Have Gold Prices Finally Bottomed?

Description

Gold has broken through the $1,300 per ounce barrier, and it looks like investors are renewing their memberships in the precious metals fan club.

Is the gold move just another head fake by our beloved bullion before a nasty slide to lower lows, or are the winds of change finally upon us?

Here are the reasons for the current rally.

Europe

A lack of confidence in Europe is the main driver of the flight to safety right now, as the continent once again finds itself in the spotlight. This time, there are a lot of moving parts to keep track of.

Greece is headed for elections on January 25. the results could lead to the country's exit from the Eurozone.

Political analysts are saying the extreme-left party, SYRIZA, could actually win the Greek election. If that happens, the European Union is in for an ugly fight, and it might not have the stomach this time to provide unlimited financial support to a government that is apparently incapable of righting the ship.

The problem with cutting Greece loose is that nobody knows if the ripple effects could lead to another global financial crisis.

Hence, a move into gold.

At the same time, the Swiss National Bank (SNB) just dropped a bomb on the currency markets by announcing its abandonment of a program to keep the Swiss franc capped at a value of 1.20 francs per euro.

The timing of the SNB's decision has created extra uncertainty.

On January 22, the European Central Bank (ECB) is expected to begin an unprecedented bond-buying program that is designed to fight off deflation. The SNB should have been able to manage the flight of cash into the franc, given the market's expectations of what the ECB's quantitative easing (QE) announcement will entail.

What happens if the ECB's program turns out to be much bigger and more aggressive than expected? Does the SNB know something that the rest of the market doesn't?

Investors aren't sure, so they are parking their cash in gold.

Global economy and U.S. interest rates

While Europe threatens to throw financial markets into chaos, the global economy appears to be weakening. On January 19, the International Monetary Fund (IMF) slashed its outlook for global growth, with the U.S. being the only bright spot on the map.

Gold prices have been under pressure for the past couple of years because the strength of the U.S. recovery was supposed to be enough to offset economic weakness around the world. That theory is now under review, and the highly expected spring rate hike by the Federal Reserve could be pushed out to the end of the year, or further. This is bullish for gold.

The U.S. dollar has been on a tear, and that is normally bad for gold prices, but bullion continues to move higher alongside the rise in the American currency. This means the gains become substantial for investors living in countries with currencies that are dropping like a rock. For example, Canadians and Europeans who hold gold are enjoying significant returns. As foreign currencies continue to falter, more money could move into the precious metal.

The herd certainly appears to be shifting directions. Big money is flowing into exchange-traded products backed by gold, and analysts are starting to warm up to the gold trade.

It will be interesting to see how 2015 turns out, but if you think the bottom is finally in for gold, you might want to put a couple of solid miners on your watchlist. **Goldcorp Inc.** (TSX:G)(NYSE:GG) and **Agnico Eagle Mines Ltd.** (TSX:AEM)(NYSE:AEM) are two of the gold companies that should do well.

CATEGORY

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2. Metals and Mining Stocks

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