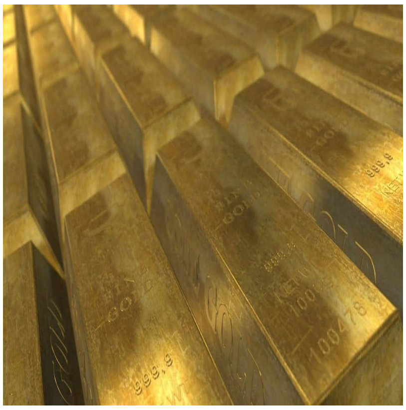

What Happened to the Gold Rally?

Description

Gold stocks have come under pressure, as gold gives back the big gains it racked up over the summer months.

Let's take a look at the current situation to see if the sell-off is an opportunity to buy or a reason to stay on the sidelines.

Volatile sentiment

Gold is primarily influenced by interest rate moves in the United States and investor fear related to potential geopolitical or financial market unrest.

The U.S. government raised interest rates twice this year, and initial expectations had investors looking for a third hike before the end of December.

That drove gold down through the first half of 2017, with the bottom coming in June, close to the US$1,200 mark.

Mixed economic data from the United States started to shift expectations through the summer, with many pundits suggesting the Fed might hold off until 2018 before making another move. Buyers subsequently came back into the gold market, sending the price of the yellow metal as high as US$1,350 per ounce.

In recent days, however, the mood has changed again, with the market starting to think the Fed will raise rates again before the end of the year.

What about fear?

Gold received an extra boost over the past two months from safe-haven demand, as investors shifted funds into the precious metal amid fears the recent missile launches by North Korea could lead to a military intervention by the United States.

Gold has broadly ignored geopolitical threats in recent years, but this situation finally had some traders concerned.

The string of natural disasters that have occurred in the United States and Mexico have shifted media attention away from North Korea, and that appears to have taken some of the fear out of the market.

Where do we go from here?

Ongoing volatility should be expected in the gold market. Media attention could quickly refocus on North Korea, and any further threats from the country or the United States might reverse the trend once again.

Should you buy gold stocks?

The sell-off in the gold producers might be a bit overdone.

For example, **Goldcorp Inc.** (TSX:G)(NYSE:GG) is trading at new 12-month low. The company is making progress on its turnaround efforts and expects to see production and resources rise 20% over the next five years. All-in sustaining costs are projected to drop 20% over the same time frame.

If you are a gold bull, it might be worthwhile to start nibbling on further weakness, but I would keep any new position small until the latest pullback has run its course.

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