

# COMMODITY Insights Bulletin

December 2015

Gold (Q2, 2015–Q3, 2015)

**Au**  
GOLD

## Insight: gold has seen a steady increase in demand

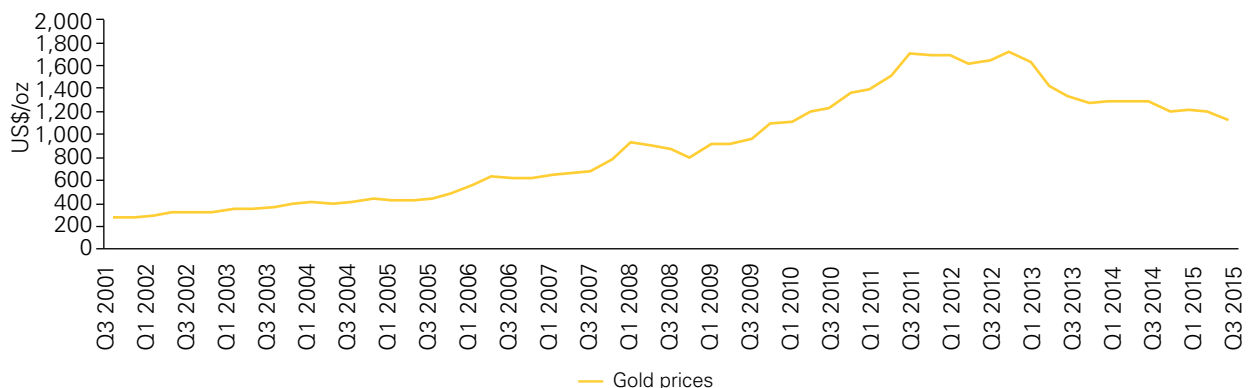
Gold has seen a steady increase in demand over the year particularly in the jewelry market in India and China. Central bank purchases have again remained consistent and continue to illustrate that there is value in gold. Gold producers, supply is forecasted to remain stable towards the end of 2015 and into 2016, with increases in production being driven in countries whose currencies have weakened against the US dollar. US dollar strength has positively impacted production costs in local currencies around the world, again supporting supply growth in the future. Producers, however, need to be wary of mine inflation in the medium-term, which has the danger of offsetting any weakening of local producer currencies against the US dollar. US dollar gold prices remain under pressure and are expected to be further impacted by US interest rates, although this could be partially offset by a forecasted increase in demand in the jewelry market. It is evident that fewer deals are taking place in the gold industry and buyers are becoming more circumspect, although the value of deals announced remains similar to prior years. This indicates that deal making has focused on significant

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**Daniel Hooijer**  
KPMG in South Africa

and meaningful operating mines where wealth is clearly evident. This is a good indication that certain groups of investors see long-term value in gold. The consistent value and lower number of transactions can partly be attributed to the size of the targets and partly to perceived premiums paid, based on the nature of targets being more operating assets as opposed to exploration and development assets.

Figure 1: Gold prices over years (US\$/oz)



Source: “Gold price in a range of currencies since December 1978,” World Gold Council, accessed November 2015.

# Price outlook<sup>1</sup>

Gold prices have remained low year to date and declined nearly 5.7 percent from US\$1,192/oz in Q2, 2015 to US\$1,124/oz in Q3, 2015, due to lower jewelry and investor purchases, and are expected to average US\$1,172/oz in 2015. The overall decline and forecast decrease in overall prices is mostly underpinned by an expected increase in US interest rates in late 2015, which is expected to redirect the interest of investors with gold investments to other investment assets that have higher expected returns.<sup>2</sup>

