Goldcorp Inc.'s Founder Thinks Gold Is Headed to $1,900: Here's Why He May Be Right

Description

Last week, an article in *Bloomberg* was published that featured Robert McEwan stating gold would likely trade in a range of $1,700-1,900 an ounce by the end of the year. McEwan knows gold—he is the founder of **Goldcorp Inc.** (TSX:G)(NYSE:GG), the $18 billion gold-mining firm that is currently the fourth largest on the planet.

McEwan's forecast for gold is far more bullish than most. The majority of analysts see gold in the $1,400-1,600 per-ounce range through to 2017. While it is difficult to predict precisely where gold is headed (and perhaps impossible to predict during which time frame), it is possible to lay out a strong fundamental case for why gold is in the early stages of a bull market.

Gold formally entered a bull market in March of this year (as defined by a 20% increase off its lows), and the first quarter of 2016 marked the best quarter gold had seen since 1986. While gold prices (and gold equities) have leveled off during the summer due to a combination of seasonality (gold is seasonally weak during the summer) and the fact that the U.S. S&P 500 index continued to set record highs, which has the effect of reducing demand for gold. Gold doesn't have the same value as a diversifying asset when stocks seem to regularly make new highs.

Markets, however, don't continually make new highs indefinitely, and much of the current historic bull market in U.S. stocks (running 91 months compared to the average bull market length of 51 months) has not been due to historic earnings growth, but rather to continued easing by central banks. As easing programs come to an end (which many firms like Bridgewater see happening soon), volatility will return to markets, which will in turn support gold prices.

This increased demand for gold will come at a time when global gold supply is dwindling, which sets up a sustainable basis for a multi-year bull market.

"Peak gold" has likely arrived

Gold prices are affected by so many different factors (inflation, market volatility, U.S. dollar strength, ETF demand, interest rates) that investors sometimes forget to look at basic supply/demand fundamentals.

The supply picture for gold is particularly bullish. Between 2007 and 2012, gold discoveries fell by 75%, and since 2000, less than half of mined gold ounces have been replaced. Much of the easy-to-produce, high-grade gold deposits have already been discovered and mined, meaning producers are left with costlier, low-grade deposits.

At the same time, lead times for new projects are as long as 20 years, and many producers are focused on debt repayments. **Barrick Gold Corp.** (TSX:ABX)(NYSE:ABX), for example, is reducing its debt from $15 billion to $5 billion after years of poor spending during the previous gold bull market.

These factors will result in a coming decline in gold production. Goldcorp sees peak production for gold as having occurred in 2015. The company forecasts production will decline by 13% through to 2022. This is an issue because gold demand is rising on all fronts—China and India are responsible for 50% of consumer gold demand, and the populations in these countries are not only growing, but are also becoming more prosperous.

China's middle class will grow by 500 million by 2020, and India's will grow the same by 2025. This will result in larger gold consumer gold demand.

Gold ETF demand is set to climb as well

Gold ETFs are a key source of demand, and, in fact, global gold demand in Q1 2016 climbed by 219 tonnes. Of this demand growth, 80% came from the gold ETF **GLD.** Demand here is only set to grow—interest rates are expected to remain low even once central banks start gradually increasing, and this will increase investors' desire to hold gold.

In addition, central bank asset-buying programs have increased global equity and bond valuations to the highest level since 1980 according to Deustsche Bank, and when interest rates gradually start to rise, much of the overvaluation caused by accommodative monetary policy will unwind, and this will benefit gold.

Barrick Gold is an excellent way to play this coming bull market, since it is the largest global producer of gold and has a solid production growth runway.

CATEGORY

1. Energy Stocks
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

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

Category

1. Energy Stocks
2. Investing

Tags

1. Editor's Choice

Date
2025/08/07
Date Created
2016/09/30
Author
amancini