

Could Goldcorp Inc. Suffer When Interest Rates Go Up?

Description

Interest rates in the United States have remained tremendously low since the Great Recession. And every time the Federal Reserve has attempted to raise rates, it has second-guessed itself and backed away. However, it appears that we are getting to the point where the Federal Reserve is going to finally start increasing rates.

While initially these rate increases will be small so as to not spook the market, the expected outcome is that interest rates will rest at approximately 3-4%. This will cause a few different reactions in the markets.

First, people that have invested in more speculative-type investments will start to pull out because they'll be able to achieve conservative gains with safer investments. Theoretically, that will have a negative impact on stock prices.

The other big reaction in the market will be the strengthening of the dollar. With higher interest rates, people tend to move more of their money into the stronger currency, which results in the U.S. dollar getting stronger.

But the question is, what does all of this have to do with **Goldcorp Inc.** (TSX:G)(NYSE:GG)?

When the dollar is weak, investors rush to gold because they believe that it will be a better store of value and keep their money valuable. Gold doesn't really lose its value, so naturally investors believe it is a strong investment.

But when the dollar is strong, there's no reason to hold gold. As Warren Buffett says, "Gold gets dug out of the ground in Africa, or someplace. Then we melt it down, dig another hole, bury it again and pay people to stand around guarding it. It has no utility. Anyone watching from Mars would be scratching their head."

Because Goldcorp derives the bulk of its revenue from the sale of gold, if interest rates do go up, the value of its commodity could very well go down, and that would result in decreased profits per ounce of gold.

The thing is, I believe that investors have already priced in an interest rates increase into the overall price of gold. When the news comes out that the Federal Reserve is going to start increasing interest rates, gold may react some. But for the most part, it likely already has the fear of rising interest rates baked into the price.

This means Goldcorp may not see too much of a loss in profit. And even if it does, it is still one of the top gold producers in the market. It is a well-run company with only \$3.5 billion in debt, a small number when compared to its market cap.

Further, it is a highly efficient company that is looking to increase its supply. In 2014 the company

produced 2.9 million ounces of gold. It expects to increase that to 3.6 million ounces this year. Therefore, if the price of gold goes down, it might not see a drop in total revenue due to the increased production.

All told, Goldcorp is a great company in the gold mining space. So long as gold prices don't drop too much more, the company should be all right for the future.

CATEGORY

1. Investing
2. Metals and Mining Stocks

POST TAG

1. Editor's Choice

Category

1. Investing
2. Metals and Mining Stocks

Tags

1. Editor's Choice

Date

2025/08/04

Date Created

2015/09/17

Author

jaycodon

default watermark

default watermark