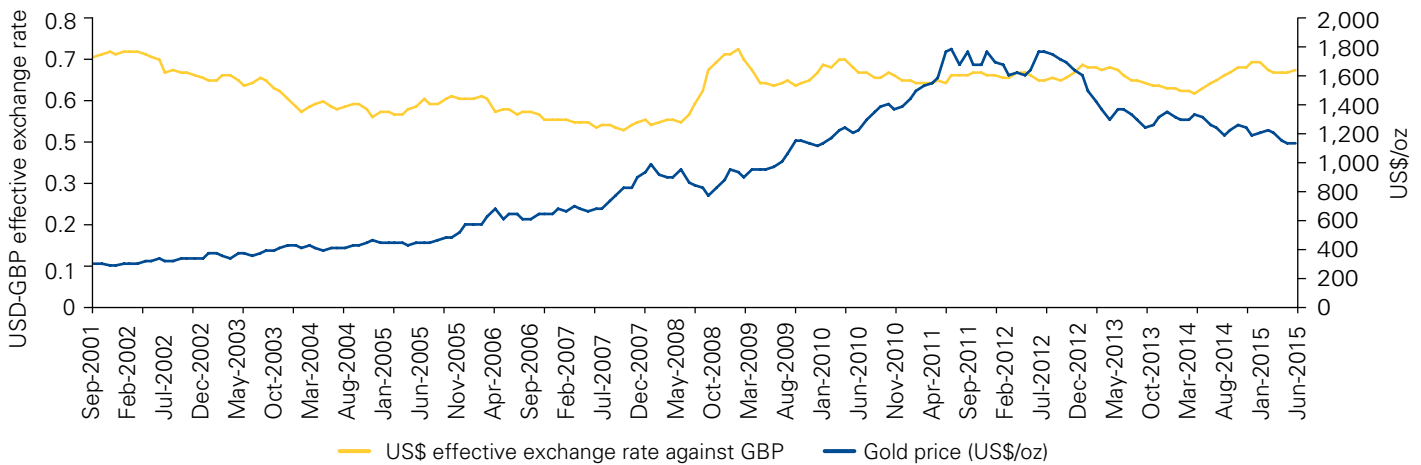
Prices are forecast to decline further to US\$1,167/oz in 2016; however, a forecast increase in physical demand in large and emerging markets, such as India and China, is expected to partially offset the impact of higher US interest rates, limiting the decline in prices.<sup>3</sup>

Gold prices have remained low year to date due to various factors including geopolitical unstable scenario, volatility in

the stock market, the removal of the Swiss Franc peg to the Euro and the potential for a Greek exit from the eurozone. Continued expectations of a higher US interest rate and forecast higher supply and lower consumption over the remainder of 2015 are expected to provide further downward pressure on prices.

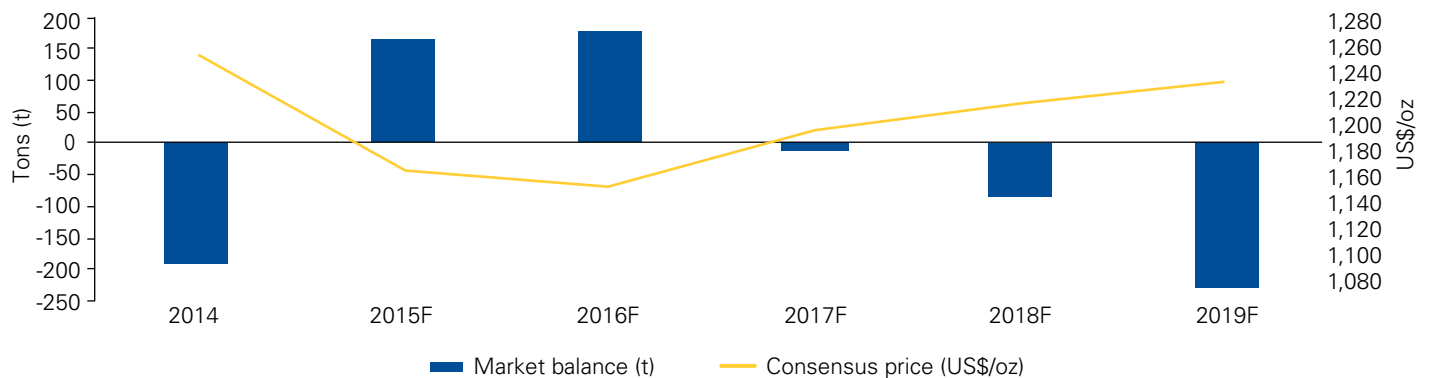
Over the outlook period, gold prices are projected to increase at an annual average rate of 1.3 percent to US\$1,250/oz (in 2015 dollar terms) in 2020 as relatively low gold prices compared with historical highs (an average of US\$1,669 tons in 2012) contribute to greater global gold jewelry purchases. Jewelry consumption has accounted for a significant proportion of gold consumption over the last few years (58 percent in 2013 and 2014) and is expected to continue to do so over the outlook period, supported by rising incomes in large consumers such as China and India.<sup>4, 5</sup>

**Figure 2: Gold prices versus US dollar (2001–date)**



Source: Historical exchange rates, Oanda website; Gold price in a range of currencies since December 1978, World Gold Council, accessed November 2015.

