



Denver Gold Group
Tom Brady, Chief Economist
January 2015

Agenda

- Brief Introduction and Newmont Overview
- U.S. & Global Macroeconomic Trends
- Commodity Review
 - Gold
 - Copper
 - Oil
- China & Commodities
- Status of the Commodities Cycle



Long Canyon

Tom Brady: brief background

- 1996 PhD in Mineral Economics from CSM
- JPM Commodity Research Desk
- **1996 – 1998: Mining**
 - Newmont Mining – Corporate Development analyst
- **1998 – 2007: Energy / Oil & Gas**
 - Risk Capital Advisors
 - Arthur Andersen
- **2007 – Present: Mining**
 - Newmont Mining –
 - Treasury: Financial Risk Management
 - Investor Relations
 - Strategic Planning
 - Chief Economist

About Newmont

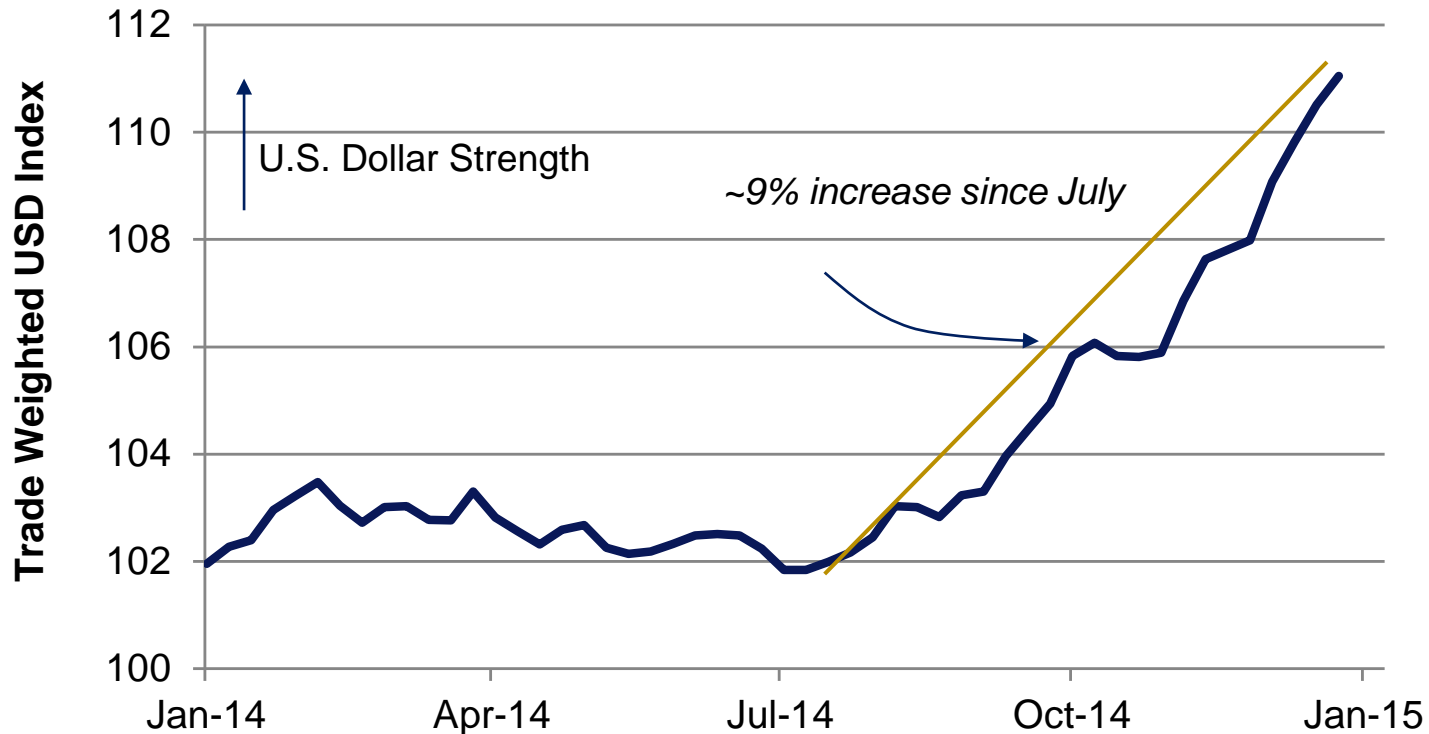
- Founded in 1921
- Second largest gold mining company by production
- ~ 30,000 employees and contractors
(was ~ 45,000)
- Only gold mining company included in the S&P 500 Index and Fortune 500
- BBB rating from Standard & Poor's;
Baa2 rating from Moody's
- Publically traded on the New York Stock Exchange since 1940 - NYSE: NEM
- Market Capitalization: ~\$9.7B



Gold pour at Gold Quarry, Nevada

U.S. dollar strengthening

Recent U.S. dollar appreciation expected to continue*

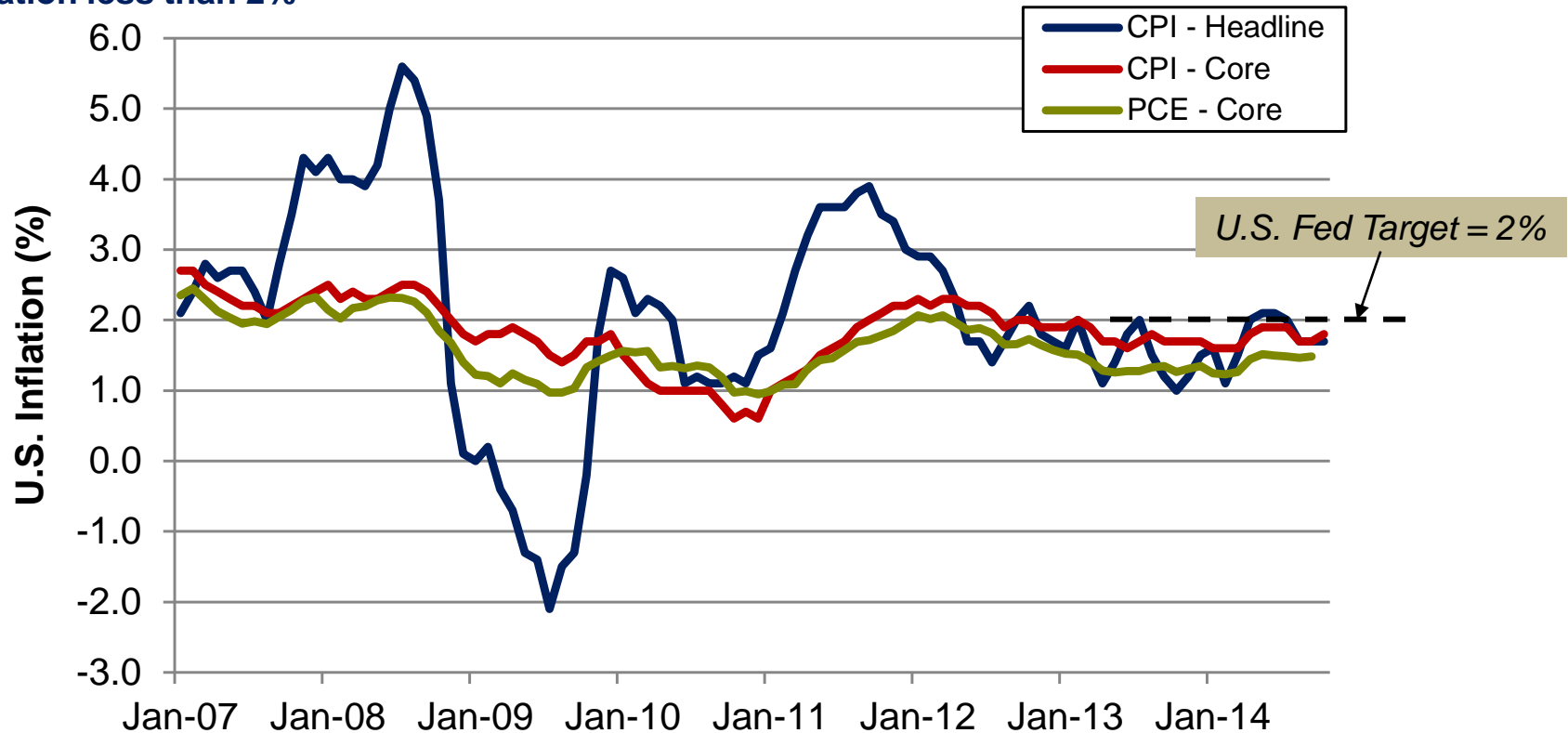


- U.S. dollar has strengthened on improved outlook for economic conditions
 - Trade-weighted index up ~9% since July
- Market expects the U.S. dollar index to gain another ~3% in 2015
 - Gold is priced in U.S. dollars and becomes relatively more expensive with dollar strengthening

* Fed Reserve Broad (Trade-weighted) dollar index: currencies weighted based on international trade (China: 20%, Euro Area: ~17%, Canada: 13%, Mexico: 11%, Japan: 7%, UK: ~3%, South Korea: ~4%, Brazil: 2%, Others: 23%)

Inflation has remained low by multiple measures

Inflation less than 2%

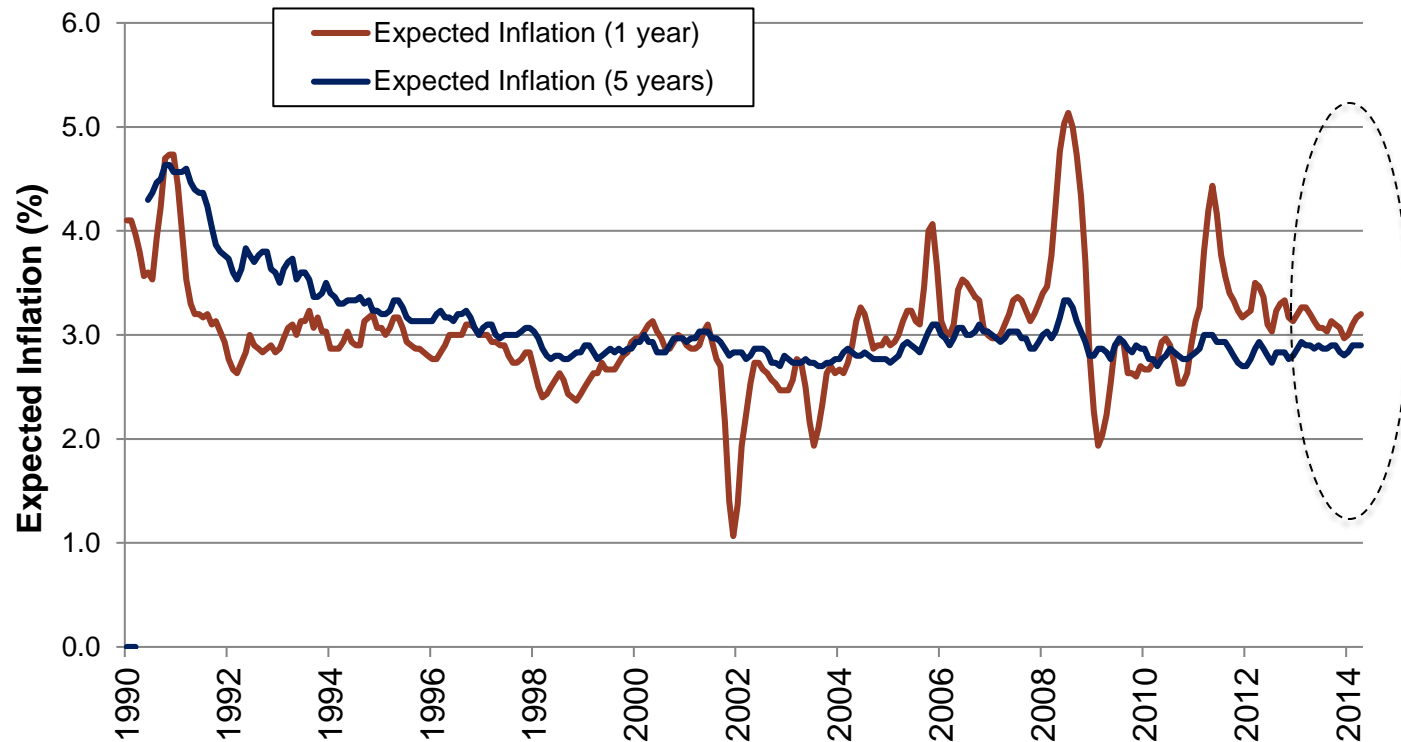


- Multiple measures of US inflation remain below Fed's target of 2%
 - Headline CPI (most often quoted): currently ~1.7%
 - Core CPI (excludes volatile food & energy costs): currently ~1.8%
 - Personal consumption expenditure (monitored by Fed): currently ~1.5%

