



**Issue 397**  
23<sup>rd</sup> March 2021

# Metals Focus

## Precious Metals Weekly

### Gold

Slipped on a firmer dollar, as investors await testimony from Powell and Yellen.

### Silver

The gold:silver ratio rose above 68 for the first time since mid-February.

### Platinum

Johnson Matthey and Sibanye-Stillwater have formed a strategic partnership to identify and develop solutions to drive decarbonisation and the more efficient use of critical metals.

### Palladium

Ford cuts production at two more plants, due to the global semiconductor shortage.

## Gold miners achieve record high margins in 2020

Gold miners faced a challenging year in 2020 as the COVID-19 pandemic caused unexpected disruption to mining operations across the world. However, despite these issues the industry had its most profitable year on record. This was largely a result of the rising gold price, which hit record highs in 2020, alongside a continued focus on operating and capital cost discipline despite upward pressure on costs caused by the pandemic. Our recently released Gold Mine Cost Service shows that average all-In sustaining cost (AISC) margins, defined as the gold price minus AISC, reached a record high of \$828/oz in 2020, comfortably higher than the previous record set in 2011 of \$666.

Silver miners achieved similar margin growth last year, although they did not reach record highs. Our latest Silver Cost Service shows that AISC margins for the silver mining industry more than double year-on-year from \$4.51/oz to \$9.58/oz. An in-depth analysis of the silver mining sector will be made available in the upcoming World Silver Survey which we will be releasing on behalf of the Silver Institute on 22nd April.

### Gold miners' costs rise in 2020

The average AISC in the gold mining sector increased by 1.8% y/y. This was a relatively modest increase given the disruption caused by the pandemic, which we estimate led to a 4.4% y/y decline in global mined gold output. The pandemic led to upward pressure on costs as mines were forced to temporarily halt operations

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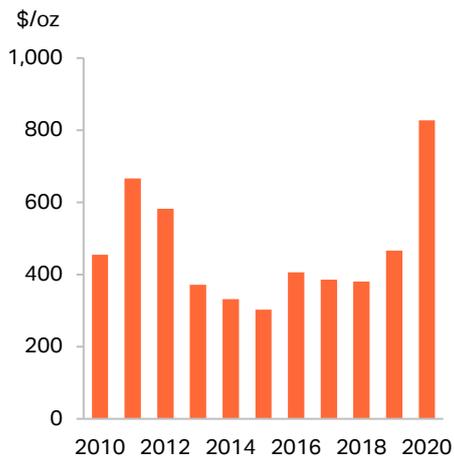
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## Average AISC Margin



Source: Metals Focus Gold Mine Cost Service

in several major gold producing countries including South Africa, Peru, Canada and Mexico. This led to higher unit production costs during ramp-down and ramp-up phases between closures alongside care and maintenance expenses incurred while mines were shut. In addition, even for those mines that were able to continue operating as normal, there were extra expenses relating to the pandemic, such as testing of workers, quarantine procedures and additional PPE. For example, Polymetal, whose operations in Russia continued production at normal rates throughout the pandemic, stated that they incurred an extra \$25/oz of costs relating to COVID-19 in 2020.

Outside of the pandemic there has been other factors pushing costs higher. The substantial increase in the gold price in 2020, which was up 27% y/y, resulted in royalty costs in the gold mining sector rising by the same amount. Royalties are typically calculated as a percentage of revenue or profit and are therefore directly correlated with the gold price. Meanwhile, sustaining capital expenditure increased by 9.1% y/y. This largely took place in the second half of the year as COVID-19 disruption eased and higher gold prices significantly boosted margins, allowing for more discretionary capital deployment.

## Average AISC and Gold Price



Source: Metals Focus Gold Mine Cost Service, Bloomberg

### Cost discipline remains in place despite higher margins

Despite rising sustaining capital expenditure, most miners remain focused on cost discipline and cautious on capital expenditure. The emphasis of most companies remains on maximising value from their assets and increasing returns to shareholders. Although record high margins are now being achieved by the gold mining industry there has not been a return to widespread funding of marginal projects in the pursuit of higher production volumes, which occurred in the last gold bull market. This approach constrained the upward pressure exerted on costs from the COVID-19 pandemic, royalties and higher capital expenditure.