**Figure 3: Gold price trends (2014–19F)**



Source: Commodities — Gold, The Economist Intelligence Unit; “Resources and Energy Quarterly,” Bureau of Resources and Energy Economics (BREE), Australian Government, September quarter 2015; Credit Suisse — Gold and copper sector review, 22 September 2015; BMO Capital Markets, Global Mining Research, 6 October 2015; Canaccord Genuity, Growing gold asset portfolio in world, Initiating coverage, 6 October 2015, via Thomson research, accessed November 2015.

<sup>1</sup> Commodities — Gold, The Economist Intelligence Unit; “Resources and Energy Quarterly,” Bureau of Resources and Energy Economics (BREE), Australian Government, September quarter 2015; “Gold price in a range of currencies since December 1978, World Gold Council ;Credit Suisse — Gold and copper sector review,” 22 September 2015, via Thomson, accessed November 2015

<sup>2</sup> Commodities — Gold, The Economist Intelligence Unit, accessed November 2015

<sup>3</sup> “Resources and Energy Quarterly,” Bureau of Resources and Energy Economics (BREE), Australian Government, September quarter 2015, accessed November 2015

<sup>4</sup> Commodities — Gold, The Economist Intelligence Unit, accessed November 2015

<sup>5</sup> “Resources and Energy Quarterly,” Bureau of Resources and Energy Economics (BREE), Australian Government, September quarter 2015, accessed November 2015

The price estimates of different financial institutions and research houses are provided in the table below.

**Table 1: Gold price forecasts**

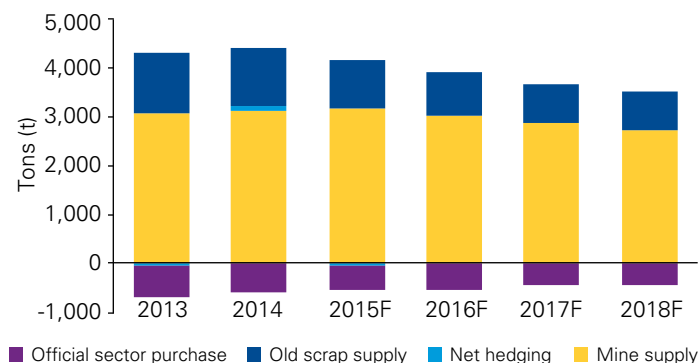
Broker/Institute	2014	2015F	2016F	2017F	2018F	2019F
Canaccord Genuity	1,266	1,185	1,171	1,183	1,204	1,226
BMO Capital Markets	1,266	1,125	1,100	1,150	1,175	1,200
Credit Suisse	1,266	1,172	1,175	1,200	1,200	1,200
BREE	1,266	1,172	1,167	1,256	1,311	1,341
EIU	1,266	1,164	1,130	1,213	—	—
Average Consensus estimates	1,266.0	1,163.6	1,148.6	1,200.4	1,222.5	1,241.75

Source: Commodities — Gold, The Economist Intelligence Unit; “Resources and Energy Quarterly”; Bureau of Resources and Energy Economics (BREE), Australian Government, September quarter 2015; Credit Suisse — Gold and copper sector review, 22 September 2015; BMO Capital Markets, Global Mining Research, 6 October 2015; Canaccord Genuity, Growing gold asset portfolio in world, Initiating coverage, 6 October 2015, via Thomson research, accessed November 2015.

