

# GOLD STOCK NEWS

**Analysis of Gold Stocks and Precious Metals Trends • 4th Quarter 2017**

## Future Ten Baggers are Ahead

By John Ing, President & CEO  
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Investors always seem to drive with a view of the rearview mirror, expecting prosperity to continue and thus do not feel the need for gold. Commodities themselves have emerged as a distinct asset class with billions of dollars poured into exchange-traded funds (ETFs). Physical commodities have been replaced by derivatives which Wall Street can create easily with a single computer click. We think the market has not discounted the risk that the central bank's reduction in stimulus will cause rates to go up and markets to correct. Even gold shares are finally beginning to move, after establishing huge bases and are in our opinion, poised to breakout from their trading range – future ten baggers are ahead.

Today, gold is simply back in fashion because of its traditional status as a safe haven, and although the saber rattling with North Korea has certainly helped its value, the biggest driver is the depreciating greenback as central banks diversify away from dollar securities. While supplies of the metal are no longer growing,



peak gold arrived, becoming more expensive to mine gold since reserves are deeper in the ground. Gold is a finite currency and its value against fiat currencies like the dollar, sterling or euro have risen. In today's ultra-low rates, gold's yield matters little. Most important is that gold's recent rise shows investors are nervous. That is an important message for central banks who are unwinding their portfolios. While gold flirted with \$1,300 level recently, we believe

that \$2,200 is still in sight within the next 18 months, particularly when so much fear stalks the world.

Many gold miners have undergone an identity crisis. After becoming more disciplined, re-dressing their balance sheets bloated from ill-gotten acquisitions in the decade long bull market, the miners have emerged with less debt, fewer high cost mines and for some, new management. Yet the

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# 2018

## A Good Year For Gold Prices – Analysts

There are doubts that the Federal Reserve will actually hike U.S. interest rates as much as policymakers think, leaving many analysts bullish on gold for 2018, says Allen Sykora, Kitco News.

They also cite potential for geopolitical flare-ups, improving physical demand in key buying nations India and China, and investment demand as a hedge against any correction in soaring stocks. Bears, meanwhile, cite a view that the U.S. economy will remain strong enough that Fed policymakers will in fact hike as much as they've hinted, says Sykora.

Kitco News, [www.kitco.com](http://www.kitco.com), will launch its popular outlook 2018 series December 15. Here is a sample of their **Gold 2018 Outlook**.

"I think 2018 is going to be a good year for gold, and it should shine bright in the New Year," said Phil Flynn, senior analyst with Price Futures Group.

Bart Melek, head of commodity strategy with TD Securities, told Kitco News that gold should benefit from a Federal Reserve that will take a "very gentle" approach to tightening monetary policy. Lower U.S. rates help gold – and vice-versa – by reducing the so-called "opportunity cost," or lost income from holding the non-yielding asset, as well as undercutting the U.S. dollar. Gold tends to move inversely to the greenback.

"We don't expect real rates to move up too much," Melek said.

"We expect a move in December and perhaps two moves in 2018. But we think there is a considerable risk that there will only be...one more hike next year."

By contrast, the so-called dot-plot of individual policymakers shows they envision a hike in December plus three more next year.

For now, TDS looks for gold to average around \$1,313 an ounce next year, compared to an expectation of \$1,257 for 2017. TDS sees gold averaging \$1,325 in the fourth quarter of 2018.

Melek looks for President Donald Trump's nominee for the next Fed leader, Jerome Powell, to largely carry out monetary policy in a manner similar to current Chair Janet Yellen – a "fairly dovish" tightening amid concerns about the lack of inflation in the U.S.

Flynn looks for gold to average somewhere around \$1,400 an ounce next year and perhaps hit \$1,500. Macquarie, in a recent report, said it envisions gold hitting \$1,400 in 2018 for the first time in five years on "the end of U.S. economic outperformance," meaning a headwind for the U.S. dollar.