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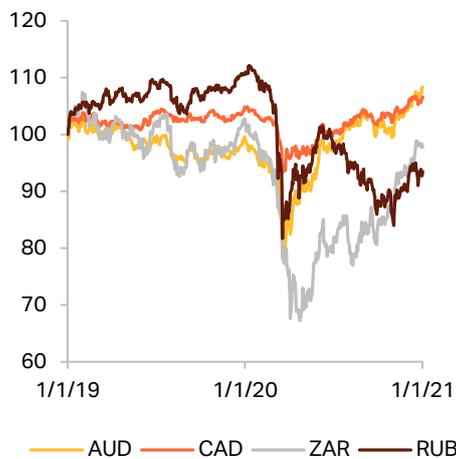
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\*as of 12 March 2021

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## Exchange Rates to the US dollar

Index, Jan-19=100



AUD - Australian dollar, CAD - Canadian dollar, ZAR - South African rand, RUB - Russian ruble

Source: Bloomberg

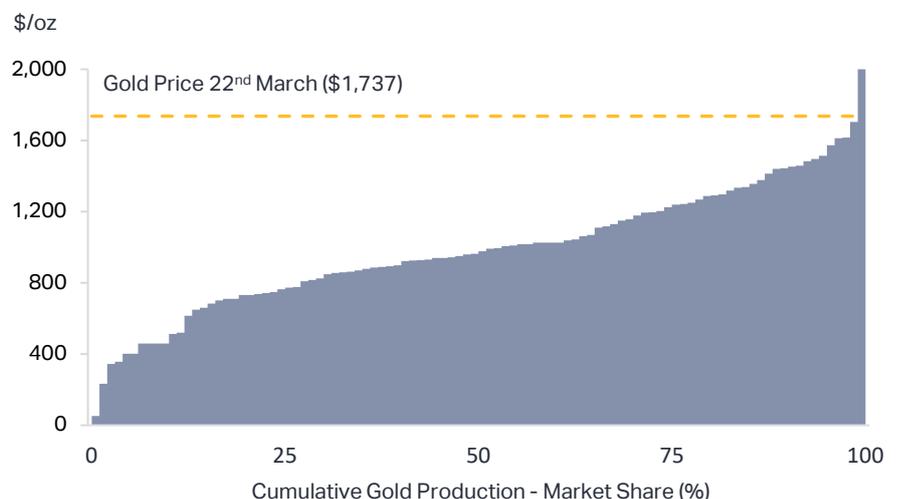
The foreign exchange situation in 2020 also helped to mitigate rising costs. The US dollar strengthened y/y against most major producer currencies, which had the effect of lowering on-site costs recognised in local currencies in US dollar terms. Meanwhile, the oil price was also significantly weaker in 2020, eventually feeding through to lower on-site diesel costs.

### Despite a falling gold price, margins remain strong

Despite the gold price falling by 8.5% this ytd (through to 22<sup>nd</sup> March), miners' margins will remain strong this year, although they should be lower than those achieved in H2.20. We are expecting AISC to drop marginally this year. This will largely be driven by significantly reduced disruption from the COVID-19 pandemic, with the vast majority of mines expected to operate at full capacity throughout this year. Offsetting this, to some degree, will be the extra costs associated with safeguarding workforces from COVID-19, which will remain in place throughout 2021, alongside elevated levels of sustaining capital expenditure which will be enabled by continually strong margins.

This outlook is reflected in guidance issued by the two biggest gold mining companies, Newmont and Barrick. Both companies are planning to increase total capital expenditure y/y, while Barrick's guidance range for AISC is marginally above the \$967/oz achieved in 2020 and Newmont is expecting AISC to decline from \$1,045 in 2020 to \$970 this year. As costs are not expected to change drastically y/y, looking at last year's cost curve compared to the current price highlights the continued profitability of the sector despite a lower gold price. For example, even the 90th percentile of the cost curve has an AISC margin of \$390, with an average of \$793 comparable to the record high achieved in 2020.