## Supply and demand<sup>6</sup>

### Supply

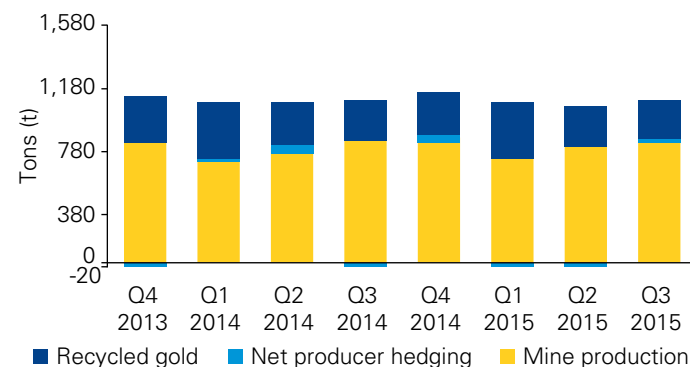
**Figure 4: Global supply of gold, 2013–18F**



Source: Credit Suisse — Gold and copper sector review, 22 September 2015, via Thomson research, accessed November 2015.

- Global gold supply increased by 5.0 percent from 1,048 tons in Q2, 2015 to 1,100 tons in Q3, 2015 due to increase in existing producers’ output. Total mine supply — mine production and net producer hedging combined — in Q3, 2015 witnessed a 23.7 tons increase (i.e. 3 percent growth) over the same period in 2014, since a fractional dip in mine production was more than offset by fresh producer hedging.<sup>7,8</sup>
- Global gold mine production is expected to rise by 3–4 percent in 2015 compared to 2014. Therefore, production is forecast to increase despite lower consumption and prices. The Penasquito mine in Mexico has witnessed 28 percent production increase year-over-year (y-o-y) in 2015. Other new production capacity expected to be completed over the last quarter of the year comprises the Cerro Negro mine in Argentina

**Figure 5: Global supply of gold, Q4, 2013–Q3, 2015**



Source: Gold demand trends Q3, 2015, World Gold Council, accessed November 2015.

- and the Bozymchak mine in the Kyrgyz Republic. In 2016, gold production is forecast to increase 2.6 percent to 3,135 tons.<sup>9, 10</sup>
- Over the medium-term, gold production is projected to increase at an annual average rate of 2.3 percent to 3,418 tons in 2020, supported by increasing production at existing mines. Australia’s gold production in 2014–15 remained stable as compared with 2013–14 at 275 tons, supported by cost-efficiency measures implemented by producers to remain viable at lower prices. Smaller producers such as the Western Australian-based Saracen Minerals posted record production over 2014–15 (4.7 tons). In 2015–16, Australia’s production of gold is forecast to remain unchanged at 275 tons. Production across its gold mines is forecast to remain steady into the next financial year, supported by relatively stable

<sup>6</sup> Gold demand trends Q3, 2015, World Gold Council; Commodities — Gold, The Economist Intelligence Unit; Credit Suisse — Gold and copper sector review, 22 September 2015, via Thomson Research, accessed November 2015

<sup>7</sup> Gold demand trends Q3, 2015, World Gold Council, accessed November 2015

<sup>8</sup> Credit Suisse — Gold and copper sector review, 22 September 2015, via Thomson research, accessed November 2015.

<sup>9</sup> “Resources and Energy Quarterly”; Bureau of Resources and Energy Economics (BREE), Australian Government, September quarter 2015, accessed November 2015

<sup>10</sup> Gold Corp, Goldcorp 2014 gold production increases 11 percent as costs decrease 6 percent; Forecast production growth of approximately 20 percent in 2015, 12 January 2015; Seeking Alpha, Goldcorp Announces That Work Has Resumed At The Cerro Negro In Argentina, 6 October 2015, accessed November 2015

Australia-denominated prices. Over the outlook period, Australia's gold production is projected to increase by 0.9 percent a year to 287 tons in 2019–20.<sup>11</sup>

