THE AUSTRALIAN

Exit signs lead to gold

Price rises for gold could be amplified if Friday's scramble for currency protection becomes a global stampede

BARRY FITZGERALD THE AUSTRALIAN 12:00AM June 27, 2016

There was no place to hide when Brits did what all the smarties of the financial world said they would be mad to do when they voted to leave the European Union. But there was one big exception — the gold price.

The barbarous relic's now informal role in the world's monetary system as an effective hedge and safe haven was on full display when it became clear that the "leave" vote would carry the day, driving gold to as high as $US1358 an ounce.

That was a spectacular but nevertheless concerning $US102 an ounce gain on the overnight price and had the effect of driving the Australian dollar gold price to all-time highs of more than $1810 an ounce.

When gold moves like that, we're all in trouble. So it was somewhat comforting to see gold close off on Friday at $US1315 an ounce, up a more sedate $US59 an ounce on the overnight price and leaving the local price at $1761 an ounce — a price at which the average Aussie gold producer is making $600-$700 an ounce on an all-in sustaining cost basis, if you don't mind.

No wonder then that the response here to Brexit in gold equities was electric. Already sporting massive gains so far this calendar year, the gold stocks surged by between 7 per cent (St Barbara, and Doray were examples) and 12 per cent (Evolution and Red 5).

Gold market leader Newcrest put on 8.8 per cent, a market value gain of some $1.4 billion.

Brexit and the flight to gold — and the US dollar — was a serious downer for the nascent recovery in the broad sweep on mineral commodities. Other than gold, they all turned south, much to the detriment of BHP Billiton's market capitalisation which took a single day hit of $8bn.

But back to the golds. The big question is: where to now for gold? On the not unreasonable assumption that there is nothing but uncertainty in global financial markets for the foreseeable future, gold's higher levels as a result of Brexit look like staying put.

The world gold industry's promotional body, the World Gold Council, said on Friday that the metal was fulfilling its classic role as a safe haven asset, and had performed exactly as the many investors that bought it in the run-up to the referendum would have hoped.

"We expect to see strong and sustained inflows into the gold market driven by the intense market uncertainty that now faces the global markets. As well as market uncertainty, gold is supported by monetary policy actions."

The council said that if central banks are forced to implement supportive measures they will likely come in the form of further extraordinary actions, new rate cuts or delays in planned hikes — all positive for the gold price.

HSBC chipped in with a prediction that $US1400 an ounce in the wake Brexit was now on the cards. Importantly, the gold market is much smaller than foreign exchange markets. So price rises for gold could be amplified if Friday's scramble for currency protection — the pound plunged by 8 per cent to a 30-year low — becomes a global stampede.

Kin Mining (KIN)

The electrifying impact of gold's price spurt was not restricted to the local gold producers. There was a trickledown effect on the gold developers, with gains of about 8 per cent common on the basis that life has just got a lot easier for them.

Leonora gold developer Kin Mining (it is actually mining a small starter pit) was an example on Friday with its 1.5c or 8.5 per cent price rise to 19c a share.

When Kin picked up the Leonora gold project with its 720,000 ounce resource base in November 2014 from the administrator of Navigator Resources for the knock down price of $2.7 million, no once much cared.

Now that gold is fully $400 an ounce higher than at the time of the purchase, Kin's counter-cyclical acquisition is doing exactly what the company had hoped — giving it a real shot at becoming a gold producer of size.

A low-level scoping study released earlier this year in to a $55m development with an initial mine life of 6 years arrived at a net present value of $56.3m when $1500 gold was assumed, rising to an NPV of $105m at a $1700 gold price, with a capital payback of 30 months at that price.

There is a bigger ambition to grow the resource/reserve base and achieve a shorter payback, with a drilling program now under way that will deliver a news flow at this time of heightened interest in gold exploration results.

Despite a long gold mining history, exploration drilling in the region has pretty much pulled up at depths of 150m. Initially, 100m-150m will be the target to get the confidence to move in to production, with financing all that much easier to achieve than it was before Brexit.

But eventually the deeper potential will be tested and with a bit of luck, it could deliver the sort of results to make Kin's ambition to become a long-term producer of 50,000-100,000 ounces of gold annually a reality.

Goldphyre (GPH)

For all the buzz around gold, and lithium and graphite for that matter, another sector has been much more buoyant than the broader mining market — fertilisers.

The need-to-feed-the-world thematic has not changed, and given the rising middle class in the emerging Asian economies, it is not about to either.

Reflecting all that has been the performance this year of Goldphyre, mentioned here in March when it was trading at 6.5c. It has since moved along to a 11.5c closing price on Friday, with interest in its plans to become a fertiliser producer from its Lake Wells project in Western Australia to fire up again.

That will be due to the expected release any day now of its maiden resource estimate for the project in support of a previously announced ambition to outline enough brine-hosted sulfate of potash (SoP) to comfortably support a 75,000-100,000 tonne-a-year SoP operation for more than 30 years, perhaps starting off a smaller rate to make the capital requirement more digestible.

Ahead of the expected maiden resource estimate, broker Hartleys placed a speculative 23c price target on the stock.

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