3 Reasons Why Gold Is Surging

## Description

After years of frustration, gold investors finally have something to celebrate. The yellow metal is up more than 10% in February and is set for its biggest monthly gain since 2012. This comes after the gold price surged in January.



As a result, the stock prices of Canada's largest gold companies have taken off. So far in 2016, **Yamana Gold Inc.** (TSX:YRI)(NYSE:AUY) is up by nearly 50%, **Kinross Gold Corporation** (TSX:K)(NYSE:KGC) is up by roughly 60%, and **Barrick Gold Corp.** (TSX:ABX)(NYSE:ABX) shares have skyrocketed by more than 80%.

So what exactly has caused the surge in gold shares? We look at the top three reasons below.

**1. Concerns about China**

It's no secret that China's growth is slowing, and the country has a host of other problems as well. The country's total debts, which includes everything owned by the government, households, corporations, and financial firms, has climbed to US$31.9 trillion, according to McKinsey. That's equivalent to nearly three times the country's GDP, an astronomical figure for a developing nation. Worse still, the Chinese stock market has been plunging, and government officials have been eerily silent.

Of course, if China stumbles (more than it already has), then this could have severe repercussions for the global economy. We've seen plenty of evidence of that already.

Consequently, we've seen investors flock in greater numbers to safe havens such as gold, even as the **S&P 500** came off its lows. This is a trend that could certainly continue.

**2. The weakness in the U.S. dollar**

In recent years, the biggest economic concerns have occurred outside the United States. And at the same time, the Federal Reserve was preparing to raise interest rates. Both of those trends were positives for the U.S. dollar, which in turn is a negative for all commodities, including gold.

But in the past two to three months, we’ve seen those trends reverse. The U.S. economy is looking more fragile, and as a result the Federal Reserve is looking much more hesitant to raise rates. That in turn is weakening the U.S. dollar and strengthening gold prices.

**3. Negative interest rates**

While the Federal Reserve is keeping interest rates low, other central banks, including the Bank of Japan and the European Central Bank, have ventured into the world of negative interest rates. It’s a sign of just how far authorities are willing to go to spur growth. Of course, such policies make gold a far more attractive investment.

The question now is if gold will continue to rally. And if you look at the three trends identified above, none of them are going away any time soon. So, even though stocks like Barrick and Kinross have appreciated thus far, it may not be too late to jump in.

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**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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bensinclair