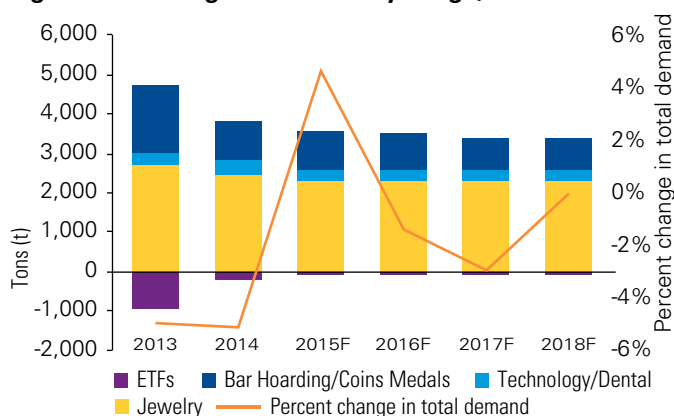
- In many parts of the world, mining companies are expected to continue to benefit from the US dollar strengthening, as most of their costs are priced in local currency, whereas gold buyers generally pay in dollars. Lower average oil prices will also help to lighten miners' overall cost burden, making it cheaper to operate mines. In addition, in 2015, mining supply will continue to be supported by activity at new mines that either came on stream in 2014 or are about to start commercial. The

Cerro Negro mine in Argentina, owned by Rio Tinto (UK-Australia) and Goldcorp (Canada), is a prominent example.<sup>12</sup>

- According to the China Gold Association, China — the world's largest gold producer — mined 452 tons in 2014, representing a rise of 5.5 percent y-o-y. Data for the first four months of 2015 indicate that gold production grew by 9.6 percent y-o-y. This is essentially due to the low cost structures which enables Chinese miners better placed to deal with low gold price, compared to their industry peers in other countries. A production growth of 4.9 percent is expected in 2015; however, medium-term prospects for China's gold-mining industry remain mixed.<sup>13</sup>

## Demand

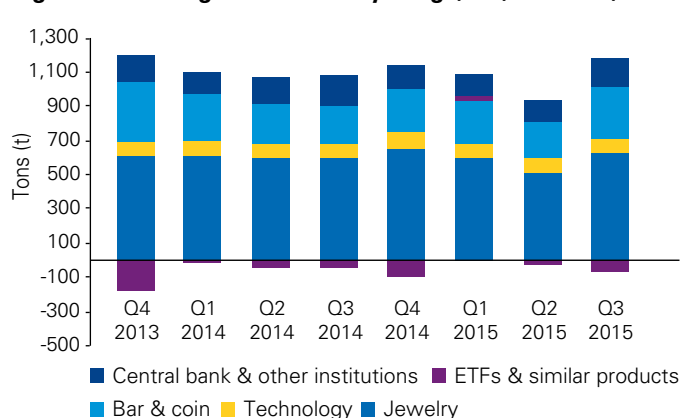
**Figure 6: Global gold demand by usage, 2013–18F**



Source: Credit Suisse — Gold and copper sector review, 22 September 2015, via Thomson research, accessed November 2015.

- The global demand for gold increased about 7.6 percent from 1,042 tons in Q3, 2014 to 1,121 tons in Q3, 2015, driven by price dip-buoyed consumer demand. Jewelry consumption in emerging markets is projected to continue to increase, though at much lower rates in response to rising incomes and projected relatively low prices.<sup>14</sup>
- Gold will continue to be part of central banks' reserve-management strategies, and further purchases are expected in 2015–16. According to the World Gold Council, central bank purchases came in at 119 tons in the Q1, 2015, largely unchanged from a year earlier. Russia — the sixth-largest holder of gold reserves in the world — has continued to purchase gold, buying another 25 tons in June 2015. A jump in total official sector purchases is expected in 2015.<sup>15</sup>
- Gold demand for investment purposes declined 16 percent between 2010 and 2014 as the expected return on other investment assets increased. Conversely, jewelry purchases in China, India and the Middle East grew 88 percent, 47 percent and 104 percent,

**Figure 7: Global gold demand by usage, Q4, 2013–Q3, 2015**



Source: Gold demand trends Q3, 2015, World Gold Council, accessed November 2015.

