Gold Hits 2017 High: Time to Buy the Miners?

Description

Gold continues to build on the strong gains it racked up in recent weeks, and investors who have been on the sidelines are wondering if it is time to step in and take a position in the miners.

Let's take a look at the current situation to see if gold stocks should be in your portfolio right now.

Big rebound

Gold had traded in a range between US$1,200 and US$1,300 per ounce for most of this year until the latest breakout took it to new highs.

The metal is up more than US$100 per ounce since early July, supported by a weak U.S. dollar and reduced expectations for further interest rate hikes in the United States before the end of the year.

Rising geopolitical tensions are also fueling the rally.

Why are these things important?

Gold is priced in U.S. dollars, so any weakening of the greenback against other currencies makes gold cheaper for some non-dollar buyers, and that can boost demand.

On the interest rate front, rising rates tend to be negative for gold because they increase the opportunity cost of owning the non-yielding metal. Higher rates can also put upward pressure on the value of the U.S. dollar, although that hasn't happened so far this year.

The U.S. Federal Reserve already raised rates twice in 2017, and the original expectation in the market was for a third move in the coming months. In recent weeks, however, the mood has changed in the market, and traders are starting to think the Fed is done until 2018.

As a result, gold is getting a bit of a bid.

Gold is also used as a safe-haven investment when the global market gets nervous about financial or geopolitical threats.

The rising tensions with North Korea are starting to make investors nervous, especially with President Trump's harsh rhetoric towards the rogue nation.

North Korea just launched a missile over Japan, which is fueling an extended move of funds into gold.

Which stocks should you buy?

If you believe the new gold rally has legs, it might be worthwhile to take a small position in **Goldcorp Inc.** (TSX:G)(NYSE:GG).

The stock has been out of favour with investors over the past couple of years, but management is making good progress on the turnaround efforts, and the market might not be giving the company the credit it deserves.

Production and resources are expected to increase 20% in the next five years, while all-in sustaining costs should fall 20% over the same time frame.

If the recent gains in gold hold up, Goldcorp should see a big improvement in margins in the coming quarters, and that could drive the share price much higher.

At the time of writing, Goldcorp trades for $16.75 per share. The stock was above $23 in February when gold was much lower than it is today, so there is a shot at some nice upside from the current price.

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