



Gold Is Poised to Break Through \$1,600 an Ounce in 2020

Description

Gold recently hit a multiyear high of over US\$1,560 per ounce amid signs that despite profit taking, the yellow metal will rally higher over the course of 2020.

Heightened geopolitical and economic risk along with accommodative monetary policy being sustained by central banks across most developed economies, including low interest rates, will support [higher gold](#). There's growing speculation that the precious metal will break through US\$1,600 an ounce during 2020.

Higher gold

A key driver is the accommodative monetary policy being used by central banks across the world to stimulate economic growth. This includes near historically low and even negative interest rates coupled with the Fed's relatively loose monetary policy that saw the U.S. dollar soften, making it cheaper to buy gold in other currencies.

Low interest rates reduce the opportunity cost associated with holding a non-income producing asset like gold. They also lead to a softer dollar, making it cheaper to buy in other currencies, because similar to most commodities, gold is priced in U.S. dollars.

The considerable economic and geopolitical volatility means even a modest dilemma could trigger a strong risk averse reaction in financial markets.

That would likely cause investors to stampede for the exits and bolster their exposure to safe haven assets causing gold to surge to over US\$1,600 per ounce.

The primary points of friction are ongoing trade negotiations between the U.S. and China, which despite indicating that a full-blown trade war has been averted could collapse at any moment, and the confrontation between the U.S. its allies and Iran.

For the aforementioned reasons, even with stocks hitting new record highs that saw the **S&P/TSX Composite**

Index top 17,559 points, up by 15% over the last year, gold could break through US\$1,600 an ounce and reach a new multiyear high. Those factors highlight why now is the time to bolster exposure to gold.

One of the best means of doing so is precious metals streamer buy **Franco-Nevada** ([TSX:FNV](#)), which has gained 51% over the last year. Franco-Nevada owns a globally diversified portfolio of precious metal streaming and royalty agreements, which are responsible for 85% of its adjusted EBITDA with energy generating the remaining 15%.

Unlike bullion Franco-Nevada as a precious metals streamer offers leveraged exposure to the price of gold, meaning that it will make far greater gains while having limited exposure to the risks facing gold and silver miners.

Franco-Nevada, unlike physical bullion or a gold exchange-traded fund (ETF), rewards shareholders with a regularly growing dividend that it has hiked for the last 12 years to be yielding 1%

Those characteristics make Franco-Nevada an ideal lower risk means of gaining exposure to gold and other precious metals.

The streamer has been steadily expanding its portfolio to see third quarter 2019 production expand by 11% to 133,219 gold equivalent ounces, thereby boosting revenue by 38% to a record \$236 million.

Franco-Nevada expects to achieve its 2019 production guidance of 490,000 to 500,000 gold ounces and lifted its energy revenue forecast by 35% at the upper end to US\$115 million, giving its bottom line a solid boost.

Between the end of 2018 and 2023, Franco-Nevada anticipates that gold production will rise by around 30%, which, when combined with growing energy revenue will lift 2023 EBITDA by more than 50%.

If achieved, that will certainly boost Franco-Nevada's share price, particularly if gold remains firm, making now the time to buy.

Foolish takeaway

There is every indication that [gold will firm](#), even if it pulls back in coming weeks due to profit taking. A combination of heightened geopolitical and economic risk will continue to weigh on market sentiment for the foreseeable future.

When combined with the significant volatility, even a minor crisis could propel gold to well over US\$1,600 an ounce before the end of 2020. That makes now the time to boost exposure to the yellow metal by investing in Franco-Nevada.

CATEGORY

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