# Get Ready for Gold to Surge in 2017

## Description

Last year was difficult for gold investors. The lustrous yellow metal whipsawed wildly during the year as it bounced back from the multiyear lows reached in December 2015 to end the year up by 8.5%. The considerable optimism surrounding Trump's planned fiscal stimulus has kept a lid on gold until recently.

In recent days, gold has rallied to be up by 7% for the year to date because of increasing uncertainty over Trump's policies and the health of the global economy. There are expectations that gold will firm over the course of 2017 because of the growing skepticism surrounding Trump's policies and the threats posed to global economic stability.

**Now what?**

A key reason for the recent surge in gold is the failure of the Fed to give a clear indication of whether or not a March rate hike will occur, causing the U.S. dollar to soften. A weaker greenback makes U.S. dollar-denominated commodities like gold more affordable for investors who hold other currencies.



Then there are the fears surrounding Trump's protectionist trade agenda, anti-immigration policies, and the unpredictability of his brash policy statements. The unpredictability of a Trump presidency and the noises that he and his cabinet are making continue to rattle financial markets and support gold.

You see, one of gold's key characteristics is its status as a safe-haven investment. During times of economic and political upheaval, this makes it an attractive investment.

There are a range of emerging threats to global economic stability which have the potential to spark another financial crisis. Key among them are growing fears over the sustainability of China's economic growth and the health of its financial system.

Beijing has demonstrated a preference for using debt-funded fiscal stimulus to meet GDP growth targets. While using debt to fund economic development is in itself is not necessarily a bad thing, it becomes problematic when it is used to prop up unproductive industries and ailing state-run enterprises.

Analysts expect Beijing to double-down on using debt-fueled fiscal stimulus and infrastructure investment to drive economic growth during 2017, further magnifying the fissures which exist in China's economy. These include pockets of excess supply in a range of sectors, a proliferation of unprofitable state industries, a credit-fueled construction bubble, and an overheated housing market.

The over-reliance on debt to drive economic growth will only add to the ballooning trillion-dollar debt bubble and growing bad-debt problems. Total debt is now more than two-and-a-half times GDP, which is a level that many economists consider to be approaching the threshold that is fatal for economic growth over the long term.

According to international ratings agency Fitch, bad debts in China's banking system are 10 times higher than officially admitted and would cost over US$2 trillion to clean up.

This staggering level of debt could crash China's economy, the fallout from which would spill over across global financial markets because China is the largest single consumer of the majority of commodities and a key driver of global growth.

**So what?**

For these reasons, gold remains an attractive hedge against further political and economic crises. I expect it to perform well over the course of 2017, making gold miners and precious metal streamers attractive investments.

One of the most attractive is **Eldorado Gold Corp.** (TSX:ELD)(NYSE:EGO), which has not rallied as strongly as many of its peers over the last year.

Investors were disappointed with the miner's moves to restructure its operations and sell its portfolio of assets in China. Nevertheless, this allowed Eldorado to strengthen its balance sheet and reduce risk by divesting mature assets operating in high-risk jurisdictions. The end result is a renewed focus on its European assets, which will boost production and reduce operating expenses over the long term, boosting margins and Eldorado's bottom line.



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