## Current Gold Price and 2020 AISC Cost Curve



Source: Metals Focus Gold Mine Cost Service



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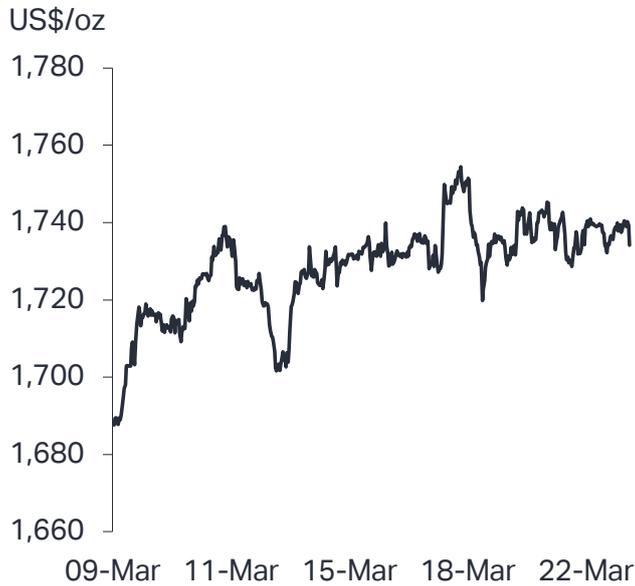
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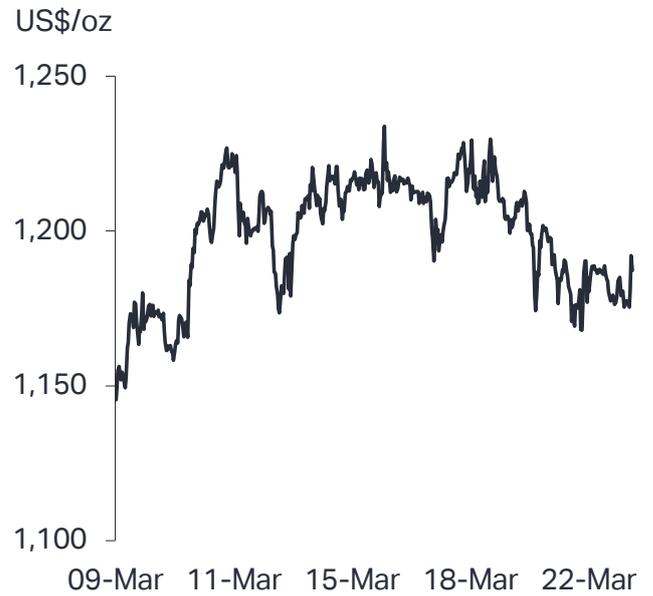
# Charts - Precious Metal Prices, US\$/oz

