Gold Stocks Are on Fire: Is Now the Time to Buy?

Description

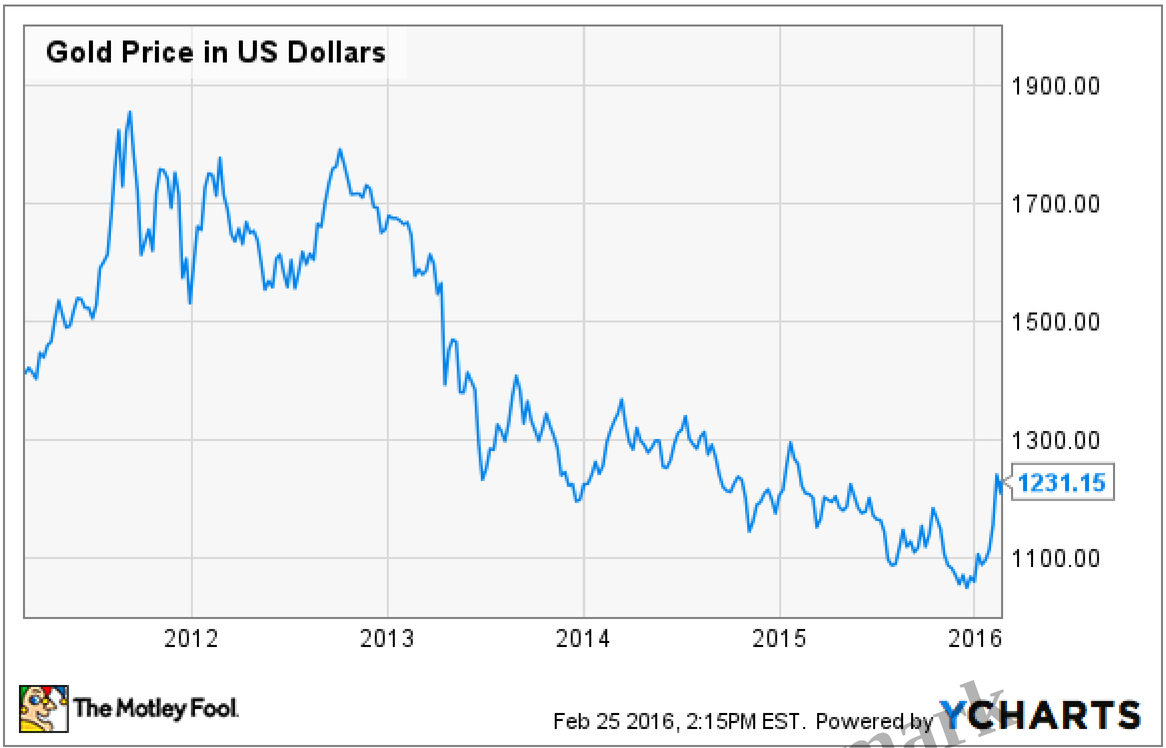
Gold shines where uncertainty looms. As global markets try to work through geopolitical and financial concerns, gold stocks have bounced off lows to deliver staggering returns year to date:

- **Barrick Gold Corp.** (TSX:ABX)(NYSE:ABX): Up 81%
- **Kinross Gold Corporation** (TSX:K)(NYSE:KGC): Up 60%
- **Yamana Gold Inc.** (TSX:YRI)(NYSE:AUY): Up 44%
- **Goldcorp Inc.** (TSX:G)(NYSE:GG): Up 36%

The dramatic rally has caught investors unawares, leaving them wondering if now's the time to buy gold stocks. While several analysts have turned bullish, I believe it's risky for investors to jump in just now.

