



Goldcorp Inc.: Is the Pullback Complete?

Description

Goldcorp Inc. (TSX:G)(NYSE:GG) is down more than 30% in the past year, and investors are wondering if the sell-off is now overdone.

Let's take a look at the current situation to see if this is the right time to add Goldcorp to your portfolio.

Gold prices

Gold took a run at US\$1,300 per ounce in mid April and early June, but it has pulled back toward the US\$1,200 mark in recent weeks.

What's going on?

Safe-haven demand has subsided on reduced geopolitical concerns, and investors are once again focusing on U.S. interest rates.

Higher rates in the United States tend to be negative for gold because they increase the opportunity cost of holding the non-yielding precious metal.

Rising U.S. interest rates can also put upward pressure on the American dollar, in which gold is priced. This can have a negative impact on demand as it makes gold more expensive for holders of other currencies.

An interesting point to note is that the American dollar has actually fallen against many currencies this year, despite two rate hikes from the Federal Reserve.

Is a rebound about to begin?

Federal Reserve chair Janet Yellen might have signalled the near-term low for gold in her July 12 comments.

Yellen said weak inflation persists and gave no definitive guidance on further rate hikes in 2017. The initial objective was to deliver three rate increases this year. The Fed raised its target rate in March and

June.

As a result of the dovish comments, the gold market might reverse its recent trend, especially if investors start to believe the Fed is finished raising rates for 2017.

What about Goldcorp?

Goldcorp used to be the go-to name in the sector, but operational troubles in recent years have taken some of the shine off the stock.

Management is working through a turnaround plan, and the outlook for the medium term is improving. Goldcorp expects its all-in sustaining costs to fall 20% over the next five years. During that time, production and the company's resource base are targeted for 20% growth.

Should you buy?

In the near term, gold is likely to remain stuck in the US\$1,200-1,300 per ounce range, barring any major geopolitical or economic shocks.

As such, you have to be a long-term gold bull to own any of the gold miners right now.

If you are in that camp, it might be worthwhile to start nibbling on Goldcorp while the miner is still out of favour. The market might not be adequately appreciating the progress the company has made on its turnaround efforts.

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