



Gold Prices Are On the Rise — Should You Buy or Sell?

Description

In late 2011, gold prices peaked at approximately \$1,900 per ounce, and have since retreated steadily to levels of over \$1,200 per ounce at the end of 2013. But since January, we have seen renewed strength in the price of gold, and year-to-date it has increased 6%. Coming off a period of record production and declining demand, where is the gold market headed from here? Will it continue to strengthen or will it return to its downward drift?

Weaker than expected data from the U.S. Labour Department showed that 113,000 jobs were added in January. This was below expectations for an addition of 180,000 jobs, and the second month in a row of disappointing job numbers. In addition, wage growth has been negligible, a mere 0.4% growth rate after inflation in 2013.

Similarly weak were the results from the latest manufacturing survey, which revealed that manufacturing has stalled as new orders showed significant slowing.

What to expect

With the reporting season among us, we can expect gold companies to report dismal 2013 results. We can also expect to see reserve write-downs as companies continue to adjust to the realities of current gold prices.

The one positive in an environment of weakening commodity prices is that out of necessity, companies begin to look more closely at operational efficiencies and the expense side of the equation. Simply put, since revenues are declining, they must focus on reducing expenses in order to preserve the health of the company.

Barrick Gold's ([TSX:ABX](#))(NYSE:ABX) stock price has increased 14% year-to-date. After years of overspending and poor returns, Barrick has been getting serious about improving operational efficiency and financial performance. The company is targeting achieving annual cost savings of \$500 million, divesting of underperforming mines, and has come to the market with an equity issue recently in order to improve its balance sheet.

Agnico-Eagle Mines ([TSX:AEM](#))([NYSE:AEM](#)) has seen its stock price increase over 31% year to date. It too has initiated cost savings initiatives in order to preserve the balance sheet and boost cash flows. The company has reduced the capital budget and exploration expense by approximately \$70 million in 2013, and expects to cut another \$250 million in 2014.

Foolish bottom line

The bottom line is that the fate of gold prices is really dependent on many factors, including the health of the global economy, physical demand, and production levels of the metal. But at least at the company level, we are starting to see some of things that we, as investors, want to see, i.e., a renewed focus on improving efficiencies and cost structures.

Tomorrow, we will hear the testimony from Federal Reserve Chairwoman Janet Yellen which should give investors more information to help us decide which way the U.S. economy, and gold, is headed.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:AEM (Agnico Eagle Mines Limited)
2. NYSE:B (Barrick Mining)
3. TSX:ABX (Barrick Mining)
4. TSX:AEM (Agnico Eagle Mines Limited)

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Date

2025/08/28

Date Created

2014/02/11

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