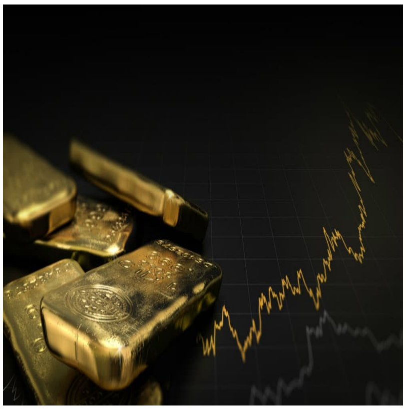

Will Gold Reach $3,000 an Ounce in 2020?

Description

In a surprise move for gold miners, Bank of America recently announced it had lifted its 18-month gold price to US$3,000 an ounce. Given that the yellow metal started the year at just over US$1,519 and is selling for US$1,708 an ounce, this is a surprising statement.

Whether gold will climb to that high, which is more than US$1,000 greater than its all-time record price, is yet to be seen. It will be a boon for gold miners, which are rallying because of higher gold.

Higher gold prices on the way

Bank of America's forecast is fundamentally based on gold being recognized as the ultimate store of value, which will see its popularity among investors rise, particularly as the economy enters what is expected to be the worst recession since the Great Depression.

Analysts at Bank of America believe a combination of a sharp economic contraction and bloated central bank balance sheets will place considerable pressure on fiat currencies, which will likely give gold prices a significant boost.

Growing investment interest in gold because of the poor performance of growth assets and fears of a deep economic slump will further its price. The last time similar circumstances existed at the end of the 2008 Great Recession, gold entered a bubble and peaked at US$1,917,90 an ounce.

Even once the coronavirus pandemic draws to a close and activity returns to normal, the economic fallout will be felt for some time, thereby supporting firmer gold. There is every indication that gold will break through US$2,000 an ounce during 2020 but it is unlikely that the precious metal will reach US$3,000, which indicates that gold miners have further to rally before the end of 2020.

Gold miners will soar

The largest gold miner ETF, the **VanEck Vectors Gold Miners ETF,** has gained just 14%, only marginally more than gold, indicating further gains ahead because typically gold miners amplify movements in gold because their profits are highly leveraged to the price of the yellow metal.

A key reason for gold miners failing to benefit from higher gold is because of the risks posed by the coronavirus pandemic. Many like **Kirkland Lake Gold** (TSX:KL)(NYSE:KL) have scaled back operations and suspended non-critical activities to protect their employees and businesses from the virus, which means that less gold is likely to be produced for as long as those measures are in place.

Kirkland Lake's actions aimed at minimizing the impact of the coronavirus saw first-quarter 2020 production at its Macassa and Holt gold miners decline by 30% and 7%, respectively. Kirkland Lake expects further declines in gold output during the second and potentially third quarter of 2020.

It's also preventing the miner from conducting its drilling programs at its Fosterville, Macassa and Detour Lake mines.

While Kirkland Lake's second- and third-quarter gold production will be impacted by those measures, higher gold will offset any decline in earnings.

Foolish takeaway

The anticipated production decline during 2020 shouldn't deter you from buying one of the best stories among gold miners — even more so when considered that Kirkland Lake's Fosterville is one of the highest quality underground gold mines in operation globally.

Kirkland Lake has also underperformed the **VanEck Vectors Gold Miners ETF**, of which it is the sixth-largest holding, and gold gaining a mere 6% for the year to date, indicating further gains ahead.

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