



Will Gold Stocks Rally in 2020?

Description

The surge in the price of gold in the second half of 2019 has lifted the share prices of many of the top gold stocks.

Long-term gold bulls are cheering the bounce after a dismal run of nearly eight years that saw bullion prices collapse, triggering a crash in the [gold miners](#).

Many of the top mining stocks still trade far below their previous peaks and investors are wondering if the 2019 rally is the start of a new multi-year recovery.

Let's take a look at the current situation to see if gold stocks deserve to be top picks on your 2020 [buy list](#).

Interest rates

The price of gold is partly driven by movements in U.S. interest rates, or at least by expectations of where the U.S. Federal Reserve is headed with its target rate.

One theory is that falling interest rates in the U.S. will eventually weaken the value of the U.S. dollar against a basket of carefully watched foreign currencies. A number of other factors impact the currency market, but this is one that gold bulls consider when making their bets.

Gold is priced in U.S. dollars, so any slide in the value of the precious metal potentially makes it cheaper for international buyers, which should drive stronger demand.

Lower interest rates in the U.S. also reduce the opportunity cost of owning gold, which doesn't provide any yield. As fixed-income yields fall, gold becomes more attractive.

There is a global trend toward lower interest rates as governments try to boost their economies amid fears of a global economic slowdown. Yields on some government bonds are now negative, meaning gold starts to look more appealing as a way to protect capital.

The U.S. already reduced its target rate twice in 2019 and pundits are calling for more reductions through next year. This should be supportive of gold and we could see a surge in gold prices if the American central bank cuts more aggressively than expected.

A risk is the potential for a global devaluation war, again linked to governments trying to prop up their economies. In that scenario, holders of currencies that are at risk of falling significantly in value against the American dollar might move more funds into gold as a safe haven investment.

Geopolitical risk

Gold tends to catch a bid when global investors are worried that a major event could trigger chaos in the financial markets. In recent years investors have shrugged off big events, but that might not be the case going forward.

Any military escalation between Saudi Arabia and Iran resulting from the attack on Saudi Arabia's oil facilities could cut oil supplies significantly and destabilize global markets.

In Europe, the Brexit fiasco continues, while Italy's weak banks remain problematic.

Back in North America, the headlines suggest Elizabeth Warren could win the Democratic nomination to challenge Donald Trump in the 2020 election. She is not considered a Wall Street supporter and some analysts say a win by Warren could send the stock market tumbling.

Should you buy gold stocks?

Gold stocks have pulled back a bit after their strong rally through the end of the summer, but the pause could be consolidation ahead of a new rise. The price of gold is holding its gains and continues to trade around US\$1,500 per ounce.

The longer gold remains at this level or higher, the bigger the impact on the margins of gold producers. As an example, **Barrick Gold** ([TSX:ABX](#)) (NYSE:GOLD) just released guidance that says it's on track to hit the upward end of its 2019 production target of 5.1–5.6 million ounces.

The company says costs will be at the low end of guidance. Barrick Gold's all-in sustaining costs are expected to be US\$870–920 per ounce.

All things being equal, an annualized US\$300-per-ounce increase in the sale price at stable production costs would add US\$1.53–1.68 billion in margins, based on the production outlook. That could generate strong free cash flow to support dividend hikes. Barrick Gold has enjoyed a nice rally, but still appears cheap if gold is set to extend the rally.

If you have some cash sitting on the sidelines, gold stocks in general deserve to be on your radar heading into next year.

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