



Gold Rally: Could Global Conflict Drive the Price of Gold to \$2,000 in 2020?

Description

Gold is starting 2020 with a major rally, and investors are wondering if the gold miners could be top picks for their TFSA or [RRSP](#) portfolios this year.

Let's take a look at the current situation to see if [gold](#) could be setting up for a run to a new record high in the next 12 months.

Safe-haven appeal

Gold often catches a tailwind when global investors start to get nervous about geopolitical risks. The new year is certainly providing reason for concern, as reports have emerged that the United States military just killed a top Iranian general in Iraq.

The U.S. Defence Department said it killed General Qassim Soleimani, who was the head of Iran's elite Quds Force. The U.S. accused Soleimani of approving attacks that occurred on the U.S. Embassy in Baghdad in recent days and said he was "actively developing plans to attack American diplomats and service members in Iraq and throughout the region."

The move is a major escalation in the ongoing tensions between the United States and Iran, and markets are reacting in a defensive manner, as investors and traders try to figure out what might happen next.

New highs on the way

Gold surged above US\$1,550 on the news, sending the price of the yellow metal near its 2019 closing high of US\$1,560. That's a six-year peak, and any move beyond this level could open the doors to a test of the 2011 high above US\$1,900 per ounce.

The Middle East is already in a fragile state. An attack on Saudi Arabia's oil facilities in September briefly cut the country's production in half and removed 5% of global supply. The U.S. accused Iran of

being behind the attack, yet there was no immediate response from Saudi Arabia.

Iran is threatening to take revenge for the killing of its general. Global traders are trying to figure out what that could mean. Oil prices surged 4% on the news, as the market worries about potential further supply disruptions in the Middle East.

If Iran decides to block the Strait of Hormuz, oil prices could soar, adding more risk to an already shaky global economy. That would provide support to the gold rally.

Aside from the Middle East, North Korea has increased its threats against the United States in recent weeks. Any escalation on that front would drive more safe-haven buying.

Falling bond yields on global government debt are another potential driver of rising gold demand. Germany, Japan, and a basket of other countries already have bonds trading at negative yields. This makes no-yield gold more attractive for investment funds that need to park cash in a safe location.

Should you buy gold stocks?

Gold stocks continue to lag the recent uptick in the price of gold.

Barrick Gold, for example, trades at \$24.50 per share at the time of writing, compared to more than \$26 in early September.

The miners have done a good job of cleaning up their balance sheets in recent years, and the added cash flow that will arise from a sustained increase in the price of gold should push the stock prices higher.

There are enough potential catalysts to drive gold to new multi-year highs in 2020, and a surge to US\$2,000 wouldn't be a surprise. The last time the price of gold moved above US\$1,900, Barrick Gold's stock traded for \$54 per share, so there is potential for some big gains on an extended gold rally.

If you have cash on the sidelines, the gold miners deserve to be on your radar today.

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