# 3 Reasons Why Gold Won't Rebound Anytime Soon

## Description

Predicting where gold prices will go is not easy. But it can help to look at what analysts are saying.

On Monday, Raymond James analyst Phil Russo said he expects gold prices to average $1,200 per ounce next year (about where the metal trades today), down from his earlier estimate of $1,275. He also expects a long-term price of $1,200. This would be bad news for Canada's gold producers, who are generally expecting prices to rebound.



So why is Mr. Russo more pessimistic now? And what should investors do?

**A strengthening U.S. dollar**

Historically, the U.S. dollar and the gold price have moved in opposite directions. For much of the 21st century, that has been good news for gold investors. But more recently, the U.S. dollar has been surging.

The dollar has appreciated for a number of reasons. For one, this year has seen much turmoil emerge in other countries. There's been the crisis in Ukraine. ISIS has been terrorizing much of the Middle East. Many emerging markets, such as Brazil, have suffered from slowing growth in China. And when these kinds of things happen, investors tend to flock to safer currencies, such as the U.S. dollar.

Investors often react to turmoil by buying gold too. But this year has been different, mainly because the United States has been doing reasonably well. The federal deficit has come down, and economic growth is at a healthy 3.5%. So investors are happy to hold the greenback, especially since inflation has been much lower than initially feared.

**A looming rate hike**

When looking ahead, the U.S. dollar could easily get even more attractive. This is because Wall Street's biggest banks expect the Federal Reserve to raise interest rates by June 2015. This would also be bad news for gold.

A rate hike would not only boost the U.S. dollar, it would also make the greenback a more attractive investment. So investors may have a greater incentive to sell gold and hold cash or bonds.

Worse still, a rise in interest rates would be bad news for inflation. And the fear of inflation is one of the main reasons for holding gold. So the next few months could see many investors selling the shiny metal.

**ETF outflows**

Roughly 35% of gold demand comes from investors, and this can cause gold price swings to be quite wild. Put simply, when the gold price is going down, investors are more likely to sell. This can make a price slide even worse.

Right now, gold does not seem like a very attractive investment. So there may be further outflows from exchange traded funds, and that wouldn't be good for the gold price.

**If you're going to buy a gold stock, buy this one**

If you want to make a bet on gold, your best bet is a company like **Goldcorp Inc.** (TSX: G)(NYSE: GG). This is because Goldcorp has been the country's most responsible gold miner, and as a result has minimal debt with low costs of production.



Goldcorp is much less reliant on a gold price surge than Canada's other miners. Thus the stock will be less rewarding if gold does increase. But given the risk of gold declining further, Canada's other miners may be too much of a gamble.

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