



Barrick Gold Corp.: Is the Rally About to Continue?

Description

Barrick Gold Corp. ([TSX:ABX](#))(NYSE:ABX) has given back half of its 2016 gains, and investors are wondering if the stock could be setting up for a new surge.

Let's take a look at the current situation to see if Barrick deserves to be in your portfolio today.

Gold market volatility

Gold rallied through the first half of 2016 on the back of reduced expectations for interest rate hikes in the United States.

Why is this important?

Higher U.S. interest rates are generally negative for gold because they tend to drive up the value of the U.S. dollar, in which gold is priced. Rising rates also increase the opportunity cost of holding gold, which doesn't provide any yield.

The U.S. Federal Reserve entered 2016 with a plan to raise rates four times, but weak economic data and concerns about financial turbulence in global markets early in the year kept the Fed on the sidelines. As soon as the market realized the Fed was going to be less aggressive, gold took off.

The rally received an extra boost from the surprise Brexit vote, but that surge was short-lived, and gold has been in a downtrend since early July.

Why the sudden weakness?

Profit-taking is responsible for part of the pullback, but investors also started to get concerned the Fed might finally start to move in the back half of 2016.

Mixed data and hawkish comments from Fed board members now have the market expecting a rate hike by the end of the year. Analysts aren't sure if that will be the start of more aggressive actions in 2017, or simply another one-and-done situation, as we saw last December.

As such, investors are still locking in gains and waiting to see which way the wind will blow in the coming weeks.

Is Barrick attractive?

Barrick is making good progress on an ambitious turnaround program. The company cut its debt load by US\$3 billion last year and is well on the way to shaving off another US\$2 billion in 2016.

Management is also doing a good job of streamlining operations and cutting expenses.

Barrick is targeting 2016 production of 5-5.5 million ounces at all-in sustaining costs (AISC) of US\$750-790 per ounce. That makes the company the largest producer with the best cost structure among its peers.

More work has to be done, but Barrick is on track to meet its objectives for the year and is generating solid free cash flow.

Should you buy?

If you are a bull on gold, Barrick should be near the top of your buy list.

At the moment, however, there is no indication the recent slide has hit a bottom, so I would wait for a confirmed change in sentiment before buying any of the miners.

CATEGORY

1. Investing
2. Metals and Mining Stocks

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1. NYSE:B (Barrick Mining)
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