GOLD'S BALANCED SUPPLY, DEMAND DYNAMICS PAVE WAY FOR 'SLOW-AND-STEADY' GROWTH

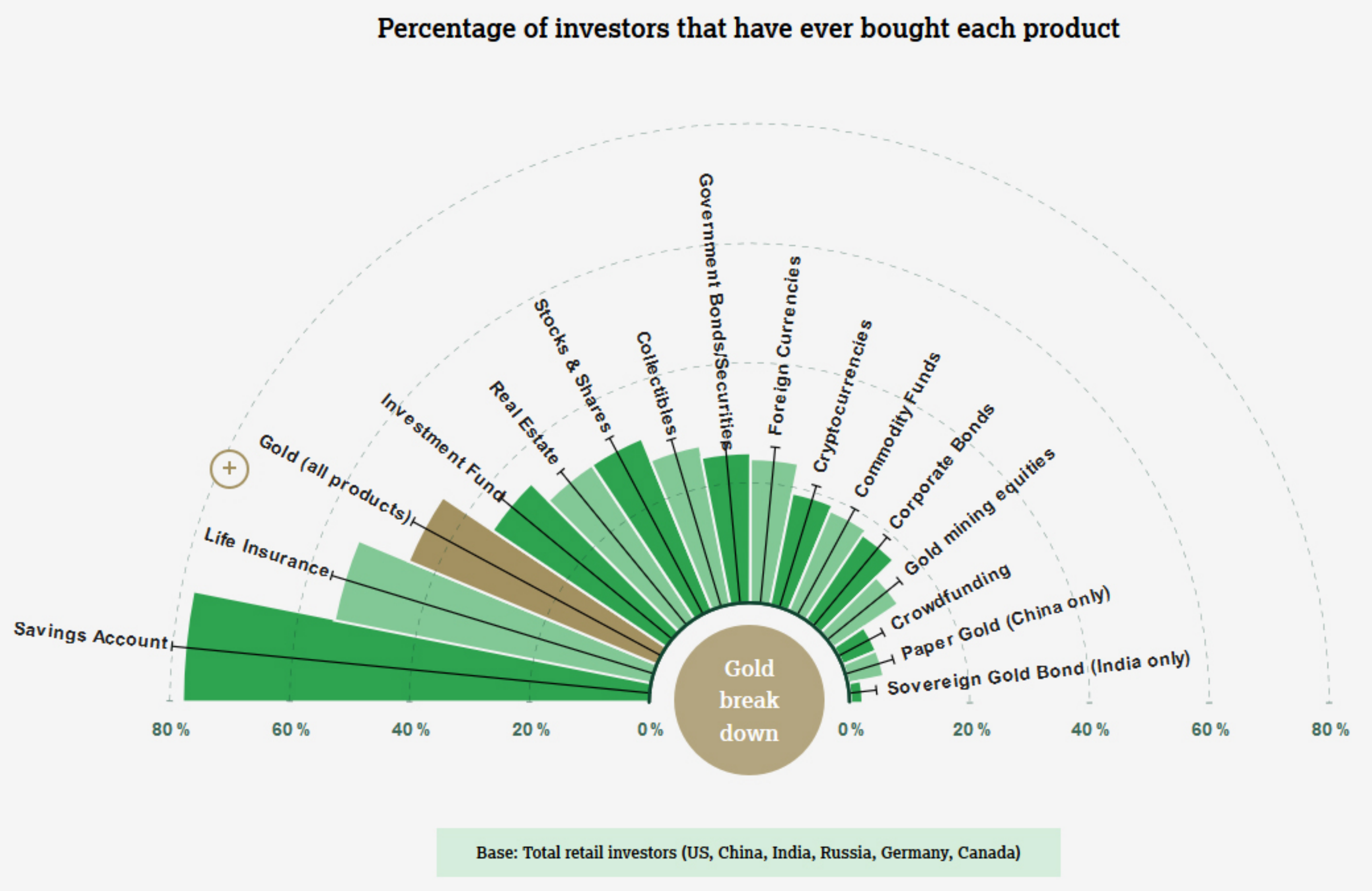
Market observers view the recent price declines for gold as healthy consolidation ahead of steady gains in 2020

Commodity markets are notorious for mismatches, with demand usually rising and falling incrementally while production capacity comes into or out of service in chunks. Yet gold seems to be bucking that trend. Production is coming into the market incrementally from multiple sources while demand as a hedge against inflation and uncertainty also remains steady.

There are several recent examples of both near- and long-term growth in production around Latin America and Africa. Meanwhile, a collaboration between United States and Chinese exchanges for future trading began smoothly.

On November 16, Lundin Gold, based in Vancouver, began commercial production at its new mine in Ecuador. Lundin Gold produced the first doré bar from the gravity circuit at Fruta del Norte. Production of gold concentrate, as part of the commissioning activities, is also well advanced with the first containers being loaded with marketable concentrate. Based on the current

Gold retail market insights



projections, the first export of concentrate and doré is anticipated by mid-December. Commissioning of the carbon in leach circuit is nearing completion.

