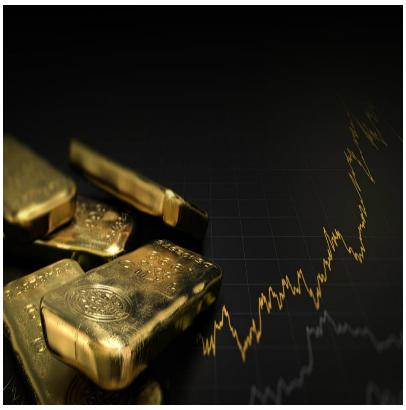

Gold Price Outlook: Should You Buy Gold Stocks Today?

Description

The price of gold is down US$100 per share since hitting its 2019 high in September.

At the current price of US$1,450, gold is still up more than US$200 per ounce compared to this time last year and investors are wondering if they should take advantage of the recent dip to start adding gold miners to their buy lists.

Positive trend

A round of profit taking is to be expected, especially after the size of the rally that occurred over the course of the summer months. Gold traded below US$1,300 near the end of May before taking off and eventually hitting US$1,560 a mere three months later.

Despite the recent pullback, the market conditions that drove gold higher remain in place.

Gold tends to move as a result of changes in U.S. interest rates. Lower rates often drive gold higher, while rising rates normally serve as a headwind.

Why?

Gold doesn’t provide any yield, so lower interest rates reduce the opportunity cost of holding the yellow metal. The U.S. Federal Reserve cut interest rates three times in 2019. At the moment, the Fed appears content to sit and watch what happens heading into 2020, and that might be why some traders are booking gold profits.

Any signal that the U.S. economy is weakening or that the trade war with China is going to continue for several months would likely force the Fed to consider additional cuts next year. If the market starts to think that will happen, gold could get a new boost.

The yield on U.S. treasuries is still in positive territory, but that isn’t the case in many countries. In fact, trillions of dollars of government bonds, including those of Japan and Germany, currently trade at negative yields. This is an odd situation that isn't expected to go away in the near term. Some pundits say the U.S. will eventually join the club.

In this scenario, no-yield gold starts to look very attractive.

Consolidation

The gold sector went through several difficult years, and the large miners have generally cleaned up their balance sheets. As an example, **Barrick Gold** (TSX:ABX)(NYSE:GOLD) was almost crushed by its US$13 billion debt load. Fortunately, a number of successful asset sales combined with a recovery in gold prices have enabled the company to get back on its feet.

Free cash flow is now a key focus, and Barrick Gold just increased its dividend.

With most of the ugly work complete, the industry is now consolidating. Barrick Gold merged with Randgold Resources. Newmont Mining bought Goldcorp, and Kirkland Lake just announced it is acquiring Detour Gold.

The merger trend is expected to continue, and the end result could be a handful of massive companies that essentially control the majority of the gold market. This would potentially lead to higher gold prices.

Barrick Gold, for example, already owns five of the planet's top 10 mines. It wouldn't be a surprise to see Barrick Gold or Newmont Goldcorp acquire Kirkland Lake after the Detour deal closes.

At the time of writing, both Barrick Gold and Newmont Goldcorp have market capitalizations of about $40 billion. Kirkland Lake and Detour have a combined market capitalization of about $15 billion.

Should you buy gold stocks today?

A major trade breakthrough between the United States and China would likely put added pressure on the price of gold due to a perceived drop in global recession risks. This can't be ruled out in the coming months, so I wouldn't back up the truck.

However, gold bulls might want to start nibbling while the sector catches its breath. Industry leaders seem to have a positive outlook, and any major economic blow-up could send gold and the share prices of the miners significantly higher.

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