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Mexico: Gold's next powerhouse player

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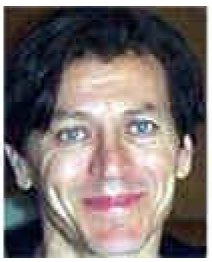

2010 promises to be a banner year

As the world's key gold producing nations struggle mostly in vain to replenish dwindling below-ground supplies, Mexico is bucking the trend in a big way.

That's right. It's not a typo. We are indeed talking about gold, not silver.

Even factoring-in the world's other emerging gold producing nations, Mexico still stands head and shoulders above the crowd. In fact, only Mexico has experienced impressive year-on-year production growth over the last decade. This has culminated in an almost doubling of output since 1998 to 1.59 million ounces last year. No other nation comes close to matching such a promising statistic.

It is worth noting that global gold output hit an all-time high of 68.83 million ounces in 1999. Yet, worldwide production last year represented an almost 20% shortfall at 55.30 million ounces, which clearly illustrates a troubling trend. The situation has been exacerbated by the fact that the world's top trio of gold producers – South Africa, the U.S., and Australia – are losing their luster. In fact, they have seen their combined output slump even more precipitously than elsewhere over the last decade. Dropping from 35.12 million ounces to 21.66 million ounces in 2008, this amounts to a 62% slide.

This is all the more problematic for the mining industry when considering the fact that gold prices have more than tripled over the last decade. This represents a decline in revenues of around US$14 billion dollars (based on current bullion spot prices).

Yet, there's nothing but 'blue sky' upside for Mexico's ever-expanding gold mining industry. Especially since only about 15% of this mining-friendly, geologically fertile nation has ever been systematically explored for the yellow metal. This is largely because the country's foreign investment laws were prohibitively restrictive for centuries until it signed the North American Free Trade Agreement in the early 1990s. Only then did Mexico finally adopt transparent mining legislation that offers a level playing field to foreign investors, which is also sweetened with plenty of business incentives, such as a very competitive corporate tax structure.

This pivotal development ushered in a modern-day Gold Rush that now involves over 250 mostly Canadian foreign companies with at least 600 projects underway – the vast majority of which were financed on Toronto's two mining-oriented stock exchanges. And, at least US$6.5 billion dollars in mining investment has poured into Mexico in 2008-09, alone.

Further reinforcing Mexico's ascendancy to the prestigious ranks of the world's leading gold producers is the fact that 2010 promises to be a banner year. (Figures for 2009 are obviously not yet available but are expected to reveal yet another boost over the year before, albeit a modest one). In fact, output is expected to jump by an additional 860,000 ounces next year, representing a 54% increase over 2008's figure.

However, it must be noted that Mexico is by no means one of the most prolific producers in the world – at least not yet. Its output in 2008 was eclipsed by the world's top three producers, as well as Peru, which earned fourth place at 5.78 million ounces.

Mexico's production last year was also still well below Canada (3.04 million ounces) and Ghana (2.58 million ounces). It is now jostling for position a short distance behind with only about half a dozen other emerging gold producing nations – all of whom have more or less comparable production numbers. Yet, while Mexico's annual output is accelerating, the other players are showing signs of fatigue, as demonstrated by their mostly unvarying year-on-year output figures or by numbers that are clearly falling off the pace.

So how is Mexico managing to reinvent itself as a high-octane gold producer after being so synonymous with silver mining for the past five centuries? Well, a number of North America's high-flying gold producers and legions of junior gold explorers are increasingly viewing Mexico as the optimum mining jurisdiction to do business. So says Jeffrey Christian, Managing Director of the New York-based CPM Group, a leading commodities research, consulting, asset management and investment banking organization.

"Mexico represents one of the most attractive places in the world for mining, not only in terms of geology but also for its political, economic and regulatory environment. There is also a pro-mining mentality in Mexico. The country is very much open for business," Christian says. "Also many good quality deposits have gone relatively unexploited over the centuries."

Conversely, an increasing number of other emerging gold-producing nations are beginning to raise barriers to the building of mines by foreign mining companies. In extreme cases, this involves the nationalization of rich mineral finds that have been developed by well-financed North American mining companies, Christian adds. Ironically, these protectionist regimes include underdeveloped economies that have benefited from an increase in gold output in recent years thanks to the influx of North American investment dollars.

North American mining companies are not having much better luck on their own soil, he says. "Even in the United States and Canada the barriers to obtaining mine production permits have become greater and greater," Christian says. For instance, "anti-mining groups" can use the legal system to win a succession of court injunctions, which may delay the commissioning of a mine for years on end, he explains.

Hence, an increasing number of frustrated mining companies are turning their attention to Mexico, where they are mostly developing large silver deposits – ones where gold and base metals constitute meaningful by-products. But low-cost, near-surface primary gold deposits are also being targeted – some of which are under-developed past producers that historically suffered from a lack of investment capital….

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