Could Gold Really Hit $2,000 in 2020?

Description

The price of gold is up US$300 per ounce in the past 12 months, and investors who missed the rally in gold stocks this year are wondering if more upside could be on the way as we head into 2020.

Geopolitics

Gold is often viewed as a safe place to park money when it appears the world is about to go off the rails.

Whether or not that's true is up for debate, as the equity markets have become more resilient to large international events that would have rocked the boat in the past.

For example, the attack on Saudi Arabia's oil facilities in September briefly knocked about 5% of global oil supply off the market. Oil initially soared 20% but gave back all the gains in the following days. The stock markets barely flinched.

Should investors be more afraid?

The U.S. blamed the attack on Iran. Saudi Arabia hasn't responded with a reciprocal gesture, but there is no doubt that tensions in the Middle East are increasing. Any direct military conflict between Saudi Arabia and Iran would potentially cut off up to 20% of global oil supplies due to the risk of a blockage by Iran of the Strait of Hormuz.

In that scenario, the global economy would get a big shock and gold could soar.

The ongoing trade dispute between the United States and China is also destabilizing the workings of international trade. Tariffs are hitting both manufacturers and retailers of finished goods and companies are shelving investment decisions until the smoke clears on all the uncertainty.

The potential domino effect is significant.

We are already seeing central banks around the world cut interest rates in an effort to boost economic activity. This is threatening to create a currency war where countries try to devalue their money against the U.S. dollar and other currencies in order to make their exports more competitive.

In this situation, gold becomes attractive. The yellow metal is priced in U.S. dollars and would be viewed as a way for holders of foreign currencies to protect their capital. Even in normal economic times, gold can serve this purpose. For example, the Canadian dollar was at par with the greenback a few years ago. Today, one U.S. dollar buys $1.30 Canadian.

Bond yields are also falling to levels that make gold more attractive. In fact, government bonds in Japan and much of Europe now trade at negative yields. That makes no-yield gold quite appealing. In the event the U.S. joins the club in the next couple of years, gold could see a significant inflow of funds.

Finally, chaos in the United States government could send gold higher. An impeachment of Donald Trump would destabilize markets, and there is no shortage of pundits saying that a win by Elizabeth Warren in the Democratic primaries, let alone the election, could send stock markets crashing.

Whether or not that would occur is yet to be seen, but money could flow to gold in an effort to hedge against the risk.

Could gold go to $2,000?

Gold currently trades at US$1,500 per ounce. That's up 25% from the November 2018 low. A move to US$2,000 wouldn't be a surprise next year in the event a couple of the big geopolitical or economic threats come to fruition in tandem.

As such, it might be a good idea to add some gold stocks to your portfolio.

The share prices of the mining companies tend to move more than the price of the yellow metal, as we saw in the rally over the summer this year.

Barrick Gold is a case in point. The share price rose more than 60% from the end of May to the first part of September. The stock has pulled back from $26 to $22 per share in the past two months, but gold has held the bulk of its gains, meaning there could be some strong upside for Barrick Gold if the precious metal resumes its rally.

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