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HD **Gold gets its shine back**
BY Brian Robins
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The correction in the bullion price appears to have run its course, writes Brian Robins.

It's been a savage bust that wiped billions of dollars off the value of some portfolios, but the worst may be over. After a correction that pushed the price of gold down 28 per cent last year alone, the recent uplift has seen the smart money begin to flow back into the sector.

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"It's broken the two-year correction," says Canaccord Genuity Australia executive chairman Warwick Grigor of the rebound in the gold price.

"It started turning at the start of the year ... We are now seeing more normal trading dynamics assert themselves."

Six months ago there was talk of the gold price falling to $US1000 to $US1100 an ounce. It didn't happen. As a result, short covering from bearish investors forced to close out positions has helped to put a firm floor under the precious metal with a number of investment banks and brokers pencilling in a price of $US1200 to $US1300 an ounce over the next few years.

Also weighing on the gold price last year was heightened regulatory pressure on US investment banks to slash their commodity operations, with selling also coming from gold exchange-traded funds (ETFs). In the first quarter of last year, for example, more than 130 tonnes of gold were sold into the market as funds were pulled out of gold ETFs.

Much of this pressure has run its course with gold stored at Comex by bullion traders now back at 2009 levels, and modest net buying again seen from gold ETFs.

The improved technical position has resulted in groups such as Canaccord Genuity telling clients gold will trade around $US1350 an ounce for the next few years before edging higher.

"I expect the gold price to continue rising with investors moving out of iron ore; copper is on the nose," Grigor, a former resources analyst, says. "Gold and uranium look the most interesting. Iron ore and copper prices are responding to economic growth signals coming out of China."

That is, weak growth is weighing on sentiment towards these metals. For their part, uranium shares have run ahead of the uranium price on optimism of nuclear power stations in Japan resuming operations after the prolonged shutdown following the Fukushima meltdown. But without a pick-up in the uranium price, this could see the sector sold off, he said.

The recovery in gold has resulted in gold stocks enjoying a strong start to the year, with the ASX small gold index rising an impressive 40 per cent since the beginning of January, easily outpacing the 15 per cent rise in the gold price.

"Short covering plus M&A activity might lead to the green shoots of a revitalisation of the gold equities," Macquarie Equities said in a report. As a result, investors should focus on low-cost producers and miners with advanced projects that could make them acquisition targets, it said.

RBC Capital Markets believes the key elements are in place for gold to move higher over the next few years thanks to demand from China and the absence of central bank selling. It is directing clients towards sector leaders globally, which have lower cost mines and improving cash flows.

This will help offset bumps such as the move by the US Federal Reserve board to reduce its monetary stimulus - the so-called "fiscal tapering" - which has weighed on gold and gold equities, most recently again late this week as investors look to US interest rates rising from 2015.

But even though the gold price may have bottomed, few expect it to reclaim its peak, with miners forced to slash costs and focus on high-grade reserves to revive earnings. Additionally, there has been a round of asset trading, as leaders such as Canada's Goldcorp sell off high-cost mines and buy cheaper assets. Newmont also sold a large stake in local uranium miner Paladin last week along with some higher-cost goldmines.

But the sector still has some digesting to do. Just over three years ago Goldcorp paid $3.6 billion for the locally listed Andean Resources and has spent $US1.8 billion - a 30 per cent cost blowout - on Andean's large low-cost Cerro Negro mine in Argentina, a 500,000 ounce a year mine. The first gold is expected midyear.

A spate of share placements and issues over the past six weeks raised a handy $250 million as Silver Lake, Saracen, Perseus Mining, Kingsgate and Indochine tapped the market for funds. And unlike Kingsgate, which was forced to raise funds at a steep 30 per cent discount, Indochine was able to place shares at a premium of more than 30 per cent.

"They've all been topping up the kitty, but it is yet to trickle down to the smaller explorers," one analyst said of the raisings.

"Northern Star is shining with its acquisitions and management skills," Canaccord's Grigor says, when looking at the key stocks in the sector. "It will emerge as a 350,000-ounce producer."

Others such as Beadell Resources - a former darling of the sector - has suffered from a shift in sentiment following share sales by its managing director.

Oceania has won backing for the success of its Didipio mine in the Philippines, while Saracen has come back into favour with a new managing director and the acquisition of assets. But leader Newcrest remains firmly out of favour, as does Resolute Mining after a series of missteps.

Another local miner to find support is Metals X after its acquisition of the local operations of Alacer Gold, with its share price doubling in recent months.

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