



## Will the Saudi Attack Drive Gold to New Highs?

### Description

The attack on Saudi Arabia's oil production facilities is driving global oil prices higher, but it is also bringing new interest into the [gold market](#).

What's the scoop?

Saudi Arabia shut down half of its oil output in the wake of an attack over the weekend that targeted its Khurais oil field and the Abqaiq oil-processing facilities.

Khurais is Saudi Arabia's second-largest oil field with daily production capacity of about 1.5 million barrels per day. Abqaiq is the planet's largest oil-processing operation with capacity to put through at least seven million barrels per day of crude oil for the global market.

The damage, apparently caused by drone attacks, has forced Saudi Arabia to remove nearly six million barrels of crude oil production per day from the market.

Oil prices surged 10% as a result of the event, and traders are trying to figure out what the long-term impact could be for the market and international [oil producers](#).

### Why is gold moving higher?

Gold jumped US\$12 per ounce on the news, and pundits are wondering if more upside could be on the way, as conflict risks increase in the Middle East.

Saudi Arabia and Iran are supporting opposite sides in the war in Yemen. Shortly after the attack on the Saudi facilities, the Houthi rebels in Yemen claimed responsibility. The group has targeted Saudi pipelines and oil tankers in the past few years but never managed to hit the core of the production and processing infrastructure.

The U.S., however, is pointing the finger at Iran, and that could lead to some tense times in the region in the coming days and weeks.

Saudi Arabia is likely to respond with additional force in Yemen, but the bigger fear is a direct confrontation with Iran.

The two oil powers are actually OPEC partners, but their cooperation pretty much ends at the organization. Any escalation of conflict in the region, including a retaliatory attack on Iran, could have dire consequences for the global economy.

In a worst-case scenario, Iran could block the Strait of Hormuz, where roughly 20% of global oil is transported by tankers to supply international markets. A resulting surge in oil prices back to US\$100 per barrel would have a negative impact on a global economy that is already at risk of a severe downturn due to the U.S.-China trade battle.

If the situation gets out of hand in the Middle East, gold could see its 2019 rally extend into 2020, as safe-haven investors move cash into the yellow metal.

## Gold stocks

Gold stocks recently gave back some of the big gains that occurred through the summer months. For example, **Barrick Gold** trades near \$23 compared to its 2019 high above \$26 per share.

Gold hit US\$1,560 before pulling back to US\$1,500 in recent weeks, but potential unrest in the Middle East could rekindle the rally. This is in addition to the longer-term tailwind that should come from declining bond yields and falling interest rates around the globe.

If you are a gold bull and have some cash sitting on the sidelines, it might be a good time to increase your exposure to the sector.

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