



## Yamana Gold Inc. Is up 50% in 1 Month: Will it Continue to Climb?

### Description

With gold prices hitting three-month highs on the back of a delay in the Fed interest rate hike, shares of **Yamana Gold Inc.** ([TSX:YRI](#))([NYSE:AUY](#)) are finally showing some signs of life. After surviving a 70% decline over the last 12 months, Yamana's stock is up over 50% in the last 30 days alone.

Can this bullish streak continue?

### Gold is up because of nothing to do with gold

Gold prices and interest rates are typically inversely related, given that gold does not pay any yield when compared to treasuries. Over the last 10 years there has been a fairly reliable inverse relation between treasury rates and gold prices. So, with investors expecting the Fed to delay its rate hike until 2016, gold prices are popping. As a major miner of gold, Yamana shares followed suit.

### Demand looks good

Even though the rise in gold prices has more to do with treasuries than the metal itself, there are some positive factors happening in the space.

Globally, central banks are now buying more gold. The World Gold Council recently stated that central banks bought 62 tons of gold in July and 47 tons in August. This is expected to help gold demand increase 6% in 2015. The increase in demand will stem not only from central banks, but also from historically high purchases in both China and India.

### Supply isn't as flush as many think

Discovery of gold volumes actually peaked back in 1995. Since then, annual gold discoveries have steadily plummeted from 140 million ounces per year to under 10 million. Because it can take up to 20 years for a mine to produce at full production, many are expecting shrinking supply over the next decade or two.

This mix of weakening supply and improving demand should help strengthen gold prices going forward

due to inexorable supply and demand dynamics.

### **Buying time with low-cost production**

Even if gold prices temporarily return lower, Yamana is positioning its business for the long term. This year Yamana has been able to reduce its cost structure for both gold and silver production at an impressive pace. For gold, the major driver of profits, all-in sustaining costs are down 10% to roughly \$900 an ounce.

This cost cutting should continue given the firm's focus on high-grade projects. For example, Yamana recently reported that its best assets (the Chapada, Canadian Malartic, and El Penon projects) have all-in costs of under \$600 an ounce. As these assets grow production, costs will almost certainly fall.

### **The momentum may continue**

As mentioned, the recent move in gold stocks was due to a delayed U.S. Fed interest rate hike. Still, constrained long-term supply and burgeoning demand may continue gold's newfound life. Even with Yamana gaining impressive momentum this month, it's quite possible there is more long-term upside to come.

### **CATEGORY**

1. Investing
2. Metals and Mining Stocks

### **POST TAG**

1. Editor's Choice

### **TICKERS GLOBAL**

1. NYSE:AUY (Yamana Gold)
2. TSX:YRI (Yamana Gold)

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