Gold Price: Is $2,000 per Ounce Now Possible in 2020?

Description

The price of gold hit a new seven-year high in recent trading and Canadian investors are starting to wonder if gold could be on track to reach a new record by the end of 2020.

Sustainable recovery

Gold began the rally at the end of May last year when the price of gold sat near US$1,300 per ounce. At that point the trade tensions between the United States and China started to really heat up and this led to additional rate cuts by the U.S. Federal Reserve. A summer upswing in the gold market took the gold price to US$1,560 by early September.

Lower interest rates can be positive for gold as they reduce the yield investors can get from competing safe-haven alternatives.

The gold rally took a break through the fourth quarter as investors tried to decide where interest rates might go in 2020. Progress on trade talks also led to some profit-taking in the sector.

Interestingly, the announcement of a partial trade pact between the United States and China and the subsequent signing of the agreement in January did not trigger a gold pullback. In fact, the price of gold moved higher through most of December and has extended the gains in 2020.

The latest surge has taken gold as high as US$1,650, driven by concerns the coronavirus outbreak will have an extensive negative impact on the global economy in the coming months.

The head of the International Monetary Fund just issued a statement saying the outbreak will have a negative impact on global economic activity, even if it is effectively contained in the near term. The comments came after finance officials from the planet's 20 largest economies wrapped up a meeting.

China, Germany, and Japan have already indicated they will see negative economic impacts in thenear term. China's significant role in the global supply chain means countries around the world will feelthe effects of the current economic slowdown in the country.

As a result, investors could see central banks start to implement additional stimulus measures to help offset weakening economic conditions.

The market is already driving down bond yields. The U.S. 10-year treasury yield is back below 1.5%, putting it near the 12-month bottom hit in early September. The 30-year treasury yield just slipped below 1.9%, marking an all-time low.

This also tends to be positive for gold.

Could gold hit US$2,000 per ounce?

At the time of writing, gold trades at close to US$1,650 per ounce. Adding another US$350 in the coming months wouldn't be a surprise, especially if speculators start to pile in on the hopes of a huge surge.

Gold can be volatile and any evidence that the coronavirus threat is weakening would likely trigger a pullback, so I wouldn't bet the farm. However, the near-term momentum appears to be to the upside and we could see a significant extension of the recent gains before the market cools off.

If you are of the opinion the rally is just beginning, it might be a good idea to add gold stocks to your portfolio.

Companies such as **Barrick Gold** have cleaned up their balance sheets in recent years and would see cash flow surge if gold takes a run at US$2,000 and stays in that range. Barrick Gold raised its dividend by 40% for 2020, so the board was already comfortable with the cash flow outlook, even before the latest surge in gold prices.

The share prices of the gold miners have moved higher in recent weeks, but they still appear cheap in light of the potential upside.

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