Gold



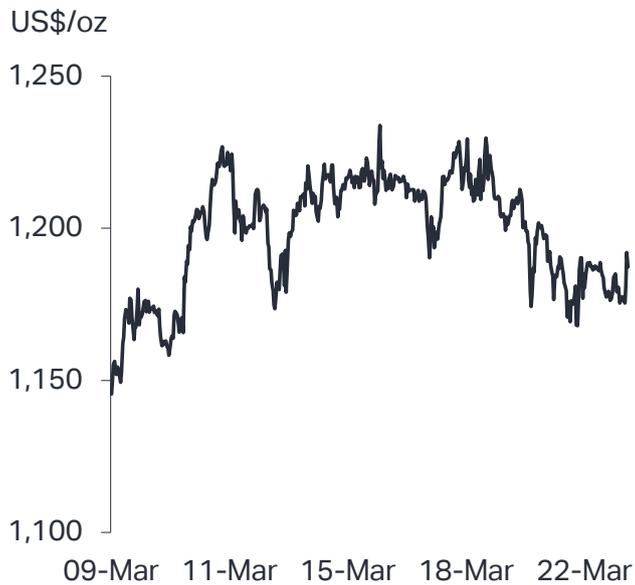
Source: Bloomberg

Silver



Source: Bloomberg

Platinum



Source: Bloomberg

Palladium



Source: Bloomberg





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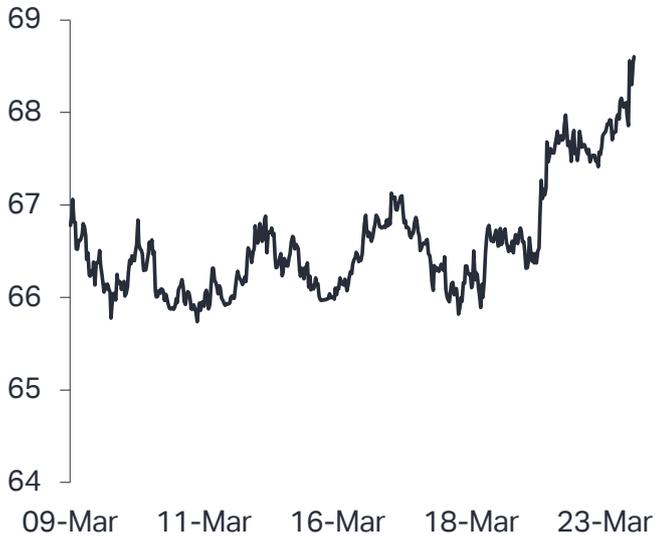
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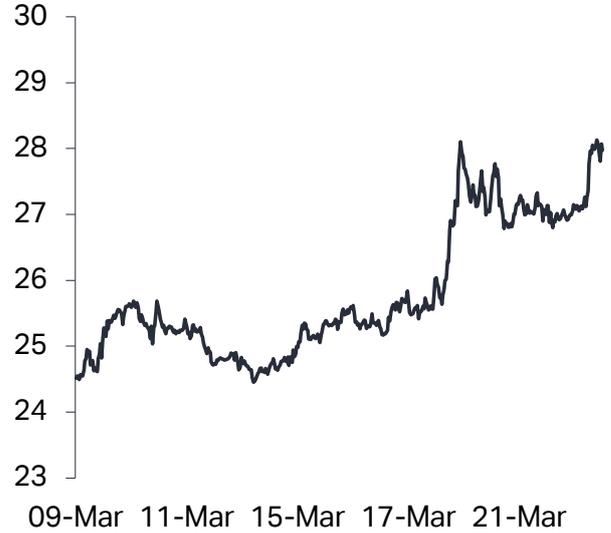
# Charts - Ratios & Spreads

