

[Home](#)**Gold Price News**

- [Gold Bar Demand "Only Normal" Despite Global Risks, Silver Investment Rising on 31st Anniversary of Hunt Brothers' Bust](#)

[More...](#)**Gold Presentations**

- [Why Buy Gold? And How...](#)
- [Hyperinflation & Gold](#)

**Gold In Depth**

- [Gold Value: "Where to Now?"](#)
- [Gold Buyer's Checklist](#)
- [The Case for Silver](#)
- [VM Group: The Yellow Book](#)

**Gold Articles**

- [View from the Vault](#)
- [Gold Price News](#)
- [Investment News](#)
- [Gold in History](#)
- [Gold Books](#)

**Gold News Archive**

- [March, 2011](#) (58)
- [February, 2011](#) (61)
- [January, 2011](#) (70)
- [December, 2010](#) (53)
- [November, 2010](#) (68)

[More...](#)**Yukon! Gold Mining to Strike Gold - 16 October 2010***Striking gold in Yukon's rich [Gold Mining](#) deposits...*

The **YUKON** region is going to be huge for [Gold Mining](#) investors next year, according to [Hard Rock Analyst](#) writer [Eric Coffin](#).

"If you're playing development-stage [Gold Mining](#) juniors," he says, "you should be excited about the Yukon." Coffin certainly is.

One of the first analysts (along with his brother, David) to point out the disastrous effects of "forward-sales" hedging by [Gold Mining](#) companies, as well as gold loan capital financing, Eric Coffin here speaks to [The Gold Report](#) about the appeal of the Yukon region...

**The Gold Report:** Eric, everyone is buzzing about gold's September run to more than \$1300 an ounce. Is this a seasonal uptick, or are we finally seeing the much-anticipated flight of investors into the safe haven of precious metals?

**Eric Coffin:** It's probably both. Historically, September has been a good month for gold. But I think its recent performance is just a continuation of a 10-year trend. Dave and I have never been in the gold-at-\$5,000 camp. We're quite happy to see it at +\$1300 per ounce. I won't be too shocked if it goes higher. In the last 18 months, a couple of things have happened that are significant. One is that central banks (CBs) are pretty much out of the picture on the sell side. They've been doing some buying but mostly from each other or the International Monetary Fund (IMF). A central bank (CB) selling agreement has been in place for 10 years, limiting collective sales to 400–500 tons per year. Last year, they sold a quarter of that and this year CBs have sold basically none. That takes about 10% off the supply side of the market, so it's significant.

Mine supply is always an issue. A lot of people think gold will fall off the hillsides at \$1000, \$1200 or \$1300 per ounce. But life is not so simple in the mining business. With these prices, you'll start seeing an increase in mine supply; but so far, it really hasn't accelerated much. What's filled the gap, as much as anything, has been scrap – the Dollars-for-gold programs and such; but it appears those sales are starting to flatten out. That could also be significant. If scrap sales went flat or actually dropped, the [Gold Price](#) could go up relatively quickly. But we're not betting on it. We've seen just one quarter's worth of data that suggests it's slowing down. We have seen comments from those that follow scrap sales closely, and they say sellers have lifted their target prices. When gold fell back to \$1200 midyear, scrap sales apparently dried up quickly. This, too, is supportive of prices.

**TGR:** So, you're evaluating the [Gold Price](#) based on the supply/demand fundamentals alone. You're not really factoring fear into the equation.

**Eric Coffin:** You could see a fear-based spike for any number of reasons. While you could trade bullion with that in mind, you can't time stocks that have their own schedules for information flows against it – so we don't bother trying. I think the world has changed when it comes to precious metals. One group of investors/traders is [Buying Gold](#) based on fear; a just-in-case purchase. Most bullion dealers sell it based on the idea that everyone should have a little gold in their portfolios as insurance in case the world goes off the rails. Another group is concerned about inflation. I think these buyers are more important now. They're worried about monetary debasement of paper currencies. That's not fear buying per se because those who buy gold as a monetary inflation hedge don't necessarily believe the world is coming to an end. In fact, many of them are worried it isn't coming to an end. They're saying: "Well, if the world economy sort of gets going again and CBs don't stop the printing presses, price inflation is almost inevitable and monetary inflation is already here."

