



22 JUN, 2019

Aussie gold price breaks through \$2000

AFR Weekend, Australia

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Precious metal

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Gold in Australian dollar terms soared past the \$2000 an ounce mark for the first time on Friday, with the extended rally in the safe haven asset taking the shares of Australian gold miners along for the ride.

The precious metal also broke past \$US1400/oz, its highest since August of 2013, and analysts see the prospects for further gains.

The gold price has been propelled by monetary policy and comments this week from the US Federal Reserve and other central banks that further rate cuts are on the horizon.

With markets pricing in at least two US rate cuts this year, Commonwealth Bank commodities analyst Vivek Dhar said the gold price was likely to continue to rise. "Whenever you get any talk of rate cuts the market starts focusing in on real yields in the US falling and then gold looks more attractive," Mr Dhar said. "The way we sit right now, I think there's still more upside in gold."

Australia is the second largest gold producer after China, with 80 per cent of production in Western Australia. The increased gold price will flow through to higher profits for gold miners.

Bell Potter adviser Romano Sala Tenna said buying shares in Australian producers amplifies exposure to the commodity. "There's a lot more leverage in gold equities," he said. "A one per cent move in gold is going to give you a five to 10 per cent move in gold equities."

The All Ordinaries gold miners index has surged 28 per cent in 2019, against a 10 per cent rise in the Aussie-dollar denominated gold price. Shares in the country's largest listed producer, Newcrest Mining, have surged 47 per cent this year, against the broader market's gain of 17.8 per cent. Northern Star

Resources is up 26.5 per cent.

Mr Sala Tenna said he had been overweight on gold miners based on the view that over the medium to long term the gold price would continue to increase. Mr Sala Tenna said he expected

the major economies to continue monetary easing, lowering the value of their currencies and boosting the price of gold. "We've been going overweight [on] gold as every major global currency is debasing their currency."

But in the short term, he cautioned that the gold market may be overheating and that "hot money" from speculators was adding to price increases, creating the possibility that there could be a pull back. Paul Everingham, chief executive of Chamber of Minerals and Energy of Western Australia, said the increased profitability for Australian gold producers was having a couple of flow-on effects.

The increased returns for miners meant higher royalty payments to state governments, and with 25 out of the 30 Australian gold producers based in Western Australia, the higher revenue gives the WA budget a material boost.

Mr Everingham also noted it freed up cash to be used to support future production. "The more margin there is in the game at any one time ... means they can allocate more to exploration."

There have been no major gold deposit discoveries in Australia for a number of years and there is little new supply in the pipeline to replace diminishing reserves.

This increased the significance of the higher gold price, Mr Everingham said, because it not only added to the amount of money available to invest in exploration but it also increased the feasibility of developing new supply.

Bullion bull

Gold (\$/oz)



SOURCE: BLOOMBERG