- respectively, from 2012 to 2014. Lower price forecast is likely to support jewelry purchases, particularly in emerging markets such as India and China, which make up the majority of the gold jewelry market.
- Global demand for gold for industrial purposes — which represents about 10 percent of total gold consumption — is expected to remain on a downward trend in 2015–16. In electronics, copper is a particularly appealing alternative, especially in the light of the tumbling international copper price since 2011. The long-term decline in gold use in the dental sector will also continue, given ceramic's strong performance in terms of aesthetics, durability and price. However, gold is expected to retain its industrial role in the longer term in a number of new technologies, particularly as an active catalyst in controlling carbon emissions and in solar cells.<sup>16</sup>
- Some improvement in gold prices is expected over the near term driven by seasonal demand from India and would expect a further improvement in 2016–17 supported by fundamental demand out of China and emerging market countries and steady central bank buying.<sup>17</sup>

<sup>11</sup> "Resources and Energy Quarterly," Bureau of Resources and Energy Economics (BREE), Australian Government, September quarter 2015, accessed November 2015

<sup>12</sup> Commodities — Gold, The Economist Intelligence Unit, accessed November 2015

<sup>13</sup> Commodities — Gold, The Economist Intelligence Unit, accessed November 2015

<sup>14</sup> Commodities — Gold, The Economist Intelligence Unit, accessed November 2015

<sup>15</sup> "Resources and Energy Quarterly," Bureau of Resources and Energy Economics (BREE), Australian Government, September quarter 2015, accessed November 2015

<sup>16</sup> Commodities — Gold, The Economist Intelligence Unit, accessed November 2015

<sup>17</sup> RBC Capital Markets, Global gold outlook, 23 August 2015, accessed November 2015

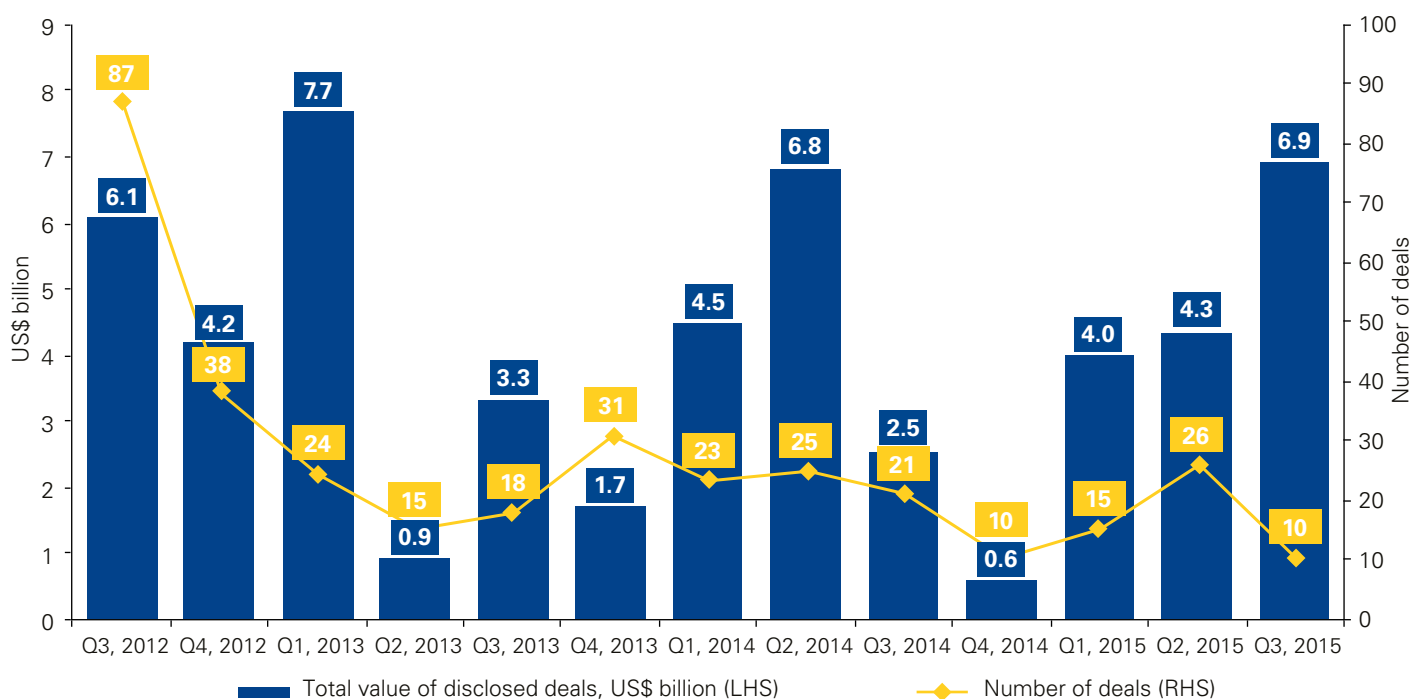
# Key developments

## Ownership changes<sup>18</sup>

The total value of 26 major deals announced in Q2, 2015 was US\$4.3 billion compared to 15 deals in Q1, 2015 valued

at US\$4.0 billion. Similarly, the total value of 10 major deals announced in Q3, 2015 was at US\$6.9 billion.

