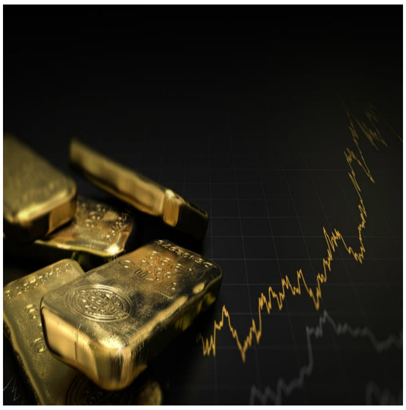

Gold Price Tops US$1,800: How High Could it Go?

Description

The price of gold recently rallied above US$1,800, and investors are wondering how high gold could run by the end of 2020 and into next year.

Is it time to put gold stocks on your buy list?

Gold price outlook today

The gold surge caught investors' attention in the past few months, but the rally actually began more than a year ago. At the end of May 2019, gold traded near US$1,300 per ounce. The trade tensions between China and the United States served as the catalyst for the gold rally through last summer.

The phase-one trade agreement reached between the two countries announced last fall and signed in January did little to dampen gold demand. The year also began with rising risk of war in the Middle East after the U.S. killed a top Iranian general.

Even before the arrival of the pandemic, gold had a strong tailwind. The global recession could supercharge the rally.

Why?

Central banks are cutting interest rates to support economic growth. At the same time, investor demand for government treasuries is driving down bond yields. In some parts of the world, such as Europe and Japan, yields on government debt are actually negative.

Gold is viewed as a safe-haven asset. Unfortunately, it doesn't offer any yield. In the current environment of falling interest rates and rock-bottom bond yields, the opportunity cost of owning gold is very low. In fact, no-yield gold appears attractive compared to the alternative option of paying the government to borrow your money.

Inflation hedge

Gold is also held as a hedge against inflation. Pundits have mixed views on whether or not the massive stimulus measures put in place buy global central banks will result in significant inflation in developed economies. Economists generally expect inflation to remain low for some time. Deflationary risks are also cited.

However, another camp says the unprecedented money printing combined with a rapid economic recovery next year and into 2022 could drive prices higher. Central banks normally raise interest rates to curb inflation, but they might delay the move if they feel the economy remains at risk.

Should you buy gold stocks today?

The share prices of gold miners normally rise or fall much more than the price of the actual metal. As a result, investors who are bullish on gold should get more upside torque from gold stocks.

Ongoing volatility is expected, but gold appears to have a strong tailwind that could last for years. A run to US$2,000 per ounce before the end of 2020 wouldn't be a surprise, given the ongoing uncertainties in the global economy. Some analysts expect gold to hit US$3,000 in the next two years.

Stocks with low debt would be attractive. **Barrick Gold**, for example, has the potential to exit 2020 with zero net debt. The company has a global presence and owns half of the top 10 mines on the planet.

Barrick produces roughly five million ounces of gold per year. All things being equal, a sustained US$500 per ounce increase in the price of gold would result in an extra US$2.5 billion in revenue and profits. Investors could see a dividend increase by the end of the year.

Barrick's share price is currently $37 compared to $20 last July. The stock traded above $50 in 2011 when gold hit US$1,900, so more gains could be on the way.

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