



Gold Tops US\$1,350: Are More Gains on the Way?

Description

Gold continues to extend its 2018 rally, and investors are wondering if this is the start of a new [bull run](#) for the precious metal.

Let's take a look at the current situation to see if more upside could be in the cards.

Dollar weakness

The American dollar has weakened significantly in recent months, and that is one reason for the rise in gold, which is priced in the U.S. currency.

What's the story?

As the greenback slides, gold becomes cheaper for holders of foreign currencies, and this can trigger increased demand for the yellow metal.

The dollar index, which tracks the value of the U.S. dollar against a basket of key currencies, is down about 10% in the past 12 months, and the trend appears set to continue.

Recent comments by U.S. Treasury Secretary Steven Mnuchin have added momentum to the sell-off. At the World Economic Forum in Davos, Mnuchin said he isn't worried about the decline in the value of the American dollar.

Both Mnuchin and President Trump have previously indicated they support a weaker dollar to improve U.S. trade, so there is a chance the pullback has room to run.

Interest rate headwind

Gold bears might be scratching their heads a bit when they look at the recent dollar decline and [gold surge](#).

The U.S. Federal Reserve raised interest rates three times in 2017. Higher U.S. rates are widely viewed as being negative for gold, as they increase the opportunity cost of owning the non-yielding

metal.

Rising rates can also boost demand for the American dollar and push up its value against other currencies, but that has not happened.

Inflation fears

Gold is often held as a hedge against inflation, and some buyers might be taking positions in the metal on the assumption the Trump administration's policies could boost economic growth so much that inflationary pressures become an issue.

Which stocks should you buy?

If gold can extend its rally through US\$1,400 per ounce, we could see a strong shift of funds into the miners through 2018.

That would put a nice tailwind behind the entire sector, so any of the names would likely do well.

For investors who prefer to own the industry heavyweights, companies such as **Barrick Gold Corp.** ([TSX:ABX](#))(NYSE:ABX) and **Goldcorp Inc.** (TSX:G)(NYSE:GG) are making good progress on turnaround efforts, and the market might not be appreciating the upside potential on a gold rally.

The stocks have picked up some momentum in the past month or so, but the big surge that would often come with a sharp rise in gold has not occurred. As such, I would probably start with a position in these names.

If you are not a gold fan, there are other opportunities to consider that could be on the verge of a breakout.

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