I don't see Consumer Price Index (CPI) inflation anytime soon because there's so much slack capacity in the economy. But I can certainly understand people being worried about the printing presses. A lot of gold bugs and hard-money guys that are friends of mine are incensed at the Fed. But, if I was in Washington's situation and the rest of the world wanted to give me a 10-year loan at less than 2.5%, why the hell wouldn't I take it? The US economy is the only one I know that can have that kind of balance sheet and still borrow money at those rates. Of course, as they do that, they create more money supply. I don't know if we'll get CPI inflation, but we sure as heck have monetary inflation.

**TGR:** There's some fear now that the Fed can't pay interest on its T-Bills. Have you heard anything about that?

**Gold Book Reviews**

[The Age of Gold: The California Gold Rush and the New American Dream](#)

[Read the review](#)**Gold: Supply & Demand News**

- [India's Gold Bullion Imports Jump](#)
- [Missed Commodities? Buy Gold, Says "Britain's Buffett"](#)
- [Gold Price "Not a Bubble Below \\$2000"](#)

[More...](#)**Search Gold News****Syndicate Gold News****RSS****Similar links**

- [Oil vs. Stocks: No Difference!](#)
- [Gold Without Crisis](#)
- [You Have Been Warned](#)
- [The Fed, Yuan & Gold's New Surge](#)
- [Judging Junior Gold Mining Explorers](#)

**Contact Gold News**

[Email us](#)  
[Technorati Profile](#)

**Eric Coffin:** The Fed can always pay. I mean, they print the stuff. Although I'm a proponent of gold, I think people get a little carried away with disaster predictions sometimes. I don't see a time in the foreseeable future when the Fed's going to have any trouble with those open market operations. If something like that is coming, you'll see it in the bond and Treasury Bill markets. Rates would spike because the buy side wouldn't be there anymore. That certainly hasn't been the case; everywhere you turn, it seems like rates are lower. People are worried about the economy, and particularly the equity markets, or they got blown out of the equity markets and don't even want to think about stocks anymore. So much money pours into the bond markets that I don't think the Fed will have trouble selling its paper any time soon.

**TGR:** When you evaluate companies by some back-of-the-napkin calculations, what price are you using for gold in 2011?

**Eric Coffin:** Right now, we're using \$1000-1100 per ounce., but we don't necessarily think the price will go next year. When doing back-of-the-envelope calculations, it's a lot wiser to be behind the curve in terms of output selling price. Because of the timelines in mining, you have to give yourself a cushion. We prefer to look at situations that could, or will, make sense at less-than-current prices. We don't spend much time evaluating companies with projects that need \$2,000 gold to make money.

**TGR:** Why haven't we seen significant appreciation in the junior gold and silver stocks, given the respective runs of their physical counterparts this year?

**Eric Coffin:** Well, we certainly have in the companies we follow. I don't know about the rest of them. I think the companies we follow averaged about 250+% in the last year and a half. In the last month or so, we've seen large moves in a lot of these stocks. That's partly because we came out of the summer doldrums. The other part was widespread conviction of a looming double dip until about a month ago. Virtually everything I read from market analysts over the summer forecasted a double dip – something I didn't believe. That was holding many things back; it probably held the USD up, too. As that fear eased somewhat, the Dollar has come off and Gold Prices started to run.

The other, real price driver is mergers and acquisitions (M&A) activity. Let's face it, for 99% of the juniors out there, the end game isn't building a mine – it's being bought by a company that's going to build a mine. A fairly long period passed without much M&A. I think people got discouraged and said, "I'm not going to chase these prices higher because I don't know who I'm going to sell my stock to." But over the last month, we've seen three or four really large takeovers – and they weren't cheap. On a per-ounce basis, they were quite expensive. So, that really lit a fire under things. In the last month, we've noticed big increases in many development-level companies we follow. In addition to all of this, several discoveries have been made. The junior resource sector is a discovery- and news-driven one. Higher commodity prices alone will only do so much. Companies need to make discoveries and tell the world about them to see outsized gains.

**TGR:** While plenty of junior explorers have gone nowhere, you've seen significant appreciation in the companies you cover. What are some common attributes of those companies?

**Eric Coffin:** I'm not saying everything we've ever written up is rising. Some are; some aren't. By and large, they have done very well, in part because we focused on companies with discovery potential that did, in fact, end up making discoveries. One set we've focused on this year is of companies in the Yukon. We started covering the Yukon heavily when Underworld Resources started drilling more than 1-1/2 years ago. Now it looks like a classic area play to me and Dave. We haven't seen what we call a "classic area play" for probably 15 years. Voisey's Bay was the last one you could call a classic full-on area play, and it fizzled due to the lack of secondary discoveries.

