Agnico Eagle Mines Ltd. Benefits From Rising Gold Prices

Description

In late 2011, gold prices peaked at close to $1,900 per ounce, then retreated steadily to levels of just over $1,000 per ounce at the end of 2015 and are currently at just over $1,200. There are certainly many questions that remain with respect to where gold is going from here, but one thing is sure: the industry has suffered through a period of record production and declining demand and, in response, has worked hard at reducing costs and improving balance sheets, and this leaves gold producers well positioned to reap the rewards of rising gold prices.

So if you believe that rates will stay low for longer, that the economy will remain lacklustre, and that heightened geopolitical risk is here to stay at least for the medium term, then it may be wise to turn to gold for its "safe-haven" qualities.

U.S. dollar weakening

As we know, gold has an inverse relationship with the U.S. dollar. With the start of Donald Trump's presidency, we have seen a weakening in the U.S. dollar and a strengthening in the price of gold. In this environment of uncertainty with respect to trade agreements and increased geopolitical risk, gold has benefited.

Investors interested in ramping up their gold holdings should consider **Agnico Eagle Mines Ltd.** (TSX:AEM)(NYSE:AEM) for its operational excellence and good organic growth profile.

In its latest quarter, Agnico-Eagle Mines reported strong results, and management released their forecast for 2016 production to exceed the upper end of the 1.58-1.60 million-ounce guidance that was previously given. Also, importantly, the company is achieving a best-in-class operating structure with all-in-sustaining costs of $821 per ounce. This compares to **Kinross Corporation's** (TSX:K)(NYSE:KGC) all-in sustaining cost of $1,001 per ounce and **Goldcorp Inc.'s** (TSX:G)(NYSE:GG) all-in sustaining cost of $863 per ounce.

In terms of production, after a strong production increase in 2015, it looks like Agnico Eagle Mines will see a marginal decline in production in 2016, while Goldcorp saw an almost 20% reduction in production in 2016, and Kinross is expected to see a marginal increase in production in 2016.

Additionally, Agnico Eagle Mines has shored up its balance sheet and currently has a debt-to-capitalization ratio of 21.3%, similar to Goldcorp, which has an 18% debt-to-capitalization ratio, and Kinross, which has a 28% debt-to-capitalization ratio.

The bottom line is that the fate of gold prices is really dependent on many factors, including the health of the global economy, physical demand, and production levels of the metal. But at least at the company level, we have seen a renewed focus on improving efficiencies and cost structures, and Agnico Eagle Mines stands out in this respect.

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