ConsMurch gold production and currency advantage

Last month the Digger provided an update on Stibium Minings acquisition of the ConsMurch mine in South Africa. Readers will recall that the mine has a resource base of more than 1 million ounce of gold and 280,000t of antimony which has a combined value of more than US$2 billion. Indeed, Stibium Mining (a company backed by the Breakaway Private Equity Emerging Resource Fund) was attracted to the asset given that this antimony resource represents the largest western world antimony resource outside of China.

In this article we provide an update on mine production as gold revenue starts to flow. However we also review the impact of the currencies and commodities. While in this case the influence of the gold price on the South African Rand is particularly important, this equally applies to other commodity currencies including the Australian dollar.

First ConsMurch revenue

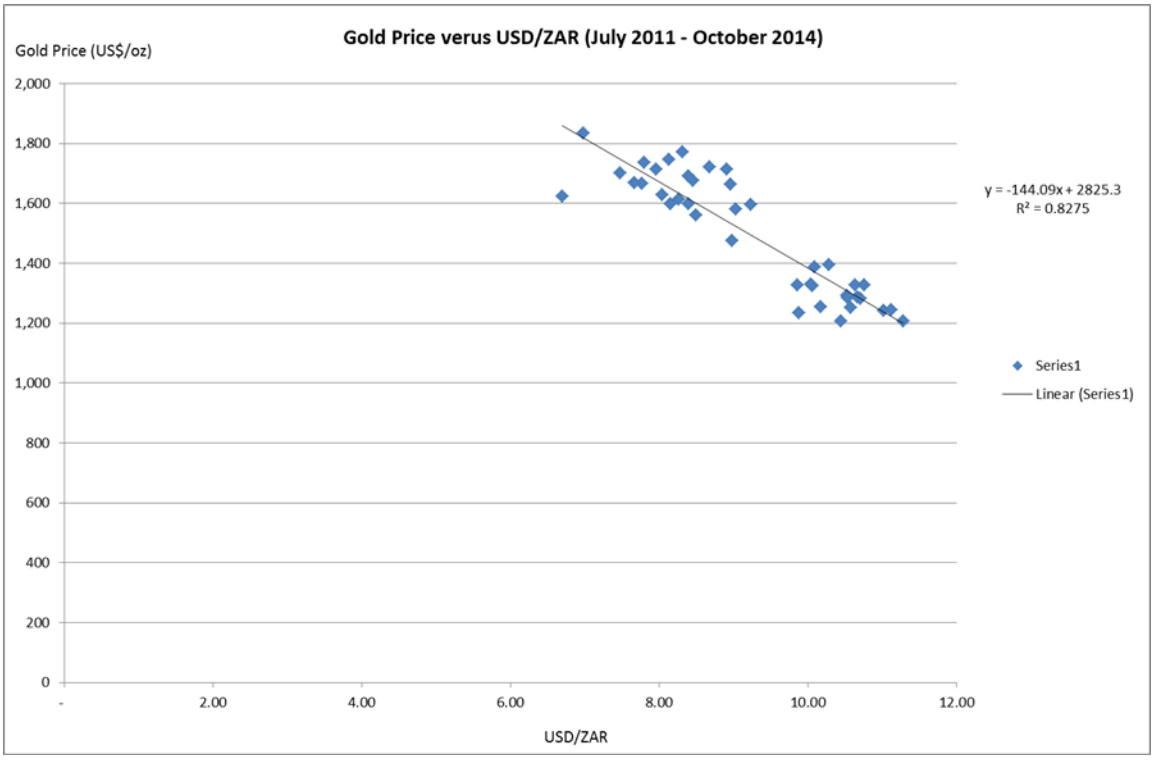
The reprocessing of the tailings is accelerating with the slurrying of the tailings prior to the entry into the plant. This follows earlier problems with the blockage of chutes due to the material 'hanging up' but the adoption of the slurrying process will mean that production will be higher than originally forecast going forward. Shipments of gold loaded carbon have been sent to the gold refinery and represent part of the 530oz Au forecast production for September.

Meanwhile drilling has commenced below the Louwskop gold project given this orebody remains open at depth. Stibium has designed a open pit to mine the first 30m depth but with the lower portion of this zone grading 4 – 5g/t and likely to continue at depth, it provides scope for increasing the ultimate size of the pit. Gold production will increase as the higher grade Louwskop ore is introduced into the plant later this month.

Rand costs and the US$ gold price

One of the advantages of operating in a country like South Africa is the linkage between the currency and commodity prices. Indeed many economists view this relationship has enabling mining operations to weather the downturn in commodity prices in commodity dominated countries including Australia.

The following chart plots the US$ gold price against the USD/ZAR (South African Rand) exchange rate. South Africa is the 6th largest gold producer in the world (Australia is No. 2 after China) and produces approximately 168t pa (5.4M oz pa) of gold per annum. Hence, as the gold price falls in US$ terms, the Rand depreciates accordingly. The depreciating rand increases Rand gold revenue and lowers the in-country operating costs in US$ terms. The exception to this are US$ denominated costs such as diesel and some reagents but these prices can soften in line with a stronger US dollar.



US$ gold price against the USD/ZAR (South African Rand) exchange rate.

We remain upbeat on the gold price as while US growth appears on track, turmoil in the equity markets means that investor confidence in the world economy is not strong. Indeed much of the turmoil on Wall Street reflects the impact of other markets, particularly China, on the strength of the US economy.

It is fair to say that the US cannot do well without the rest of the world also improving given the world consumer market for US products.

Our expectations are that the US economy will continue to grow, albeit at a slower than expected pace until there is confidence that the rest of the world can support this growth. Then the 'bet' will reverse as funds flow into the emerging economies and commodity countries including South Africa and Australia with the result that the US dollar starts to depreciate.

As we experienced in 2003 to 2008, this is when the gold price (and other commodities) increase and it is then time to capture the returns after listing companies like Stibium Mining!

Mining tailings for re-processing.

Positioning the drill rig at the Louwskop project prior to set up and commencement of diamond drilling.