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WHAT I LEARNED THIS WEEK

Excerpt from April 12, 2018

1 Is gold production peaking? The answer is probably yes for the foreseeable future.

New discoveries have collapsed in the past 15 years. It takes seven years to bring a new mine's production on stream. And historically the junior miners—which have had no capital for the past ten years—account for half of the new discoveries. Pierre Lassonde, chairman of Franco-Nevada, is the world's best gold asset-allocator and the pioneer of the royalty model in the gold-mining industry, which is based on that used in the oil-and-gas industry. In an October 13, 2017 article in *Finanz und Wirtschaft,* **Lassonde made an excellent case for higher gold prices:**

> *If you look back to the 70s, 80s and 90s, in every of those decades the industry found at least one 50+ million ounce gold deposit, at least ten 30+ million ounce deposits and countless 5 to 10 million ounce deposits.* ***But if you look at the last 15 years, we found no 50 million ounce deposit, no 30 million ounce deposit and only very few 15 million ounce deposits.*** *So where are those great big deposits we found in the past? How are they going to be replaced? We don't know. We do not have those ore bodies in sight.*
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> ***What the industry has not done anywhere near enough is to put money back into exploration.*** *They have not put anywhere near enough money into research and development, particularly for new technologies with respect to exploration and processing.* ***The way our industry works is it takes around seven years for a new mine to ramp up and then come to production.*** *So it doesn't really matter what the gold price will do in the next few years:* ***Production is coming off and that means the upward pressure on the gold price could be very intense.***

> *The industry has had to shrink a lot. Also, the boom in Exchange Traded Funds has changed the capital markets in a huge way: Companies that are part of an ETF get treated like chosen sons. But when you're not in an ETF you're getting marginalized.* ***You become an orphan and the junior companies in particular have been completely orphaned.***
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> *The thing with this industry is that you have to have an incredible amount of patience and you have to have money.* ***And right now, it's hard to get money. The risk appetite of investors has been gone for many, many years.*** *If you are not one of the chosen few you can't get money. You sit on the sideline and wait. In the past,* ***more than half of the new discoveries have been made by junior companies.*** *But they haven't had any money now for like 10 years.* ***So how are you going to find anything if you don't fund the junior companies?***

Despite the universal loathing and lack of interest in gold-mining shares, the industry has unique attractions. Lassonde elaborates as follows:

"It's the only industry, with the oil and gas industry, where one single drill hole can create a billion dollars of wealth—and [Franco-Nevada] has done it three times. That's why they call me lucky Pierre. There is an old, old saying in the mining business: the best place to find gold is beside a gold mine. Because if Mother Nature created a gold deposit in one place the odds are very good that if you just go along this structure you are going to find more. **And that's exactly how we do it.** When we bought back Franco-Nevada from Newmont Mining in 2007, we paid $1.2 billion for the company and we had around 17 million ounces of gold reserves and 20 million ounces of resources. The next ten years down the road we produced around 17 million ounces of gold. And today we have 29 million ounces of reserves out of the same land and approximately another 30 million ounces of resources. That's the tremendous power of optionality and **that's how you make money for shareholders."**

Meanwhile, a battle royal continues to suppress the price of gold and prevent it from breaking out from its long-term base. The volume of trading in "paper gold" has been monumental in recent months, but consistent with years of manipulation. Anyone who follows the gold market sees the obviousness of all this activity—and yet the regulators remain silent and on the sidelines. One can't help but recall the famous LIBOR rigging scandal.

Central banks, of course, do not want gold to trade freely and signal that inflation is heading higher. (For what it's worth, at 3.14% in March, the New York Fed's UIG is at its highest in over decade.) Central banks do not want the market to render judgment on all their money printing. **Anything that challenges the ability of central banks to print money out of thin air is considered an existential challenge.** Is it a coincidence that BTC peaked exactly as its futures contracts—which allow a synthetic unlimited supply of the cryptocurrencies—started trading? (See the December 7, 2017 *WILTW*, "Gold, bitcoin and the U.S. dollar: A contrary view".)

Markets yearn to be free!

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