Gold bugs delight in record prices

BY ANTHONY FENSOM

The gold price's surge to record highs has delighted fans of the precious metal. Can Australian miners take advantage?

THE PRICE OF the yellow metal hit a new record high of nearly US$2195 per troy ounce in March 2024, up from the previous record set in December 2023 of US$2135.

Analysts attributed the price rise to buying by Chinese consumers and central banks due to gold's role as a hedge against inflation, and following declines in China's housing and stock markets.

Growing expectations of interest rate cuts by the US Federal Reserve and other central banks have also boosted sentiment, together with 'safe haven' buying amid conflicts in Europe and the Middle East.

Global gold demand hit a record high of 4899 tonnes in 2023, boosted by central bank buying, which reached the second-highest level on record according to the World Gold Council.

Peter Hwang, Managing Director of Queensland explorer Superior Resources, says gold's rise reflects its fundamentals, and will support further mining activity in Australia.

'Gold is a safe haven investment during times of uncertainty, while it is also benefiting as investors factor in expected interest rate cuts by major central banks,' Hwang says.

'It's a perfect time for Australian miners to capitalise on this sentiment.'

EXPORT BOOST

Higher prices are expected to lift the value of Australia's gold exports to $27 billion in fiscal 2024, up from $24 billion the previous fiscal year, according to the Office of the Chief Economist's December 2023 'Resources and energy quarterly'.

Growth in Australian exports was led by a 25 per cent year-on-year rise to financial hubs such as the United States, Britain, Switzerland, Hong Kong and Singapore, which collectively bought $3.8 billion of Australian gold.

Australia ranked as the world's third-largest gold producer in 2022, and gold mine production is seen further expanding to 302 tonnes in fiscal 2025, up a single tonne from the previous fiscal year, with the impact of new projects and mine expansions being offset by mine closures and project delays.

Producers, such as Northern Star Resources, Regis Resources and Red 5, all recorded increased gold sales in the first half of fiscal 2024, as did Gold Road Resources in its fiscal 2023 full year results.

Production is expected to continue to ramp up for recently commenced projects, such as Pantoro's Norseman project, Calidus's Warrawoona gold project and Bellevue Gold's namesake gold project – which poured its first gold in October 2023.

New projects include Genesis Minerals' two-tonnes-per-annum Ulysses project, expected to start production in 2024, and Westgold's 1.4 tonnes per annum Great Fingall project, targeting first production early in fiscal 2025. Northern Star Resources' Super Pit gold operation is also expected to expand, reaching around 20 tonnes per annum by fiscal 2026.

In March 2024, Brightstar Resources poured the first gold from its Menzies gold project in Western Australia.

In Queensland, Superior continues to evaluate its Steam Engine gold project, with a process options study considering options for gold recovery processing. The company also sees potential for a further resource boost, according to its December quarterly activities report.

Nevertheless, Australia's gold exploration expenditure declined by 12 per cent year-on-year in the September quarter 2023 to $334 million, despite high Australian dollar gold prices. Western Australia remained the centre of exploration activity, accounting for 72 per cent of total exploration spending.

PRICING OUTLOOK

Recent record high prices have sparked debate among analysts on whether the bull run will continue.

Investment bank JPMorgan Chase & Co. has selected gold as its top commodities pick in 2024, saying the price could peak at US$2300 an ounce in 2025. This assumes that the US Federal Reserve will be delivering rate cuts totalling a 1.25 percentage point over the second half of 2024. Central bank and exchange-traded fund (ETF) flows are also expected to support gold demand.

ANZ Research is also bullish, projecting a 2024 year-end price target of US$2300 an ounce, boosted by strong investment demand; although, it predicts a 'pullback' in the short term as the recent rally has 'surpassed macro-economic and geopolitical developments'.

The Australian Government forecaster sees prices remaining elevated, but softening gradually from around US$1940 per ounce in 2023, to US$1830 in 2025.

'Prices have gained support from declines in bond yields and a lift in safe-haven demand,' the Office of the Chief Economist says.

However, prices could remain high should further interest rate cuts eventuate, it says.

'If US (and global) economic activity declines substantially, and interest rate cuts – not currently expected by US Fed officials and some market participants – come to fruition in the first half of 2024, this could create a more supportive environment for gold, and see a stronger price outcome than forecast. Ongoing support for the gold price would possibly come through lower real interest rates, a weaker US dollar and demand for gold ETFs – as equity markets likely soften.'

Despite the recent rally, gold prices remain well below the inflation-adjusted record of more than US$3000 per ounce in 1980.

'There are too many unknown events that investors want to hedge for,' Standard Chartered analyst Suki Cooper told the *Financial Times,* citing elections, risks of conflict escalation or a potential banking crisis.

'It does look like we have new appetite in the gold market.'

Can Australian miners capitalise on the renewed interest?

The recent rally has sparked double-digit stock price gains for gold miners, including Genesis Minerals, Regis Resources and West African Resources, while larger miners such as Evolution Mining, Northern Star and Newmont have also posted solid rises.

Despite this, rising production costs have reduced the benefits of higher prices for Australian miners.

'When I was first looking at gold, $1000 an ounce was a really good number for an Australian gold producer,' Chester Asset Management's Anthony Kavanagh told the *Australian Financial Review*.

'Now, around $1500–1700 has almost become the equivalent of $1000, and that's within a few years.'

Yet, with prices seen continuing to firm, the good times should last a while longer for Australia's gold miners and investors.