

New dawn for gold miners in 2016?

Gold's allure may be back among investors after years of being shunned and \$50bn of outflows from gold ETFs. Fresh turmoil in markets have seen investors return to gold ETFs as the metal prices rebound along with that of the companies that mine it.

- Investors have rushed to gold ETFs with \$778m of inflows so far in 2016
- Gold price surge beats major equity indices and sends shorts covering positions in miners
- Randgold Resources leads the FSTE 100 as miners rise following four years of pain

Shining into 2016

Gold prices more than tripled between 2006 and 2011, peaking at \$1889/oz as investors pushed prices higher and hedged against inflation and falling markets in the aftermath of the financial crisis. Inflation turned out to be a bit of a paper tiger however and gold went on to shed almost half its value (in Dollar terms) as investors sold off their gold holdings.

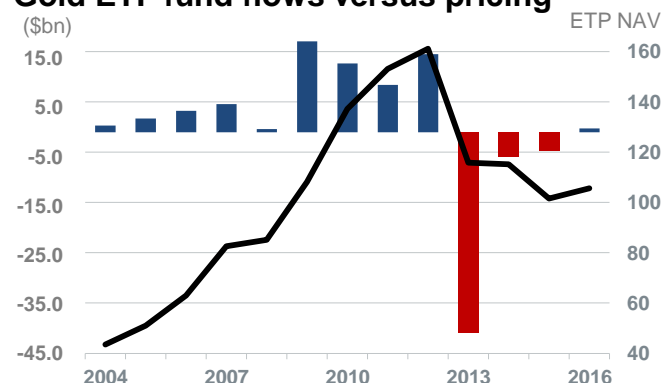
Increased market volatility that unseated equity markets in the opening weeks of 2016 have seen commodities stage a bit of a comeback, evidenced by the recent uptick in gold prices. In fact, gold is currently outperforming most global equity indices off the starting gate.

Instrument name	Year to date	11/01/2016	01/01/2016
		Price	Price
Spdr Gold Trust	3.2%	105	101
Spdr S&P 500 Etf Trust	-2.5%	199	204
Ishares Msci Brazil Index Fund	-3.7%	20	21
Ishares Core Ftse 100 Ucits Etf (Dist)	-5.0%	586	616
Ishares Msci South Africa Index Fund	-5.0%	44	47
Lyxor S&P Asx 200 Etf	-5.5%	35	37
Lyxor Ucits Etf Cac 40 (Dr) D-Eur	-6.2%	43	46
Lyxor Ucits Etf Ibx35 (Dr)	-6.7%	88	94
Nomura Nikkei 225 Index Linked Listed Investment	-6.8%	18190	19520
Lyxor Euro Stoxx 50 (Dr) Ucits Etf D-Eur	-7.8%	30	32
Hang Seng H-Share Index Etf	-8.1%	89	97
Ishares Dax De Exst	-8.5%	87	95
Ishares Ftse/Xinhua A50 China Tracker	-9.4%	10	11

The underperformance in equities has been widespread with less than 2% (only five individual stocks) of the FTSE 350 managing to outpace gold's performance year to date.

The metal's revival has not gone unnoticed as gold ETFs have managed to attract inflows of \$778m. This comes on the heels of three years of sustained outflows for the prior three years totalling \$49.3bn.

Gold ETF fund flows versus pricing

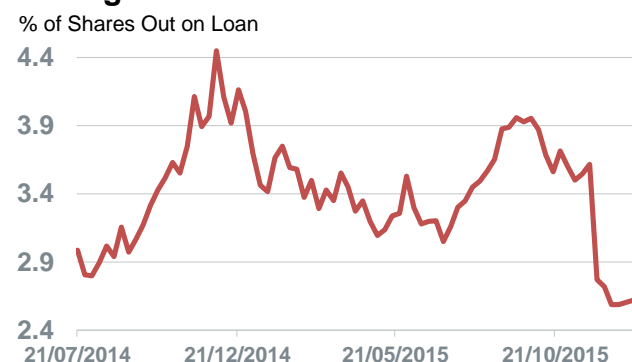


Source: Markit

Shorts flee as gold bugs return

Resurgence in appetite towards gold has also seen sentiment towards its miners improve. Average short interest across global gold miners, with at least \$100m in market cap, has fallen sharply recently, down by 21% to 3.6% of shares outstanding since early 2015. This contrasts with the average short interest of the S&P 500 which is at the **highest level seen** in over three years.

