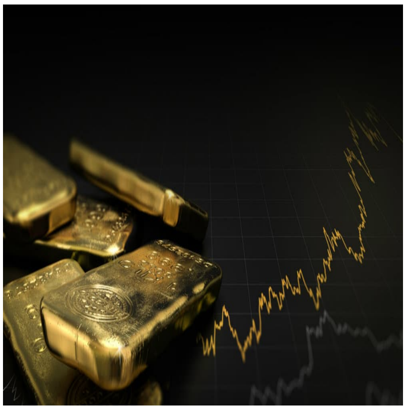

How High Could the Gold Price Go in 2020?

Description

The price of gold is holding its recent gains above US$1,500 per ounce, and investors are wondering if the precious metal will continue to glitter heading into next year.

Uncertain times

At the end of last summer, most analyst predicted the U.S. Federal Reserve would continue along its aggressive tightening path and raise interest rates three times in 2019.

By January, it became apparent that the Fed was going to ease up a bit on the throttle, as the trade dispute between the United States and China threatened to undermine global growth. A deferral of Brexit from March to the end of October added more uncertainty to global markets.

As we now know, the Fed's position went from cautious to defensive. The central bank cut its target rate by 25 basis points in July, and analysts are trying to figure out if another cut is on the way before the end of the year. Activity in the U.S. bond market suggests traders are anticipating more reductions in the coming months and through 2020.

Gold tends to find support when interest rates are falling in the United States, as lower rates reduce the opportunity cost of owning gold, which doesn't offer any yield. The more convinced investors become that the Fed will continue to cut rates, the more likely it is that gold will extend its rally.

Negative bond yields

Another interesting development is the movement of trillions of dollars of global government bonds into negative yields. The trend has been in place for some time, but has expanded significantly in recent months. As much as 25% of global government debt now trades at a negative yield, including that of Japan and Germany.

This is also positive for gold. Institutional investors who are searching for a safe place to protect wealth might look at gold’s zero yield as more appealing than the negative yield they would get with government debt.

Currency wars

Global investors are increasingly concerned about a potential currency war. Central banks around the planet are slashing interest rates. This is often done as a strategy to weaken the currency to improve exports and reduce borrowing costs to help boost the economy.

Gold is priced in U.S. dollars, so holders of other currencies who are concerned about buying power might acquire more gold to protect their capital.

Risks

Gold is largely an emotional trade, driven by expectations. In the event the U.S. and China hammer out a trade deal, gold would likely give up gains, and it could pull back significantly.

The October 31st Brexit deadline is fast approaching, and uncertainty surrounding the possibility of a no-deal Brexit is also providing support to gold. If the U.K. actually leaves the E.U. without a deal, gold could surge much higher. However, a reasonable deal negotiated at the last minute could trigger a pullback.

Upside

The developments in the global bond market will not be easily reversed. In addition, some analysts are of the opinion that the damage is already done with respect to trade battle between the U.S. and China, and that a U.S. recession is now unavoidable. The recent inversion of the U.S. two-year and 10-year bond yields supports that theory.

This would likely lead to more aggressive rate cuts by the Federal Reserve, providing additional support for gold.

In a scenario where we see a no-deal Brexit, an increase in U.S.-China tariffs, and a looming recession, gold could move significantly higher in 2020. In fact, a run at US$1,800 per ounce wouldn’t be a surprise.

How to play the rally

Gold stocks tend to have more upside torque than the actual metal when gold prices rise.

For example, **Detour Gold** is up 100% in the past three months. The company has a single mine located in Canada and is often cited as a potential takeover target for its large resource and attractive jurisdiction.

Barrick Gold was arguably one of the most hated stocks in Canada over the past eight years, but the company has cleaned up its balance sheet and is now focused on developing assets that meet strict return thresholds.

Barrick even raised its dividend last year, and more gains should be on the way. The recent merger with Randgold Resources created a global giant with five of the planet's top 10 mines. The stock is up more than 50% since the end of May.

In the event gold is set to rally through the end of 2019 and into 2020, Detour Gold and Barrick Gold should be attractive picks for your portfolio.

CATEGORY

1. Investing
2. Metals and Mining Stocks
3. Stocks for Beginners

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Investing
2. Metals and Mining Stocks
3. Stocks for Beginners

Date
2025/07/03
Date Created
2019/08/28
Author
aswalker