Could 'gold price protection' become an unlikely 'thing' amid current strong pricing era?

Pantoro decision may prompt others to consider … or not

Original article, published by Michael Quinn – Mining News – 9 October 2024

Will the "gold price protection facility" unveiled this week by growth gold miner Pantoro prompt others in the sector to consider their positions amid what has been a strong recent gold price environment?

To recap, Pantoro's 2:1 put-to-call ratio moves provide protection for 24% of production at 100,000 ounces per annum (at A$3500/oz), while the call option value ensures that only 12% of production has its upside limited by the trade.

The current plus-US$2600/oz gold price (A$3900/oz) compares to US$1600/oz two years ago and circa $1200/oz in September 2018.

While consensus continues to very much favour a strong gold price at present, there are arguably one or two potential counters.

One is the so-called ‘no-landing' call now doing the rounds after strong US jobs data at the end of last week.

The thinking here is the US economy is doing very well, and as such, there is potentially less need for further rate cuts by the US Fed — counter to previous expectations.

Hence a negative for gold.

In the shorter term, a potential challenge is the stimulus noise out of China last week.

Could that see gold-buying Chinese investors move away from the precious metal and back into the smashed-down stocks and property sectors?

In any case, Lion Selection CEO Hedley Widdup notes investors have been signalling in recent years they are more than happy to take on gold price risk and target the leverage inherent in unhedged miners.

Still, Widdup also sees a place for "prudent" hedging in cases where companies are going into a capex period.

Along similar lines, analyst Paul Howard at Canaccord pointed to non-hedgers such as West African Resources, Emerald Resources and other debt-free established producers "who have done really well … and don't have a need to do (hedging)".

Sean Russo of risk advisory Noah's Rule also expects the standard reasons for hedging to continue.

"My view is those who build new projects will keep using hedging to support gearing, and those with debt or big future development plans will probably also look to do it on a regular basis," he told *MNN*.

But he also pointed to plenty of background activity in the junior space, where companies were eyeing the strong gold price and potential modest-sized developments.

"We are seeing a great deal of interest in buying puts for the smaller guys who want to do ore sales or toll treatment arrangements."

Russo applauded Pantoro's "price protection facility" decision (with Noah's Rule not involved in the deal).

"I think it makes enormous sense," he said.

"The 1:2 collar is a good product … twice the cover for half the commitment."

Overall, it feels most unlikely a broad take-up of ‘price protection' by the gold sector will be seen in a current environment where the precious metal looks to continuing apace on a one-way street heading north.

Still, sudden changes in circumstances dot market histories.