*Source: MacroBond

Future inflation also expected to remain low

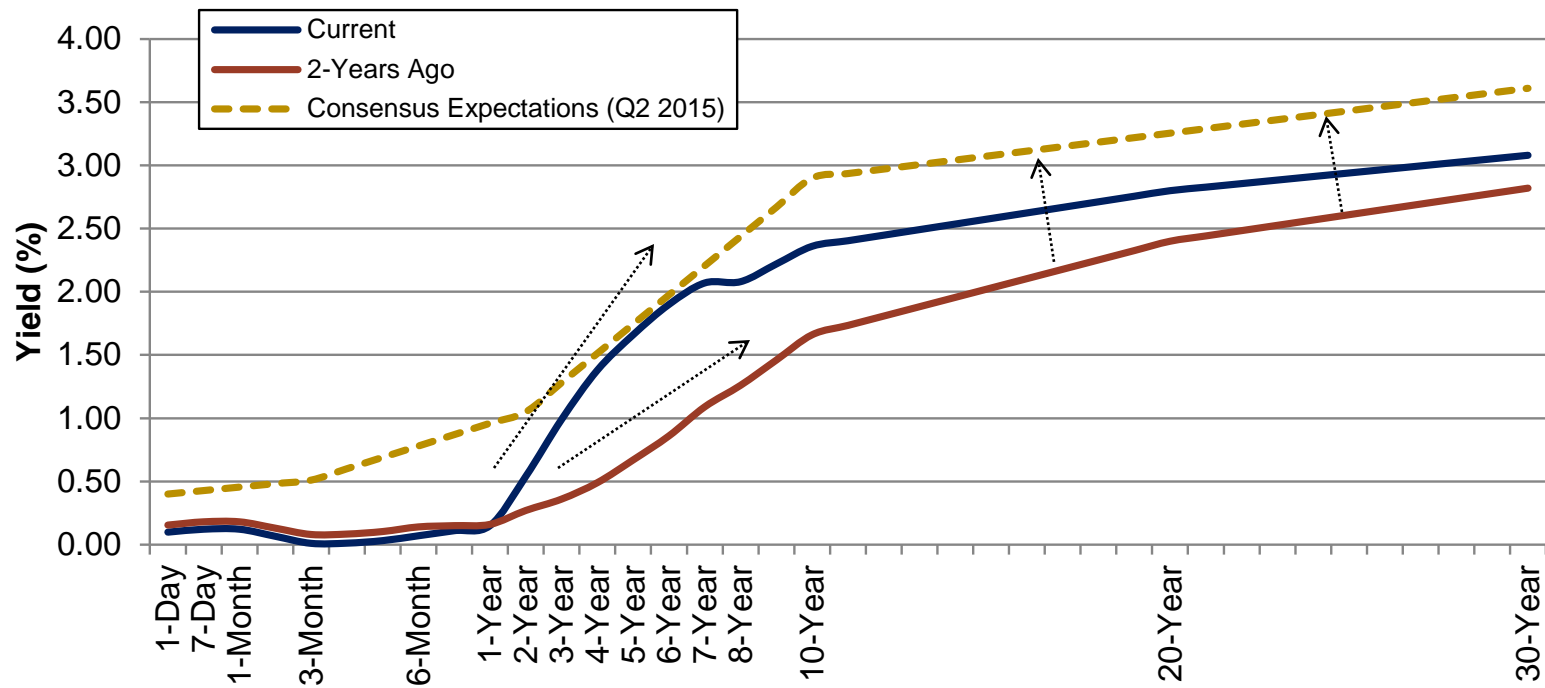
Anticipated inflation to remain muted over the next 1 and 5 years



- Expected inflation from Univ. of Michigan monthly survey
 - Median of monthly survey of ~500 households
- Median expectations are for inflation to remain ~3% over the next 1- and 5-years

U.S. yield curve has steepened and shifted upwards

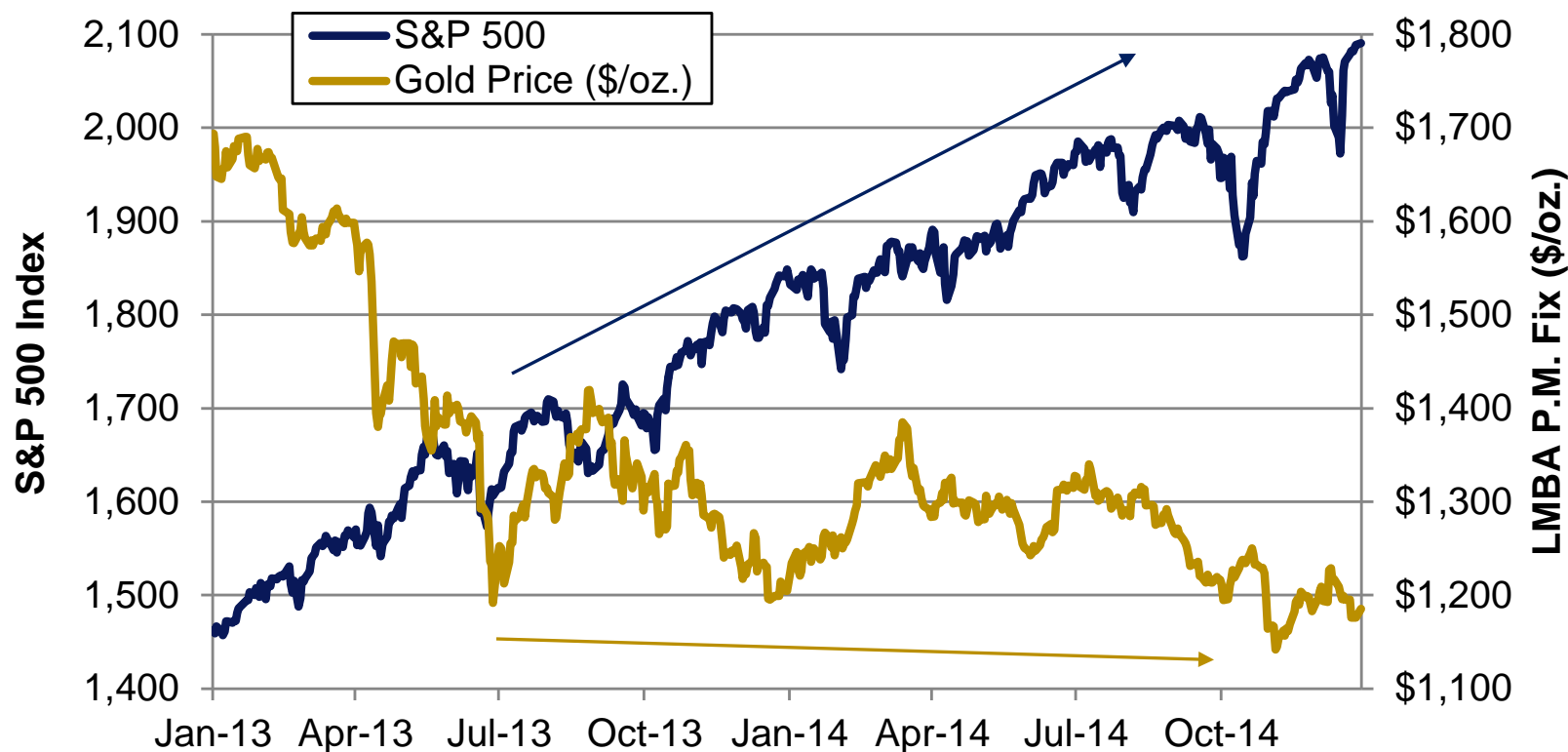
Yield curves past, present & expected



- Over the last 2 years, yields on bonds with maturities > 1-year have increased
 - Lower demand for longer-dated bonds (as U.S. Fed tapers purchases)
 - Results in lower bond prices (and higher yields)
- Yield curve has steepened
 - Signals U.S. economic expansion has gained traction
- Market expects higher rates (near- and medium-term bearish outlook for gold)

U.S. equities and gold prices

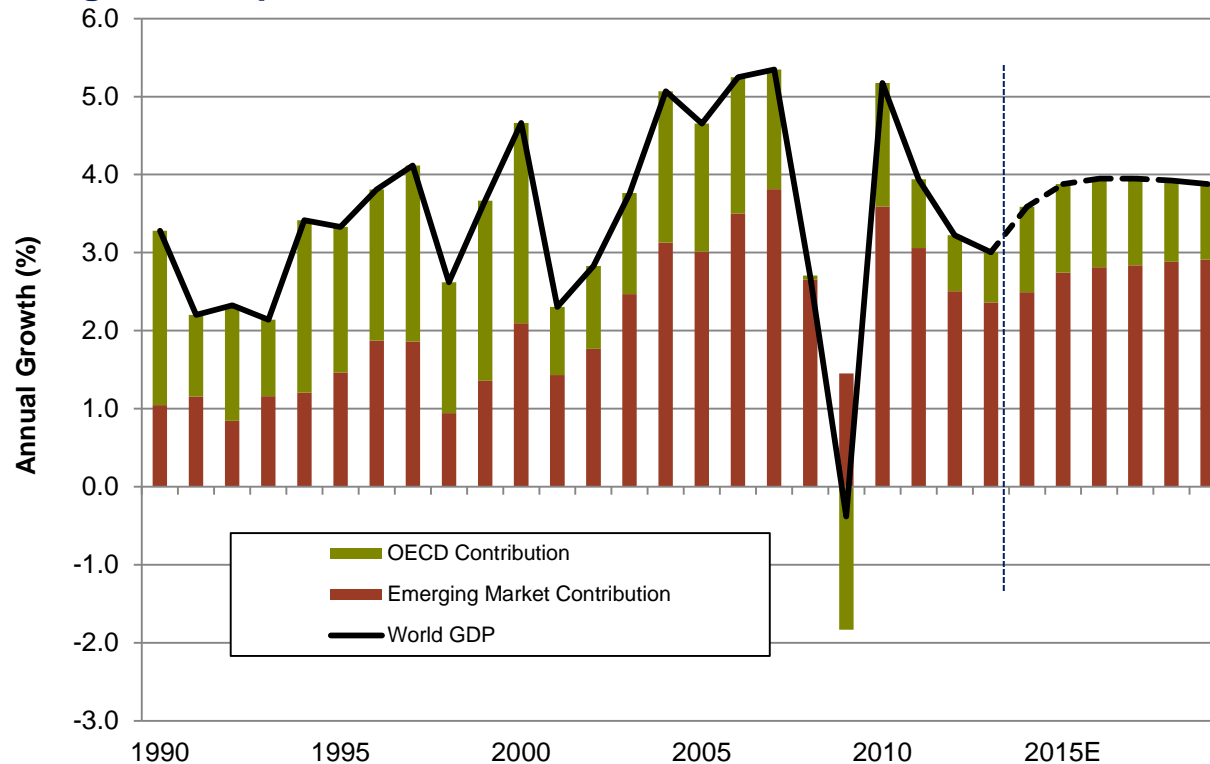
Equities trending up while gold weakens



- Since 1 Jan. 1, 2013: Gold prices down ~\$500/oz. (-30%)
S&P 500 Index is up over 600 points (over 40%)
- Low inflation and less risk aversion driving investors away from safe-haven instruments such as gold