"Yes, the Fed will have to raise rates – growth remains higher than trend – but this is becoming true elsewhere," the bank said. "Crucially we think the dollar is more likely to weaken than strengthen [and] pre-2014 levels are perfectly achievable. And political risk factors – an unpopular president unable to

match up to his domestic promises and facing complex and potentially unsolvable foreign problems – are also in gold's favor."

Conversely, as of early November, Robin Bhar, metals analyst with Societe Generale, looks for a pullback to an \$1,175 average in 2018 on a view that the Fed will retain some hawkishness and probably hike three more times.

"We do expect gold to trade lower over the course of 2018, which is predicated on U.S. monetary policy continuing to tighten," Bhar said. "We think that provides a headwind to gold at a time when there are better performance in industrial metals because of synchronized [economic] growth and lack of supplies going forward."

But while Bhar looked for lower gold prices, he also listed one potential factor that could end up helping the metal. Should much-talked-about U.S. tax cuts not materialize and boost the economy, this could make the Fed more dovish than otherwise might be the case.

### Stocks, Cryptocurrencies, Geopolitics in Focus

Stocks and cryptocurrencies could end up supportive influences for gold. There is a certain amount of uneasiness in the stock market even as equities keep hitting record highs, with some fearing a big downward correction is on the

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# Gold Seen Flatlining Next Year, Silver Forecasts Cut Again

Gold is likely to flatline for another year in 2018 as rising U.S. interest rates clip momentum, a recent Reuters poll showed, while silver forecasts were cut again after the metal lagged forecasts in the third quarter.

A poll of 34 analysts and traders returned an average gold price forecast for this year of \$1,260 an ounce, in line with its year-to-

date average of \$1,255 and little changed from last year's level.

Next year the metal is expected to edge slightly higher, but only to an average \$1,300 an ounce, just 3 percent above this year's predicted level. Annual average gold prices fluctuated by between 8 and 26 percent between 2010 and 2016.

A \$1,300 average would rep-

resent gold's strongest year since 2013, when prices slumped after 12 straight years of gains, but will disappoint bulls hoping for a bigger bounce after receding expectations for a U.S. rate hike and concerns over North Korea sent the metal to its highest in over a year last month.

"Global risks remain high and a flare-up of the tensions between the United States and North Korea could send prices higher," Capital Economics analyst Simona Gambarini said.

"That said, markets are being overly sanguine over the prospects for Federal Reserve tightening and we expect that the Fed will continue to hike rates, which is negative for gold."

Banks have again scaled back their silver price forecasts for this year and next after the metal underperformed expectations in the third quarter.

Silver, which has a dual role as both investment vehicle like gold, and an industrial metal widely used in electronics, has lagged gains in both gold and copper this year as investors sought better returns elsewhere. The poll returned an average silver price forecast of \$17.12 an ounce for 2017, down from an average view of \$17.32 in a similar poll conducted three months ago. Silver averaged just \$16.68 an ounce in the third quarter, below expectations for \$17 an ounce in the July poll. An ounce of gold currently buys 75 ounces of silver, compared to just 71 ounces at the start of the year. "While the ratio did improve marginally, we expect no major reversal in the current trend," Harish Gallipelli, head of commodity and currency at Inditrade Capital, said.

"While silver is likely to outperform gold in the medium to long term, we suspect that the move may not happen in the current calendar year. 2018 may be the year where we can see better rallies in silver."

In 2018 poll respondents expect silver to average \$17.90 an ounce, down from an expectation for \$18.30 an ounce in July.

## 2018 Will Be A Good Year For Gold Prices – Analysts

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horizon. If so, that could mean safe-haven gold buying.

"They [stocks] have been pricing in perfection, and I'm not sure that we're going to get a perfect environment for equities to keep going up," Melek said.

Further, Flynn said, as stocks keep rising, gold becomes "undervalued" in comparison, which eventually can lead to buying of the metal. He said potential for improvement in overall commodities prices would mean price inflation that helps gold. Flynn also commented that gold may not only benefit from worries about currencies generally, but the Chicago Mercantile Exchange's plans to launch bitcoin futures could help gold on spillover interest.

