Gold Back at US$1,200: Can the Rally Continue?

Description

Gold is at a seven-week high of US$1,200 per ounce.

Let’s take a look at the current situation in the global market to see if more gains could be on the way.

Fed impact

The U.S. Federal Reserve was expected to raise interest rates four times in 2016. In the end, the Fed only moved once, in December.

Why is this important?

Higher interest rates increase the opportunity cost of holding the non-yielding yellow metal. Rising U.S. rates also tend to push up the value of the American dollar, in which gold is priced. This makes gold more expensive for holders of other currencies and can dampen demand.

The Fed’s decision to hold back on rate hikes spurred a rally through the first half of 2016, but investors started to get nervous again after the Brexit vote failed to drive gold much higher. This led to a slide through mid-December, as markets once again turned their eyes on potential rate increases in 2017.

The Fed is now looking at three potential rate rate hikes for this year. If that turns out to be the case, gold will have a tough time making significant gains.

If 2017 turns out to be a repeat of last year, and the Fed is actually less aggressive than expected, gold might retest the 2016 highs.

Recent economic data out of the United States has been mixed, so the Fed could go either way at this point.

Trump impact

The Trump election win extended gold’s slide through November and into the first two weeks of

December as investors piled into equities and bailed out of gold and bonds.

Since then, market sentiment is showing signs of a change.

What's up?

Trump's strong language against China and his plans to renegotiate trade deals have some pundits concerned global markets might be in for a rough ride. Gold tends to do well when investors get scared, so the rally could pick up steam once Trump takes office.

Europe impact

Financial chaos in Europe could also boost gold in 2017. The Brexit remains an issue, Italy's banks are in big trouble, and both France and Germany have national elections this year.

The market might blow off bad news the way it did in 2016, but investors should keep an eye on developments in Europe for signs of trouble.

Which stocks should you buy?

You have to believe the gold rally is going to continue to be an owner of gold producers today.

If you are in that camp, **Barrick Gold Corp.** (TSX:ABX)(NYSE:ABX) should be on your radar.

The company is making good progress on its debt-reduction efforts and boasts all-in sustaining costs below US$800 per ounce, making it the low-cost producer among the big players.

At current prices, Barrick is generating decent free cash flow. Higher prices could bring a windfall.

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