Global economic growth recovering

Annual global growth expected to increase to 4%

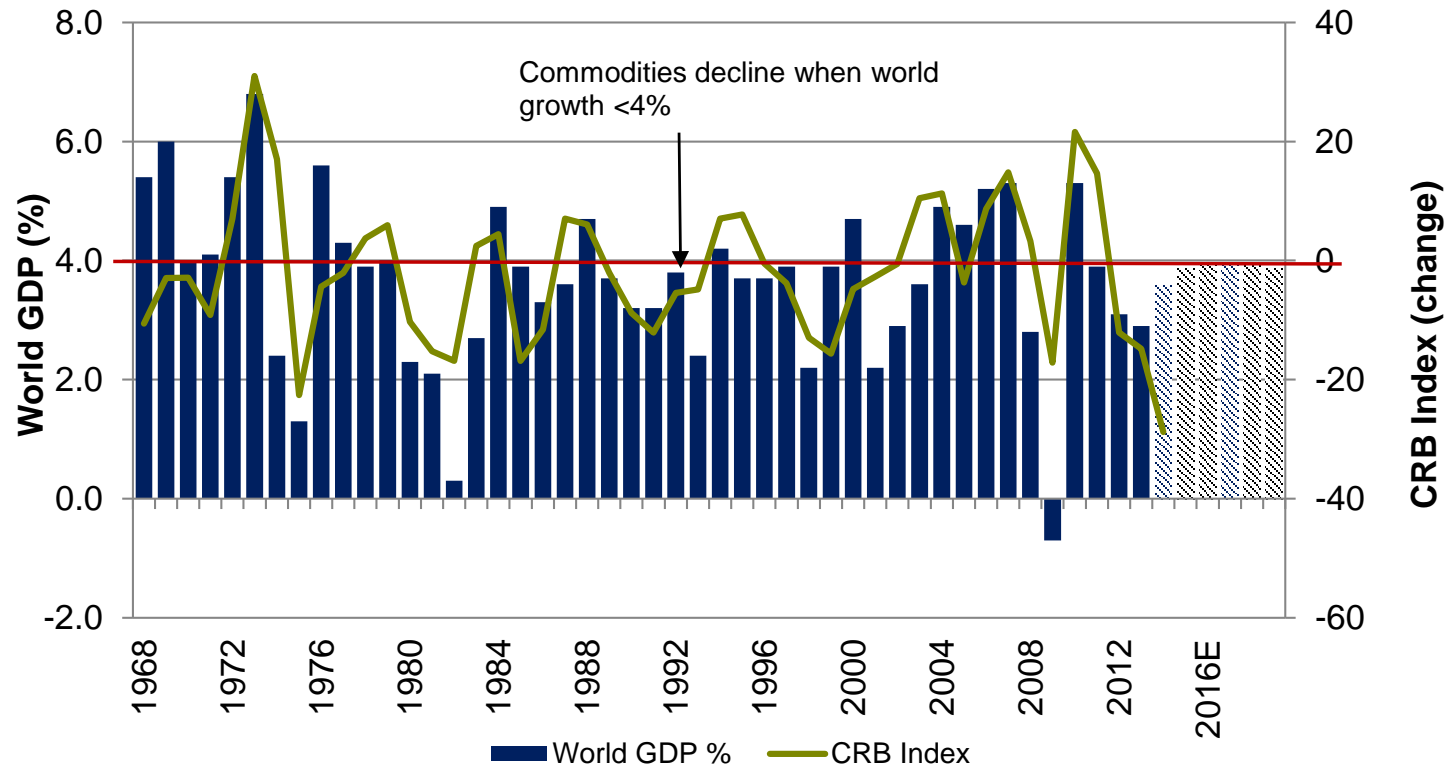


- Prior to 2001, global GDP changes generally based on OECD economic activity
- Post 2001, emerging markets have been primary contributors driving average growth of ~3.5% per year
- Global growth expected to average ~4% through 2019

*Source: IMF WEO Database

Global economic growth and commodities

Slower growth has weighed on the overall commodity sector

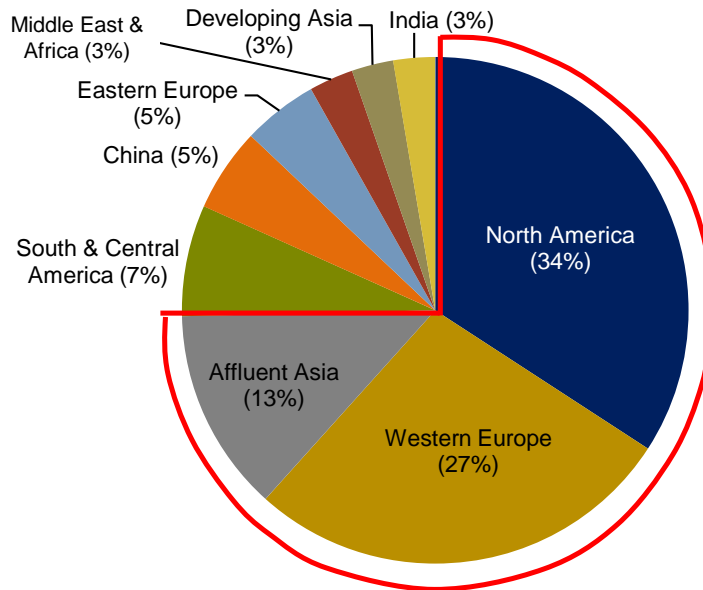


- The CRB index provides a direction of the overall commodity sector
 - Based on futures prices for a basket of 19 commodities
- In general, global economic growth < 4% results in poor performance for a broad collection of commodities

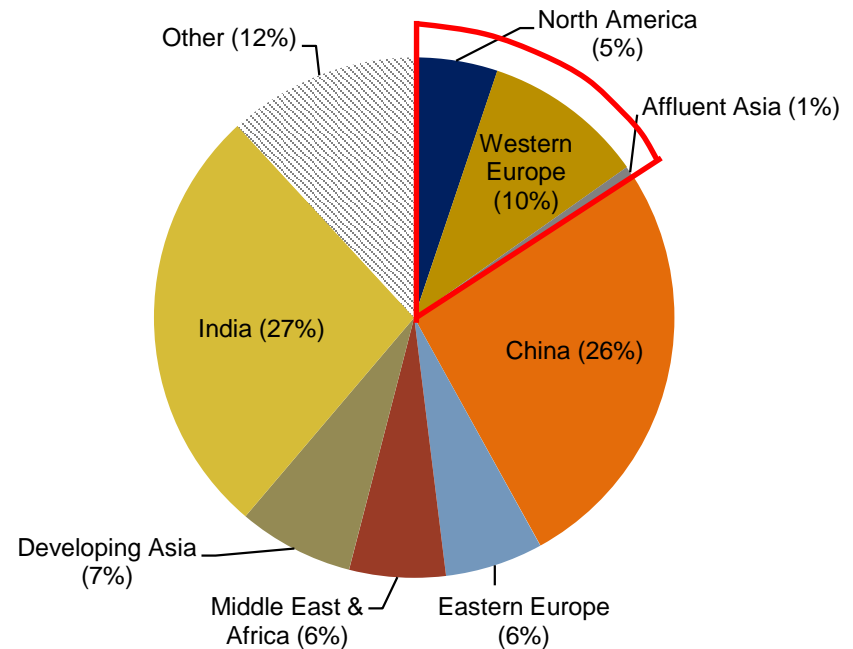
* Source: Dundee Securities

Personal consumption expenditure and gold demand

Global consumer spending



Global consumer gold demand*

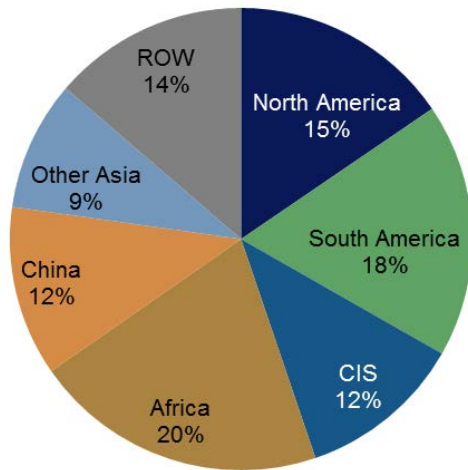


- Global spending was ~\$31 trillion dollars globally in 2012
 - ~75% of total in North America (U.S. and Canada), Western Europe and Affluent Asia (Japan, Australia, South Korea)
 - China and India represent ~5% and 3% of total, respectively
- Over 50% of consumer gold demand in China and India

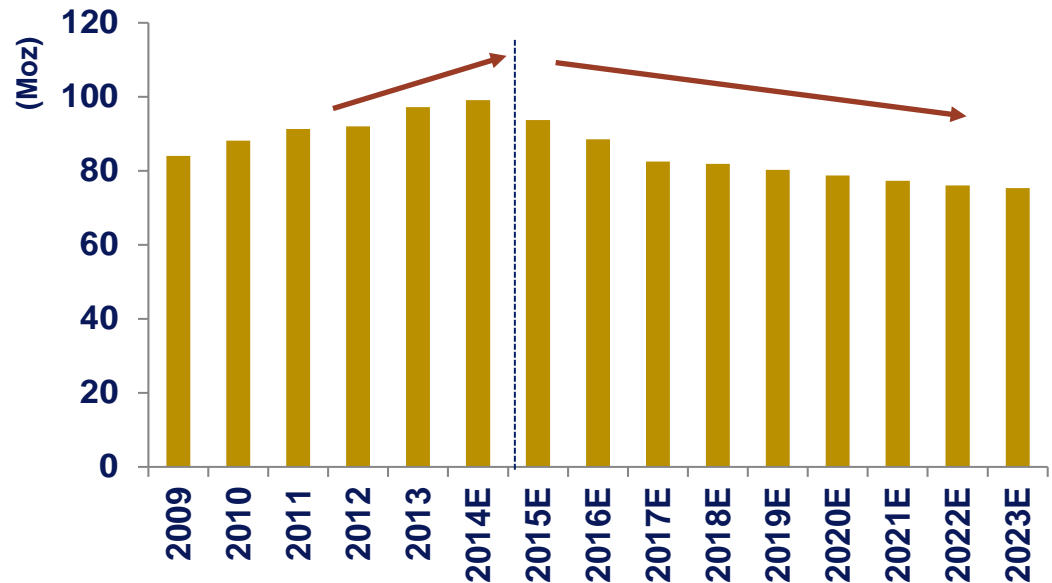
*consumer demand includes demand for gold jewelry, bars and coins

Strong gold fundamentals support long term pricing

Global gold mine supply (2004 – 2013)



Global gold mine supply projections*

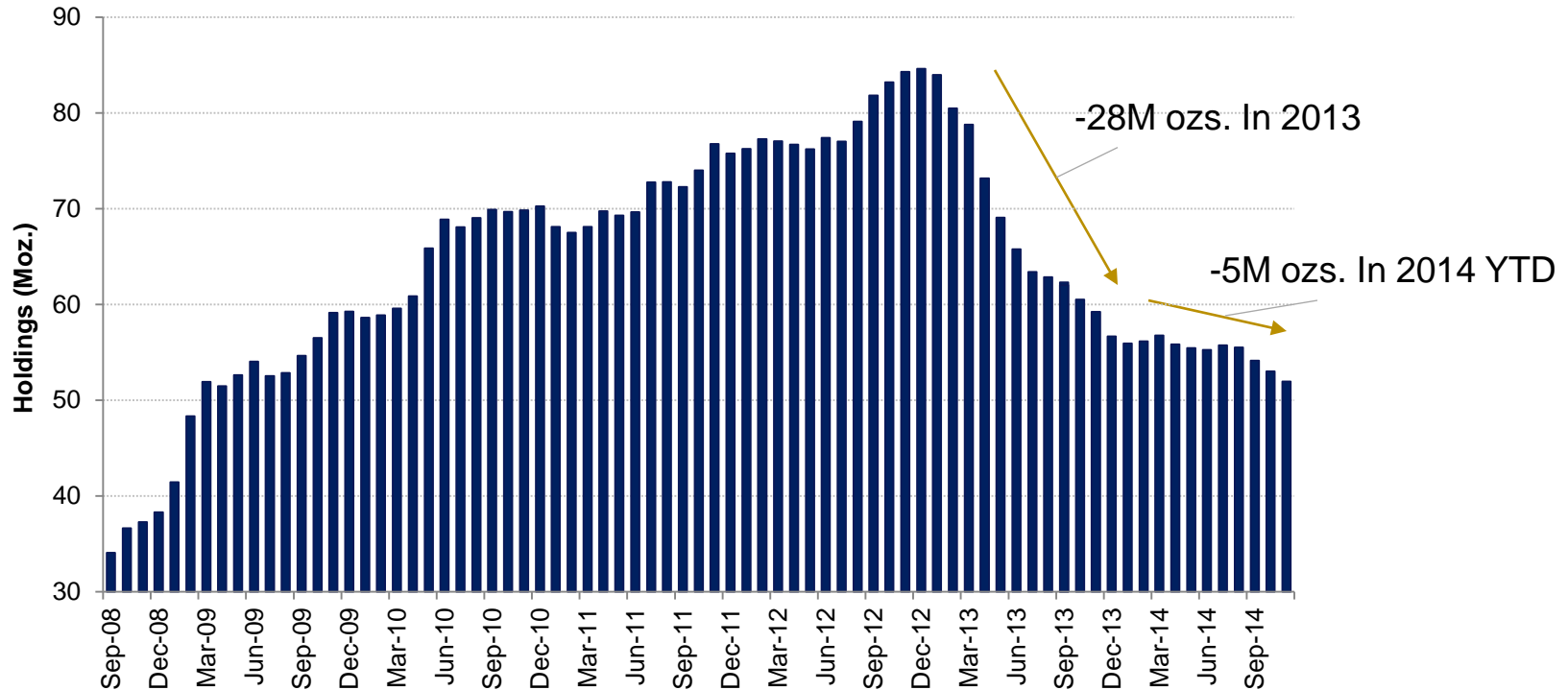


- 60% from emerging countries (vs. 50% 10 years ago)
- Mine supply has grown ~2%/year over the last decade
- Longer-term mine supply growth challenged with fewer new discoveries, capital cost inflation, increasing nationalism and activism, aging mines and declining grades
- Project cancellations and deferments expected to reduce mine supply by ~3%/year going forward

*Source: GFMS and World Gold Council.

