

Revealed: 5 Reasons Gold Could Shoot Much Higher in 2017

Description

This year was a real roller-coaster ride for the price of gold bullion.

The commodity started out the year below US\$1,100 per ounce—close to a five-year low. It then rallied smartly, reaching US\$1,300 by May and flirting with US\$1,400 per ounce in the summer. Weakness then hit the sector with prices falling almost non-stop in the second half of the year. As I write this, gold is sitting at US\$1,137 per ounce—a return of about 5% for the year.

In short, it was very much the definition of “much ado about nothing.”

Will 2017 be better for the world’s oldest store of value? I think so. Here are five reasons why.

Increased inflation

If President Trump follows through on many of his election promises, a big round of inflation could hit North America.

The logic goes like this.

Trump will pledge billions towards infrastructure spending. Or he will pledge to build the wall without Mexico’s help. The government will be forced to borrow the money needed to do so from investors. These investors will be happy to lend money, but at a higher rate than today. Rates will start to go up, and with them, inflation will rise.

Since gold has always been a hedge versus inflation, the price of the yellow metal will go up as well.

Weaker U.S. dollar

One of the most underrated reasons why gold (and other commodities) have been so depressed is because of U.S. dollar strength. If the dollar is stronger, then investors will demand fewer dollars in exchange for gold.

Over the last five years, the price of gold in Canadian dollars is down approximately 10%. In U.S. dollars, the decline is closer to 30%. Much of this disparity is because of U.S. dollar’s strength.

This could change. The U.S. dollar is at a 14-year high versus a basket of other currencies. That’s usually a good indication to bet against something.

Production cuts

Production is coming down for many of the world’s top miners. They’re relentlessly cutting high-cost production.

Barrick Gold Corp ([TSX:ABX](#))(NYSE:ABX) is a great example. In 2015, the metals behemoth produced 6.12 million ounces of gold. In 2016, it's on pace to produce between 5.25 and 5.5 million ounces. Not surprisingly, most of the production cut had the highest costs.

It isn't just Barrick. Gold miners around the world are cutting production in an attempt to get their all-in sustaining costs down. That's the main metric investors are looking at today.

Stock market jitters

Today's bull market is getting long in the tooth. At some point, stocks will correct. It could be a big correction too.

There are a couple of things that are scary about stock market corrections. One, only a select few can identify them beforehand, while they take the rest of us by surprise. And investor psychology can get especially nasty, especially after the correction has been happening for a little while.

A correction is great news for gold. Investors will increase their gold exposure during a downturn. It's happened before and it will happen again.

Out of favour

The investing world hates gold right now. That's because markets are high and the U.S. dollar is strong. Thus, gold has become a contrarian asset.

Owning contrarian assets can be painful. But the pain is worth the wait when the market finally gets on your side. Gold is primed for such a move. Any number of catalysts could make this happen.

It's better to own assets nobody likes. And right now, gold certainly qualifies.

The bottom line

Predicting the price of any commodity is tough. All I know is that gold is out of favour, which is usually a pretty good time to load up. Gold miners will offer better returns than bullion itself, thanks to the huge amount of operating leverage that's inherent in the industry.

If you're bullish on gold, the time to buy is today. I don't think it'll get much cheaper.

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Date

2025/08/23

Date Created

2016/12/21

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