

Gold

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2000 mine production: \$2.05 billion
 World rank: Fourth
 Exports: \$2.6 billion (includes exports from recycled products and public and private reserves)

Canada	2000	2001 ^e	2002 ^f
	(000 tonnes)		
Production	154	162	156

^e Estimated; ^f Forecast.

Gold is valued for its rarity, lustrous colour, malleability, ductility, high resistance to corrosion and conductivity. It has been treasured for its decorative and monetary value for at least 8000 years. Gold has a high density, its weight being equal to 19.3 times an equivalent volume of water. The main industrial uses for gold are in jewellery (85%) and electronics (7%). Gold bullion coins, such as the Maple Leaf coin, are also important products.

ANNUAL AVERAGE SETTLEMENT PRICES, LONDON BULLION MARKET ASSOCIATION

1998	1999	2000	2001 ^e
(US\$/troy oz)			
294	279	279	271

^e Estimated.

CANADIAN OVERVIEW

- In 2001, Goldcorp Inc. expects to produce nearly 15.6 t of gold (500 000 troy oz) at the Red Lake mine at a direct production cost of approximately US\$65/troy oz, which will place this mine among the leading Canadian gold producers for volume of gold produced and among the producers with the lowest production costs in the world.
- In August, Agnico-Eagle inaugurated a new shaft on its LaRonde property. With a depth of 2250 m (7380 ft), it will provide access to reserves of nearly 100 t of gold (3.3 million oz) and additional resources of 140 t (4.5 million oz). Agnico-Eagle also expanded its mill facilities from 2000 to 5000 t/d, and the company expects to increase mill facilities to 7000 t/d by the end of 2003. With this expansion, annual gold production will go from 230 000 troy oz in 2001 to nearly 400 000 oz in 2004. The ore at LaRonde also contains commercial ore-grade zinc, copper and silver, which will place this mine among those with the lowest production costs in Canada when the credits obtained for these metals are taken into account.
- Cambior completed the restructuring begun the previous year to cover operational debts stemming from its hedging program. In 2002, the company expects to begin work that will lead to the start-up of production at the Gross Rosebel deposit in Suriname.
- River Gold Mines closed the Edwards mine as its reserves have been depleted. The company plans to put the Mishi mine into production on a seasonal basis. Mishi is a small, open-pit deposit located near the mill where approximately 310 kg of gold (10 000 troy oz) will be produced each year.
- In February 2001, McWatters was granted protection under the *Companies' Creditors Arrangement Act* to allow a financial restructuring process. Activities at the Sigma-Lamaque complex have been suspended until the company finds additional funds and negotiates an arrangement with its creditors. However, operations at the Kiema complex have been maintained.

- During the course of the year, the closing or suspension of operations at six other small mines was announced due to the depletion of reserves or a lack of financial viability: Nugget Pond in Newfoundland and Labrador, the Beaufor and Francoeur mines in Quebec, the Bissett mine in Manitoba, the Golden Bear mine in British Columbia, and the Brewery Creek mine in the Yukon. The closure of the Mount Polley polymetallic mine in British Columbia will also have a significant impact on the level of Canadian gold production in 2002.

WORLD OVERVIEW

- Major gold companies continued their consolidation strategy more successfully with a view to increasing market capitalization, attracting new investors, and exercising a certain control over supply. During 2001, Barrick Gold and Homestake announced plans to merge, and AngloGold and Newmont launched bids to acquire Normandy, an Australian company. By acquiring Homestake, Barrick becomes the largest silver producer in Canada and the fifth largest in the world.
- Australian companies Delta Gold and Goldfields Limited announced their merger, which will create a company whose production is slightly over 30 t/y of gold (1 million oz). WMC Inc., another Australian company, sold its gold mining operations to the South African company Pangea Goldfields, which will boost Pangea's annual production to nearly 145 t of gold (4.6 million oz).
- Globally, gold mine production will set a new record in 2001 in terms of amount produced. Production is expected to exceed 2600 t and will combine with gold sales and loans by central banks, recycled gold, and sales by investors for a global supply of 3800 t, a drop of nearly 150 t compared to the previous year.
- Demand for gold fell by nearly 4% in 2001 despite generally depressed relative prices for the metal. A number of people see the fall in demand as being the result of the global economic slowdown. The weak demand for jewellery in the United States and Europe and the decline of activities in the electronics sector in Asia contributed greatly to the drop. Although the events of September 11 led to an increase in activity in the collector coin and gold bar sector, the resulting rise in the price of gold was short-lived, confirming that the role of gold as an inflation hedge has declined in importance.
- At their annual meeting in Denver, Colorado, the major gold producers announced that, in spring

2002, they will launch a huge advertising and awareness campaign with a view to increasing sales of gold jewellery and other items. Together, gold producers expect to collect an annual sum of US\$150 million to \$200 million to be used for this campaign and, to a lesser extent, to lobby certain governments to liberalize the gold trade in their countries.

- In 2001, China began the liberalization of its gold trade by setting the price of gold each week rather than every six months, establishing a gold exchange, and setting up a Chinese gold association that will link producers, manufacturers and other stakeholders. Chinese mine production of gold is expected to total nearly 150 t in 2001, with 115 t coming from gold mines and 35 t from polymetallic deposits. Demand for gold in China is expected to amount to nearly 200 t and to be met by domestic mine production, recycling, and gold obtained from refining imported copper concentrates.
- Barrick began production at its Bulyanhulu deposit in Tanzania. The company expects to produce nearly 12 t/y (400 000 oz) of gold for a 20-year period. With the start-up of production at this deposit, Tanzania will become the fourth largest gold producer in Africa, after Mali, Ghana and South Africa. Production from Bulyanhulu will be added to production from the new Golden Pride and Geita mines, which were put into production in 1999 and 2000, respectively. A fourth mine, belonging to the Australian company Afrika Mashariki, will probably open in 2002.

