



Goldcorp Inc.: Is the Pullback Overdone?

Description

Goldcorp Inc. (TSX:G)(NYSE:GG) is down 20% from its 2017 high.

Let's take a look at the current situation to see if the former go-to stock in the gold sector deserves to be in your portfolio.

Gold recovery

Gold prices have recovered in recent weeks and are now threatening to break above US\$1,300 per ounce.

What's going on?

A combination of safe-haven demand and reduced interest rate fears is bringing investors back to the yellow metal.

Recent terror attacks in the U.K. have once again put investors on edge as they try to determine how the events might impact the June 8 election.

Prime Minister Theresa May has a narrow lead going into the election, according to the latest polls. If she loses, or if the vote results in a hung parliament, gold could get an additional boost next week.

When May initially called the snap election, most pundits expected her to win a comfortable majority, which would make it easier for her to negotiate the U.K.'s divorce with the European Union.

A rift in the Middle East between Qatar and its neighbours is also causing some concern.

Saudi Arabia, the U.A.E., Bahrain, and Egypt have cut diplomatic ties with Qatar over claims the country is supporting terrorist groups.

On the interest rate side, weak U.S. employment data has investors wondering if the U.S. Federal Reserve will follow through on its plan to raise interest rates two more times in 2017.

Higher rates are often negative for gold because they increase the opportunity cost of holding the non-yielding yellow metal. Rising rates also tend to push up the value of the U.S. dollar, in which gold is priced. This can put a damper on demand from buyers who hold other currencies.

Weak economic reports could force the Fed to scale back its rate-hike schedule. If that proves to be the case, gold could find additional support in the coming months.

Is Goldcorp oversold?

Goldcorp is making good progress on its turnaround efforts. The company is adding strategic assets and says reserves and production should increase 20% over the next five years, while all-in sustaining costs are expected to fall 20% over that time frame.

Gold was US\$1,247 per ounce when Goldcorp traded above \$23 per share in February. At the time of writing, gold is US\$1,295 per ounce and Goldcorp is \$18.40 per share.

Based on those numbers, the stock looks oversold.

Other factors are in play that might be holding investors back, including a US\$1 billion deal announced in late March to enter a joint venture with **Barrick Gold Corp.** in Chile.

Should you buy?

If you are bullish on gold over the medium term, it might be worthwhile to start nibbling on Goldcorp while the stock is still out of favour.

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