"We will continue to focus on completing commissioning and ramping up production on the path to commercial production in the second quarter of 2020," president and chief executive officer of Lundin Gold Ron Hochstein said.

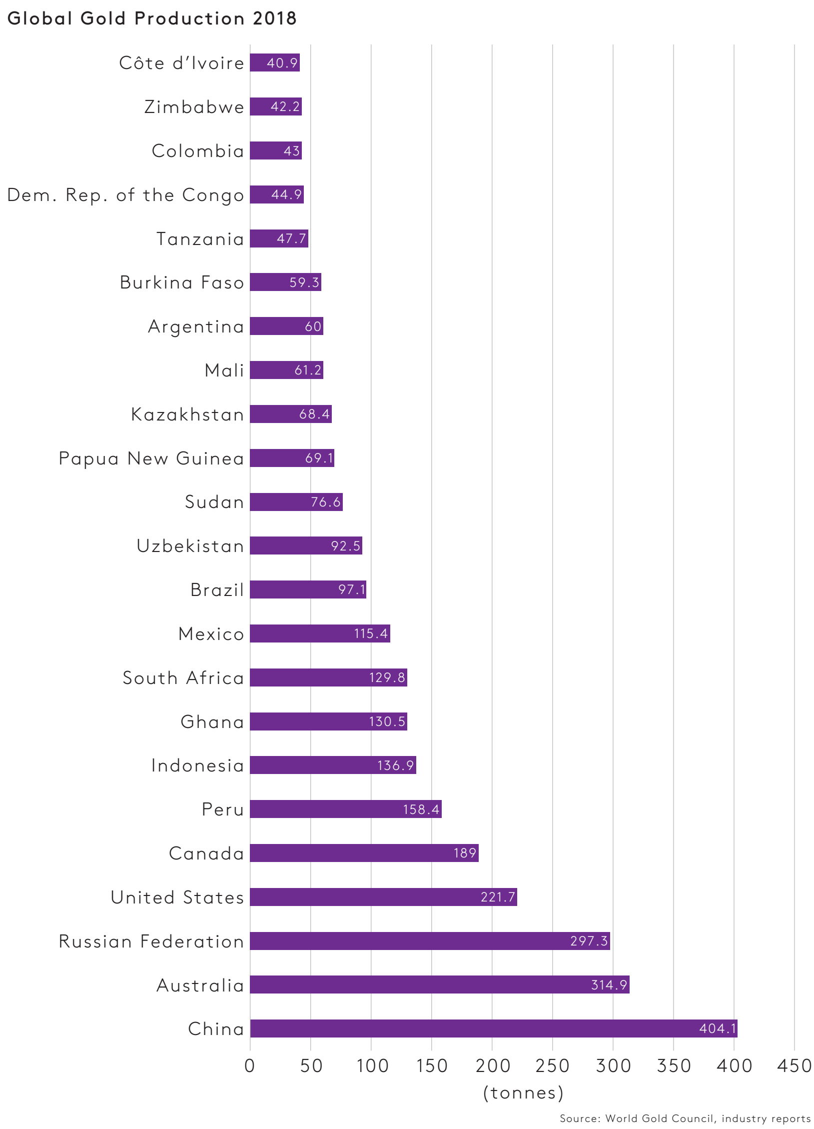
"Fruta del Norte is one of the highest-grade and largest gold projects currently under construction," the company said.

Lundin Gold is part of the privately held Lundin Group that has operations in metals mining as well as energy. A sister company and Vancouver neighbor of Lundin Gold, Josemaría Resources, is developing its wholly owned Josemaría copper and gold project in San Juan Province, Argentina.

Prior to July 2019, Josemaría Resources was called NGEx Resources, not to be confused with another Lundin Group company, NGEx Minerals. The latter is similar, a Canada-based company with copper and gold exploration projects in Chile and Argentina. The focus for NGEx Minerals is a large-scale copper-gold porphyry discovery, Los Helados, in Chile's Region III, with its joint exploration partner in Chile, Pan Pacific Copper.

Elsewhere in Chile another portfolio company, Filo Mining, is advancing its wholly owned Filo del Sol copper-gold-silver deposit, also in Region III and the adjacent San Juan Province, Argentina. Beyond those specific activities, Lundin has operations in copper, nickel, zinc, and uranium as well as oil and gas in Canada, Europe, Asia and Africa.

On November 20, AngloGold Ashanti announced that it had reached an agreement with the government of Guinea to resume operations at the Siguiri gold mine. The company suspended production at the mine, Reuters reported, in which it holds an 85% stake, after protesters from the community invaded the site November 15 to demand infrastructure improvements in the area of the mine.



Guinea is not a major producing country: it ranks 28th worldwide with 27.3 tonnes of output in 2018. That said, gold production takes an outsized role in the export equation for many small producing nations and the country is keen to grow.

