

Slow Suffocation of the US Mining Space

The old adage about the frog in the boiling water slowly getting cooked without jumping out is a good metaphor for the mining industry in the US over the last 12 months.

While the big story in commodity circles has been the oil price decline, a far more potent force has been the currency moves. The rampant US dollar has “saved” the bacon of many a miner in Australia, Canada, South Africa and elsewhere while brutally pressure-cooking those that are focused on the mining space in the US.



The chart above sourced from US Global Investors shows the last twelve months' move in the gold price in various currencies. The USD gold price is clearly the laggard while Brazil has been stellar. It's a pity there are not more Brazilian gold mining opportunities on offer. Ironically the strength of the Real for the preceding five years meant that Brazil was not such a good place for junior explorers to spend their drilling dollar.

The attractiveness of Canadian gold miners is even starting to outstrip the advantage that Australian clawed back last year. While the AUD has stopped failing (touch wood) against the USD the Canadian dollar has dropped even further as the oil price has plunged to new depths.

The chart below though shows the ten year gold price in AUD. While still a few hundred dollars off its all-time highs, the Australian industry has gained some ground on cash costs since the 2011 high, due to the falling oil price and the onset of some cost deflation in a broader sense after the rip-roaring FiFo days of champagne and roses that mine workers experienced

Down Under.



The clear message from all these gold price movements in non-USD is that US gold producers are getting outfoxed by just about everyone these days and their currency is the culprit.

The Torture of being a US Gold Miner

Looking at the list of Nevada mines below, which was sourced from the USGS and which shows 2013 production numbers, one can't help noticing that US gold production is dominated by heavyweight international majors. Of the non-majors, both Allied Nevada and Veris Gold have gone either bankrupt or into protection from creditors since the USGS made these calculations, while Waterton is a predatory hedge fund.

Our thinking here is that having a US presence, and a sizeable one, is an ego thing for many of these companies but we are left wondering how profitable these mines owned by majors actually are in the current environment. As we have noted before cash costs and all-in sustaining cash costs can hide a multitude of sins (particularly AISC). With large multinational operations the very biggest gold miners can apportion costs to mines across borders that can ameliorate some of the pain they may be suffering in their domestic (i.e. US) operations.



However the longer the agony of the high US dollar goes on the harder it is to pretend that it is not hurting. The recent demise of Atna Resources and farther back, the travails of Gryphon Gold both at the hands of Waterton Global may ultimately prove that hedge funds wandering into the mining space may not actually be the "smartest guys in the room". What appears to be taking candy from babies may actually be a poisoned chalice, to mix a metaphor.

There would appear to be little that operators in the US gold mining space can do except hunker down and wait for a turn down in the dollar or the less likely turn up in the gold price. A major loss of face would accompany mothballing major US mines but it would appear to be the best course for some in preserving value during the lean times.

And South of the Border

Goldcorp again starts to look like one of the smartest operators amongst the Big Gold crowd with its weighting towards more Latin climes. Mexico, for an oil economy, has not seen its currency weaken as much as many others with a similar oil "affliction". It has certainly helped miners there that the rate for the peso has shown a meaningful decline against the USD over the last twelve months.



While it's not as powerful as the kicker given to Canadian or Australian mine operators it has at least helped to widen margins for those Canadian miners operating in Mexico.

Conclusion

In the late 19th century US politics was wracked by the debate over bimetallism with William Jennings Bryant arguing that the country was being crucified on a Cross of Gold. He was of course a silver bug. Nowadays its gold being crucified on a Cross of Dollars as the soaring currency threatens to choke off future development of the gold industry in the US.



Ironically though the US dollar rising while oil is falling, this is coming at the end of a decade where the dollar and US economy were vindicated by increasing energy independence. The higher the dollar goes and the lower oil falls the greater is the certainty that the energy independence, that \$100 per bbl

oil and the accompanying fracking boom brought, will be halted (which has happened) and reversed (which is in full flight as we write). Oil production in the US (and those who lend to it or invest in it) are the first line victims but the collateral damage is US gold producers and most US exporters of almost anything. This would then signal that yet another tipping point awaits the US in which the Wall of Worry about the trade balance reappears and then the dollar goes on a slide.

But returning to gold mining, the US has had high cash costs per ounce for a long time now and excepting the lower price of energy it is now even more "out there" in that regard. Whether miners operating in Nevada are making a loss in absolute terms on each ounce they produce or just a wafer thin margin is now somewhat immaterial while Australian and Canadian producers are seeing margins widen out dramatically with gold stable in USD terms and dramatically higher in their own terms, while energy costs have fallen more than their currencies have depreciated and their opex in USD terms has declined by 30% or more. Frankly who would invest in a US gold miner in that scenario?

We expect a scenario for several years in which junior miners with US focus will languish. They should pack up their drill-rigs and go home. Majors will massage their numbers to make it look like their cash costs are under the current gold price but ultimately their bottom lines are telling the really story of just how unprofitable US gold mining is in absolute and comparative terms in these days of a rampant dollar.