



Gold Shares Look Poised for Growth AROUND THE MARKETS MARKETPLACE By Bloomberg

By Jesse Riseborough

Gold stocks have failed to keep up with bullion prices this year. As mining costs decline and as the companies find more gold that can be mined at a profit, the shares have every reason to rebound.

Mining costs, which have doubled in the past seven years, are starting to moderate as some producers focus on larger, higher- grade mines in countries where operating expenses are lower. Average total cash costs for North American producers are forecast by National Bank Financial to fall 1.9 percent in 2008 after growing by more than a fifth this year.

Goldcorp and Agnico-Eagle Mines, two Canadian producers, are among companies increasing reserves, a measure of gold in the ground that can be extracted profitably. Gold companies are also selling fewer forward contracts to lock in higher prices, suggesting they expect bullion to climb.

"I will be particularly interested in those companies that have got prolific reserves and then are blessed with a very low production cost," said Alfred Wong, a money manager at UOB Asset Management in Singapore. He has bought shares of Agnico-Eagle, of Toronto, Eldorado Gold and Goldcorp, both of Vancouver, British Columbia, in the past month.

Agnico-Eagle and Goldcorp are National Bank Financial's top picks. Eldorado's cash costs are set to fall 27 percent and output will increase almost threefold by 2009 after opening mines in China and Turkey, according to a recent report by Credit Suisse Group.

The Amex gold miners index, a measure of global gold stocks, has risen 5.7 percent since its low for this year in January. Still, the index is down 3 percent in 2007, while the price of gold has climbed 2.5 percent in the period to \$651 an ounce. The metal, which advanced for six consecutive years, last year rose to a 26-year high of \$730.40 an ounce before falling.

The price of gold may rise back above \$700 an ounce by the end of the year, according to forecasts by JPMorgan Chase and ABN AMRO in the past three weeks. Gold will reach \$800 an ounce by 2010 and then \$1,400 by 2015, analysts from Credit Suisse Standard Securities said in a report this month.

Costs of producing gold have been rising as mining companies compete with each other for equipment and workers at the same time as fuel and power have become more expensive. Now so-called cash costs - costs directly related to mining - for some producers are starting to ease. Companies are finding higher grades of gold that require the removal of less waste ore. At the same time, producers such as Eldorado and Peter Hambro Mining, are tapping new gold mines in China and Russia, countries where labor and power are less expensive but where political uncertainty had discouraged exploration before.

Cash costs for North American gold producers covered by National Bank Financial averaged \$330 an ounce produced in the first quarter. Average cash costs for those producers have risen from \$164 an ounce in 2000, the bank reported. Costs are expected to average \$324 an ounce this year and fall to \$318 next year after averaging \$265 last year, the bank said this month.

"Costs have reached a level that is certainly controllable, so any increase in the gold price pretty much goes to the bottom line," said Michael McCormick, a money manager at Leyland Private Asset Management in Sydney.

Miners reduced their hedges against lower gold prices by almost 10 percent in the first quarter, the biggest decline in nine months, Mitsui Global Precious Metals has reported. This allows the companies to get the full benefit of bullion prices that have more than doubled over the past six years.

China, Russia and a number of African nations represent the new frontier of gold production, said Ralph Aldis, a manager of the U.S. Global Investors World Precious Minerals Fund.

"You have to do considerably more due diligence before investing in a project where the political risk is difficult to quantify, but you can find interesting opportunities in both" Russia and China, Aldis said.

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