



Barrick Gold (TSX:ABX): Could the Stock Price Soon Double to \$40?

Description

The price of gold just topped US\$1,400 for the first time since 2013, and [contrarian](#) investors are wondering whether the gold miners are about to take off and make up some lost ground.

Let's take a look at the current situation in the market to see whether industry giant **Barrick Gold** ([TSX:ABX](#))(NYSE:GOLD) has what it takes to rise 100% from its current stock price.

An unexpected rally

Last year the gold bears were fully control, leaving most pundits assuming that the seven-year slump in the sector was set to continue. The position was hard to argue; interest rates were rising in the United States at a healthy rate, and the general consensus was that the U.S. Federal Reserve would hike rates at least three more times in 2019.

Rising interest rates tend to be bad for gold demand, as they boost the return investors can get from safe fixed-income investments. Gold doesn't offer any yield, so the opportunity cost of sitting on the yellow metal increases each time the Fed hikes its target rates.

Some pundits argue that the emergence of cryptocurrencies has also disrupted the gold market. Studies indicate that investors might have shifted significant funds out of gold and into cryptocurrency positions, as the prices of Bitcoin and its peers soared.

Finally, the attraction of gold as a safe haven buy appeared to weaken. Geopolitical shocks used to send investors into gold's arms, but in recent years, the market became relatively indifferent to big international news.

Late 2018 witnessed the beginning of a change, and taking a look at the past eight months gives us a pretty clear understanding of why gold has jumped from US\$1,200 last October to the current price of US\$1,400.

Trade tensions between the U.S. and China have put the U.S. central bank in hold mode. By the start

of the year, most analysts had reduced rate hike expectations down to one or two moves. As we now know, there is widespread anticipation of at least one rate cut before the end of the year.

That's a huge shift in a relatively short period. The ongoing trade dispute between the two economic powers risks spilling over into the global economy and central banks around the world are becoming more dovish in their statements.

For the moment, this trend is set to continue, and once the rate cut dominos start to fall, the trickle of funds flowing back in to gold today could become a flood.

Regarding cryptocurrencies, the bottom fell out at the end of last year and all the previous gold fans that got burned might be returning to the boring old precious metal.

On the save-haven side, it seems that traders are finally starting to get worried about geopolitical risks. Reports suggest that the U.S. nearly launched a military attack on Iran in recent days. Where the situation goes from here is anyone's guess, but the entire Middle East is an unstable powder keg right now, and an ill-timed spark could set off a chain reaction of war. This might sound like fearmongering, but moves in the gold market suggest that traders are starting to take notice.

Could Barrick Gold double?

Barrick Gold currently trades at \$20 per share at writing, up from \$16 a month ago but still well off the price it fetched the last time gold was at these levels. In July 2016, gold was US\$1,375 and Barrick traded for \$29. In September 2012, Barrick traded for more than \$40 per share when gold reached US\$1,700.

After a significant effort to reduce debt, the company is arguably much stronger financially now than it has been in years. In addition, the recent merger with Randgold Resources has put it in control of half of the planet's top 10 mines. Barrick even raised the [dividend](#) last year. Given the size of its annual production of roughly 5.5 million ounces of gold, every US\$100 of gold price increase potentially adds US\$550 million in additional free cash flow.

A double by Barrick to \$40 by year end would require gold to really take off, but that possibility shouldn't be ruled out now that the metal is at a six-year high.

If you have some cash on the sidelines, Barrick might be an attractive contrarian pick today.

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