



Barrick Gold Corp.: Is the Rally Sustainable?

Description

Barrick Gold Corp. ([TSX:ABX](#))(NYSE:ABX) is already up 180% in 2016.

Let's take a look at the current situation to see if more upside could be on the way for the world's largest gold miner.

Gold drivers

Gold has enjoyed a strong rally this year on the back of reduced expectations for higher interest rates in the United States.

What happened?

Coming into 2016, most pundits believed the U.S. Federal Reserve would raise rates four times during the year. This was negative for gold because higher rates normally drive up the value of the U.S. dollar.

Since gold is priced in U.S. dollars, a stronger greenback makes gold more expensive for holders of other currencies.

Higher rates in the U.S. also increase the opportunity cost of holding gold, which doesn't pay anything.

Expectations quickly changed at the beginning of the year as weak data out of the U.S. and fears about a debt bubble in China put the Fed back on its heels. As a result, the U.S. dollar pulled back and gold started to take off. By the spring, most analysts were calling for two rate hikes in 2016 instead of four.

The Brexit vote added another jolt of uncertainty, although the market quickly brushed that off, and gold pulled back a bit as a result.

But recent news has it moving higher again.

Another round of weak data out of the U.S. last week now has the experts calling for just one rate hike by the end of the year. Some say the Fed will hold off until 2017.

As we all know, sentiment can change on a dime, but the near-term outlook appears to be bullish for gold.

Barrick's turnaround

Barrick is in the middle of a massive turnaround effort.

The company managed to cut its whopping US\$13 billion debt pile by US\$3 billion last year and is well on its way to reduce the burden by another US\$2 billion in 2016.

In fact, the company has already repaid US\$968 million of debt this year.

Management is squarely focused on lowering costs. All-in sustaining costs (AISC) in Q2 came in at US\$782 per ounce on production of 1.34 million ounces. The company now expects to produce 5-5.5 million ounces in 2016 at reduced AISC of US\$750-790 per ounce. That makes Barrick the low-cost producer among the big miners.

Barrick generated US\$274 million in free cash flow in Q2, the fifth straight quarter the metric has been in positive territory.

More work has to be done, but Barrick is making good progress on its debt-reduction plan and is generating solid financial results.

Can the rally continue?

Pundits are now saying gold could drift back above US\$1,400 per ounce by the end of the year. Brave ones are even calling for US\$1,500. If that's the case, this stock could continue to surge.

Given the big run to date, you really have to be a gold bull to buy any of the miners right now. If you are in that camp, Barrick remains a strong pick.

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