"The gold market is an alternative currency similar to bitcoin," he said, later adding, "If you're looking for an alternative currency, gold is going to benefit."

Melek looks for improved demand out of India and China as their economies recover. Goldman Sachs has said demand in emerging-market nations does best when incomes are rising and the populace can afford gold, whereas the metal tends to be bought by people in developed economies more as a safe haven during times of stress.

Meanwhile, Bhar cited a factor besides U.S. monetary policy that could end up hurting gold – what

happens to interest rates in other nations. The European Central Bank and Bank of England have begun removing monetary accommodation, and Bhar pointed out that Japan's economy is improving.

Geopolitical factors "come and go," such as the worries about war between the U.S. and North Korea, he said.

"The Middle East is continuing to simmer, with other terrorist threats around the globe, and that may provide some support from time to time," Bhar said. Still, he said, the influence of geopolitics is "more erratic in the sense that it ebbs and flows."

Bhar looks for central banks to remain net buyers of gold, although he said this may offer more of a "cushioning effect" for prices rather than a strong boost. He suspects that official-sector demand will be less than during most of the past decade.

UBS strategist Joni Teves has reversed her bullish gold position to neutral. Teves who was the best forecaster for both gold and silver in the LBMA 2016 Forecast says there is no near-term catalyst that is powerful enough to move gold prices significantly higher or lower. She now projects that the metal will average \$1,285 next year.

"Growth dynamics are improving, and, although the momentum this year is unlikely to be replicated in 2018, growth is likely to remain steady," Teves said.

# Future Ten Baggers are Ahead

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miners do not know whether they are growth stories, value players or manufacturers of wealth. Properly chastened, many are gun shy in making acquisitions but are in much better shape than they were. Some are spending billions, just to standstill. Others are mired in the heavy lifting of debt reduction. Few, however are really growth vehicles, difficult since gold is a depleting resource and reserves are the lifeblood for the industry.

Recently, noted investor John Paulson proposed a coalition of gold investors in order to gain a more activist voice in the affairs of the miners. The proposal was sparked by some \$100 billion of write-offs, hefty executive pay packages and plunging share prices. Now that the horse has left the barn, Paulson and other co-conspirators who earlier participated in the rounds and rounds of share issuances that financed these ill-conceived acquisitions, are now experiencing buyer's remorse. Ironically, after his successes in sub-prime mortgages, Paulson helped fuel gold's bull rally by setting up a fund in January 2010, almost a year before gold peaked. The fund went up 35 percent in its first year but the poor choice of investments of leveraged players like NovaGold or high cost mines like Iamgold, hurt

performance, despite a majority of the funds invested in the exchange traded bullion SPDR Gold ETF. His fund lost 65 percent in January 2013. Seven years later, Novagold is still not in production. The story could have been different. Mr. Paulson missed the Pretiums, Agnico Eagles or Franco Nevadas and many others.

Still Paulson's criticism is justified but old news, since the industry has learned its lesson. Investors already have a say, they can vote for or against management at annual meetings, they can boycott share issuances and frankly, they could become better gold investors by backing better management and buying those superior deposits with reserve potential and not just the latest "story".

As an example, big cap producers are up 10 percent this year. New discoveries are dwindling and peak gold has arrived so mergers with an emphasis on reserves will become more attractive. Producers must replace depleting reserves. We continue to like **Barrick** because they have the largest reserves in the world, and could easily maintain production of five million ounces plus every year, for the next 15 years. We like **Agnico Eagle** for its superior management and acquisition record. **B2Gold** is an intermediate gold producer with a growth profile that also has grown

through acquisitions. **McEwen Gold**, a company we recently helped finance, is also favoured and has grown through astute acquisitions. Not all players in the industry should be painted with the Paulson brush.

