3 Reasons to Buy Gold Now

Description

Both better-than-expected U.S. economic data and growing signs that the U.S. economic recovery is gaining traction continue to apply downward pressure to the price of gold. However, events in the Middle East, particularly the growing momentum of the Sunni insurgency in Iraq, the conflict in Syria, and civil unrest in Libya and Egypt, continue to generate fear among investors.

These factors, as well as the crisis in the Ukraine and higher crude prices, have seen the price of gold surge over recent days to over $1,320 per ounce, touching a three-month high. Much of this has been on the back of a surge of interest among investors in the world's largest gold-backed exchange-traded fund, **SPDR Gold Shares** (NYSE: GLD).

The recent rally has defied Goldman Sachs' bearish forecast of $1,050 per ounce and leaves many questions for investors around whether now is the right time to invest in gold. Let's take a closer look at three compelling reasons to do so.

1. Underlying demand remains strong

A key driver of gold demand, jewelry, which accounts for around 45% of total global gold demand, continues to remain strong. For the first quarter of 2014, jewelry demand was at its strongest since 2005. There are signs this demand will continue to grow as both the populations and wealth of the two largest consumers of gold jewelry — India and China — continue growing.

However, investors should remember that this demand is seasonal, focused on the major holidays and religious and social events.

Central bank demand continues to underpin gold prices and this is expected to continue, with China being a key contributor. This is despite decreased demand from central banks in the first quarter of 2014.

2. Inflationary pressure will see further interest from investors

Growing inflationary pressure is another reason why investment demand for gold will increase, driving the price higher. Recent events in the Middle East and growing anxiety over the ability of OPEC's second-largest oil producer, Iraq, to maintain petroleum production have pushed the price of crude higher since the crisis began.

With signs that this crisis will continue in the immediate future, and recently announced economic stimulus measures from the European Central Bank that are expected to drive inflation higher, buying gold as an inflationary hedge is increasingly appealing for investors.

This will continue to drive demand higher among investors and underpin higher gold prices.

3. Gold supplies have shrunk

Despite ongoing solid demand for gold among key markets, including jewelry manufacturers, industrial applications, and central banks, gold miners continued to shelve mining projects as the gold price plunged.

As a result, global supply for 2013 declined 5% compared to 2012. Given the long lead-in times to develop mines and bring projects online, it is likely that supply will not grow significantly for some time. When coupled with growing demand, this lack of supply growth will push gold prices higher.

What are the best ways for investors to cash in on higher gold prices?

Investors can buy physical gold, but one of the easiest ways to invest purely in gold is to choose an exchange-traded fund, the largest being SPDR Gold Shares. However, it is the gold miners where investors may just find the best value, with many having seen their share prices mauled as the price of gold crashed late last year.

Among the best choices are those miners with low costs, allowing them to generate higher margins and weather any unforeseen downturn in gold prices.

The world's largest gold miner, **Barrick Gold** (TSX: ABX)(NYSE: ABX), remains attractive with first quarter of 2014 all-in sustaining costs of $833 per ounce, while **Goldcorp** (TSX: G)(NYSE: GG) reported all-in sustaining costs of $840 per ounce.

Both also have solid balance sheets and a diverse range of mine projects, which will allow them to boost production and cash in on higher gold prices over the longer term.

Another company that stands out is **Agnico Eagle** (TSX: AEM)(NYSE: AEM), which in conjunction with **Yamana Gold** (TSX: YRI)(NYSE: AUY), acquired Canada's largest gold mine, the Malartic mine, when it acquired 50% of Osisko Mining.

The company reported impressive first-quarter all-in sustaining costs of $799 per ounce and is set to benefit from the acquisition, with the Malartic mine being one of Canada's lowest-cost mines. Agnico Eagle is also attractively priced, with an enterprise value of 10 times EBITDA, which, while higher than Barrick's six times and Goldcorp's nine times, is still among the lowest of its peers, including Yamana's 12 times.

There are a range of signs that gold prices will continue to remain strong. This bodes well for the profitability of gold miners, offering investors a range of investment opportunities to cash in on the recent rally.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSEMKT:GLD (SPDR Gold Trust)
2. TSX:ABX (Barrick Mining)
3. TSX:AEM (Agnico Eagle Mines Limited)
4. TSX:YRI (Yamana Gold)

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Date
2025/07/02
Date Created
2014/07/05
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