# Why Billionaire George Soros Just Bought 19 Million Barrick Gold Corp. Shares

## Description

When an investor like George Soros acts, the market typically pays attention.

Soros has a highly respected track record, which includes earning a $1 billion profit in a single day by shorting the British pound and, in 2010, correctly calling the ascension of gold "the greatest bubble of all time" before gold began a four-year 40% decline in 2011.



This is why the news that Soros made several changes to the portfolio of his fund made big news. Mainly, Soros purchased 19 million **Barrick Gold Corp.** (TSX:ABX)(NYSE:ABX) shares, which were valued at US$264 million at the end of March. In addition, Soros also acquired 1.05 million shares of the **SPDR Gold Trust ETF**, sold 37% of his stock exposure, and doubled his bet against the U.S. S&P 500 Index.

The general theme is that Soros is betting on weak performance of the U.S. index. This explains both his increased gold exposure and decreased stock exposure. While it's impossible to know for sure the source of his bearishness, based on his previous comments, it's likely because of China.

**Soros is anticipating a major crisis in China**

Soros recently stated that China is headed for a credit crisis similar to that experienced by the U.S. in 2007-2008, and that a hard landing for the Chinese economy is "practically unavoidable." This would in turn be bearish for U.S. stocks and positive for gold.

China's rapid and unprecedented growth in credit is behind Soros's concern. In 2015 China grew at only 6.9%, which would be the slowest pace in 25 years (some, like Soros, think China's growth is a much lower 3.5%). Despite this, debt has been skyrocketing, and debt levels as a percentage of GDP was 258% in 2015, up from 158% in 2007.

Debt is expected to grow at a faster rate than economic growth, and analysts at **Credit Suisse** see this number hitting 300% by 2020, at which point, economic growth would slow to a halt as a growing share of GDP goes to interest payments.

The end result is that China could end up with a banking and credit crisis similar to what the U.S. experienced. The banking sector in China in terms of assets has grown 10 times in 10 years, growing to a huge 340% of GDP. This is compared to the U.S. banking sector, which—at its peak before the financial collapse—had bank assets equal to 100% of GDP.

Much of these assets are economically unproductive, and **Goldman Sachs** sees these resulting in loan losses of as high as 20% for banks—four times what the U.S. experienced.

The end result would likely be some weakness in the U.S. economy. Kyle Bass of Hayman Capital Management thinks the end result would be about 1.5% of GDP growth coming off, leading to a growth rate of 0.5-1%. This would definitely mean a pullback in U.S. markets.

**What this means for gold prices and miners**

Several different factors affect gold prices, including the U.S. dollar, interest rates, and overall volatility. If the U.S. index were to fall, volatility would increase, which would in turn push investors into gold and raise the price.

Soros clearly sees Barrick Gold as an excellent way to play this trend. Not only is Barrick Gold the world's largest gold producer (which will surely benefit from an appreciation in prices), but the company is in the midst of a large transformation that will see it reduce debt, reduce breakeven costs, and generate free cash flow.



The company has seen success so far, reducing debt from $13 billion in 2014 to $9 billion currently and a year-end target of $8 billion. The company is currently en route to generating free cash flow at gold prices of US$1,000 an ounce, down from the US$1,700 an ounce the company expected to require in their previous five-year outlook.

**CATEGORY**

1. Investing
2. Metals and Mining Stocks

**POST TAG**

1. Editor's Choice

**TICKERS GLOBAL**

1. NYSE:B (Barrick Mining)
2. TSX:ABX (Barrick Mining)

**Category**

1. Investing
2. Metals and Mining Stocks

**Tags**

1. Editor's Choice

**Date**
2025/08/03
**Date Created**
2016/05/19
**Author**
amancini