Gold:Silver Ratio



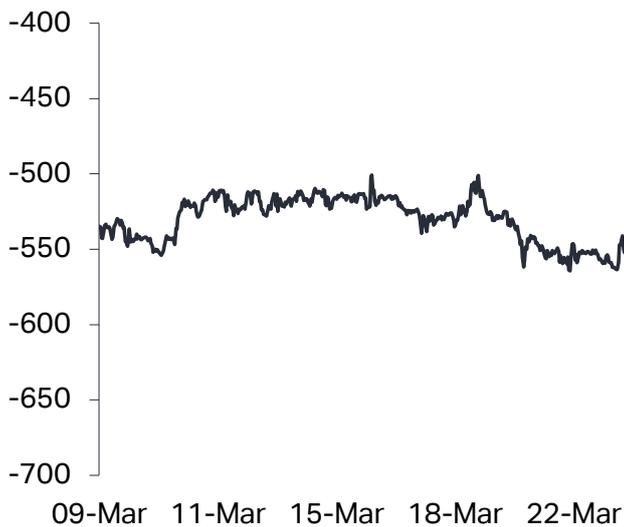
Source: Bloomberg

Gold:Oil (Brent) Ratio



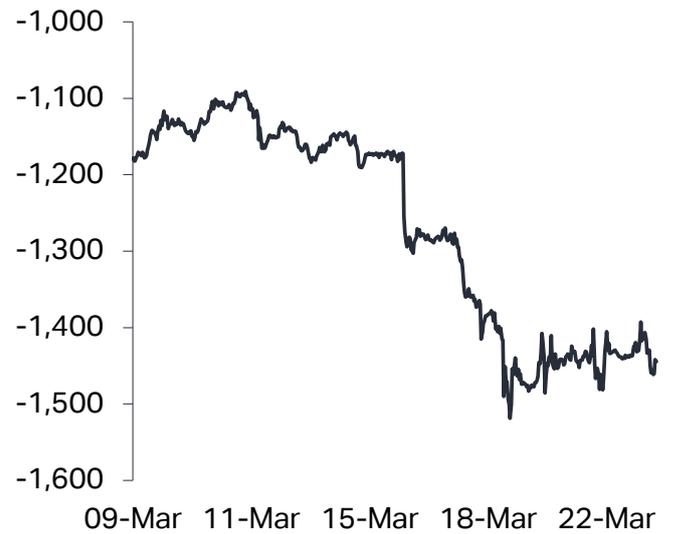
Source: Bloomberg

Platinum-Gold Discount, US\$/oz



Source: Bloomberg

Platinum-Palladium Discount, US\$/oz

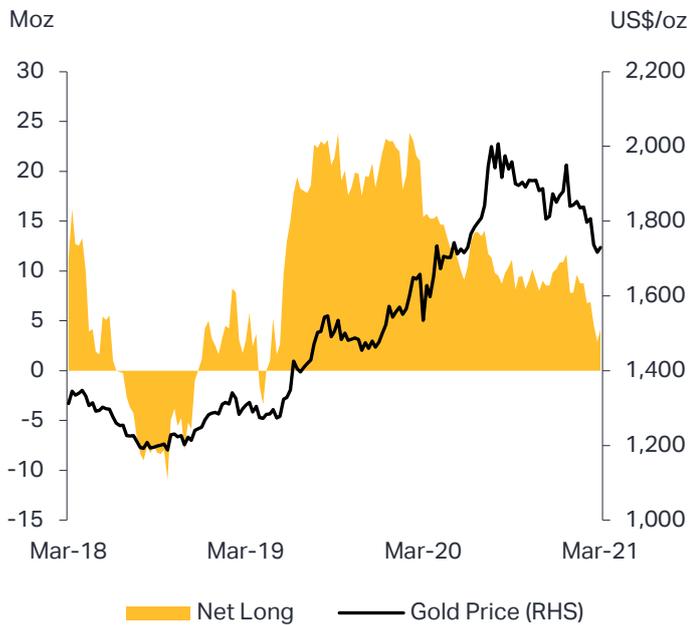


Source: Bloomberg



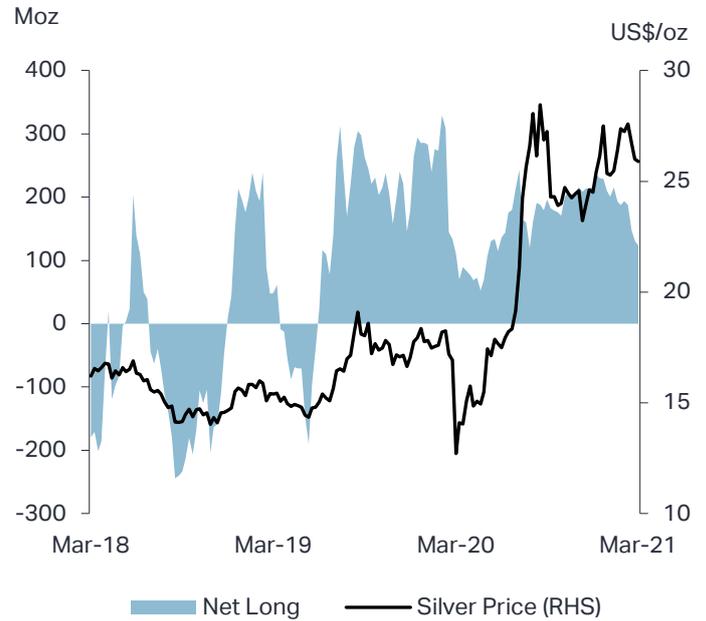
# Charts - CME Futures Net Positions\*

## Gold



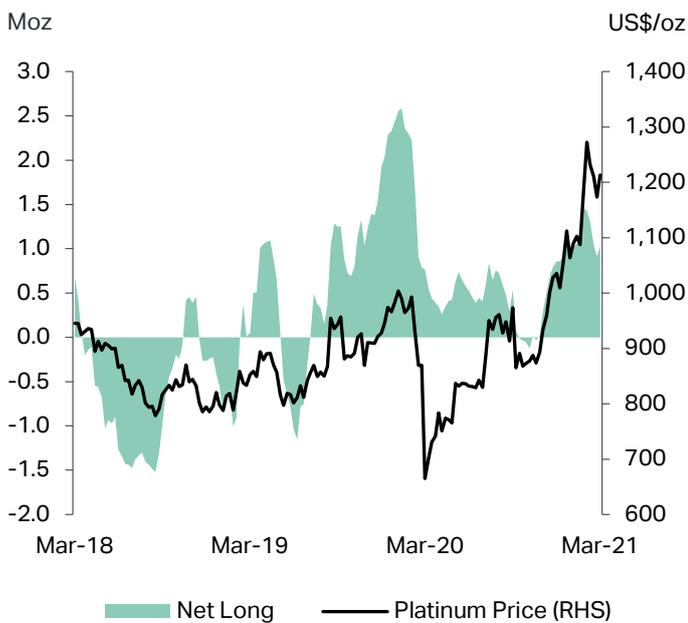
\*Managed money positions; Source: Bloomberg