Gold ETF liquidations have moderated

Gold ETF holdings historical trends*

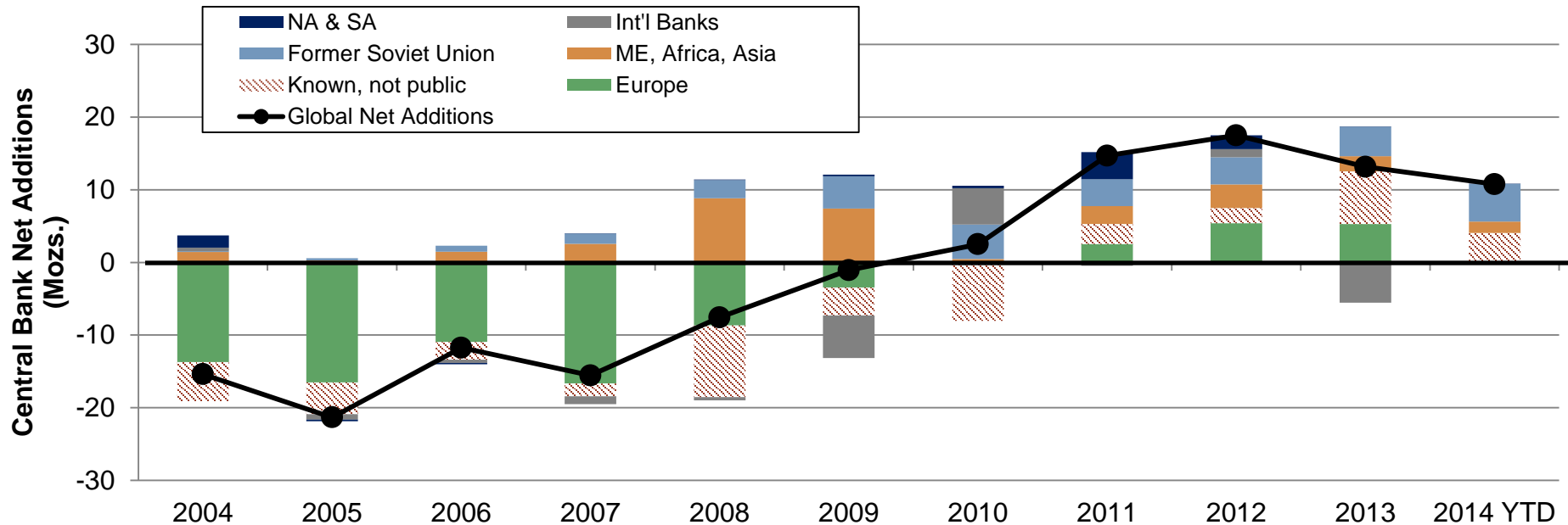


- Global gold ETF volumes decreased over 30 percent in 2013 (~28M ounces)
- Global ETFs currently hold over 20M ounces more than at start of the Financial Crisis

*Source: Bloomberg

Central banks continue to be gold buyers

Central bank net-gold additions*

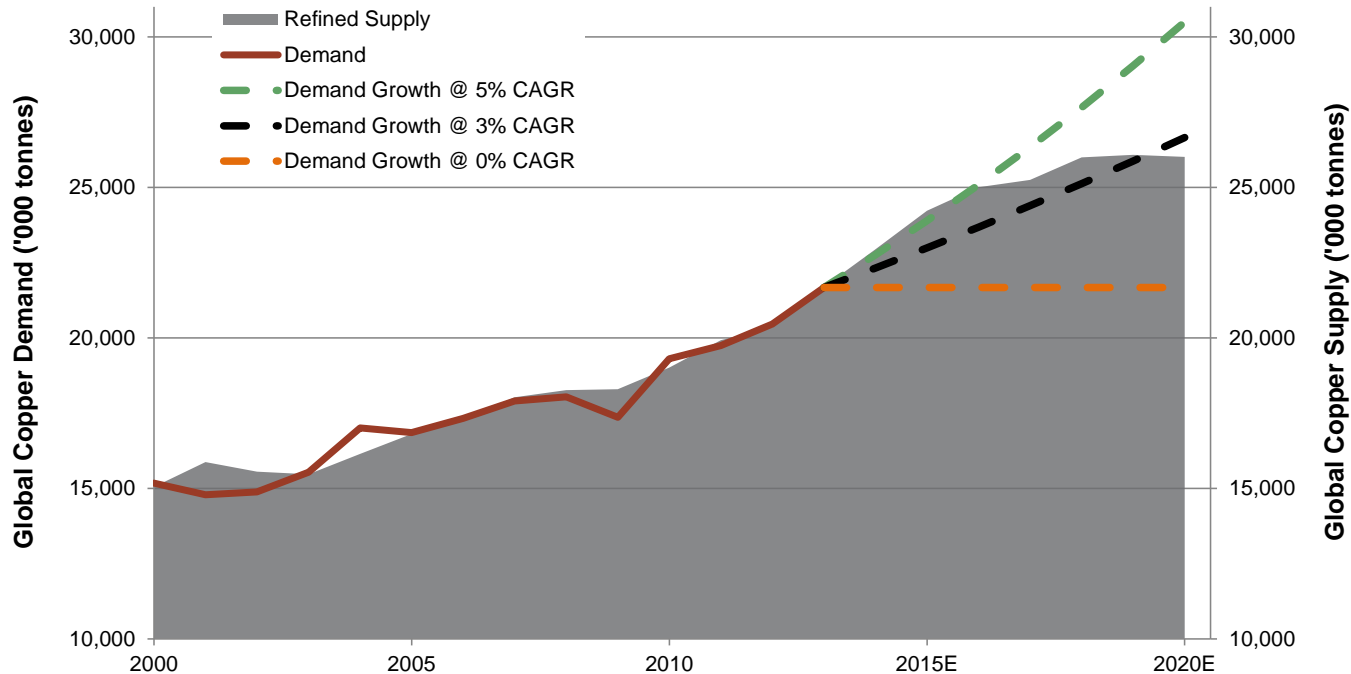


- From 2004 – 2009, banks were net-sellers of over 70M ounces
- Since 2010 banks have become net gold purchasers
- Gold purchases assist to diversify reserves (primarily away from U.S. and European treasury securities)

*Source: IMF and World Gold Council.

Copper surplus limits price upside in near-term

Moderate global surplus conditions expected in over next 2-3 years*

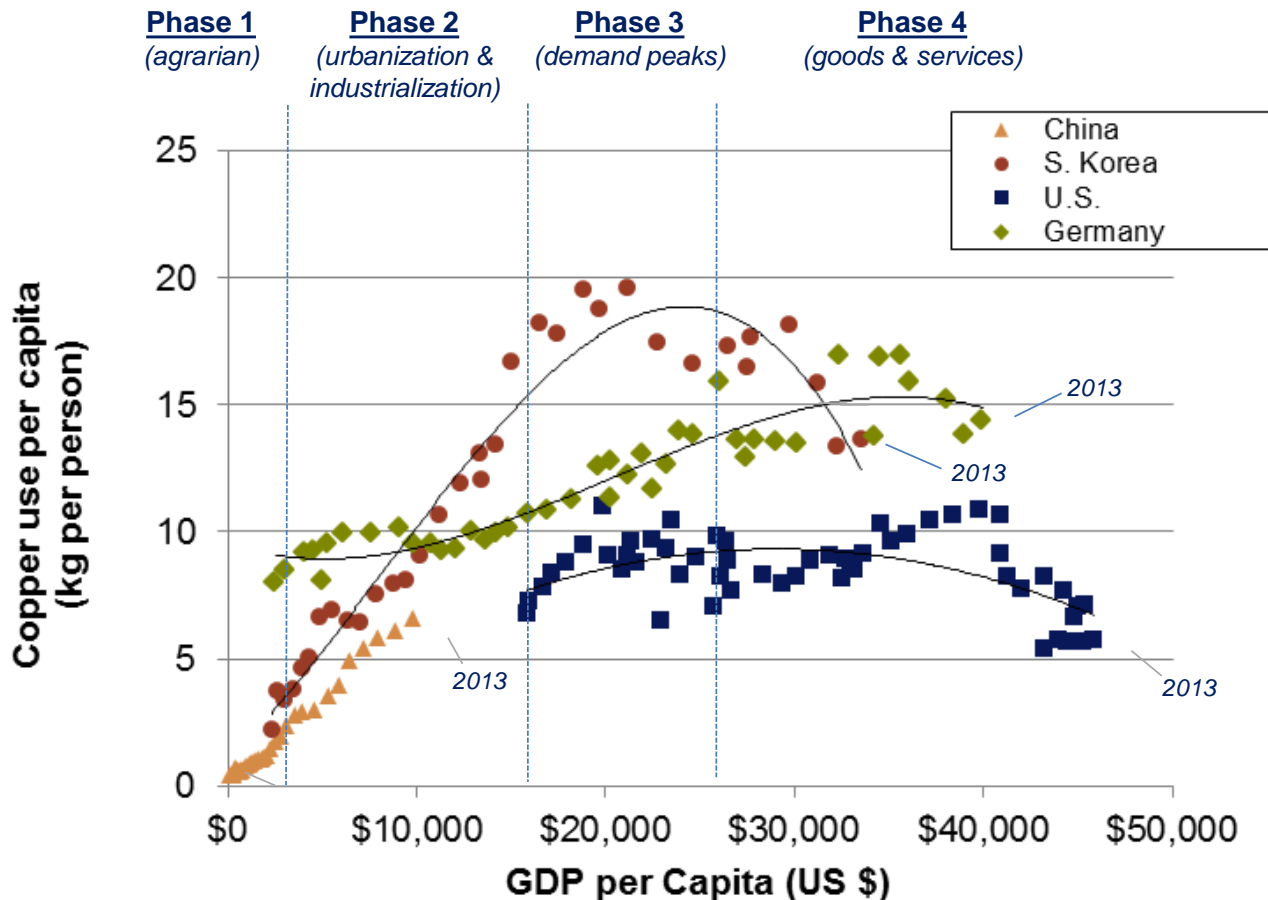


- Global demand has grown ~3.5%/year over last decade
 - Chinese demand growth has exceeded 11%/year
 - Emerging economies accounted for ~70% of total demand in 2013, up from ~45% in 2003
- Refined copper supply expected to grow from <22M tonnes to >26M tonnes by 2020
- Potential global surplus could continue over near-term* except under demand growth assumptions of 5%/year

* These market balance projections include annual supply disruptions of approximately 6 percent over the forecasted period; Source: Wood Mackenzie, Spring 2014

