



Gold Investors: Is the Yellow Metal's Price Headed to \$2,000?

Description

Gold topped out around US\$1,900 in 2011 before dropping into a multi-year downturn that bottomed out below US\$1,100 in 2015.

Since then, gold has bounced around in a narrow range, but recent strength has some pundits wondering if we could be in the early stages of the next big rally.

Let's take a look at the current situation in the market and see if this might be a good time to put the miners in your [portfolio](#).

Rate hike uncertainty

The U.S. Federal Reserve and the Bank of Canada went on a rate hike binge over the past two years in an effort to get ahead of an overheated economy and potential inflation that threatened to exceed their comfort levels, or so they thought.

In recent months, the mood has completely changed. Weak economic data and ongoing geopolitical and trade concerns have resulted in a change of tone from the Fed and the BoC. Analysts that had priced in three rate hikes in both countries in 2019 are now expecting no moves at all. Some are even floating the idea that a rate cut could be warranted.

How does this affect gold?

Rising rates tend to be a headwind for the price of gold as they make fixed income alternatives more appealing as a place to park cash, compared to gold, which doesn't offer any yield. Rising rates can also push up the value of the U.S. dollar, although this does not always occur. Gold is priced in dollars, so a rising greenback makes the precious metal more expensive for holders of other currencies.

With [interest rates](#) expected to remain flat, or even decrease in the medium term, gold might find some additional support.

Crypto crash

The cryptocurrency craze might have contributed to some of the weakness in the gold market in the past couple of years as investors shifted funds out of gold in favour of Bitcoin and other digital currency alternatives. The subsequent crash in the crypto currency market might now be fuelling a gold comeback. Many investors got burned betting on a Bitcoin bonanza and gold could be regaining some of its shine as an alternative for wealth preservation.

Brexit, trade wars, and political uncertainty

Brexit is down to the wire with no clear indication on how the whole fiasco will end. The longer the situation goes without a clean resolution, the more likely investors will seek out a safe place to store their cash.

On the trade front, the U.S. and China continue to work through negotiations. In the meantime, tariffs are starting to have an impact on their respective economies, and an extended slowdown in China's economic growth could tip the global economy into recession.

If that occurs, the equity markets might run into another rough patch like the one we saw in the final months of 2018. All the uncertainty could drive more gold buying.

Another issue that the market appears to be ignoring is the recent elevation in tensions between India and Pakistan. The countries both have nuclear weapons and recent clashes have the international community worried that the situation could escalate to a level that nobody wants to imagine. If a new war breaks out, gold could rocket higher.

Consolidation

The gold miners spent the past several years cleaning up their balance sheets and driving efficiency into their operations. A flurry of mega deals and joint-venture discussions in recent months could kick start a new wave of interest in the sector.

If gold is truly about to take off, a surge of just 50% would bring it to a new high near US\$2,000.

Should you buy?

While the support that has occurred in recent months appears promising, it could very well turn out to be another head fake before another plunge toward a new multi-year low, so I wouldn't back up the truck. In the end, you have to be a gold bull to own the miners.

That said, companies such as **Barrick Gold** ([TSX:ABX](#))(NYSE:GOLD) are in pretty good shape right

now, and the mining stocks appears cheap, especially if gold is getting ready to add another \$200-300 per ounce in the next few years.

I'm not convinced a gold run to US\$2,000 is in the cards, but it wouldn't be a surprise.

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Author

aswalker

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