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Gold Price Extracts Double-Digit Drop in Miners' Stock Prices

Falling equity prices make it more costly for companies to raise cash on stock markets just as many are looking to pay down debt

The falling price of gold pushed bullion producers' stocks to double-digit losses Monday, further hurting a sector that has cut costs, trimmed production and sold assets to win back investors.

On Monday, gold fell 3.1% at $1,096.60 an ounce, a 41% decline from its peak in September 2011. Analysts say that any price below $1,100 an ounce will really sting, as that is the break-even cost for many miners.

Since the price of gold started falling in the autumn of 2011, miners have slashed exploration and capital spending significantly, and many have moved to sell less-profitable assets to raise cash.

That means producers "really don't have a whole lot of options available to them in this environment," said Ron Stewart, an analyst at Macquarie Capital Markets Canada Ltd. "The low-cost operators will survive…. The higher cost miners will be financially stressed by this," Mr. Stewart said.

Gold has been weighed down by lower-than-expected demand in China and a rise in the U.S. dollar amid expectations of higher U.S. interest rates. Like many commodities, it is priced in dollars, making it more expensive for overseas buyers when the greenback gains in value.

On Monday, some of the biggest names in gold mining sustained some their steepest one-day declines in years. Barrick Gold Corp. **ABX -4.67 %** tumbled 15.7%, Newmont Mining **NEM -2.19 %** dropped 12.2% and Goldcorp Inc. **GG -3.43 %** fell 12.3%.

As measured by the Market Vectors Gold Miners Index, the gold sector index has fallen 23% year to date and is down almost 40% from this year's high in late January.

Falling equity prices will make it more costly for gold miners to raise cash on stock markets just as many are looking to pay down large debt loads. In the first half of this year, improving gold prices encouraged miners to raise $2.84 billion through share sales, a 63% increase on the year before, according to data provider Dealogic.

The volatility and lower valuations also have made it harder to sell assets, another way for miners to raise money. Since 2012, Barrick, the world's largest gold miner by production, has raised $2.15 billion through sales.

Miners of iron ore, copper and other metals have taken a wallop this year from softer demand around the globe, especially in China, as well as oversupply, led by iron ore miners in Australia. Over past 12 months, both the S&P/TSX Global Gold Index and Global Mining Index are down just under 30%.

But gold, because of its detachment from normal macroeconomic forces, has been especially volatile. In the past three months, gold is down 17% while the overall mining index has fallen just 11%.

With gold miners reducing costs since 2011, analysts wonder whether they can cut more without closing mines.

Newmont of Greenwood Village, Colo., said its all-in cash cost fell to $849 an ounce in the first quarter of 2015, from $1,034 a year earlier. For the full year, it projected a rise in costs to between $960 and $1,020 an ounce.

"Operationally, I can't imagine there's a lot of cost-cutting left," says Kris Inton of Morningstar Inc.

Part of the decrease can be attributed to the lower oil price, but much of it is due to layoffs, fewer equipment purchases and other cost cuts.

On Monday, Newmont didn't return a call seeking comment.

Analysts say that $1,100 an ounce of gold is a key level for gold miners.

"We are stepping into dangerous territory, in terms of cash flows," said ***Pawel Rajszel***, an analyst at ***Veritas Investment Research.***

Miners worry about the effects of the slump further down the line. Amid the cost-cutting, exploration has taken a particularly big hit.

Globally, the sector's exploration budget shrank to $11.4 billion in 2014, roughly half the $21.5 billion earmarked in 2012, according to a report by SNL Metals & Mining.

During the last major slump in the price of gold in the 1990s, miners cut into exploration and spending on new projects leading to the current fall off in the quality of gold ore mined, according to Sean Boyd, chief executive at Agnico-Eagle Mines Ltd, one of the world's largest gold miners. Lower grades are more expensive to mine because miners have to process more rock to get the gold.

"Most of us have lived through the 1990s, when gold hit $250," Mr. Boyd said. "Our No. 1 rule is don't panic."

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