Chinese copper “intensity of use”*

“Intensity of use” suggests increased consumption

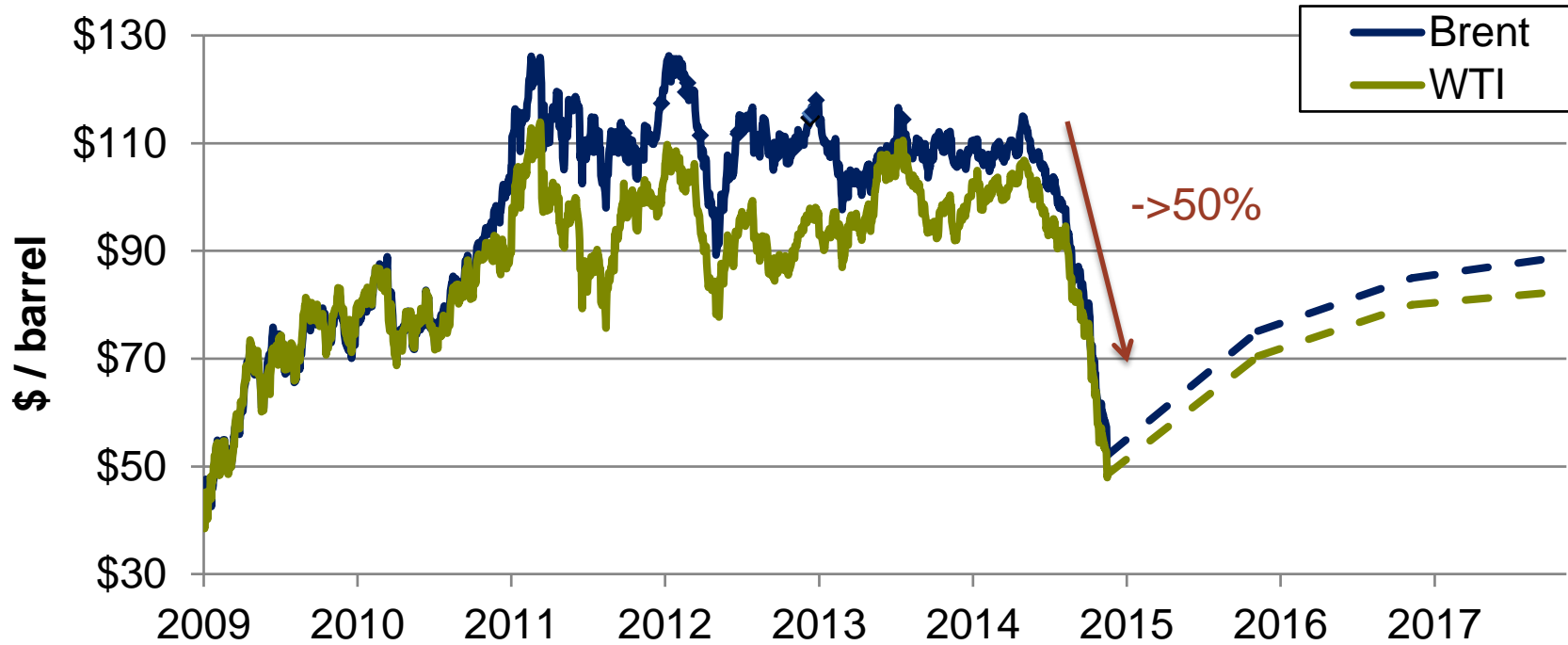


- Copper intensity generally first rises, then decreases with increasing per capita income (*an inverted “U” relationship*)
- In 1990, the average Chinese citizen consumed 0.4kg of copper which has increased to well over 6.0kg last year

*Source: GaveKel Research and Bloomberg.

WTI and Brent prices and expectations

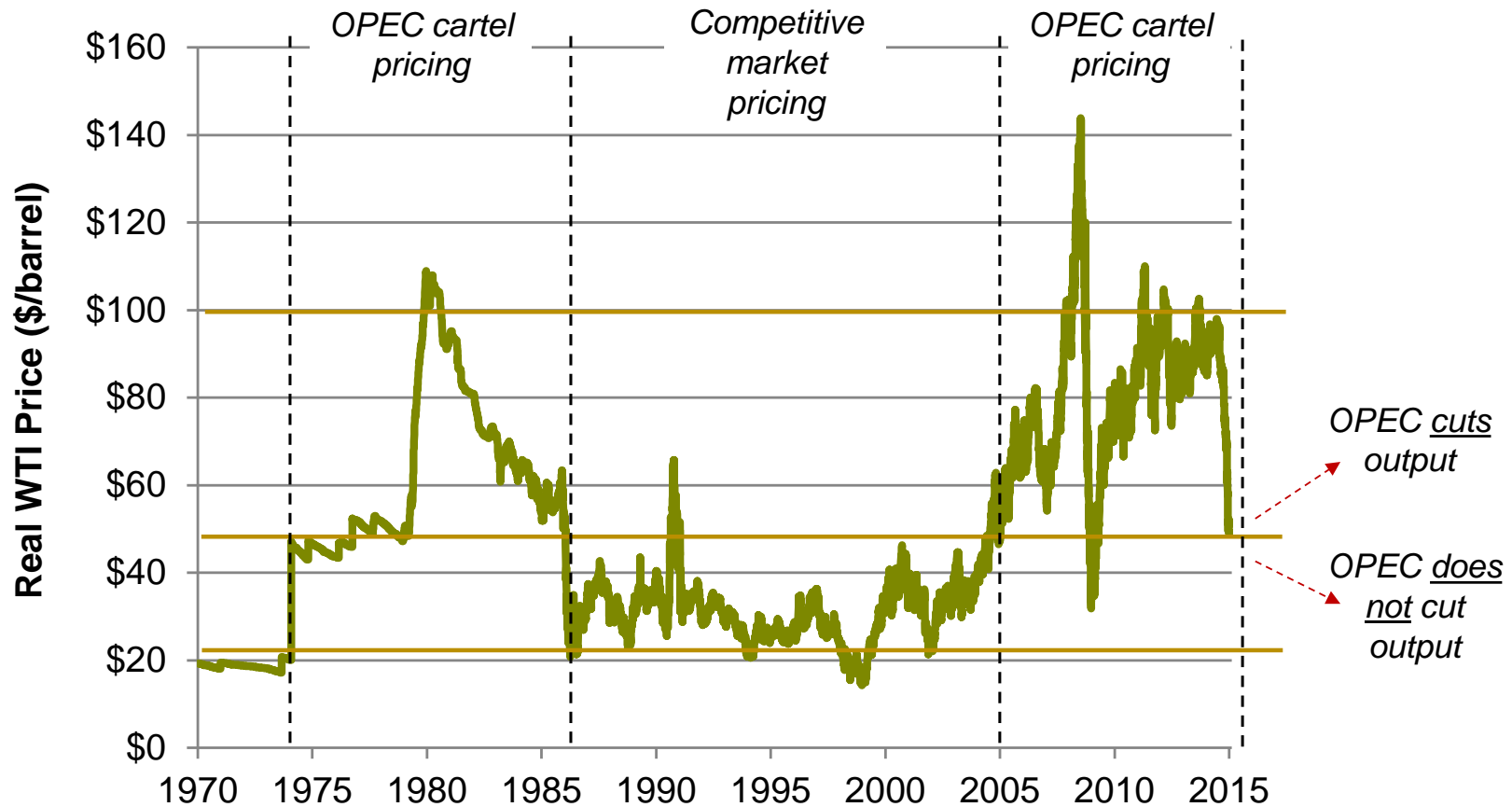
WTI and Brent crude oil prices and median expectations



- Since July 1st WTI prices have dropped ~\$55/barrel (Brent: ~\$60/barrel)
 - Continued growth in U.S. production, slower global growth expectations, higher production within OPEC
- Saudi Arabia desires to maintain market share and achieve geo-political objectives

Competitive markets or monopoly power?

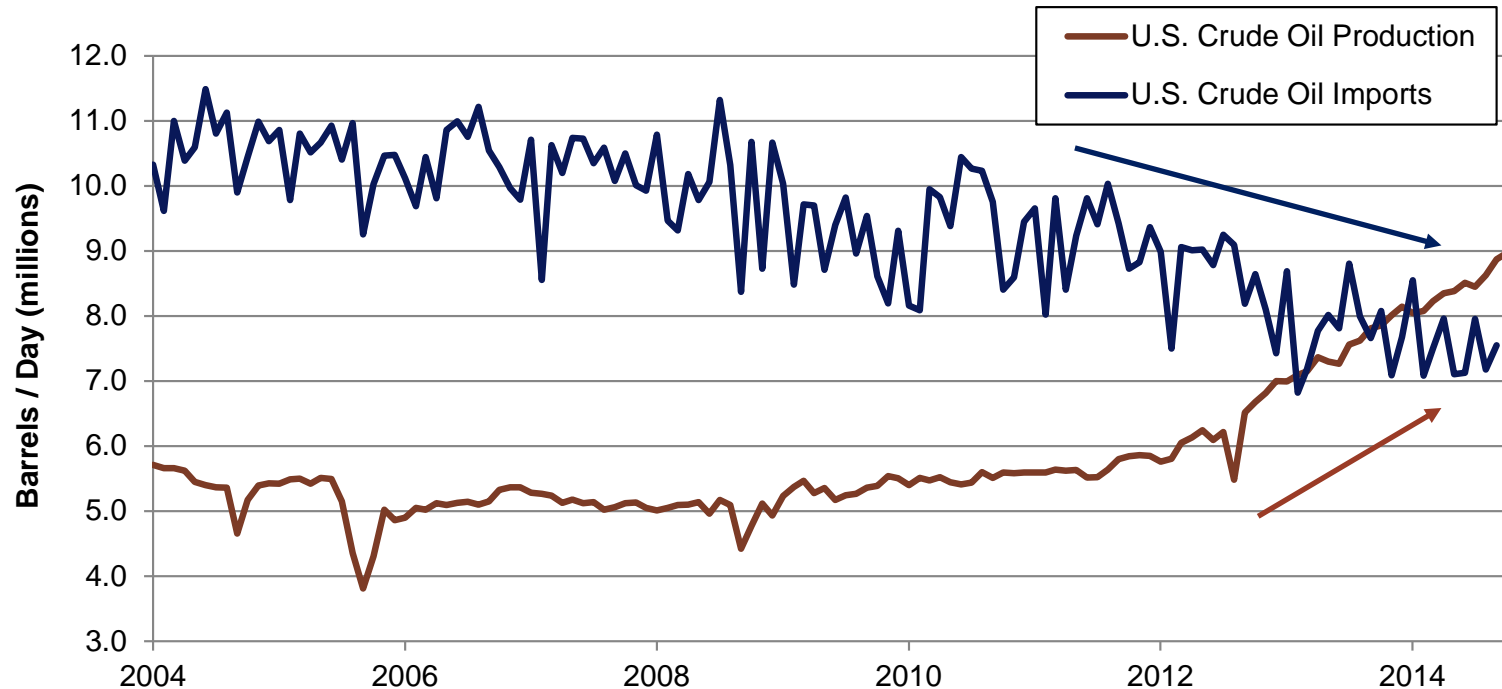
Inflation-adjusted WTI prices



- Oil markets have migrated between periods of competition and where OPEC flexed power
 - Competition:** prices heavily influenced by marginal costs within industry
 - OPEC Monopolistic:** Saudi Arabia primarily restricting output