## Silver



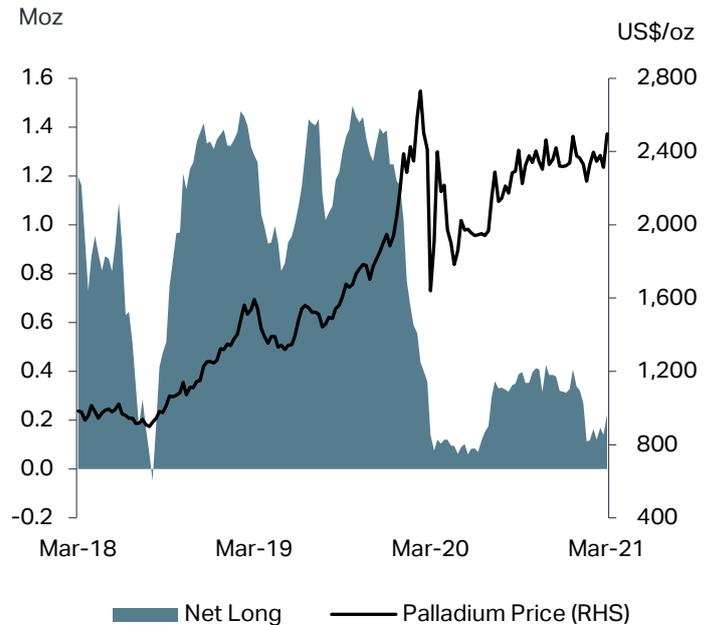
\*Managed money positions; Source: Bloomberg