**Figure 8: Value of deals announced in gold industry**



Source: Deals: Search, Mergermarket and Thomson accessed October 2015; KPMG analysis.

**Table 2: Top gold deals announced in Q2, 2015 and Q3, 2015 (on the basis of value)**

Date announced	Target	Target nation	Acquirer	Acquirer nation	Status	Value of transaction (US\$ million)	Stake (%)
28 May 2015	Akoko Gold Project	Ghana	Goldcrest Resources plc	UK	Announced	282.5	N/A
13 Apr 2015	Alamos Gold Inc.	Canada	AuRico Gold Inc.	Canada	Completed	758	100
20 Apr 2015	Amara Mining PLC	UK	International Finance Corp.	US	Announced	10	9
9 Sep 2015	Anglo American Platinum	South Africa	Sibanye Gold Limited	South Africa	Announced	323	100
26 May 2015	Barrick (Niugini) Ltd.	Papua New Guinea	Gold Mountains (HK) Intl Mining	Hong Kong	Completed	298	50
24 May 2015	Barrick Gold Corp-Cowal	Australia	Evolution Mining Ltd.	Australia	Announced	550	100
14 May 2015	Belo Sun Mining Corp.	Canada	Agnico Eagle Mines Ltd.	Canada	Announced	12	23
30 Jun 2015	Binadaya Wiramaju PT	Indonesia	Bina Cipta Manunggal PT	Indonesia	Completed	30.5	99.5

<sup>18</sup> Sources: Deals: Search, Mergermarket and Thomson, accessed October 2014; KPMG analysis.

**Table 2: Top gold deals announced in Q2, 2015 and Q3, 2015 (on the basis of value) (continued)**

Date announced	Target	Target nation	Acquirer	Acquirer nation	Status	Value of transaction (US\$ million)	Stake (%)
9 Jun 2015	Corona Gold Corp.	Canada	Oban Mining Corp	Canada	Announced	10	100
8 Jun 2015	Cripple Creek & Victor Gold Mining Company	US	Newmont Mining Corporation	US	Announced	820	N/A
11 May 2015	Crocodile Gold Corp.	Canada	Newmarket Gold Inc.	Canada	Announced	126	50
9 Jun 2015	Eagle Hill Exploration Corp.	Canada	Oban Mining Corp	Canada	Announced	15	100
27 Aug 2015	El Morro Copper-Gold Project	Chile	Goldcorp Inc.	Canada	Announced	90	30
11 Jun 2015	Ely Gold & Minerals Inc-Asts	US	Waterton Nevada Splitter, LLC	US	Completed	30	100
28 Aug 2015	Ensbury International Ltd.	Indonesia	BlackGold Natural Resources	Singapore	Announced	100	100
10 Apr 2015	Geogen Corp.	Philippines	Nickel Asia Corp.	Philippines	Completed	16	100
1 Sep 2015	Gold Canyon Resources Inc.	Canada	First Mining Finance Corp.	Canada	Announced	43	100
11 May 2015	Gold Standard Ventures Corp.	Canada	OceanaGold Corp.	Australia	Completed	13	17.5
22 May 2015	Guangdong Mingzhong Mining Co. Ltd.	China	Minco Silver Corp.	Canada	Announced	14	51
26 May 2015	Kamoa Copper SA	DRC	Zijin Mining Group Co., Ltd.	DRC	Announced	412	49.5
5 May 2015	Kazakhstan Potash Corp. Ltd.	Australia	Hillot Ltd.	Hong Kong	Completed	16	N/A
20 Apr 2015	Koboldo	Russia	Global-Polymetall LLC	Russia	Announced	175	95
20 Apr 2015	La Mancha Resources Australia Pty Ltd.	Australia	Evolution Mining Limited	Australia	Announced	233	31
28 Jul 2015	Lingyuan Rixing Mines Ltd.	China	Zhongjin Gold Corp Ltd	China	Announced	60	N/A
29 Apr 2015	Mungana Goldmines Ltd.	Australia	Auctus Chillagoe Hldg Pty Ltd	Australia	Announced	40	100
20 Jul 2015	New Gold Inc. (the Rainy River project)	Canada	RGLD Gold AG	Canada	Announced	175	N/A
5 Jun 2015	Newmont Waihi Gold Limited	New Zealand	OceanaGold Corp.	New Zealand	Announced	106	N/A