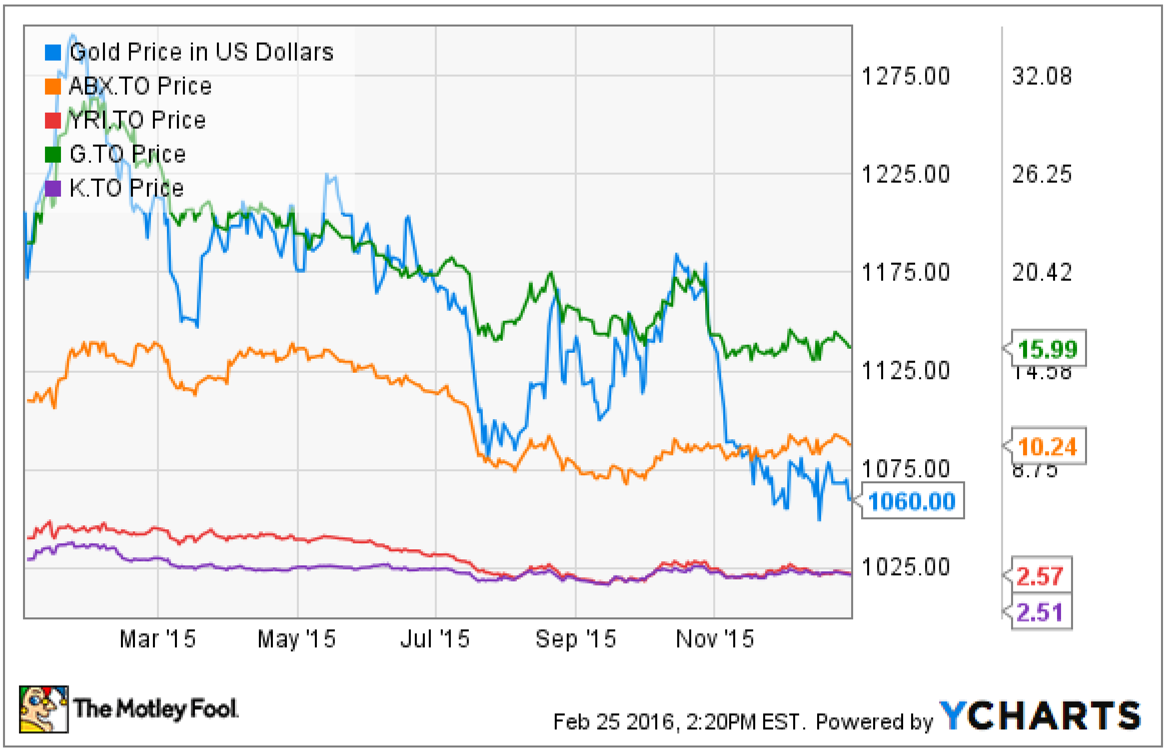
Two charts you must see

The fears of a deepening slowdown in China and its spiraling effects and speculation about the Fed putting off rate hikes have triggered panic among investors and sent the yellow metal shooting. Gold has always been considered a safe haven during periods of uncertainty, especially when the stock markets are choppy. But gold is also one of the most volatile commodities as you can see below:



[Gold Price in US Dollars](#) data by [YCharts](#)

As gold stocks move in tandem with gold prices, they're volatile, too. In fact, we're witnessing a repeat of 2015 now in terms of what's going on in the gold market. Gold prices surged to double digits in January last year as oil plunged and the crisis in Europe worsened. Gold stocks followed suit, only to give up all of their gains and more within the next couple of months.



Gold Price in US Dollars data by YCharts

By no means does that suggest that stocks like Barrick or Goldcorp are about to reverse trend in coming weeks. But the past highlights an important point: gold needs more than fear stoked by global turbulence to keep moving higher.

The key factor is demand, which hasn't really taken off. In fact, you may be surprised to know that imports from India–the world's second-largest gold market–is expected to *drop* to 2013 lows in February as pricier gold keeps cost-conscious buyers away.

What gold miners are doing and why it may not help

That leaves gold miners with two options: Produce more to push revenues or cut costs to boost profits. The problem is that every company is already stretched, and they can do only as much.

For instance, Goldcorp's production surged 42% year over year to record highs during the third quarter, and it expects to report 13-18% lower AISC for 2015. Kinross is projecting record gold production for 2016 and AISC of US$890-990 per ounce–a drop of nearly 9% at the lower end.

Along similar lines, Barrick produced 6.12 million ounces of gold last year, nearly as much as in 2014 despite slumping demand. At the same time, Barrick cut its AISC by 4% to US$831 per ounce in 2015.

So far, so good. But it's Barrick's outlook that reflects the looming uncertainty in the industry. While the company is targeting AISC of US$725-775 per ounce by 2018, it is also projecting volumes to drop to 4.6-5.1 million tonnes.

In other words, cost cutting will make little difference to gold miners if demand for the yellow metal doesn't pick up and prices don't stabilize. For now, the cost cuts and the anticipation of the Fed's inactivity have already been factored into the rapidly rising stock prices, and there's no clear catalyst to justify an extended rally.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

1. NYSE:AUY (Yamana Gold)
2. NYSE:B (Barrick Mining)
3. NYSE:KGC (Kinross Gold Corporation)
4. TSX:ABX (Barrick Mining)
5. TSX:K (Kinross Gold Corporation)
6. TSX:YRI (Yamana Gold)

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