



## Why the Rally in Gold May Come to a Premature End

### Description

It has been a decent start to 2015 for gold bugs, with the price of gold rebounding by 12% from its November 2014 52-week low of US\$1,042 per ounce to US\$1,280 per ounce now. This has had a positive impact on the share prices of gold miners. The **NYSE ARCA Gold Bugs Index** – an equal dollar-weighted index of the largest gold miners listed on the NYSE – popped a healthy 33% for the same period.

But the key question for investors is whether this rally will last throughout 2015 and into 2016, particularly with emerging signs that the global economy may perform better than previously expected.

### So what?

A range of investment banks and money managers have started to downgrade their outlook for gold miners, because they are expecting the investment demand for gold to wane.

The recent bump in the price of gold can be attributed to uncertainty among investors about the direction of the global economy. Growing concerns over the state of the Eurozone, which is caught in a protracted structural macroeconomic slump, and China's GDP growing at its lowest rate in two decades have triggered a flight-to-safety among investors. Investment demand for gold, which is a widely recognized safe haven investment, has increased rapidly over recent months.

However, with the European Central Bank firing up the printing presses and set to unleash a quantitative easing style stimulus program, there are hopes the Eurozone economy will be on the path to recovery by 2016. The ongoing problems in China's property market and its slowing GDP growth may be helped if Beijing introduces further economic stimulus measures aimed at boosting industrial activity and domestic consumption.

Both of these will, over time, boost global economic growth, reducing demand for safe haven investments and applying downward pressure to the price of gold. But the big whammy for gold prices will come from a stronger U.S. economy, higher U.S. interest rates, and a resurgent U.S. dollar, which will push gold prices lower. This has triggered some pessimistic forecasts from analysts over the future of gold prices. Investment bank **Goldman Sachs** predicts that gold will stabilize during 2015 at

US\$1,262 per ounce and then fall markedly lower to below US\$1,100 per ounce in 2016 and 2017 as the Eurozone and China's stimulus plans gain traction.

### Now what?

Any sustained decline in gold prices certainly doesn't bode well for gold miners, with their leveraged exposure to gold working in both directions. While rising gold prices will see gold miners deliver outsized returns for investors, declining gold prices will see their share prices fall further, particularly for those with weak balance sheets and high operating costs.

This makes **B2Gold** ([TSX:BTO](#))(NYSE:BTG) particularly unappealing with its high all-in-sustaining-costs in excess of US\$1,300 per ounce for the third quarter 2014, weak balance sheet, and marginal projects.

It also highlights that **Goldcorp Inc.** (TSX:G)(NYSE:GG) will need to lower its all-in sustaining costs (ASICs), which were US\$1,066 per ounce for the third quarter, if it is to remain profitable as gold prices start to decline in 2016. Despite this, I remain bullish on Goldcorp's short- to medium-term prospects because of its solid balance sheet, low degree of leverage, and portfolio of high quality gold assets.

Another gold miner that will benefit from higher gold prices in 2015, while having the ability to remain profitable as gold slides lower, is **Barrick Gold Corp.** ([TSX:ABX](#))(NYSE:ABX). While the company has been wracked by controversy, it is the lowest cost senior gold miner with third quarter AISCs of \$834. It has also already taken write-downs on a range of problematic assets during 2013 and 2014, clearing the decks for a more profitable 2015.

### CATEGORY

1. Investing
2. Metals and Mining Stocks

### TICKERS GLOBAL

1. NYSE:B (Barrick Mining)
2. TSX:ABX (Barrick Mining)
3. TSX:BTO (B2Gold Corp.)

### Category

1. Investing
2. Metals and Mining Stocks

### Date

2025/08/04

### Date Created

2015/01/28

### Author

mattsmith

default watermark