Domestic crude oil trends

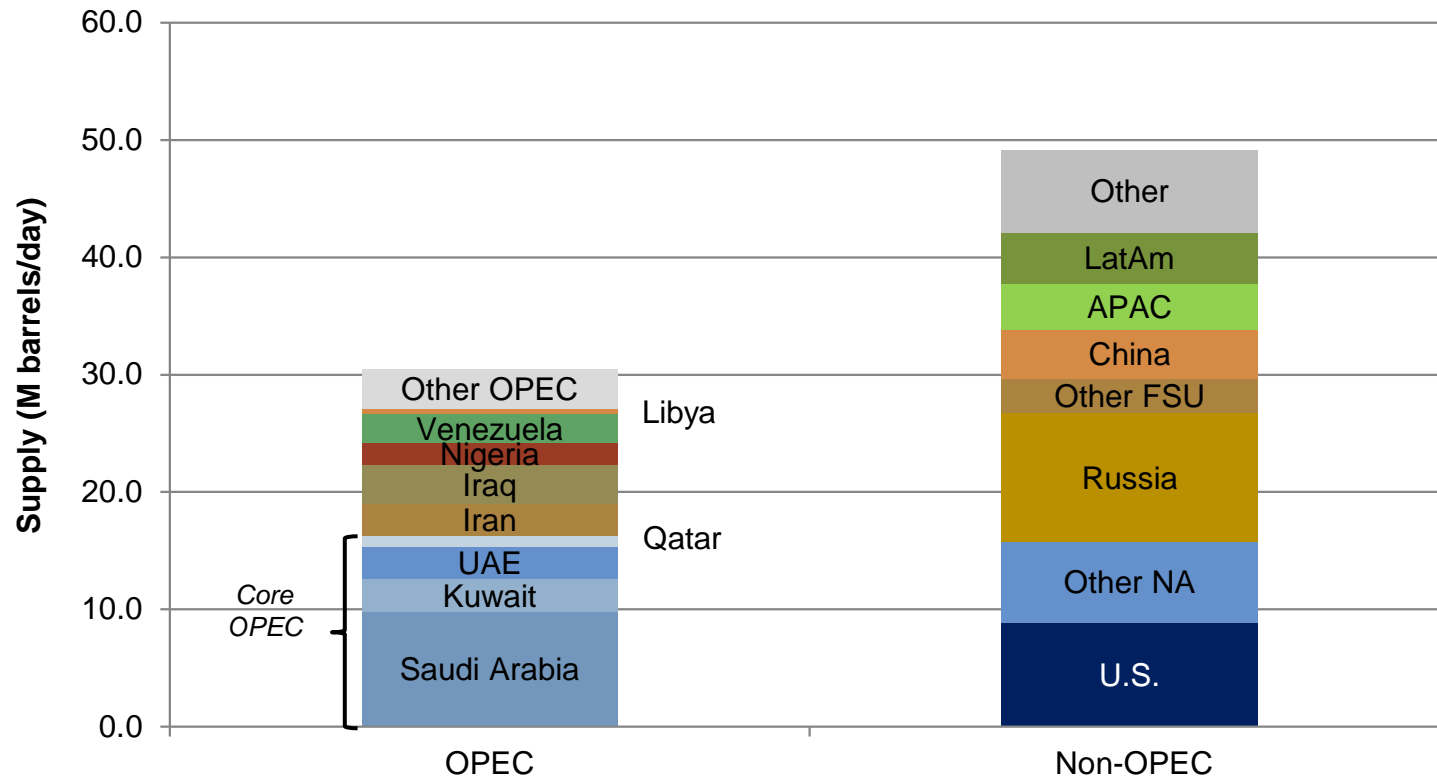
U.S. crude oil production and imports



- The U.S. remains the world's largest oil consumer, accounting for ~20% of global demand
- For each year since 2011, U.S. production has increased ~1M barrels/day
 - U.S. production recently surpassed 9M barrels per day
 - Will this level of growth continue in 2015?

2014E global crude oil supply

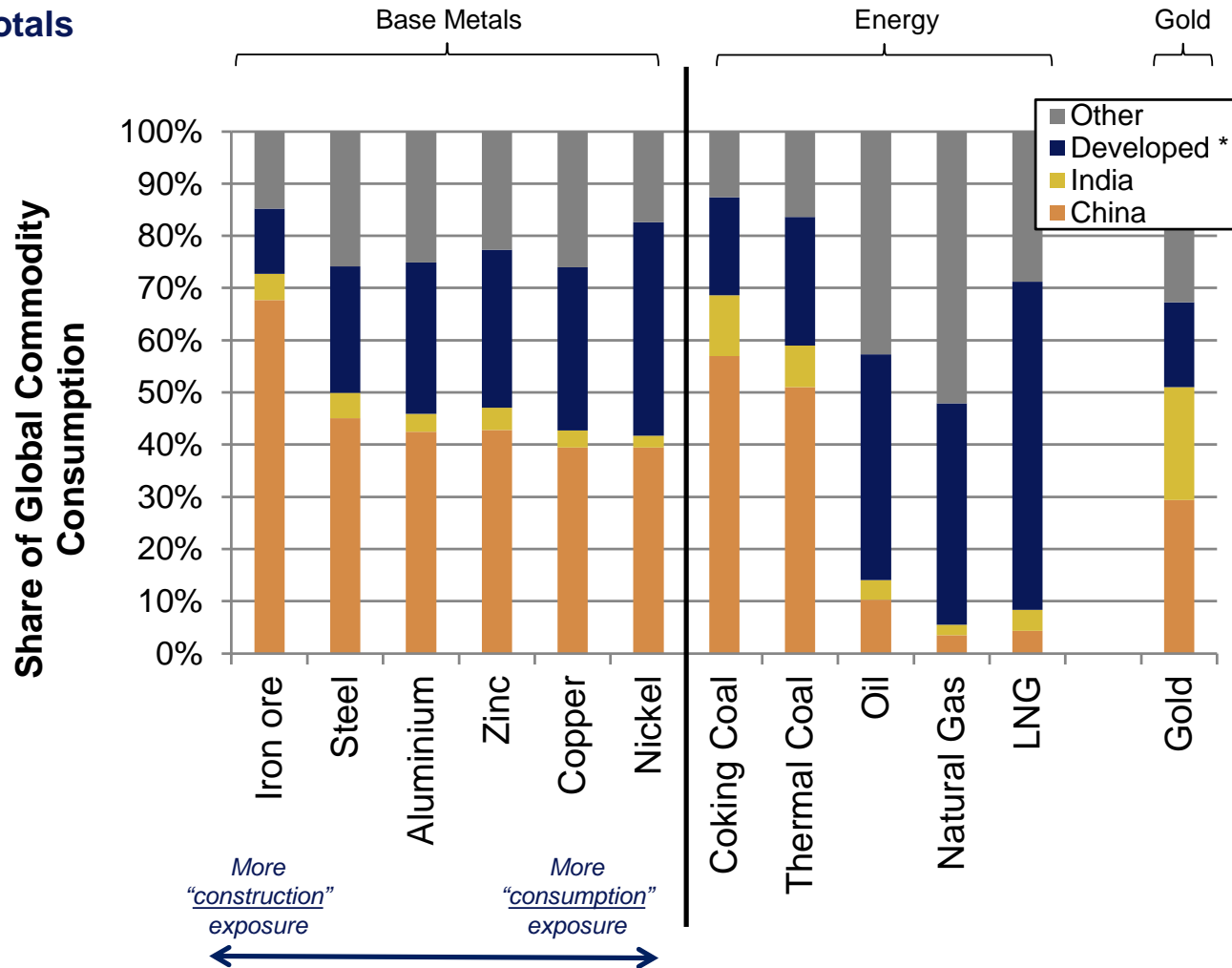
2014E global crude oil supply (millions of barrels per day)



- Global crude oil supply nearly 80M barrels/day in 2014
 - ~16M from core-OPEC (~20% of total)
- OPEC production cuts expected to be modest until there is sufficient evidence of a slowdown in the production growth rate in the U.S.

China remains a key driver of commodity demand

% of global totals

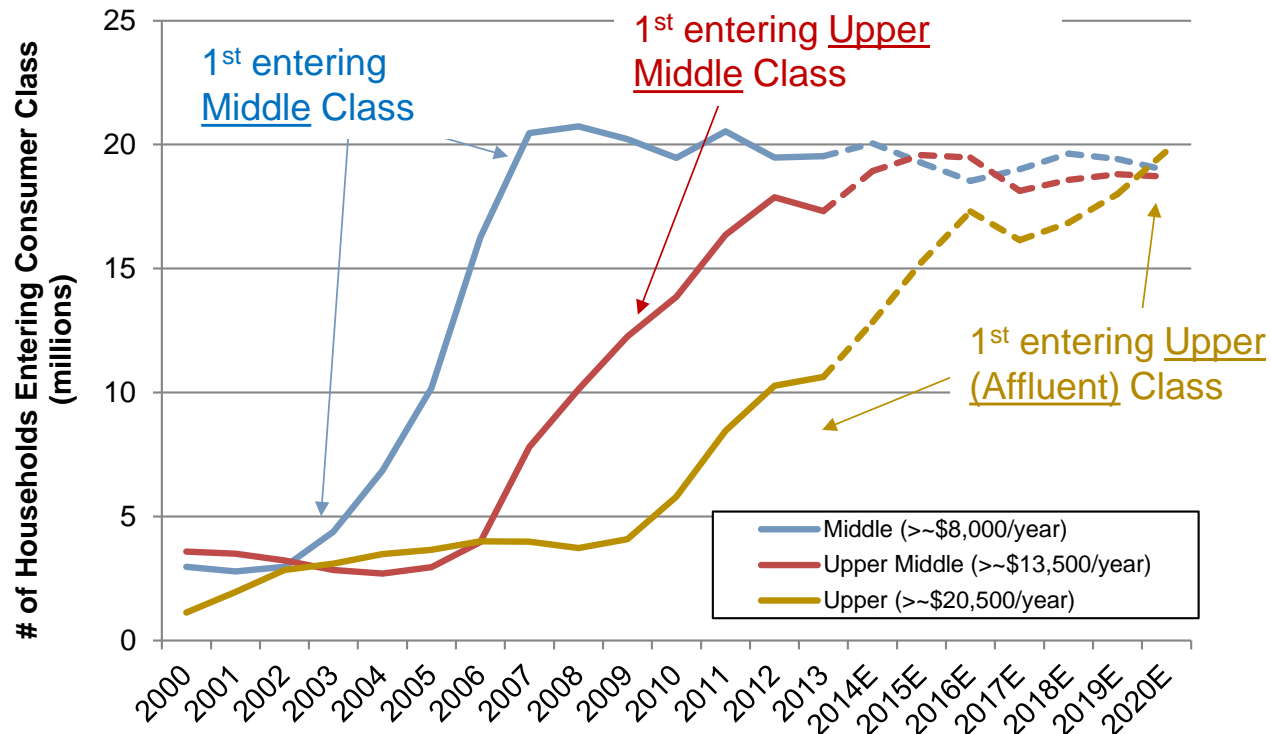


- China consumes between 40% - 60% of mined commodities but only generates ~13% of global GDP

Source: Commonwealth Bank of Australia and Goldman Sachs

As household income rises, consumption mix changes

Chinese household wealth trends

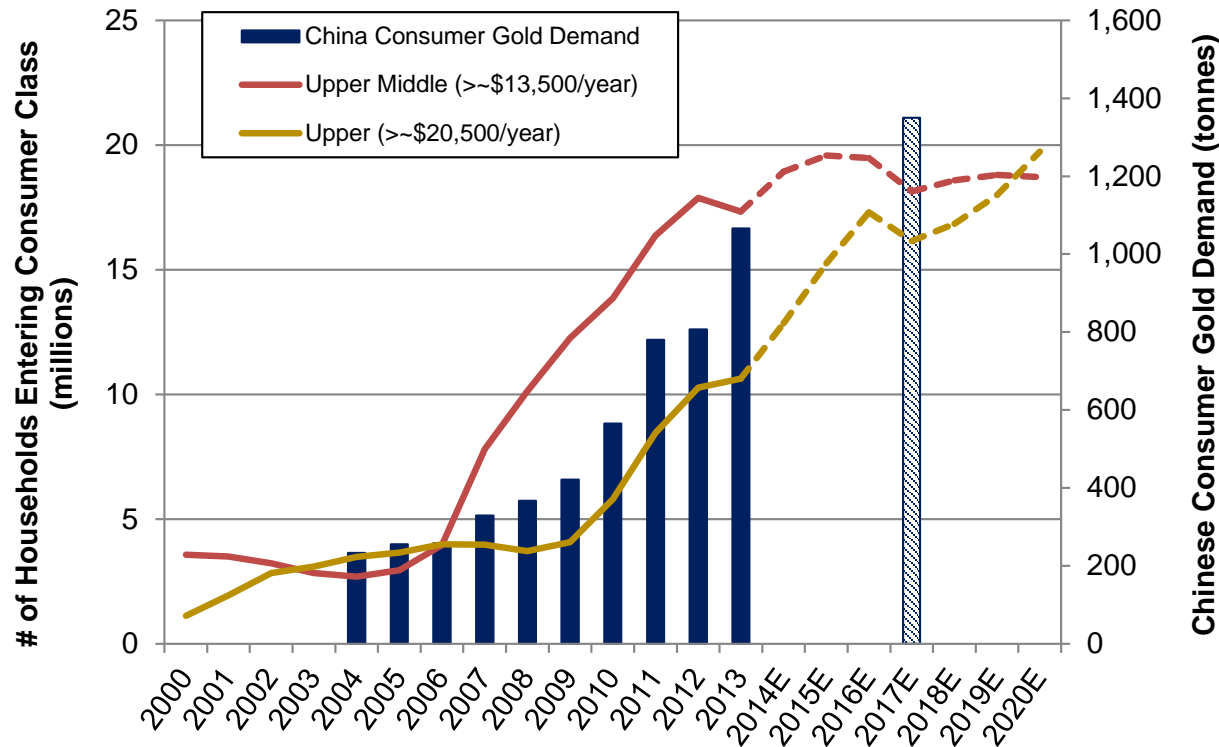


- 1st entering Middle Class (income > ~\$8K/year): Increased spending on housing, cell phones, mass produced clothing
- 1st entering Upper Middle Class (income > ~\$13.5K/year): Increased spending on cars and non-essential items
- 1st entering Upper Class (income > ~\$20.5K/year): Increased spending on health care, tourism, non-essential items

