said.

Demand is also being spurred on by central banks increasing their **gold** positions.

According to the World **Gold** Council, although the **purchase** of **gold** by central banks in 2013 was down 32% year over year, they continued to be strong buyers.

Central banks made net purchases in all four quarters of 2013, totaling 369 tonnes.

"We're seeing greater investment demand for **gold** all over the place and central banks increased their position in **gold** last year," Wendt said.

"The decline in currencies and the volatility in the world economic situation has just reinforced why **gold** is such a good place to park your money."

IN i2112 : Gold Ore/Silver Ore Mining | i22472 : Precious Metals | i211 : Metal Ore Mining | imet : Mining/Quarrying | i22 : Primary Metals | i224 : Non-ferrous Metals | ibasicm : Basic Materials/Resources

NS m1421 : Gold Markets | ccat : Corporate/Industrial News | reqrmm : Suggested Reading Metals/Mining | m14 : Commodity Markets | m142 : Metals Markets | mcat : Commodity/Financial Market News | mpcsmt : Precious Metals Markets | ncat : Content Types | nfact : Factiva Filters | nfce : FC&E Exclusion Filter | redit : Selection of Top Stories/Trends/Analysis | reqr : Suggested Reading Industry News

RE austr : Australia | waustr : Western Australia | apacz : Asia Pacific | ausnz : Australia/Oceania

IPD Industry News

PUB SNL Financial LC

AN Document SNLMMDE020140312ea3700005

