



Will Goldcorp Inc. Recover in 2018?

Description

Gold producers missed out on the strong market rally of 2017, and contrarian investors are wondering whether next year will bring better results.

Let's take a look at the situation in the gold market to see if producers such as **Goldcorp. Inc.** (TSX:G)(NYSE:GG) deserve to be on your buy list.

Volatility

Gold has traded in a range of US\$1,130 – \$1,350 over the course of 2017, fluctuating on changing expectations of interest rates and, to some extent, on heightened geopolitical fears.

Interest rates

Rising interest rates in the United States continue to be the main focus of [gold](#) traders.

Why?

Gold is a non-yielding asset, so the opportunity cost of owning the yellow metal goes up as interest rates rise. This can put downward pressure on gold prices due to funds shifting from precious metal to fixed income holdings.

In addition, higher U.S. rates can result in a stronger American dollar in which gold is priced, making it more expensive for buyers using other currencies. In 2017, however, the dollar actually lost ground to a number of important currencies despite three rate hikes.

Heading into 2018, the market is anticipating three more moves to the upside by the U.S. Federal Reserve. If that holds, or if it looks like the Federal Reserve might be even more aggressive, gold will likely come under pressure.

Safe-haven demand

Regarding the fear trade, investors have historically moved into gold when there is a real, or perceived,

reason to run to safe-haven assets.

The North Korea situation provided a bit of a boost to gold in 2017, but the market quickly found other distractions. The threat has not gone away, and a new ramp-up of the nasty rhetoric could bring buyers back into the market next year. However, that scenario is unlikely to provide a sustainable support for gold.

Should you buy Goldcorp?

Given the interest rate headwinds, investors shouldn't expect a big move in 2018.

However, if you are a long-term gold bull, Goldcorp might be worth a [contrarian](#) shot today.

The company is making good progress on its turnaround efforts. Net income for Q3 2017 came in at US\$111 million, or \$0.13 per share, compared to US\$59 million in the same period last year.

Looking ahead, management is targeting 20% resource and production growth through 2021, while all-in sustaining costs are expected to fall 20% over the same period.

In addition, cash flows are expected to increase.

The stock is trading near its 2017 low despite gold being at US\$1,280 per ounce, so there is a case to be made that Goldcorp remains oversold.

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