



Gold Tops US\$1,300: Time to Buy Barrick Gold Corp.?

Description

Gold just broke through its 2017 high, riding a wave of safe-haven buying triggered by rising geopolitical fears.

Let's take a look at the current situation and see if the industry's largest player **Barrick Gold Corp.** ([TSX:ABX](#))(NYSE:ABX) deserves to be in your portfolio.

Risk trade

The recent terror attacks in Spain, tensions with North Korea, and ongoing political drama in the United States are driving up demand for gold.

Gold has generally shrugged off geopolitical risks over the past couple of years, but investors might be thinking there is simply too much chaos going on right now and are deciding to hedge their bets.

The disbanding of two important business advisory councils in the United States might also be playing a factor in gold's push above US\$1,300 per ounce. The elimination of the groups has analysts wondering if the Trump administration will be able to move ahead with policies that would be supportive for equity markets and the economy.

Stocks reacted negatively to the news, and the sell-off likely saw investors shifting money into gold on the expectation of further downside for equities.

What about interest rates?

Rising interest rates tend to be negative for gold, as they increase the opportunity cost of owning the non-yielding yellow metal.

The U.S. Federal Reserve already raised its target rate twice in 2017, and the market is trying to decide if a third move is in the cards before the end of the year.

With so much uncertainty in Washington, traders might be thinking the Fed is done until 2018.

A look at Barrick

Barrick is working its way through a turnaround program that began in 2015.

The company has reduced its debt load from US\$13 billion to below US\$8 billion and plans to get the number down to US\$5 billion in the next couple of years.

At the same time, operating costs are falling, and the company is consistently generating decent free cash flow.

Barrick is the world's largest gold producer, with 2017 production targeted at 5.3-5.6 million ounces at all-in sustaining costs of US\$720-770 per ounce.

Gold has increased \$95 per ounce in the last six weeks. If the precious metal can hold the gains, that translates into an additional US\$500 million for Barrick on an annualized basis, assuming the company maintains the low end of its production target.

Should you buy?

Gold has traded in a range of US\$1,200-1,300 this year, so there is a risk the latest surge could simply be another head fake before a dip back toward the lower support level.

As such, I wouldn't back up the truck today to chase the rally.

However, if you are a long-term gold bull, or think the situation in Washington is going to get worse in the coming months, Barrick probably deserves to be on your buy list.

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Date

2025/07/30

Date Created

2017/08/21

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