Is the Party Over for Gold Miners?

Description

Late last month, gold experienced its biggest one-day fall since 2013. Even after bouncing back in recent weeks, there are fears that the party could be over. This has had a sharp impact on gold miners as the monster rally experienced by many since mid-2016 has come to an abrupt halt.

Nonetheless, there are signs that the latest pullback offers investors an opportunity to gain exposure to gold.

Now what?

Gold's role as a hedge against inflation and as a safe-haven asset during times of deep economic distress is gaining in importance in a global economy suffering from anemic growth and wracked with economic fissures.

The Eurozone is yet again on the verge of another banking crisis. Italian banks are increasingly in need of a bailout, and the European Central Bank's program of quantitative easing and negative interest rates is applying considerable pressure on the ability of European banks to grow earnings.

There are also fears over the health of Germany's largest bank **Deutsche Bank AG**. Earlier this year the IMF labeled it as the world's most systemically risky bank with the potential to trigger another financial crisis should it collapse.

Then there is the ongoing economic weakness of emerging markets; many are still battling to recover from poor fiscal policy and weak commodity prices.

And investors would do well not to forget China, the world's second-largest economy.

Beijing has kept the printing presses running as it battles to reignite growth, creating a trillion-dollar debt bubble that some economists fear could burst at any time. This would have a devastating impact on the world economy because China is an important engine of global economic growth, and is the world's single largest consumer of commodities, except for crude.

Even the U.S., which has shown itself to be particularly robust in the current environment, continues to give mixed signs as to whether its economic recovery can be sustained.

Recent economic data shows that consumer confidence has fallen and jobs growth remains weaker than expected. This is weighing heavily on the perceived strength of the U.S. economy and whether or not the Fed will hike interest rates before the end of the year.

If rates remain unchanged, then gold will inevitably surge because this will signal that the U.S. economy is not as healthy as predicted, causing the dollar to weaken.

You see, gold and the U.S. dollar share an inverse relationship, whereas higher interest rates sap the appeal of non-yielding investments such as gold. A weak dollar along with a low interest rate environment would boost gold's appeal among investors.

So what?

Physical gold or a bullion-linked ETFs such as **SPDR Gold Trust** (NYSE:GLD) are among the primary ways of gaining exposure to gold, but now there are some more attractive opportunities among gold miners.

Two that stand out include the world's largest gold miner, **Goldcorp Inc.** (TSX:G)(NYSE:GG), and mid-cap miner **Eldorado Gold Corp.** (TSX:ELD)(NYSE:EGO). Both missed out on the massive rally that caused other miners, such as **Barrick Gold Corp.** and **Yamana Gold Inc.,** to surge to two-year highs earlier this year.

This was because the market was disappointed with their poor performance, which was caused by a sharp reduction in gold production due to declining ore grades, unexpected outages at key mines, and asset sales.

Nevertheless, they remain on track to boost gold output and reduce costs, which should give their earnings a healthy bump in coming months. Because they missed out on the monster rally experienced by other gold miners, they are attractively priced and offer considerable potential upside.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

1. NYSE:EGO (Eldorado Gold Corporation)
2. NYSEMKT:GLD (SPDR Gold Trust)
3. TSX:ELD (Eldorado Gold Corporation)

Category

1. Investing
2. Metals and Mining Stocks

Date
2025/07/03
Date Created
2016/10/26
Author
mattdsmith