On the same day as the Siguiri settlement, Cyprus-based investment firm Sycamore Mining signed a pact with Guinea to redevelop the Kiniero gold mine. Reuters reported that Sycamore and three other mining companies had made bids for the mine, which has been out of production since Canada's Semafo sold it in 2014. Under the deal, Sycamore would capitalize a local entity immediately with $5 million toward an ultimate $35 million investment in the mine.

Late in October, Newmont Goldcorp resumed production at the Peñasquito mine in Mexico following an agreement with local protesters and the lifting of their blockade of the mine on October 8.

Newmont said Peñasquito has enhanced water availability for the mine's 25 neighboring communities through projects including water treatment plants, new wells, pipelines and water trucks, along with 90 other infrastructure and community development projects.

"Peñasquito directly employs more than 6,500 people while supporting another 20,000 indirect jobs in the region," Newmont noted. "Since 2005, the company has invested approximately $5 billion in Peñasquito."

Newmont claims primacy as "the world's leading gold company and a producer of copper, silver, zinc and lead."

US-China collaboration

Also in October, in a collaboration that "went largely unnoticed," said BullionStar, "the US and Chinese gold markets moved one step closer to lockstep, when the CME group, home of the gold derivatives market, and [the Shanghai Gold Exchange (SGE),] the world's largest physical gold exchange, jointly launched a series of gold futures in what they pitched as cross-market cooperation." BullionStar is a hybrid operation in precious metals based in Singapore with research, storage vaults and retail sales.

CME initiated two cash-settled Shanghai gold futures, based on the SGE's daily Shanghai gold benchmark price, one denominated in US dollars and the other denominated in offshore Chinese yuan (CNH). Both contracts are listed on the Comex. SGE began offering a T + N (margin) 100-gram contract denominated in domestic yuan (RMB) based on the CME's Comex gold futures Asia spot price.

"Importantly, both of these new CME Shanghai gold futures have an identical listing schedule to the Comex 100-oz gold futures contract (GC) out to the nearest

12 months," Bullionstar said. That means "traders, bullion banks and others will be able to arbitrage between the 100-oz gold futures and the Shanghai gold futures."

Economic uncertainty boosts haven investment

The trans-Pacific collaboration in gold trading glitters in stark contrast to the gloom of the increasingly bitter trade dispute between the US and China that has now stretched a year and a half. Ironically, as the tit-for-tat tariff tiff threatens to grow into a full-blown trade war, gold and other hedges stand to gain.

In late October, *Fastmarkets* reported there is a race against time before either a trade deal revives global growth or the fallout from the difficult trade environment, which has scuppered business and household confidence, drags the main economic powerhouses into recession.

The sobering outlook noted that Europe is stuck with low growth: gross domestic product was just 1.4% in the second quarter of 2019. China's GDP was 6.2% in the same period, with the National Bureau of Statistics saying the Chinese economy will face further "downward pressure" in the second half.

"Money has been pouring into assets that are traditionally considered to provide safety," *Fastmarkets* reported. "The price of gold has rallied by 34% to $1,557 per oz on [October 24] from last year's low at $1,160. US 10-year treasury yields have fallen as low as 1.47% compared with 3.2% in October 2018, such is the demand for them. And in Germany, investors have been prepared to accept a negative yield of as much as 0.7% to own a 10-year German bund; the yield was last positive in late-April 2019."

A November 14 commodity analysis from RBC Capital Markets suggests that the varying developments in global gold markets seem to be canceling each other: "In our view, myriad global data releases and a plethora of headlines have shaken out to mostly neutral, but in some cases slightly positive, risk tone for the time being."

In the near term "this neutral-to-positive risk sentiment has certainly eaten into gold-backed, exchange-traded [investments] holdings recently, measured in tonnage terms, more than we would have expected, but holdings remain buoyant overall," the RBC analysis said. "We think gold is behaving no differently when compared to the rest of the market in risk terms, and on a go-forward basis for the balance of 2019 and into 2020, our view has not changed."

The price consolidation markets have experienced recently and continuing consolidation in exchange-traded holdings are likely to set gold "for a cleaner base with which to build upon next year," RBC suggested. "While our base case remains a more sustainable price band in the $1,500s per oz range in 2020, there is still potential for gold to enter our high scenario and cross the $1,600 per oz level multiple times next year in the case of a significant risk-off event."

Data from the World Gold Council (WGC) supports a slow-but-steady growth outlook. Global gold demand grew modestly to 1,107.9 tonnes in the third quarter of 2019, a rise of 3% on the same period last year, according to the council latest trends report, issued November 5.

"A surge in exchange-traded fund inflows outweighed softer demand elsewhere in the market. Although central-bank demand remained healthy, it was significantly lower than the record levels of purchases in Q3 2018. Jewelry demand, however, was hampered by the continued strength in the gold price, which hit a new multi-year high, as well as consumers being downbeat on the health of the global economy."

The council's report noted that gold supply rose 4% in the third quarter to 1,222.3 tonnes. Growth was driven by a 10% increase in recycling, to its highest level since the fist quarter of 2016, as the price rally continued to encourage selling back by consumers. Mine production was virtually unchanged year-on-year at 877.8 tonnes.