Source: GaveKal Research

Chinese trends support bullish gold outlook

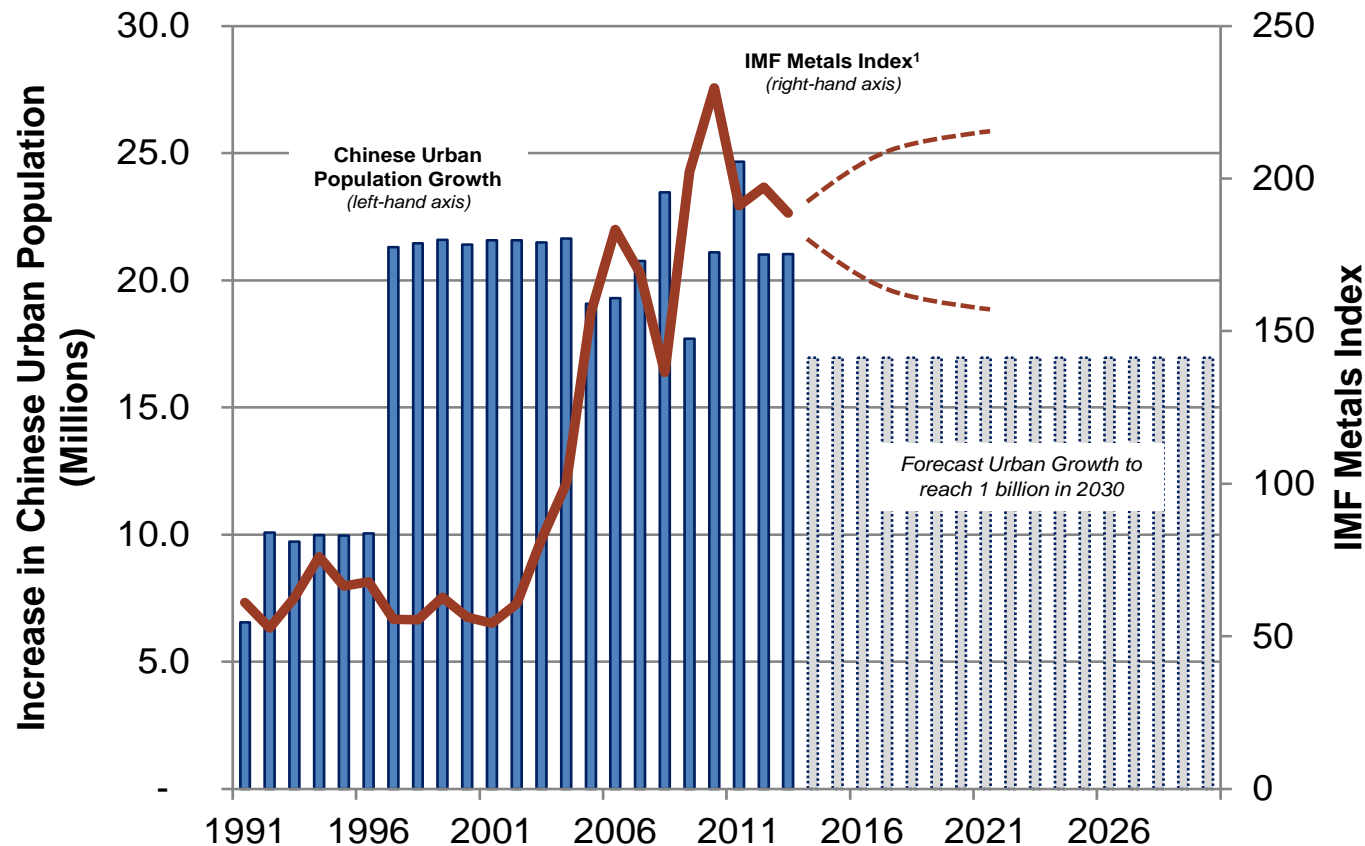
Chinese household wealth and gold jewelry, bar and coin demand



- Growing household wealth driving higher levels of disposable income
- China now largest market for gold demand (~1,100 tonnes or ~35M ounces in 2013)
- The World Gold Council anticipates that demand will increase to at least 1,350 tonnes or to ~43M ounces by 2017 (25%)

Urbanization in China

China's urban population trends and commodity prices

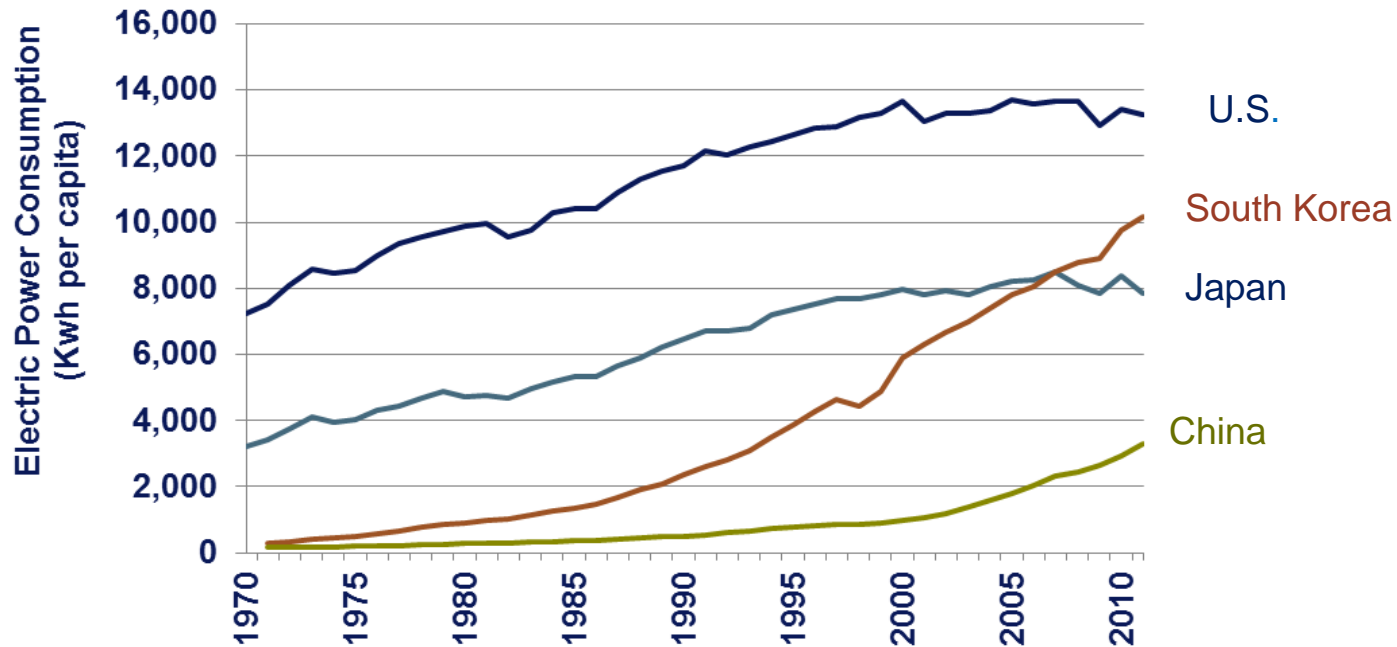


¹The IMF Metals Index weightings: Aluminum = 36%; Copper = 26%; Iron Ore = 12%; Nickel = 10%; Zinc = 6%; Uranium = 5%; Tin = 2% and Lead = 2%

- Current 50% urbanization rate expected to exceed 70% by 2030
 - Another ~300M people moving to cities!

Chinese consumption to spur copper demand*

Electric power consumption – China vs. developed world



- China accounts for over 40% of global copper demand (Power sector = 50% of this)
- The average Chinese citizen consumes:
 - ~33% of the amount of electricity a South Korean citizen consumes; and
 - 25% of what the average person in the United States consumes

*Source: GaveKel Research and Bloomberg.

Status of the commodities cycle

Gold: “*Prices subdued through 2017 and then to strengthen*”

Near-term: Prices to remain “subdued”, but range bound

- Continuing U.S. dollar strength
- Low inflation & higher interest rates to limit investment demand
- Relaxation of import restrictions in India
- Price sensitive Chinese consumers

Longer-term: Macroeconomic and industry trends support higher prices

- Return of inflation (initially with labor markets in U.S., will past QE efforts to catch up?)
- Decreasing mine supply
- Wealth trends in China
 - Development of health care and social safety net programs

Status of the commodities cycle

Copper : “Prices subdued through 2017 and then to strengthen”

Near-term: Moderate supply surplus conditions will weigh on prices

- Advanced stage project additions
- Slowing property sector and SOE reforms in China
- Purchases by China’s State Reserve Bureau could provide support

Longer-term: Market fundamentals are bullish

- Decreasing mine supply
- Urbanization trends in China
- Consumption based economic growth (vs. investment) in China

Status of the commodities cycle

Oil: “Market restructuring”

Near-term: Supply driven bear market (is \$50/barrel a floor or ceiling?)

- How the global market restructures will determine prices
 - Competitive: marginal cost of non-OPEC producers will determine prices
 - OPEC as an effective cartel: lower output will drive prices relatively higher
- Building inventory overhang
- Stronger global demand (lagged response to price decrease)

Longer-term: Markets to normalize

- Capex reductions will slow supply growth (OPEC and non-OPEC)
- China and India demand growth

...Finally...to Set Expectations...



Newmont's
Economist?

“...He Sucks!...”

