



Could Gold Hit US\$1,400 Before 2018?

Description

Gold rose above the key US\$1,300 mark in late August and broke to the highest point it has seen in 10 months. Two major factors have contributed to its rise: the weakening U.S. dollar and rising tensions in the Korean Peninsula.

Canadian gold equities have been big beneficiaries of the late-summer surge for the yellow metal. **Alamos Gold Inc.** ([TSX:AGI](#))([NYSE:AGI](#)) has increased 17.7% month over month as of August 31. **Goldcorp Inc.** (TSX:G)(NYSE:GG), one of the top five gold producers in the world, has risen 4.8% month over month. **IAMGOLD Corp.** ([TSX:IMG](#))([NYSE:IAG](#)) has boomed 23% month over month and 59% in 2017.

Gold reached beyond the US\$1,300 mark on two other occasions in 2017, only to fall below US\$1,250. So, will the third time be the charm for those long on gold equities?

The Federal Reserve decision is looming for the U.S. dollar

Soft inflation has given members of the Federal Reserve some pause regarding future rate hikes. The hawks have won out for the time being, electing to raise rates, even with largely flat inflation. Slow wage growth has also been a topic of discussion, and it has become a key indicator, perhaps even more so than the raw jobs added. Futures markets do not expect another rate hike from the Fed in 2017, citing these concerns as well as shaky market conditions.

On August 31, Statistics Canada released GDP numbers that blew expectations out of the water. The 4.5% growth reported was the fastest rate since 2002. Markets are now expecting the Bank of Canada to move forward with a second rate hike in September or October. Though it will most certainly be another 25-basis-point rise, this could still give the Canadian dollar a boost. The Trump administration also made clear in early 2017 that the U.S. dollar had risen too high in the wake of the 2016 election and could potentially hurt U.S. manufacturing.

If the Fed passes on a rate hike in 2017, this will undoubtedly give gold more momentum.

Will cooler heads prevail in the Korean Peninsula?

North Korea drew the ire of the international community after allegedly firing a ballistic missile over neighbouring Japan on August 28. U.S. president Donald Trump and North Korean supreme leader Kim Jong-un have traded barbs and threats over the last few months. Still, the bluster may be just that. In an interview before his stunning resignation, former chief strategist to the president, Steve Bannon, stated that there was “no military solution” to the Korean crisis.

Other national security higher-ups have expressed similar thoughts, including Secretary of State Rex Tillerson. The ongoing war of words appears to be a negotiating tactic between the two nations, who have apparently established back channels. In spite of the fiery rhetoric, a military conflict appears to be extremely unlikely, so gold stands to benefit more from general anxiety rather than an actual shooting war.

The next two months are going to be key for gold, and performance of the dollar in the face of rate hikes could forge a bullish path for the safe haven that will last into next year.

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