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Bruised gold miners start hedging output, in a limited way

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- * Gold miners sell production up to a year forward
- * Long-term hedging still seen with suspicion
- * Hochschild, Detour, Petropavlovsk among the hedgers

By Silvia Antonoli and Clara Denina

LONDON, March 14 (Reuters) - Increasing numbers of gold miners, battered by last year's drop in bullion prices, are selling planned output forward to help shore up their finances for stormy times, but these hedges are only for the short term.

Large miners and their shareholders typically rail against the practice of forward sales because locking in prices ahead of production closes off opportunities to benefit from a rise in the metal's value.

That was particularly pertinent during the 2001-2012 gold bull run, when prices swept from around \$260 an ounce to a record \$1,920.30 in late 2011.

But last year, a 28 percent dive in bullion prices caught producers by surprise, putting balance sheets under stress.

Now some miners are warming up to the idea of selling a portion of their gold a few months forward at a fixed price, banking and industry sources said, and investors seem to agree.

"I see a short-term hedge as a weapon in the arsenal of a financial director to protect the company and generate some short to medium-term security," said Markus Bachmann, manager of precious metals and global resources funds at Craton Capital.

"In a gold price environment that is a little bit shaky, as it was in the last six to eight months, you need certainty. So we say: fine. We accept that, as long as you don't lock in too much production for a long period of time."

London-listed Hochschild Mining Plc and Canadian miner Detour Gold, for example, announced this year they would open new hedges, mostly to help finance new projects and pay off debt.

Heavily indebted Petropavlovsk, one of the very few companies to put hedges in place before the price collapse last year, said it would continue to do so while prices remain volatile.

"We decided to hedge around 50 percent of the yearly production ... It is all short-term hedging lasting about one year," Petropavlovsk Chief Executive Peter Hambro told Reuters.

"Once you have built your hedge book, it is really not that different than selling spot ... it does mean that you have a degree of certainty over the next financial year that makes running the company easier."

Russia's biggest gold miner, Polyus, is also looking at using this instrument to control its balance sheets more tightly, industry sources said. Polyus declined to comment.

Cash-strapped producers, after years spent pursuing growth at all costs, last year were forced to refocus on cutting costs.

Companies booked billions in writedowns, cut jobs, cancelled costly projects, replanned mines and booted out chief executives.

"The price fall last year put their margins under pressure, so miners have cut costs wherever they could," Societe Generale analyst Robin Bhar said.

"Obviously, once you have cut all those costs and you are still bleeding cash, then hedging would be a solution."

A 13 percent recovery in gold prices so far this year also has offered them a better platform from which to sell output forward.

THE "H" WORD

Mining firms stress, however, that short-term hedging is not about expressing a pessimistic view on the metals they produce.

Latin America-focused gold and silver miner Hochschild said it had decided to put in place a short-term hedge on about 20 percent of its production to cope with a particularly demanding situation. It must spend hundreds of millions to complete a project in Peru and repay a debt that expires in October.

"We have a very strong view of the upside that gold and silver offer in the long term. But is very difficult for us to anticipate fluctuations over the short term," Chief Executive Ignacio Bustamante said in an interview.

"We have a very strong capital commitment this year. So capital management and obtaining cash-flow certainty is very important for us. We feel confident that at current conditions, (hedging) has been a very positive measure for the company."

Long-term hedging is a different story.

Fund managers still say they would avoid any company involved with that, saying they buy stakes in miners to get full exposure to prices.

"Hedging is for gardeners," said Ian Williams, manager of the Charteris gold and precious metals fund.

"Our investors expect to be rewarded if the price of gold goes up. They do not want their bullish view negated by company hedging."

In December, the incoming chairman of Canada's Barrick Gold Corp, the world's biggest gold miner, told reporters he would look seriously at hedging.

The company later said it was not looking to hedge, because it expected a sharp gold price increase in coming years.

"Hedging is still a dirty word," Bhar said.

"CEOs get a hard time from investors when they talk about it. But if you can do it in an intelligent way and don't call it hedging, then you can probably get away with that."

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