## Companies

- **Agnico Eagle Mines Inc.** (AEM) just celebrated their 60th anniversary with a strong third quarter. Production was up and the company increased the dividend by 10 percent. Amazingly long life flagship LaRonde recorded another strong quarter and will produce 315,000 ounces this year. LaRonde is more than 3 km underground. Kittila in Finland also recorded a strong quarter. Agnico increased its production guidance. Meantime Nunavut projects, Meliadine continues on schedule and on budget with engineering 89 percent completed. We like Agnico for their rising production profile, astute management and collection of assets. Agnico will likely produce close to 1.7 million ounces at a cash cost of under \$600 an ounce. Agnico will spend about \$900 million at Meliadine and \$330 million at Amaruq, which is wrapping up and going to be yet another core producer. We like the shares here, and believe Agnico's market cap will soon surpass Goldcorp's.

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# Ten Baggers

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- **B2Gold Corp (BTO)** produced first gold from the Fekola mine in Mali. The production came on schedule and the commissioning of the mill is ongoing with commercial production expected before year-end. With Fekola, B2Gold's profile is one of the fastest-growing intermediate goal producers in the world. The new mine plan for Fekola is based on increased throughput which will extend mine life improving to 400,000 to 410,000 ounces next year at an operating cost of less than \$400 an ounce. In the third quarter, B2Gold production was ahead of schedule due in part to Okjikotos' output and a strong quarter from Masbate. Meantime in Nicaragua, La Libertad and El Limon results were weaker due to permit delays, but the problems are temporary. Next year, B2Gold will produce almost 1 million ounces at an all in cost of about \$950 an ounce. We like the shares here for its exposure to West Africa.

- **Barrick Gold Corp. (ABX)** had an expected "off" quarter, with production lower by 100,000 ounces or so due to the loss of output from 63.9 percent owned Acacia. However, production rebounded at Veladero in Argentina, which produced almost 90,000 ounces. Production of 1.2 million ounces in the third quarter was in line with our forecast with free cash flow at \$225 million. Barrick paid down \$1.5 billion of debt this year as part of a multiyear strategy to reduce debt to \$5 billion by the end of 2018, using cash flow and divestitures. At the end of the third quarter, Barrick had \$2 billion of cash and a \$4 billion undrawn credit facility. Barrick's main production comes from core mines, Cortez and Goldstrike in Nevada, Pueblo Viejo in Dominican Republic and Lagunas Norte in Argentina. Future output will come from Turquoise Ridge in Nevada. Kalgoorlie which is 50 percent owned with Newmont is still for sale. Barrick is the world's largest gold producer with 12 operating mines with in-situ reserves in excess of 85 million ounces.

Meantime, Barrick has negotiated a deal with the Government of Tanzania. The framework agreement involves the payment of \$300 million and handing over 16 percent of Acacia's three mines to the government to give them 50 percent ownership. It is unknown what Barrick will receive in return, but we can assume that all approvals, environmental and government go-aheads would be granted before the deal is signed and the likelihood of future payments from cash flows. While the terms are steep, the alternative would have been a stalemate and possible closure of this money-maker. We continue to like Barrick shares as a core holding.

- **Centerra Gold Corp. (CG)** resolved its dispute with the Kyrgyz Republic at the Kumtor gold mine in the country's east end. Centerra has agreed to a one-time \$57 million payment to the government and accelerated reclamation payments to the government. Meantime the Kyrgyz Republic will grant all permits to resolve the stalemate. Kumtor is a cash machine which could produce 550,000 ounces with all in costs of under \$800 an ounces. Centerra spent \$1.1 billion to purchase Thompson Creek Metals for its Mount Milligan copper mine in British Columbia, which sent a message to the Kyrgyz government that it was not placing all its bets in the Kyrgyz Republic. Mount Milligan is a long life copper/gold operation but still is not producing positive cash, needing to boost throughput.

Centerra's Oksut gold project in Turkey will produce 110,000 ounces in late 2018.

