With gold at new highs, miners consider more than price

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Gold reaches new all-time highs

After several failed attempts over the last three years, gold finally managed to break through its August 2020 high of $2,075 per ounce. This time, the breakout was decisive, with gold closing at new all-time highs every week in March. The strong rally took gold to a close of US$2,229.87 per ounce on March 28, a whopping 9.08% (US$185.56 per ounce) monthly gain. Gold continued to set fresh highs in the first few days of April.

In past commentaries, we have been highlighting the widening valuation gap between gold and gold equities. In March, gold equities finally came back and displayed their leverage to the gold price. This may mark the beginning of a long-anticipated trend reversal for gold mining equities. After years of underperformance against the metal, the NYSE Arca Gold Miners Index and the MVIS Global Juniors Gold Miners Index significantly outperformed gold in the month of March, up 19.61% and 21.50%, respectively.

Where from here?

We believe gold has the potential to trade in a higher range in 2024. In recent years, strong rallies, such as the one gold has been enjoying this past month, have often been followed by periods of consolidation around an established, higher level with the metal trading in a sideways pattern until a new catalyst emerges driving prices higher. A return of investment demand, as evidenced by inflows into global gold bullion ETFs, could be that catalyst, with a potential to drive gold above US$2,500 per ounce, in our view.

For miners, it's about more than the gold price…

A rising gold price environment has historically been accompanied by strong performance by gold equities. The sector outperformers must also demonstrate that they are fundamentally positioned and have a sound strategy that will translate higher gold prices into improved cash flow and higher returns, which will deliver growth. Organic growth does not come easy in the gold sector. Finding new gold deposits, or defining/expanding existing ones, is a difficult, lengthy, and capital-intensive process. Most senior and mid-tier companies struggle to replace their annual production. To expand their depleting reserve and resource base, companies generally must acquire other companies or assets. All things equal, the more advanced a project is, the higher its valuation and the faster the company can deliver growth.

But acquiring the right projects is not easy either. Companies must achieve an acceptable balance between the price paid and the level of risk associated with the project, and they must demonstrate to markets their ability to deliver attractive returns. There were many terrible acquisitions in the past gold bull market when companies were rushing to increase production…at any cost. Gold stocks were punished for it, companies learned and today the sector leaders are disciplined and cautious acquirers.

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