Barrick Gold Corp.: Time to Buy the Dip?

Description

Barrick Gold Corp. (TSX:ABX)(NYSE:ABX) is down 20% since the beginning of August, and investors who missed the big rally earlier in the year are wondering if the pullback is an opportunity to buy.

Let's take a look at the current situation to see if the world's largest gold miner should be in your portfolio.

Gold price

Gold was expected to have another difficult year in 2016, but things haven't turned out that way.

What happened?

Most analysts believed the U.S. Federal Reserve would continue to raise interest rates in 2016 after taking the first step late last year.

In fact, pundits were calling for four moves to the upside in 2016, and that would have been negative for gold.

Why?

Higher rates increase the opportunity cost of owning gold, which doesn't pay anything to hold it. Rising U.S. interest rates also tend to push up the value of the American dollar against other currencies, making gold more expensive for foreign buyers. Gold is priced in U.S. dollars.

Weak U.S. data, fears about global market instability, and the Brexit vote have all resulted in the Fed sitting on its hands through the first part of 2016. This took some of the wind out of the sails of the U.S. dollar and subsequently provided a tailwind for the price of gold.

Where do we go from here?

The timing of the next move has everyone sitting on the edge of their seats. After the Brexit, analysts figured the Fed would be on hold until next year, but the mood in recent weeks has many pundits leaning toward a rate hike in September.

As a result, investors have been locking in profits on the miners, and gold is in a downward trend.

Should you buy Barrick?

At this point, investors should be careful about starting new positions in any of the miners. The sector has enjoyed a massive rally in 2016, and there is a risk that money could start flowing out on signs of renewed tightening by the Fed.

Given the extent of the gains to date, I would probably wait for the current pullback to run its course before putting new money in the stock.

For those of you who are long-term gold bulls, Barrick is definitely a name you want to own, and further weakness could provide an opportunity.

The company is making good progress on its turnaround plan by reducing debt and driving down operating costs. Barrick managed to cut US$3 billion in debt last year and is well on its way to trimming another US$2 billion in 2016.

All-in sustaining costs are now below US$800 per ounce, making Barrick the lowest-cost producer among its peers.

With production of 5-5.5 million ounces expected this year, there is a lot of upside torque if the price of gold is destined to push higher.

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