- **Eldorado Gold Corp. (ELD)** had another disappointing quarter, losing \$4 million and reduced its guidance for Kisladag in Turkey, it's flagship mine. Apparently, recoveries have dropped dramatically from 60 percent to 40 percent due in part metallurgical issues. Eldorado will now conduct work including looking at additional crushing and the addition of high pressure grinding crushers (HPG) which can crush to a finer level in order to improve leaching. Eldorado is a mid-tier producer producing gold in Turkey and Greece but has been plagued with problems. Kisladag is a low-grade, bulk tonnage, open pit mine that uses heap leach for gold recovery. Grade is low and thus the mine has to produce a lot of tonnage but the metallurgical issues is a problem. As for Greece, Eldorado earlier threatened to close its Halkidiki asset, but on a positive note, has reached an agreement with Greece on most of its permits allowing it to go ahead (including Skouries' permit). Time will tell if Greece's bureaucrats are serious. Eldorado also recently closed its Integra acquisition, a longer term development Quebec play in need of permits. While the stock is cheap here, near term problems at Kisladag and ongoing Greek negotiations overhang the shares. However, downside is limited here and the balance sheet is solid.

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• **Goldcorp Inc. (G)** – This senior producer will produce 2.5 million ounces this year but will have difficulty maintaining output while saddled with monster capex just to maintain production. Operational execution plagues the company as well as past value destroying M&A. Goldcorp's problems with flagship Penasquito in Mexico continues although the pyrite leach project is ahead of schedule but an increase in production is not likely until next year. Meantime Goldcorp's prefeasibility study on the Century project in Ontario will cost a billion dollars for 350,000 ounces of production. Five million ounces of indicated resources are on the sidelines until this mine plan is executed. Former flagship

Red Lake in Ontario was another disappointment producing only 40,000 ounces at a high \$1,400 cost. Eleonore was better and Cerro Negro grade improved. Goldcorp is a senior gold producer but is plagued by lack of focus and too many capital commitments. Switch into Agnico-Eagle.

• **Kinross Gold Corp. (K)** – Kinross's released the Tasiast phase 2 project in Mauritania which calls for spending almost a billion dollars to maintain production with almost \$400 million in capitalized stripping alone. As expected Kinross is planning to increase mine throughput to 30,000 tonnes per day from 12,000 tonnes per day, add a power plan and replace two existing ball mills with a much larger one. We believe a lot of money is being

spent to stand still. Meantime Round Mountain phase W in Nevada has a sub 15 percent rate of return but only extends, this short life mine slightly at a cost of al-

most half a billion dollars. The production profile however is up and down and although Kinross' balance sheet is in good shape at \$2.5 billion, these two projects alone are capex top heavy. We prefer B2Gold here.

• **New Gold Inc. (NGD)** finally commissioned the major project Rainy River in Ontario in mid-October. Average throughput has been 20,000 tonnes per day, which is slightly less than design capacity of 21,000 tonnes per day. To date revenues and grade have been as planned. The first gold pour at Rainy River is good news but the company has a stretched balance sheet from placing Rainy River into production. New Gold is a Canadian gold producer with four operating mines in Australia, Mexico, California and BC.

**Editor's Note:** John Ing is President, CEO and gold analyst at Maison Placements Canada Inc. Mr. Ing has over 45 years of experience as a portfolio manager, mining analyst and investment banker.

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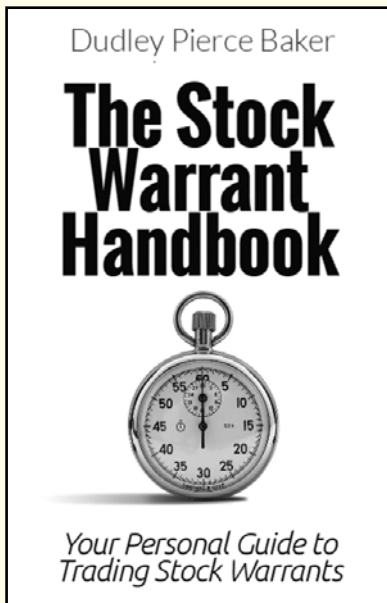
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# Gold Is a Terrible Long-Term Investment