## Platinum



\*Managed money positions; Source: Bloomberg

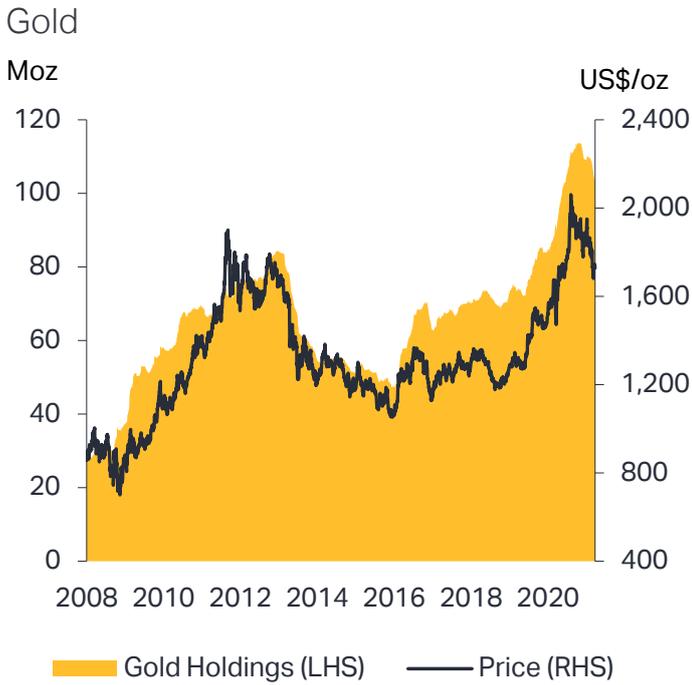
## Palladium



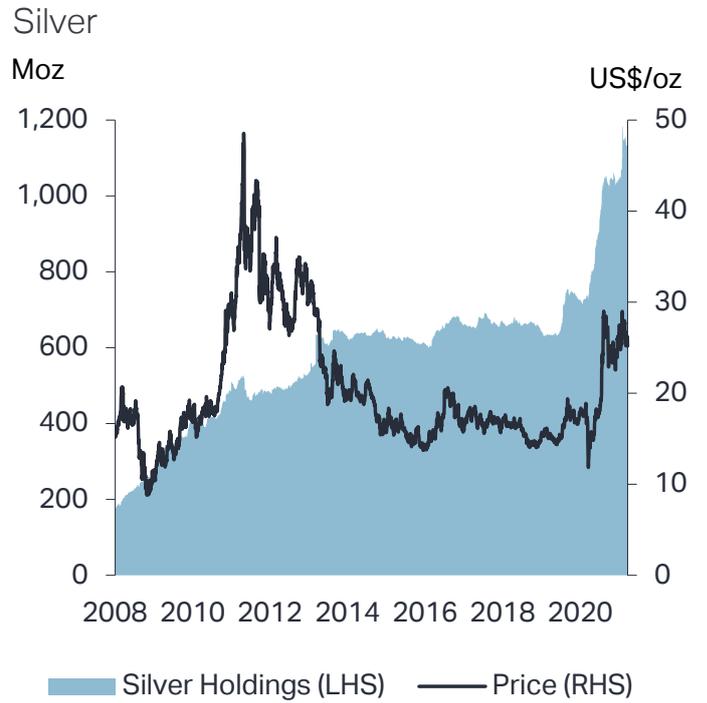
\*Managed money positions; Source: Bloomberg



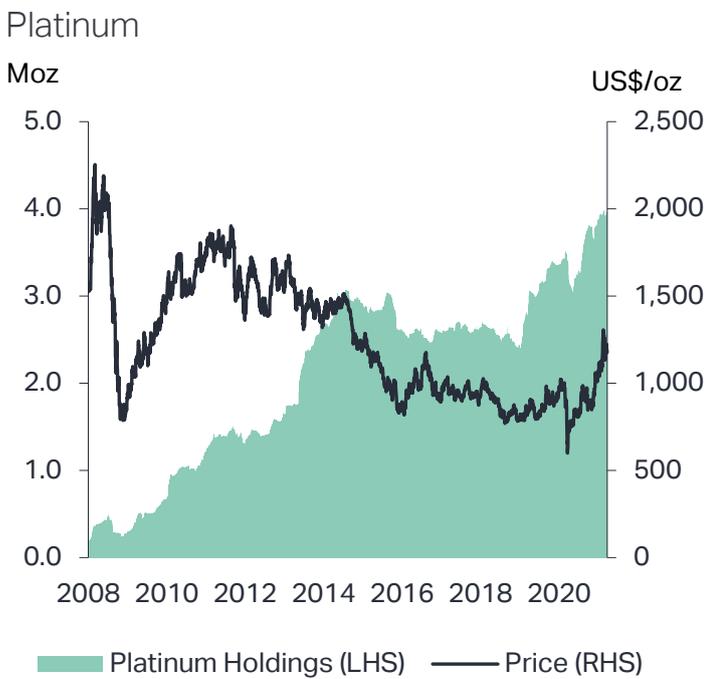
# Charts - ETP Holdings



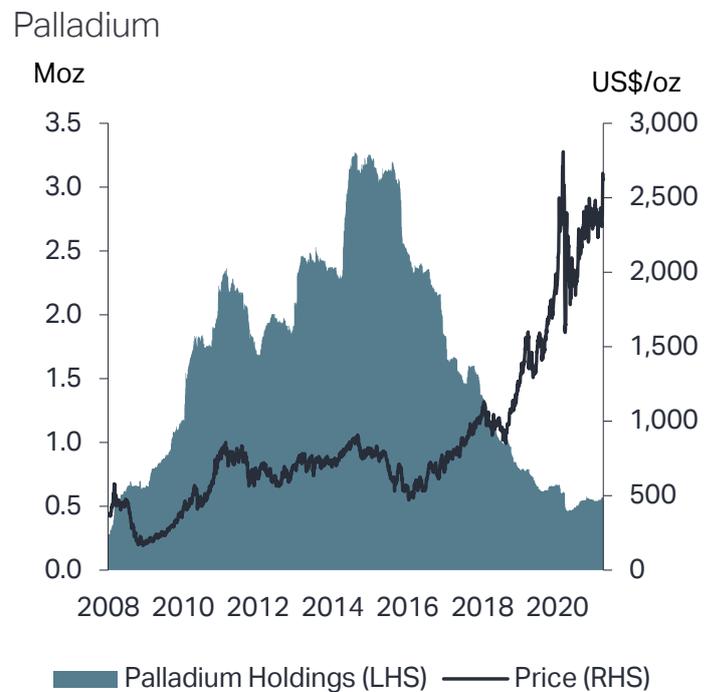
Source: Bloomberg



Source: Bloomberg



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