Gold price catalyst for ‘mysterious stock performance’

Carlisle Goldfields Limited (‘Carlisle’, TSX: CGJ | OTCQX: CGJCF) says that it has no material explanation to account for the recent drop in its share price. On September 9, Carlisle stock reached a yearly low of CAD$ 0.03/share only to rebound to CAD$ 0.04/share on Wednesday and holding on to that level today, September 11.

Carlisle completed a preliminary economic assessment (PEA) for the Farley Lake Project on April 15, showing intersections of 20.3g/t gold at over 6.0m of depth, which is higher than expected. The PEA covers two of the five deposits being explored by Carlisle and it suggests the project will be characterized by very favorable economics including a 34% internal rate of return and a very significant asset value of about CAD$ 250 million. Moreover, the mine itself has the potential to produce 145,000 ounces per year at an average grade of 2.2 grams, which makes it one of the highest grade open pit deposits in North America. Carlisle has even a conservative economic model for the PEA, assuming a gold price of USD$ 1,100/ounce rather than the current USD$ 1,300/ounce level. Surprisingly, even at that discounted price of USD$ 1,100/oz, Carlisle would still get a 34% internal rate of return. These are excellent economics, which add to the mysterious stock performance of the past few days. The mystery appears less daunting when Carlisle’s performance is set against the competing forces that have been affecting the price of gold over the past few weeks.

Gold prices have dropped to yearly lows, hovering around the USD$ 1,280/oz. mark. The market appears to be acting counter-intuitively; the summer of 2014 has been characterized by at least three major geopolitical crises: Ukraine, Islamic State (ISIS) and the war in Gaza. Indeed, the crises and the Russian switch away from US bonds to gold ingots (some USD$ 400 million of them in August alone) to retaliate against western sanctions should, and have, supported gold prices. Gold has proven its characteristic as a safe haven, in a context of geopolitical crises; however, gold has also been confronted with pressure from improving economic conditions in the United States, the all-time record highs of the S & P 500. Meanwhile, the good news from the US has come just as geopolitical tensions have started to ease, thanks to the recent truce between Russia and Ukraine, on the one hand, and between Israel and Hamas on the other. The markets have reacted generally favorably to President Obama's speech on September 10 outlining his government's strategy to confront the threat from ISIS. This has had the effect – temporary as it may be – of diminishing that threat and the markets need few excuses these days, it seems, to rally. In addition, this optimism has also focused investors' attention to the increasing strength of the dollar.

All eyes are on the outlook for monetary policy of the United States, since October marks the end of quantitative easing (QE) and is expected to prompt the Federal Reserve to raise interest rates in the first half of 2015. These factors have definitely halted the rise of gold prices – for the time being. The economic improvements from the US have gained momentum such that even the European Central Bank's decision to inject more liquidity into the financial system, cutting interest rates by 10 basis points, while launching its program to purchase Asset-backed securities (ABS) could not boost the gold price. This is because the ECB's actions have actually pushed the dollar to the highest level of the past 15 months, making gold – denominated in dollars – more expensive for investors who operate in currencies other than the dollar. Accordingly, this has made gold more expensive for Russia and China, which have been among the biggest gold buyers for geopolitical reasons – of the past summer. Therefore, traders see no compelling reasons to keep gold in their portfolios in the short term and prices appear to have found a base at USD 1,250 USD/oz or so. Nevertheless, the market highs are temporary. Geopolitical tensions are bound to increase again.

There is nothing resolved between Russia and Ukraine and new sanctions came into effect today against Russia, which has not shown any signs of relinquishing its authority over Crimea or what it sees as the pursuit of vital national interests in eastern Ukraine. The US strategy against ISIS and the related international efforts will be pointless without direct ground intervention and it is unclear how the markets will evaluate a ‘return to Iraq’, given all the risks this implies. There is also little permanent about the ceasefire in Gaza. The conditions leading to the war have not changed and a conflict could re-ignite at any time. Therefore, the chances for a gold rebound remain very high. Meanwhile, the World Gold Council (WGC) predicts that physical demand for gold (jewelry, coins and ingots, industrial uses) in China is expected to reach at least 1350 tons at the end of 2017 or some 20% higher than the record level of consumption in 2013. The WGC used fairly conservative economic assumptions (average growth rate of 6% over the 2014-2017 period), which means that Chinese gold demand could increase in larger proportions.