# The Economics of ARUN Minerals Operations

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From the website, www.ingoldwetrust (accessed 27 March 2014), we find the formula for the Chinese gold market to be:

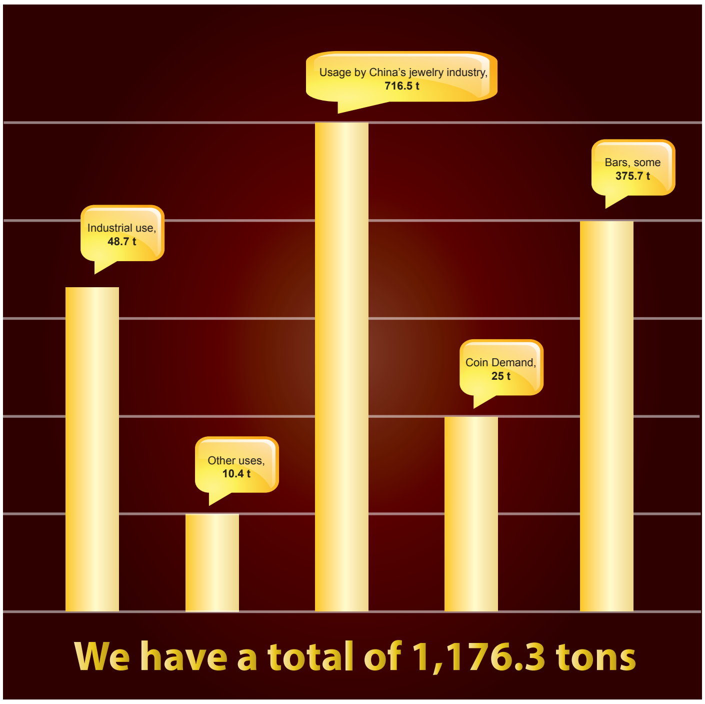
**Total (wholesale) Demand = Total Supply**

Demand is made up of the following components: **Consumption, Export** and a **Residual** entry (which in other sites is a balancing item, here cited as net investment, or individual account holders at the SGE withdrawing physical gold).

In 2013, consumption accounted for **1,176** tons; gross export, **373** tons; and the residual, some **640** tons, a total demand of **2,189** metric tons.

The total demand estimate above of 2,189 t appears to confirm Liu Xu, of Capital Futures Co., Beijing, which proposed that China's demand most likely exceeded the popular estimate of 1,400 tons in 2013 because the latter figure probably did not include government purchases, and buying by financial institutions (www.bloomberg.com. Accessed 27 March 2014).

The website, www.bloomberg.com, also provided the following information on the composition of consumption demand:




In 2013, China overtook India as the world's largest consumer of gold, the quantity consumed we saw from the previous sections. That is the most gold ever demanded annually by one country's consumers. "You've seen an expansion in the number of businesses selling gold, both at an investment and jewelry level," says Grubb, ". . . in Shenzen and in manufacturing zones." (www.ibtimes.com. Accessed 27 March 2014)

Chinese consumers also often hoard gold, according to Ed Moy, chief strategist for precious metals seller Morgan Gold, and are unwilling to relinquish it, even if prices fluctuate (www.ibtimes.com. Accessed 27 March 2014) He also claims that: “The Western focus is a lot more now on electronic derivatives and paper gold. The East is focused a lot on physical gold itself.” He continues that also driving the demand for gold coins are the individual buyers who may not have the capacity to buy the 400-ounce gold bars of gold, about half a million bucks each, but go instead for the bullion coins.

In China, likewise, gold is the investment of last recourse for an increasing number of the wealthy. “As . . . the equity market underperformed, (and) the government discouraged investments in the real-estate sector.., more of the growing wealth is looking to gold as a means to store value.” (www.bloomberg.com. Accessed 27 March 2014).

In 2013, furthermore, much of the demand surge is explained by weak gold prices. They plunged to lows abruptly in April and June 2013 (an annualized drop of 28 percent in price in 2013), its worst showing since 1981, but which meant that Chinese consumers snapped up physical gold at bargain prices. (www.dnaindia.com. Accessed 27 March 2014)

Thus: “There may be up to 300 tonnes now sitting in (as) inventory and stocking chain in the Chinese system, with banks, fabricators, jewellers, wholesalers and dealers.” Or so claims the site, www.ibtimes.com.

In 2013, the composition of supply is as follows:


That is a total supply of **2,140** tons. Note that the total demand was estimated to be **2,189** tons.

Two economic issues become obvious from the data: first, total demand exceeds total supply; second, domestic mine production in 2013 made up only 19.6% of total supply, that in order to fill up the gap between demand and local mine production the country needed to import close to 70% of its requirements.

Expect the market situation, where demand cannot be filled up by domestic production, to persist long into the future. This is so because already, China is the world’s top producer, with the largest annual increase globally for 2013. It displaced South Africa as the world’s largest gold producer in 2007.

The Chinese market situation for gold, on the other hand, can only be but good for **ARUN Minerals**. At the current peak rate of production, the open-cut mine in the Jiangxi Province contributes 400,000 ounces (or 11.34 tons) to total supply; the underground mine at the Yunnan Province adds its own 273,000 ounces (or some 7,74 tons) annually. The two other mines at the moment being rehabilitated, when operational, could be expected to yield less annual contributions.

All other things equal, even if the exploitation rates of the ARUN Minerals mines were projected to increase, still the total national demand appears to exceed supply from domestic sources for some time more. At present, the estimated reserves in Jiangxi is 3.9 million ounces (110.56 tons), 2.85 million ounces (80.8 tons) at the Yunnan site, and 1.85 million ounces (52.45 tons) in Shandong.

www.ibtimes.com, as of 27 March 2014, reports that gold opened at US$1,318 per ounce on Monday on New York's COMEX exchange, its highest since November. So long as the world price of gold improves, the more profitable the ARUN Minerals operations become so long as ARUN Minerals is able to maintain its current costs.

Both in Jiangxi and Yunnan, for example, given the estimated cost per ounce of US$683, the current profit is US$635/ounce. If both mines can enhance their productivity from the current recovery rate of 4.675 g/t of ore, their respective profitability can be further improved. Because the recovery rate in the prospective mines is lower at 1.876 g/t, the profitability there may be expected to be lower in the future.

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