Get Ready for Lower Gold Prices

Description

It has been a roller coaster ride of a year for precious metals investors with gold falling to its lowest level since late 2009. This has caused gold-mining stocks to be punished by the market, with the **NYSE Arca Gold BUGS Index**–an equal dollar weighted index of the largest listed gold miners–plunging by 35% for the year to date.

As a result, some pundits are speculating that gold miners are now attractively priced, but with signs that worse is yet to come for the price of gold, this couldn't be further from the truth.

Now what?

The Fed's recent rate hike has caused the price of gold to plunge, and there are signs that the lustrous yellow metal will remain under pressure. Not only is the opportunity cost of holding zero-yield investments such as gold now higher, but the rate hike underscores the strength of the U.S. economy.

As a result, the U.S. dollar can only continue to appreciate, which means that gold will come under further pressure.

You see, as the value of the dollar rises, the price of gold falls. This is because gold is priced by the dollar, and it becomes more expensive for investors to hold as the dollar rises.

As the U.S. economic recovery continues to surge ahead and as gold continues to decline, the price of gold can only fall further.

With gold now trading at about US$1,050 an ounce it is becoming increasingly clear that it will fall below US$1,000 in coming months. This will be below the cost of production for many gold miners, making it uneconomical for them to continue their operations.

You only need to look at **IAMGOLD Corp.** (TSX:IMG)(NYSE:IAG), which reported third-quarter 2015 all-in sustaining costs of US$1,027 per ounce, to see this.

Even industry heavyweights such as **Goldcorp Inc.** (TSX:G)(NYSE:GG) and **Newmont Mining Corp.** (NYSE:NEM

) reported all-in sustaining costs that weren't much lower. For the third quarter, Goldcorp's all-in sustaining costs were US$848 per ounce, while Newmont's were US$835 per ounce.

Only **Barrick Gold Corp.** (TSX:ABX)(NYSE:ABX), with all-in sustaining costs of US$771 per ounce, is well equipped to remain profitable if and when gold falls below US$1,000 per ounce.

However, the recent rate rise has made the cost of servicing debt more expensive, and while this may not be such a problem for Goldcorp because of its low level of leverage, it poses a problem for Barrick.

This is because at the height of the gold bull market, Barrick gorged itself on debt in order to make acquisitions of questionable quality. Even after engaging in an asset-sale program aimed at reducing its debt, the company still has US$11.2 billion in debt, which cost it US$597 million to service for the first nine months of 2015. The costs associated with this mountain of debt can only increase with the recent rate hike.

So what?

While the recent sharp sell-off of gold miners may have left them appearing attractively priced, there are signs that gold still has further to fall. This makes gold miners unattractive investments, particularly when you consider that gold could fall below the cost of production, forcing many miners to shutter operations, which will cause their production to fall and further harm their bottom lines.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

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2. NYSE:IAG (IAMGOLD Corporation)
3. NYSE:NEM (Newmont Mining Corporation)
4. TSX:ABX (Barrick Mining)
5. TSX:IMG (IAMGOLD Corporation)

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