



Could Turmoil in Turkey Spark a Run for Gold?

Description

Indexes in the United States and Canada appeared to bounce back in morning trading on August 14. The value of the Turkish lira fell by another 10% on August 13 as major markets in the U.S., Europe, and Asia all retreated on fears of financial contagion. European banks currently hold billions in Turkish debt. The Turkish lira has lost 45% of its value in 2018 so far.

The U.S. has also targeted Turkey in its “America First” initiative. It levied steel and aluminum tariffs of 50% and 20%, respectively. The U.S. is the largest market for Turkish steel and accounted for 1.5 million tons in the previous year. Turkish President Tayyip Erdogan fired criticism at the United States on August 13.

“You act on one side as a strategic partner, but on the other you fire bullets into the foot of your strategic partner,” Erdogan said on Monday. “We are together in NATO and then you seek to stab your strategic partner in the back. Can such a thing be accepted?” In an op-ed published in *The New York Times* on Monday, Erdogan threatened to seek out new allies if the U.S. continued to apply pressure. China has extended offers to aid Turkey with yuan-denominated bonds and new investment, while Russian Foreign Minister Sergei Lavrov is also set to arrive in Ankara for talks this week.

In April I’d discussed the rise of [great power competition](#), the likes of which has not been seen since World War I and World War II. Turkey is an important strategic partner of the United States and Europe. If it seeks new allies in the form of Russia, China, Iran, and other nations that have become economic targets of the U.S., this could result in a dramatic realignment. Subsequently, this could lead to rising tensions in the Middle East, where conflicting interests have already resulted in massive proxy wars that have claimed the lives of hundreds of thousands of people.

Will this re-emergence of global turmoil help gold? Not yet, if recent trading days are any indication. The yellow metal has continued to hover around the \$1,200 mark after plunging following an interest rate hike from the U.S. Federal Reserve and strong economic news.

Yamana Gold Inc. ([TSX:YRI](#))([NYSE:AUY](#)) stock was up 0.93% in late morning trading. The stock has actually climbed nearly 10% year over year. Other top miners like **Barrick Gold Corp.** ([TSX:ABX](#)

)(NYSE:ABX) and **Kinross Gold Corp.** ([TSX:K](#))([NYSE:KGC](#)) have suffered steep drops in 2018 so far. The spot price of gold has shed approximately \$40 over the past month.

The price of gold and gold equities have suffered mightily in 2018. Positive economic fundamentals and [easing of tensions on the Korean Peninsula](#) have kept investors away from the safe haven. The Turkish lira crisis has the potential to rattle global markets in the near term, but its economy is not large enough to significantly threaten global trade. The larger risk is in the strategic realignment that could result as Turkey seeks out alternative allies in its trade battle with the U.S.

CATEGORY

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