2 Reasons Gold’s Sell-Off Will Continue and How 3 Miners Will Profit Anyway

Description

Gold prices have seen increased weakness recently as a climbing U.S. dollar has put the dollar-denominated commodity under a huge amount of pressure. Gold always attracts a great deal of investor and speculator interest, and with that interest comes a variety of opinions over what is next in store.

When it comes to gold, many of the opinions you hear are extreme. Rather than get into the drama, here are two basic reasons why gold will likely remain under pressure and three gold miners that could profit anyway.

1. U.S. dollar

Many factors have contributed to gold’s recent price decline, but a large amount of the recent losses can be singled out to a climbing U.S. dollar. Gold is a dollar-denominated currency. Therefore, when the U.S. dollar rises, it increases the price for holders of international currency to purchase the commodity and decreases their demand.

The U.S. dollar index, an index that measures the strength of the American currency against a basket of six other currencies, is currently at multiyear highs as the Fed continues to unwind its bond-buying program. Now, with that program about to be complete, investors have turned their attention toward the upcoming interest rate increase, which will likely be sometime next year.

This is another huge roadblock for gold prices. What should happen is that when the Federal Reserve increases interest rates it will attract more foreign buyers into the U.S., in search of higher yields, which in turn should make the American currency even stronger. This is a major headwind for gold, and as long as the U.S. dollar continues to rise, the commodity will remain under pressure.

Of course, there are other factors that will come into play here that will likely pull gold prices in different directions. However, for simplicity’s sake, the point to remember here is that a strong greenback is a negative for gold prices, and for now, the dollar’s strength will keep gold prices capped and biased to the downside.

2. Supply/demand

The price of any good is a balance of its supply and demand. Right now, gold's declining price suggests that there are too much supply and not enough demand. An induced shift in the supply/demand balance as gold's price is basically at the consensus cost of production (US$1,200 per ounce) is almost always the argument that gold bulls like to bring up to suggest prices could soon go higher.

Many miners are likely considering further production curtailments; But prices will probably have to fall even further before massive output curtailments will be large enough to have a significant influence on the price of gold.

Potential winners

Goldcorp Inc. (TSX: G)(NYSE: GG), **Yamana Gold Inc.** (TSX: YRI)(NYSE: AUY), and **Eldorado Gold Corp.** (TSX: ELD)(NYSE: EGO) are all low-cost producers with attractive gold assets. If the price of gold continues its downward trajectory, these companies could be the last ones standing, keeping production open for the potential customers and seeing their profits and share values rise.

Right now, with gold prices under pressure, so are these companies' stocks, but it is better to buy a stock when it is priced low rather than jump on top of a rally that may be close to crashing and burning.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

1. NYSE:AUY (Yamana Gold)
2. NYSE:EGO (Eldorado Gold Corporation)
3. TSX:ELD (Eldorado Gold Corporation)
4. TSX:YRI (Yamana Gold)

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Date
2025/08/20
Date Created
2014/10/08
Author
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