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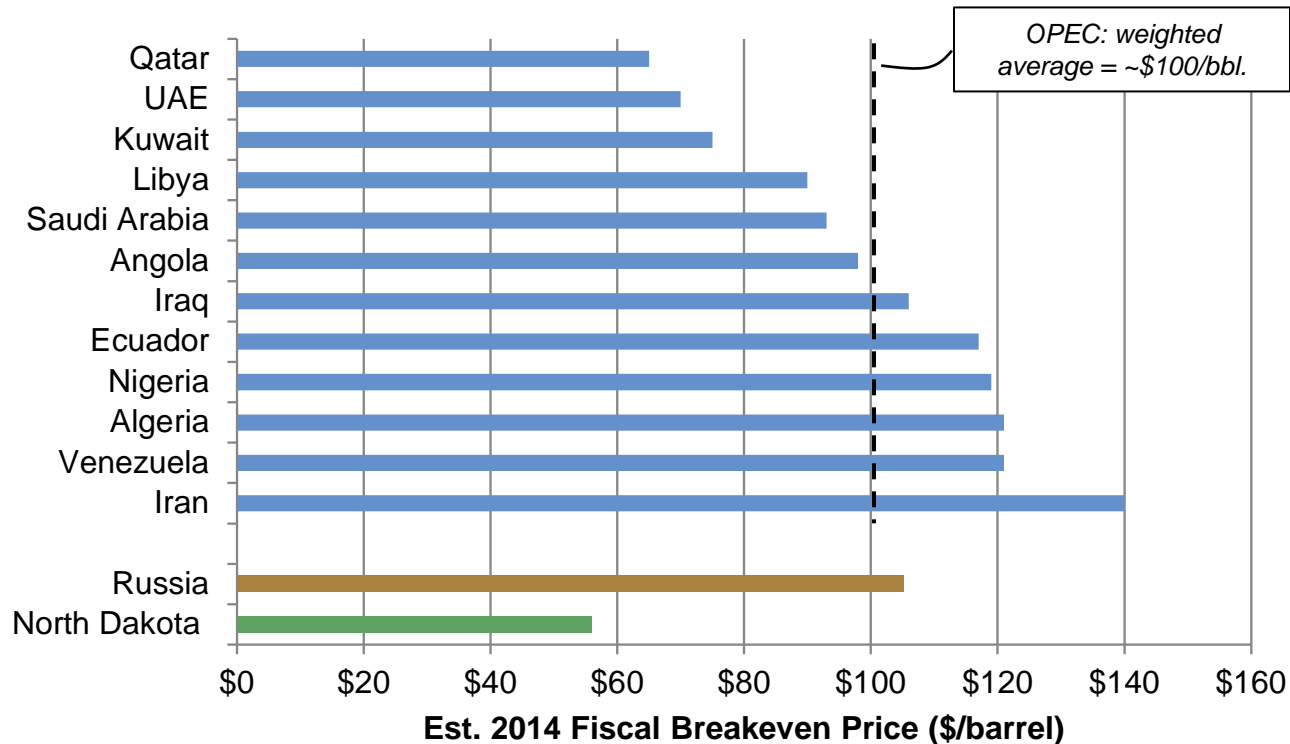
Appendix

Newmont's worldwide portfolio



Oil price stretches budgets of many OPEC members

2014E fiscal breakeven prices (\$/barrel)*

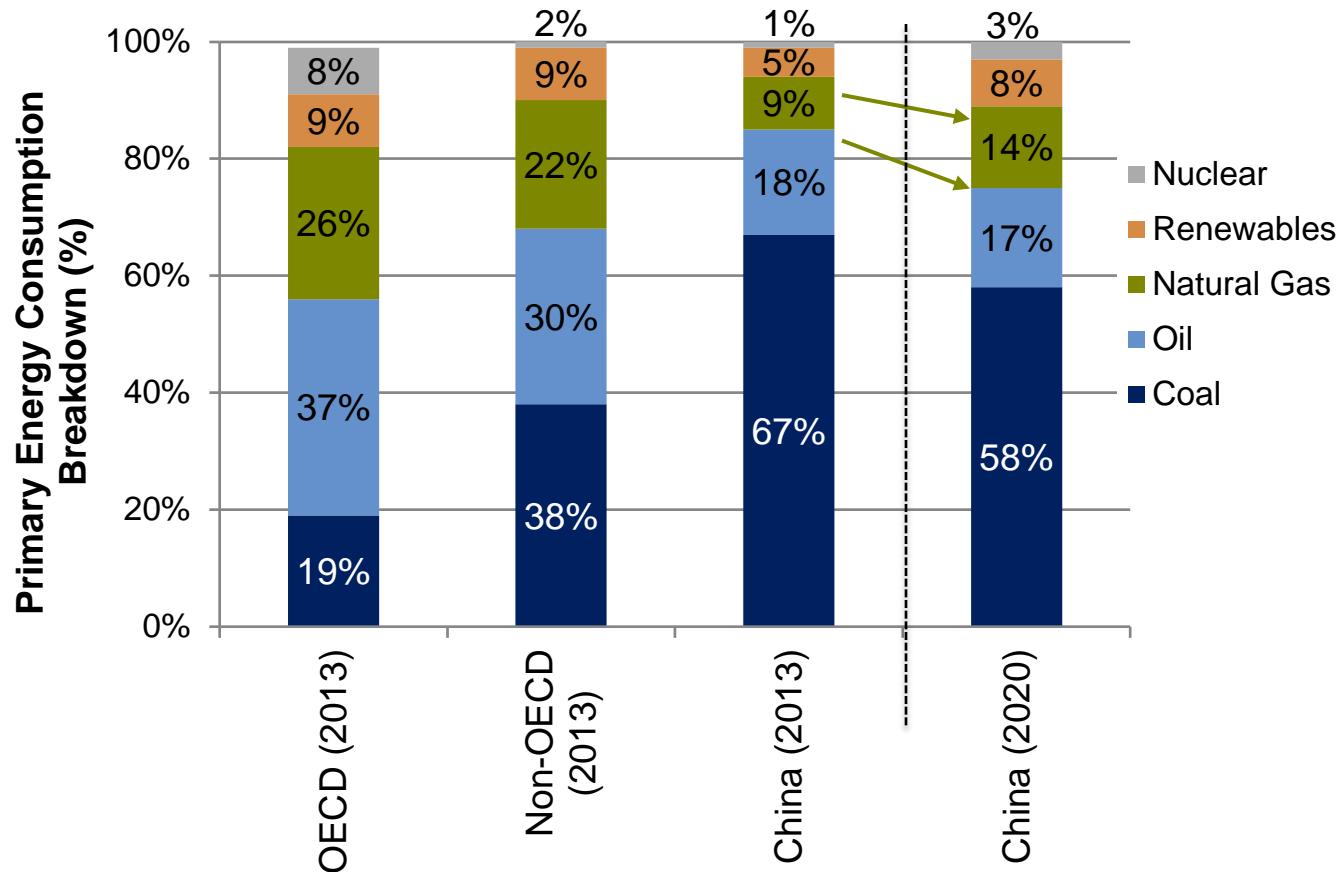


- Brent crude price (Nov. 20th, 2014) = ~\$79/barrel (...~\$71 on Dec. 2...~\$51, currently)
- Most U.S. shale projects continue to be profitable below \$80/barrel
 - Bakken and Eagle Ford formations profitable at \$50/barrel

*Source: Wall Street Journal, Bloomberg, Oxford Economics

Natural gas importance will grow for China

Primary energy consumption breakdown (%)*

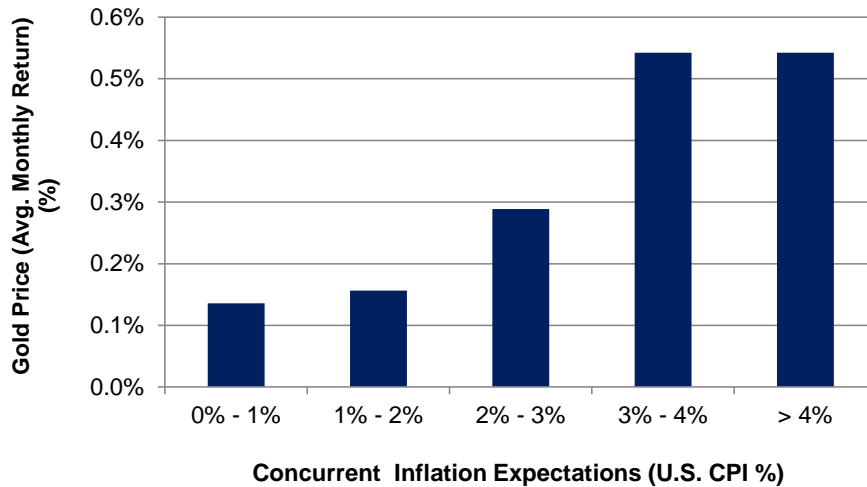


- China's energy mix is highly dependent on coal (nearly 70%)
- Natural gas will play a more important role going forward

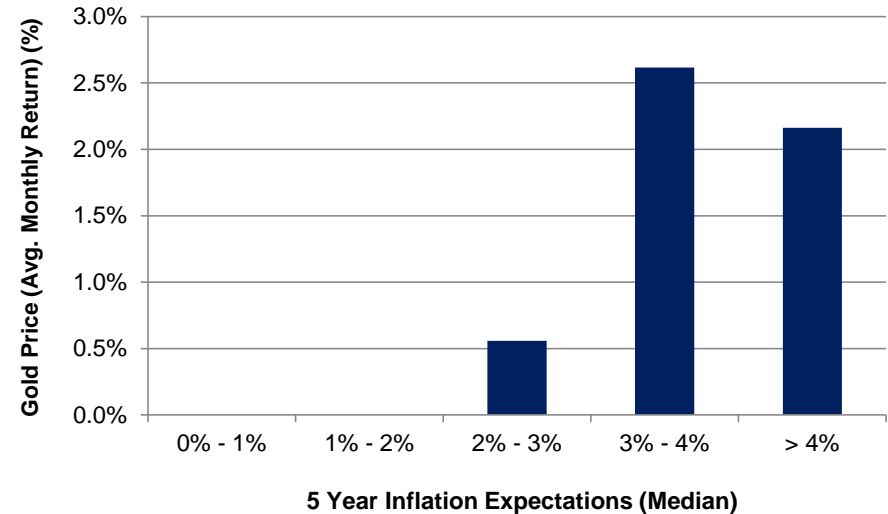
*Source: Goldman Sachs

Gold positively correlated with inflation

Gold price returns & current inflation



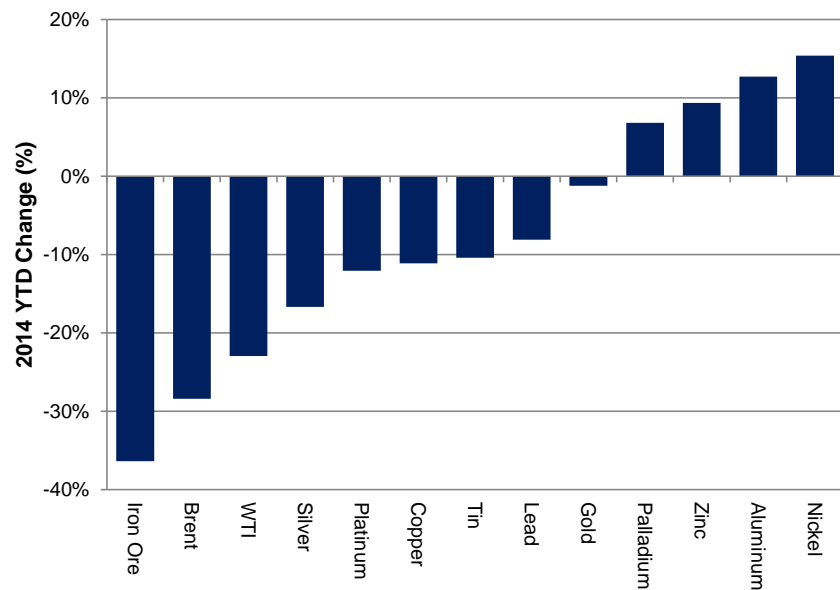
Gold price returns & expected inflation



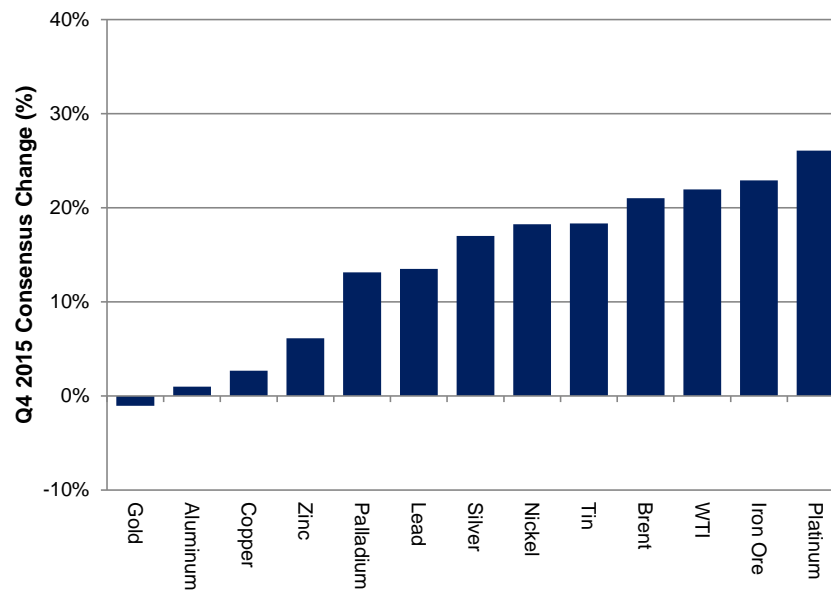
- Gold prices tend to increase with higher current and expected inflation
 - Expected inflation appears to drive gold more than current

Changes in commodity prices

2014 YTD price changes



2015 Q4 consensus expectations



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