*It's said that gold comes out of dark underground mines only to disappear into dark bank vaults. When the Investment Planning Committee at The Investment Reporter publish their gold stock survey, they do outline the yellow metal's many disadvantages. But a Nobel Laureate reminds us that there's a time and a place for everything.*

Gold peaked at US\$1,908 an ounce in August 2011. Some investors use gold to protect against potential inflation and the risks of paper currencies. But inflation is less of a problem these days, especially with moderate oil prices. We warn against holding lots of gold, given its drawbacks.

One disadvantage with gold stocks is that they often trade for more than they should. When the price of gold is high, gold stocks often trade at excessive price-to-cash-flow-per-share and price-to-earnings ratios. In most industries, investors would walk away when these ratios are excessive. But price-to-earnings ratios matter less with cyclical gold stocks.

The prices of gold producers are mixed despite a modest rise in price of gold. With the price more stable recently, we rate as 'buys' eight of the 15 gold stocks we recently surveyed.

You can buy gold itself. This will avoid the problems of any given gold stock – a sudden jump in



costs, a drop in ore grades, strikes, expropriations, floods and so on. But holding physical gold means you'll earn little, if any, income. More likely you'll have to pay for its safe-keeping. One way around this is to buy gold Exchange-Traded Funds (ETFs).

## You Can't Plan for Unforeseeable Events

Another disadvantage is that unforeseen events can roil gold prices. For instance, geopolitical instability can drive up the price of gold. The trouble is, how can you plan for unforeseeable events?

More important, gold has a terrible long-term record as an

investment. For more than 200 years, gold has delivered very poor total real (inflation-adjusted) returns. Jeremy Siegel, a professor of finance at the University of Pennsylvania's Wharton School, studied the returns of different classes of investments from 1802 through 2006. One was gold.

Say one of your ancestors had invested a dollar in gold in 1802. At the start of 2007, it would've risen to \$1.95. That's a real return of just 0.3 per cent a year, professor Siegel notes. Had your ancestor invested a dollar in US stocks, it would've turned into an inflation-adjusted \$755,163 at the start of 2007.

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# Gold: Limit Holdings Given Its Drawbacks

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Professor Siegel concludes: "In the long run, gold offers investors protection against inflation, but little else. Holding these assets will exert a considerable drag on the return of a long-term investor's portfolio." Indeed, after a run-up in the price of gold in 1979 and 1980, gold subsequently fell and generally drifted down in price until after 2000.

Still, some investors worry that the poor finances of some governments in Europe will lead to higher inflation. The printing of paper currencies is no longer held back by the gold standard monetary system. And central banks have pumped money into their financial systems. Higher inflation lightens the debt burdens of governments. They get more taxes from higher nominal salaries and profits. In-

flation lets them repay debt with depreciated currencies.

If you're worried about inflation and paper currencies, buy 'hard' assets. Given its poor long-term record, limit gold to a small part of your portfolio.

## Nobel Prize Winner Offers a Rationale for Owning Gold

Harry Markowitz won a Nobel prize in economic sciences for developing 'Modern Portfolio Theory'. His idea is that an investor should judge an investment by how it works within his or her overall portfolio – not in isolation. If that investment raises the return of the portfolio or reduces its risk, then the investor should buy it.

Gold is risky. In uncertain times, strong demand can drive up its price. When investors are confident, the price of gold can drop.

But Markowitz's lesson is that we should look at how an investment fits within our portfolios.

Gold can do well in crises – just when most other investments do poorly. Similarly, gold often does worst in good times when other investments do well. That is, it has negative 'correlations' with most financial assets.

This means that gold can stabilize your portfolio or reduce its risk in turbulent times. But you should still limit your holdings of gold given its drawbacks.

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