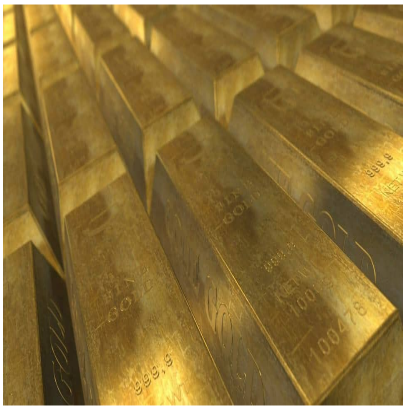

Barrick Gold Corp.: Buy or Bail Out?

Description

Gold is back below US$1,300 per ounce, and investors are wondering if the downward trend is going to continue through the end of 2018.

Let's take a look at the current situation to see if this is a good time to own **Barrick Gold Corp.** (TSX:ABX)(NYSE:ABX) or any of the other miners.

Gold volatility

Gold peaked around US$1,900 per ounce back in September 2011. It then went into an extended downturn, bottoming out around US$1,100 in late 2015. The metal took off again, hitting US$1,370 in July 2016 before crashing back to US$1,125 in December of that year.

A choppy, but generally upward move occurred through 2017, topping out around US$1,350 in early September. The momentum quickly faded, though, and the price dropped back to US$1,240 in December. By late January 2018, gold was back above US$1,360, but it hit some strong headwinds and is now trading at US$1,290, which is near its lowest point this year.

What's going on?

Interest rates and investor fear can have an impact on the price of gold, and both are coming into play right now.

Rising rates in the United States tend to be negative for gold, as they increase the opportunity cost of owning non-yielding assets, such as the yellow metal. The U.S. Federal Reserve increased its target rate three times in 2017 and already bumped it up once this year. Pundits are looking for two more rate hikes by the end of 2018.

Inflation concerns are starting to creep into discussions again, meaning expectations for four hikes in 2018 might be rising. If the market starts to lean that way, additional downside could be on the way for gold.

Gold is also used as a hedge against financial shocks triggered by geopolitical or economic events. Last year we saw a spike in gold supported by concern over the potential conflict with North Korea. That quickly faded.

Recent fears about a possible trade war with China triggered some buying, but the situation appears to be settling down, and once again, gold is selling off.

The unpredictability of President Trump will likely provide some ongoing support for gold, but it is difficult to say if safe-haven buying can overcome the interest rate headwinds.

Another point to consider is gold's potential use as a hedge against inflation. The merits of the strategy are hotly debated, but there are some analysts who think we could see a surge in inflation that is greater than expected, and that might provide support for gold in the next few years.

Overall, the interest rate outlook is the main driver, and rising rates will likely cap any meaningful upside move in the price of gold in the near term.

Are gold stocks attractive?

The big mining companies, such as Barrick, have worked hard in recent years to clean up their balance sheets and invest in assets that deliver the best returns, rather than simply growing for the sake of being big.

Barrick's debt load has come down from US$13 billion to an expected 2018 exit position of about US$5 billion. The company has streamlined its operations to the point where it is one of the lowest-cost producers in the industry and is focused on maximizing free cash flow per share instead of production volume.

Gold is unlikely to see a significant move to the upside in the near term, and I suspect we haven't reached the bottom for 2018, so I wouldn't back up the truck today for any of the miners. However, if you are a long-term gold bull and are looking to get some exposure in your portfolio, Barrick Gold remains largely out of favour and might not be getting the credit it deserves for the progress it has made on the turnaround plan.

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