



Why Gold Producers Like Yamana Gold Inc. and Goldcorp Inc. Are Surging

Description

On Tuesday, gold prices jumped unexpectedly, and that has led to big share-price gains for companies that produce it. The metal is now pushing US\$1,200 per ounce, after declining to \$1,131 less than two weeks ago.

For example, shares of **Goldcorp Inc.** (TSX: G)(NYSE: GG) are up by 2.7%, and **Yamana Gold Inc.** ([TSX: YRI](#))([NYSE: AUU](#)) is up by roughly 6% (as of this writing). So what's been happening, and is it a sign of a longer-term trend?

Japan and the U.S. dollar

There were a couple of events Tuesday that caused the gold price to appreciate. First of all, the U.S. dollar fell against most major currencies, an event that usually causes the price of gold to rise. This was partly caused by positive data from Germany.

More significantly, Japan announced that it will delay a planned increase in its sales tax by 18 months. The announcement has increased investor confidence in the Japanese economy, and as a result the yen has risen versus the dollar. And the dollar's relative decline has led to a further boost in the gold price.

Central banks

There could be another trend even more significant than these currency movements. Central banks around the world may start buying gold in very large quantities.

In Switzerland, voters are set to vote in a Nov. 30 referendum that would ban the Swiss National Bank (SNB) from offloading its gold reserves. The measure would also require the SNB to hold 20% of its assets in gold, up from 7% currently. At this point, the measure has limited support, and is unlikely to pass. But if it does pass, it could be a game changer.

Meanwhile, Russia has stepped up its gold buying – in fact, the country's central bank has bought over 150 tonnes of gold this year, nearly double the 77 metric tonnes in all of 2013. This gold buying has

accelerated recently; purchases totaled 35 tonnes in September alone.

All in all, central banks have been net buyers of gold for 15 consecutive quarters. So this is something worth keeping an eye on.

Yamana: The riskier bet

As mentioned, Yamana Gold shares have increased more than Goldcorp shares. This should surprise no one.

Yamana has had its fair share of struggles recently. Not only has it had to deal with a falling gold price, it has also had to deal with operational issues in South America. Mine operating earnings have declined by more than 60% so far this year, and the shares have declined by about 50%. It desperately needs gold prices to rebound, which would not only allow cash flow to recover, but would also make its Brazilian assets easier to offload.

Meanwhile, Goldcorp has been a model citizen in the gold sector. As a result, its shares are actually up this year. The company has shown it can continue making money in this environment, and it is not so desperate for gold prices to appreciate.

So it makes perfect sense that Yamana reacted more strongly to gold's surge on Tuesday. But in my view, that also makes the company a riskier bet. In other words, even if you believe in gold, investors would be smart to avoid putting too much in companies like Yamana. We need stocks like Goldcorp, too.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:AUY (Yamana Gold)
2. TSX:YRI (Yamana Gold)

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