**Table 2: Top gold deals announced in Q2, 2015 and Q3, 2015 (on the basis of value) (continued)**

Date announced	Target	Target nation	Acquirer	Acquirer nation	Status	Value of transaction (US\$ million)	Stake (%)
30 Jun 2015	North Country Gold Corp.	Canada	Auryn Resources Inc.	Canada	Completed	176	N/A
8 Jun 2015	NWM Mining Corp.	Canada	GFM Minera S.A.P.I. de C.V.	Canada	Completed	22	100
20 Aug 2015	Phoenix Gold Limited	Australia	Evolution Mining Limited	Australia	Announced	30	80
2 Sep 2015	Polyus Gold International Limited	UK	Sacturino Limited	Russia	Announced	5,384	59
30 Jul 2015	Romarco Minerals Inc.	Canada	OceanaGold Corp.	Australia	Completed	652	100
9 Jun 2015	Ryan Gold Corp.	Canada	Oban Mining Corp.	Canada	Completed	14	100
31 May 2015	Shandong Ruiyin	China	Yantai Jinshi Mining Investment Company Limited	China	Announced	440	86
10 Apr 2015	Soltoro Ltd.	Canada	Agnico Eagle Mines Limited	Canada	Announced	25	N/A
16 Jul 2015	Temex Resources Corp.	Canada	Lake Shore Gold Corp.	Canada	Completed	19	100

Sources: Deals: Search, Mergermarket and Thomson, accessed October 2015; KPMG analysis.

## Regulatory updates

**Table 3: List of recent regulations in the gold industry**

Country	Regulation	Description
India	Indian government reduces tariff <sup>19</sup>	In September 2015, the government reduced the import tariff value of gold to US\$359/10 grams following weak global cues.
Peru, Colombia, Bolivia	Peru, Colombia, Bolivia clamp down on illegal mining <sup>20</sup>	In September 2015, Peru, Bolivia and Colombia began working together closely, to clamp down on illegal gold mining operations in border areas. The Peruvian government also began training local district attorneys around the country to update them on mining regulations, in order to help accelerate the process of formalization of small-scale miners.
Singapore	Singapore to tighten rules on gold buyback <sup>21</sup>	In September 2015, the Monetary Authority of Singapore (MAS) announced that it would regulate schemes such as gold buybacks and the new regulations will be based on the existing Securities Futures Act.

Source: Deals: Search, MergerMarket and Thomson, accessed 12 October 2015; KPMG analysis.

<sup>19</sup> DNA, Government cuts import tariff on gold, silver, 15 September 2015, accessed November 2015

<sup>20</sup> Peru, Colombia, Bolivia tighten screws on illegal mining, 21 September 2015, via Factiva, accessed November 2015

<sup>21</sup> BusinessTimes, MAS to tighten rules on gold buyback and landbanking schemes, 23 September 2015, accessed November 2015





**Daniel Hooijer**  
**KPMG in South Africa**  
T: +27 82 713 2998  
E: daniel.hooijer@kpmg.co.za

Daniel Hooijer has worked extensively with globally listed gold mining companies in South Africa. He is an assurance partner focused in the energy and natural resources sector, working with clients in the exploration, development and production phases. Daniel has extensive experience working with listed entities who have a presence in Australia, South Africa, Africa and the US. He has worked on clients who apply IFRS and US GAAP combined with NYSE and JSE listing regulations. Daniel has vast experience in the application of ICOFR at clients and securities transactions documentation around corporate actions.

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