Gold Miners Lose $169 Billion as Price Slump Adds ETF Pain (1)
2013-04-18 07:54:43.793 GMT

(Updates gold price in 12th paragraph.)

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April 18 (Bloomberg) -- Gold producers, ignored as global stocks rebounded in the past two years and investors turned to exchange-traded funds that track bullion, face closing mines or shutting themselves down after the metal's worst slump in three decades this week made 15 percent of miners unprofitable.
Barrick Gold Corp. and Newmont Mining Corp., the world's two largest producers, are among companies in the FTSE Gold Mines Index that have collectively lost about $169 billion in market value since bullion peaked in 2011. Gold equities are trading at the lowest level relative to gold in at least 20 years after the metal's 14 percent plunge so far in April.
This month's futures price drop to as low as $1,361.10 an ounce brings gold closer to the global average production cost of about $1,200 an ounce, according to Nomura Holdings Inc. That puts producers such as Canada's Semafo Inc. and Golden Star Resources Ltd. at risk of mine closures or "financial distress" if prices fall to that level, according to Macquarie Group Ltd. Tanzania, Africa's fourth-largest gold-producer, said a sustained slump may shut mines there.
"Any company that hasn't been focused on efficiencies and costs for the last three to four years is going to fail in this market," said Gavin Thomas, chief executive officer of Sydney-based gold miner Kingsgate Consolidated Ltd.
Gold's 9.3 percent plunge on April 15, the biggest one-day drop in New York since March 1980, couldn't have come at a worse time for gold companies.

Rising Costs

Despite 12 consecutive years of rising gold prices, shareholders have lost faith in the gold-mining industry, which has seen soaring production costs and made money-losing acquisitions. Investors have instead flocked to exchange-traded funds, or ETFs, such as the SPDR Gold Trust, which are backed by bullion and track the price of the metal.
The FTSE gold index, which tracks 27 of the largest producers, has plunged 58 percent to yesterday since bullion hit a record on Sept. 6, 2011. Over the same period, the MSCI All Country World Index, which tracks 2,431 global stocks, climbed 22 percent.
"Gold companies have underperformed the gold price for

more than the past 20 years, quite simply because they make as little money today for shareholders as they did at $300 an ounce," Brenton Saunders, who helps manage about $600 million at Taurus Funds Management Pty., said from Sydney.
Starved of fresh capital, smaller mining companies that carry out exploration and development were already being squeezed before this week's price crash. There are too many companies in need of financing and there will be production stoppages as some of them cut expenses, said John Ing, CEO of Toronto-based brokerage Maison Placements Canada Inc.

Geopolitical Risk

"If the price stays where it is, you will see a slew of closures of smaller, non-producing companies and the majors pull way back on any new projects," said Ken Hoffman, a Princeton, New Jersey-based analyst at Bloomberg Industries.
Companies relying on a single asset and those in Africa, already struggling with deteriorating geopolitical risk over the past year, will find it more difficult to convince banks to fund projects, Tyler Broda, a gold analyst at Nomura in London, said by phone from London on April 16. Tanzania, where Barrick and South Africa's AngloGold Ashanti Ltd. operate, is concerned that continued price weakness will discourage investment and lead to mine closures, Ally Samaje, acting minerals commissioner, said April 16.
At current prices, "probably 15 percent of global gold miners from our calculations would be under water at the moment," Broda said. He predicts gold could fall to as low as $1,000 an ounce this year. Gold for June delivery gained $1.70 cents to $1,384.40 an ounce at 5:47 p.m. in Sydney.

Mine Review

"Golden Star, like other gold producers, is assessing the effect of the fall in the gold price on our budget and production plan," President and CEO Sam Coetzer said in an e-mail. "We are also reviewing the discretionary capital component of our capital plan for 2013."
Semafo, which mines in West Africa, may close its Samira Hill mine in Niger, Macquarie analysts said in an April 16 note. Sofia St. Laurent, a spokeswoman for Semafo, didn't immediately respond to phone calls and an e-mail seeking comment. Omar Jabara, a spokesman for Newmont, said the Greenwood Village, Colorado-based company will continue to rein in costs. Andy Lloyd, a spokesman for Barrick, declined to comment on whether the company's African Barrick Gold Plc unit could shut mines in Tanzania.

Spending Cuts

Some other miners are already contemplating cost reductions. Petropavlovsk Plc, a London-based miner of gold in Russia, may suspend inessential investment plans and cut exploration spending should prices stay weak, Chairman Peter Hambro said April 16 in an interview.

AngloGold Ashanti Ltd. is reviewing each of its 20 operations "to extract operating efficiencies," said Alan Fine, a spokesman for the Johannesburg-based company. South Africa's Harmony Gold Mining Co. said its average so-called all-in cost of production in the six months ended Dec. 31 was about $1,446 an ounce.

"We are currently in the next planning cycle and will obviously take the new gold price level into account," Harmony CEO Graham Briggs said in e-mailed comments.

To be sure, even if prices don't recover, some companies will continue to be profitable. Barrick's all-in production cost, which includes everything from exploration to waste-rock removal expenses, was $972 an ounce in the first quarter. Newmont's all-in cost was $1,192.

Top Pick

In Australia, low-cost producers including Beadell Resources Ltd., Regis Resources Ltd. and Newcrest Mining Ltd., the country's largest producer, are likely to withstand the rout better than their local peers, said Vincent Pisani, an analyst at Shaw Stockbroking Ltd. in Melbourne.

Goldcorp Inc., the biggest producer by market value, is the "top pick" among North American producers because it has a strong balance sheet and low-cost assets, Macquarie said. Yamana Gold Inc., New Gold Inc. and Agnico-Eagle Mines Ltd. could also withstand lower prices without changing their plans or depleting lines of credit, analysts at RBC Capital Markets said April 15.

Furthermore, gold may still rebound from current levels. Bullion for immediate delivery will average $1,717 this year, according to the mean of 29 analyst's estimates compiled by Bloomberg.

"We've historically seen breaks like this in precious metals and we've always seen it bounce back," Maison's Ing said. "There is no certainty the price that we see today is going to be the price that we are going to see next year or the year after."

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