Will the Price of Gold Hit $2,500 in 2020?

Description

The price of gold recently surged past US$1,840 per ounce, hitting a nine-year high and closing in on the 2011 record above US$1,900.

Analysts widely expect gold to top US$2,000 in 2020. A run to US$2,500 might even occur. This has investors wondering which gold miners might be top picks to add gold exposure to their TFSA or RRSP portfolios.

Recent rally

Gold bulls definitely have momentum on their side right now. Gold is up more than US$300 per ounce in 2020 and has gained US$600 per ounce in the past two years.

The rally started when global investors began to seek safe-haven alternatives amid rising geopolitical uncertainty. Brexit uncertainty and increased trade tensions between China and the United States helped fuel gold demand. Those issues remain in place today.

Another driver of gold demand is low bond yields and declining interest rates. Negative bond yields have been in place in Japan and Europe for some time. The U.S. Federal Reserve says it has no interest in going that route, but some economists think it is only a matter of time before the U.S. joins the negative-yield club.

The opportunity cost of owning no-yield gold drops when interest rates fall and bond yields plunge. In a world of negative yields, gold starts to look pretty good.

As such, the reasons for the gold rally in the past two years remain in place and more support is likely on the way.

Stimulus boom

Central banks around the globe have unleashed unprecedented stimulus measures to save the global economy. Interest rate cuts make borrowing cheaper for businesses, but they can also serve to weaken currency valuations and theoretically improve exports.

There is a risk the world will see a currency war where countries will compete to devalue their currencies against the U.S. dollar. Gold is priced in U.S. dollars, so holders of international currencies often buy gold to protect buying power.

For example, the U.S. dollar and Canadian dollar traded at par eight years ago. Today, the U.S. dollar buys CAD$1.35. The drop in the loonie is primarily attributed to weak oil prices, but the result is the same. Canadians owners of gold have picked up 35% on the currency devaluation and are benefitting from the rise in the metal’s price.

Inflation hedge

Inflation remains low today, but there is a risk we could see a spike as the economic recovery kicks into gear.

Central banks usually raise rates to keep inflation in check, but they could wait longer than usual to make the move in order to avoid derailing the economic rebound. Gold is widely viewed as an inflation hedge. As a result, investors in this camp might also boost gold exposure in the next couple of years.

The bottom line

Gold will likely hit US$2,000 in 2020. It might even occur in the next few weeks and reach US$2,500 before the end of the year. At this point, some analysts are calling for gold to hit US$3,000 in the next 12-18 months.

If you think that’s where the market is headed it makes sense to add gold stocks to your portfolio today. The miners tend to enjoy better upside than the actual moves of the yellow metal.

One option would be to buy a gold ETF such as the **iShares S&P/TSX Global gold Index ETF**. The ETF provides diversification across the top gold mining companies.

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Date
2025/08/28
Date Created
2020/07/22
Author
aswalker