

# Investors beware!

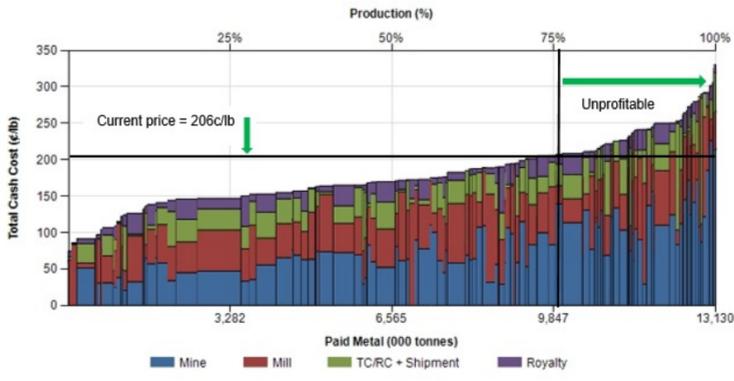
## Production costs should not be your only investment guide

Investors who are keen on investing in a particular commodity should not assume that, if a company's cost of production is lower than the commodity price, it is a profitable venture.

Such was the case with many investors in the platinum and gold sector historically, and investors who continue to make the same assumption about other commodities do so at their peril.

Venmyn Deloitte MD Andy Clay warns that investors into the copper sector, for instance, may be viewing the total cash cost curves of producers as favourable when examined against the copper price.

Total cash costs for copper as a primary product and by-product (as measured in c/lb by research company SNL) vary from 74.5c/lb for Freeport McMoRan Inc's Chino SX-EW project, in the US, through to 330.4c/lb for Aditya Birla Minerals Ltd's Nifty Project, in Australia, with a host of producers' cash costs between these two values, as can be seen in the diagram below.



Figures pre-2014 are based on reported/actual data where available. Figures between 2014-2040 are based on SNL's estimates and forecasts. All forecasts for prices are in constant 2014 dollars (e.g. wage rates, electricity prices, reagent or fuel costs and metal prices).

The current copper price is 206c/lb, after showing a marked downward price trend since February 2011 (as illustrated by the INet Bridge copper price graph below), and this has suggested, at first glance, that at least some copper producers are profitable (as illustrated above).



However, while the potential total cash costs for copper include labour, energy, reagents and other onsite and offsite costs, they do not include exploration charges, depreciation, capex and the cost of debt. This was the same in gold until Dave Davis exploded that myth and gold companies started to report "all-in-costs", which included everything, rather than the "all-in-sustaining-costs" that they had previously.

"While many investors into the platinum and gold sectors found out this principle too late, it is hoped that investors in other commodities, including copper, let this principle direct their investments," Clay advises.

"The world cannot do anything without copper but, until low-grade deposits are taken out of the market, and a rational approach to supply and demand is established, the market cannot recover," he says.

To comment on this issue, go to Venmyn Deloitte's [Facebook](#) and [Twitter](#) pages.

### Cape Town and Johannesburg Mining Events in 2016

- Venmyn Deloitte's Andy Clay, Tarryn Orford and Chris de Vries will be arranging meetings at the Waterfront in Cape Town, South Africa, during the Mining Indaba that runs from the 8th to the 11th February 2016. Please email [Venmyn Deloitte](#) to arrange to meet with them.
- Venmyn Deloitte is hosting an after-work drinks event in March 2016 to publicise its metal accounting and environmental sustainability service lines. If you are keen on exploring these topics, please email [Venmyn Deloitte](#) and receive an invitation to attend this event in Johannesburg, South Africa.
- Deloitte is pleased to announce the launch of [Tracking the Trends 2016](#). Now in its eighth year, this edition explores not only familiar themes, but also ancillary concerns miners must take into account if they hope to navigate an increasingly uncertain future. Once again, Deloitte draws on the experience of Deloitte's global mining professionals to help identify the questions miners must ask—and suggests answers.

Kind regards,  
Andy Clay

### Also read...

[Tracking the Trends 2015](#)



[Mining through Innovation](#)



[South African Restructuring Outlook Survey Results 2015](#)



#### Contact:

Tel: +27 (0)11 517 4205/6  
Office Hours: 7am - 5pm (GMT+2) Monday to Friday

[venmyinfo@deloitte.com](mailto:venmyinfo@deloitte.com) | [venmyndeloitte.com](http://venmyndeloitte.com)

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see [www.deloitte.com/about](http://www.deloitte.com/about) for a detailed description of the legal structure of Deloitte Touche Tohmatsu Limited and its member firms.

Deloitte provides audit, tax, consulting and financial advisory services to public and private clients spanning multiple industries. With a globally connected network of member firms in more than 150 countries, Deloitte brings world-class capabilities and high-quality service to clients, delivering the insights they need to address their most complex business challenges. The more than 200 000 professionals of Deloitte are committed to becoming the standard of excellence.

This communication contains general information only, and none of Deloitte Touche Tohmatsu Limited, its member firms, or their related entities (collectively, the "Deloitte Network") is, by means of this communication, rendering professional advice or services. No entity in the Deloitte Network shall be responsible for any loss whatsoever sustained by any person who relies on this communication.

© 2014 Deloitte & Touche. All rights reserved. Member of Deloitte Touche Tohmatsu Limited

To no longer receive emails about this topic please reply to the sender with the word "Unsubscribe" in the subject line.