MARKET OUTLOOK

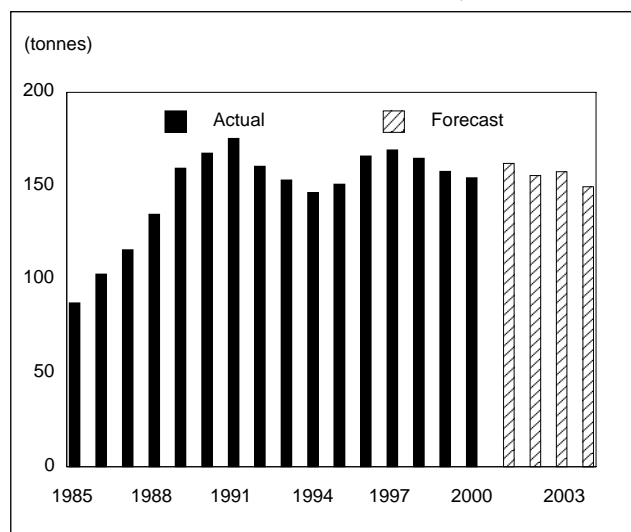
World mine production of gold, which has been rising for nearly 20 years, is expected to begin to decline in 2002 and to enter a downward cycle that could last three or four years. The weakness in the price of gold in recent years has led to a drop in exploration expenditures, which in turn has lowered the number of economic deposits discovered. The decline in gold production as a result of mine closures cannot be completely offset by mine capacity expansion or by the start-up of production at new deposits. Until 2004, when the *Washington Agreement* expires, gold sales and loans by central banks – another important element in the gold supply – are expected to remain at more or less the same level as in the past two years.

World demand grew more than 35% over the last decade, mainly because weakness in the price of gold led to an increase in demand by jewellers that specialize in gold jewellery. World gold demand for jewellery and electronics is expected to resume its upward trend as soon as economic conditions are favourable again.

CANADIAN PRODUCTION OUTLOOK

To the end of 1999, Canada had produced over 9000 t of gold since official production was first recorded in 1858 (ref. *Canadian Minerals Yearbook: 1999 Review and Outlook*). Canadian gold production is expected to increase by nearly 5% in 2001, reaching 162 t, which is 8 t more than in 2000. This production increase is partly due to the discovery and mining of high-grade ore at the Red Lake mine in Ontario. The closures and suspensions of operations announced in 2001 are expected to contribute to a net drop of 6-7 t in gold production in 2002. For the following years, mine production is forecast to reach between 150 and 155 t/y. Any growth in Canadian gold production over the coming years is expected to come essentially from mine capacity expansions or from the resumption of production at existing mines.

Figure 1
Mine Production of Gold in Canada, 1985-2004



Source: Natural Resources Canada.

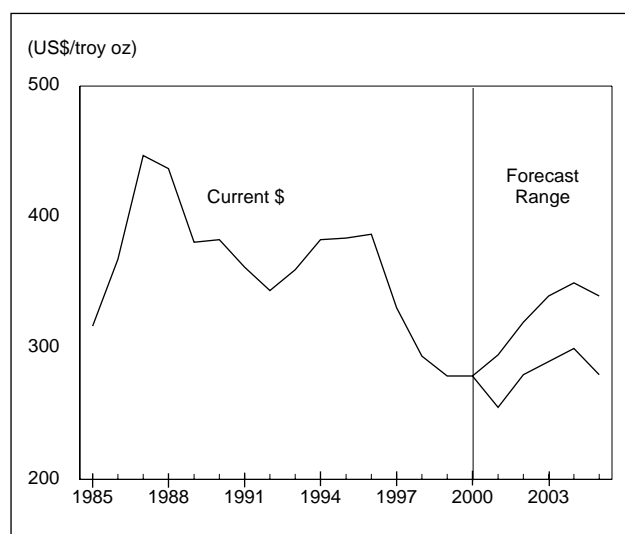
PRICE OUTLOOK

The average price of gold maintained its downward trend in 2001 to settle around US\$270/troy oz, dropping from US\$279/troy oz in 2000 and US\$278/troy oz in 1999. The stabilization of gold sales from the official sector and the decline in gold producers' hedging programs did not lead to the price recovery anticipated by many. The drop in demand caused by the economic slowdown and the lack of investor interest in gold kept downward pressure on the price.

However, the anticipated decrease in the global gold supply in 2002, combined with stable or slightly increased demand, is expected to place upward pres-

sure on the price of gold. Over the next few years, the price of gold is forecast to vary between US\$280 and \$350/troy oz and could even exceed US\$350/troy oz. The higher price level could be reached if global demand comes under new pressure stemming from the liberalization of the gold trade in China and from possible successes brought on by the advertising campaign that gold producers will begin in 2002 and the success of the bid launched by Newmont for Normandy, which will cause the liquidation of Normandy's hedging program.

Figure 2
London Bullion Market Association Gold Prices, 1985-2005



Source: Natural Resources Canada.

Note: Information in this article was current as of November 30, 2001.

NOTE TO READERS

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