Why Shares of Barrick Gold Corp. and Yamana Gold Inc. Have Gotten Crushed

Description

Arguably, no company wants gold prices to rebound more than **Barrick Gold Corp.** (TSX:ABX)(NYSE:ABX) and **Yamana Gold Inc.** (TSX:YRI)(NYSE:AUY) do. The two companies both have heavy debt loads and are struggling mightily with gold prices so low. It's no surprise that their stock prices react so strongly to gold-price swings.

With that in mind, the outlook doesn't look good for either of these companies.

More pessimists than optimists

Gold prices have reached a new five-year low, but the smart money still thinks there's more downside. In fact, money managers collectively turned bearish on gold in July, according to *Barron's*. It's the first time that's happened since 2006, when the Commodities Futures and Trading Commission kept track of this data. Some, including **Goldman Sachs** analyst Jeffrey Currie, believe gold will drop below US$1,000 per ounce by the end of this year.

There are a number of reasons for such pessimism. To start, most analysts expect the U.S. Federal Reserve to raise interest rates in September. That makes gold, which pays no interest (and costs money to safeguard) a less attractive investment. Making matters worse, a rate rise would be bullish for the U.S. dollar, making gold more expensive for foreign buyers.

Meanwhile, all the predictions about runaway inflation (remember those?) were dead wrong, and not just in the United States. Consequently, investors aren't as fearful of weakening currencies as they once were. Once again, this takes some of the shine off of gold.

But there's one other reason gold prices are sinking that deserves special attention: China.

The problem with the China story

Gold bulls often claim that growing Chinese demand will lift prices for years to come. After all, the country's growing economy should lead to growing incomes and more purchases of gold jewellery. Meanwhile, investors, who are always concerned about inflation, will use gold as a hedge. And property market restrictions mean investors are always looking for other hard assets to invest in.

But that argument has not played out. To understand why, just look at what's happened in China's stock market. After rocketing up by more than 50% from February to mid-June, the CSI 300 index has fallen by more than 30% since then. Investors in the country clearly have a herd mentality: they buy as prices rise, and sell as prices fall. Part of the reason is likely due to margin calls, which force investors to sell when prices dip below a threshold level.

The same is true for gold. In fact, gold's so-called flash crash in July was caused by a sudden surge of Chinese selling. And with gold having fallen by more than 40% from its peak, don't expect Chinese investors to submit too many buy orders.

Thus, if you hold Barrick or Yamana, now's a chance to get out while you can. If you're looking for something worth buying instead, check out the free report below.

CATEGORY

1. Investing
2. Metals and Mining Stocks

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:AUY (Yamana Gold)
2. NYSE:B (Barrick Mining)
3. TSX:ABX (Barrick Mining)
4. TSX:YRI (Yamana Gold)

Category

1. Investing
2. Metals and Mining Stocks

Tags

1. Editor's Choice

Date
2025/07/21
Date Created
2015/08/05
Author
bensinclair