Average short interest



Source: Markit — Global mining companies <100m market cap

However, some gold miners are still attracting the short sellers, with North American firms attracting the majority of concentrated short trades. This could be as a result of the stronger dollar not benefiting North American operating or exposed firms who are unable to leverage the impact of the stronger dollar in conjunction with higher metal prices.

Top 10 Most Shorted: Gold Mining (11 January 16) 7

Name	Ticker	Short Interest	over Month	YTD price change	1YR price change	3YR price change
Seabridge Gold Inc	SEA	15.2	-2%	2%	2%	-33%
Coeur Mining Inc	CDE	9.9	3%	-4%	-61%	-90%
Zijin Mining Group Co Ltd	2899	8.7	1%	-4%	-20%	-37%
Orocobre Ltd	ORE	7.8	63%	3%	-18%	62%
Iamgold Corp	IMG	7.5	6%	11%	-42%	-80%
Regis Resources Ltd	RRL	7.0	48%	3%	17%	-52%
Mcewen Mining Inc	MUX	6.8	7%	12%	-1%	-68%
Harmony Gold Mining Company Ltd	HAR	6.1	-13%	51%	-25%	-65%
Franco-Nevada Corp	FNV	5.9	-9%	7%	5%	23%
B2Gold Corp	BTO	5.8	29%	-14%	-51%	-69%

The most shorted gold miner globally is Seabridge Gold with short interest rising 60% in the last 12 months and shares outstanding on loan reaching 15.2%. Seabridge is an explorer and developer of gold resources, who then sells or enters into joint ventures for mine construction and operation.

Seabridge Gold Inc



Seabridge's share price has rallied by 112% in the last 12 months but is in fact down by two thirds over the past five years.

Coeur Mining Inc



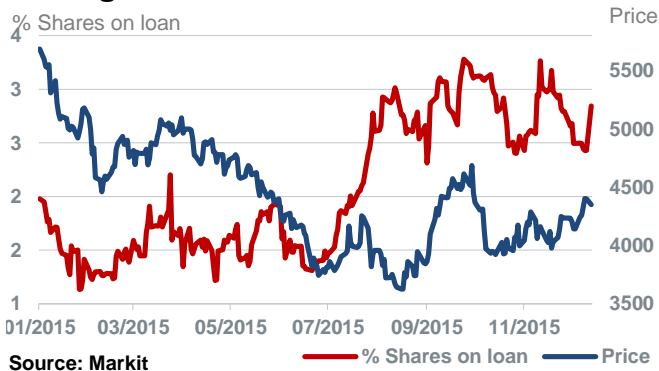
Coeur Mining is the second most shorted gold miner globally and is also the largest US based silver producer. The firm has 10.7% of shares outstanding on loan and operates mines in Mexico, Bolivia, Nevada and South Dakota with other asset interests globally. Shares in the mining company have plummeted 58% in the last 12 months.

While the rise in gold price is positive for the industry, some US based or operating mines will need higher price increases magnitudes to improve their prospects and offset the impact of a stronger local currency. On the flip side of that trend, foreign based firms are benefiting from not only gold's relative resistance to the emerging market and commodities sell off, but from the US dollars surging value.

Emerging market miners shine

One such company is the best performing FTSE 100 company year to date Randgold Resources, rising 5.9%. The operator of five mines in **Africa** has seen shorting activity double in the last six months to 2.8% of shares outstanding on loan.

Randgold Resources Ltd



Harmony Gold Mining Company Ltd



Harmony Gold has seen shares rise by a staggering 141% (in Rand terms) in the last three months with short interest rising to 6.1% of shares outstanding on loan. Benefiting from a stronger dollar during 2015 and **plummeting Rand** recently, the company is able to fetch a much **higher South African Rand** price for gold, even before the rise in dollar gold price. The stock has jumped 51% year to date.

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Relte Stephen Schutte

Analyst
 Markit
 Tel: +44 207 064 6447
 Email: relte.schutte@markit.com

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