**TGR:** Are you talking about the White Gold camp?

**Eric Coffin:** Yes and no. There are now at least two centers of discovery. One, of course, is the White Gold camp. There are a number of projects located in the central Yukon, which has different geological models than the White Gold discoveries. This has opened up a lot of prospective territory for other companies.

To drive an area play, there must be a new discovery. I want people to understand the distinction because it's important. A lot of juniors are up there working on earlier gold discoveries. Some are rising, but not nearly as much as these guys with new discoveries. You get treated a lot differently when you make a discovery versus when you go back and drill holes on something everybody knew about.

**TGR:** Perhaps you ought to explain what's involved in a classic area play.

**Eric Coffin:** Several things are required. It has to be a new discovery, the bigger –

the better obviously, and the more share-price appreciation the lead-discovery company sees, the better.

It's also important that a junior – not a major – makes the discovery. Juniors must raise money constantly to ensure tons of news flow. A major, on the other hand, will keep quiet until the deal is done and it's staked everything within 100 miles. Juniors leading the play ensure a constant flow of discovery news.

Ideally, an area play should be in a jurisdiction that requires hands-on staking. In the Yukon, companies have to go out and pound claim posts into the ground. In a "paper staking" jurisdiction, a group with deep pockets can simply apply for huge areas and freeze everyone else out. On-the-ground-staking regimes mean a broader set of companies will get involved because a staker can't be in more than one place at a time. Secondary discoveries are also quite important. That's what really drives the area play up a notch and turns it into a classic area play. You also need to find a discovery company that's building a lot of market capitalization; that tends to pull everybody else up and draw in a lot of competition, which grows the play even more.

One thing that remains unknown about the Yukon is the impact of seasonality. This winter, we're all going to find how much impact that will have on the area. In other classic area plays, such as Lac de Gras – and we think this Yukon play looks a lot like Lac de Gras – the best time to drill is in winter, even in the Northwest Territories (NWT). That's not possible in the Yukon, where there's a lot more topography and running water – a must for a drill program, is impossible to find in many areas in winter. We still don't know how five months of low news flow will impact the Yukon, but we're sure it will survive. I think the Yukon is going to be huge next year. . . it's going to be just ridiculous, and I think there'll be 100 companies up there running around.

**TGR:** Do you have any parting thoughts on the precious metals market?

**Eric Coffin:** Well, gold's had a pretty strong run. Gold and silver are not in a bubble, but the upward price trajectory has gotten steep. As we go further into the fall, I think we might see some consolidation but we're not concerned with it being particularly large in percentage terms.

It's been a much better year than most people thought it would be, in terms of both junior miner share prices and money raising. Not every stock has gone up but the access to funds, for most precious metal explorers, has been good. That means next year will also be good because a lot of companies have good projects to explore and lots of money to do it with. The activity level is going to remain quite high – maybe even higher next year. But, as we always tell subscribers – don't be afraid to take money off the table on stocks that have big price runs. It's rarely a bad idea to try to trade your holding costs down to a minimum.

**TGR:** Eric, I believe you have a special Yukon Area Play report to offer our readers, right?

**Eric Coffin:** Yes. Because of our strong focus on the Yukon and what we believe will continue to be a very strong area play, we put together a special free report. This booklet outlines the geology of the region, some companies we cover in the area that show significant potential, plus the anatomy of what makes up a real area play. Gold Report readers can access this report [on our site](#).

*[Buying Gold today...?](#)*

**The Gold Report**, 16 Oct '10



The **Gold Report** is a unique, free site featuring summaries of articles from major publications, specific recommendations from top worldwide analysts and portfolio managers covering gold stocks, and a directory, with samples, of precious metals newsletters. To subscribe, simply complete the [online form](#).

Protect your wealth.

**Please Note:** All articles published here are to inform your thinking, not lead it. Only you can decide the best place for your money, and any decision you make will put your money at risk. Information or data included here may have already been overtaken by events – and must be verified elsewhere – should you choose to act on it. Please review our [Terms & Conditions](#) for accessing [Gold News](#), [RSS links](#) are shown there.

