Gold Could Be on the Cusp of a Major Upside Move: Here’s How to Play it

Description

Gold and other precious metals have been slowly grinding higher in recent weeks, thanks in part to an easing of Federal Reserve rate-hike fears. Though gold edged lower on Thursday over jitters that more hikes will be needed to put inflation in its place, I remain pretty upbeat on the shiny yellow precious metal. Spot gold prices are currently sitting at around US$1,800 per ounce — a level it’s been hovering at for many months.

As inflation shows further evidence of peaking and rolling over, I think the Fed rate-hike fears could have more room to dissipate. That could be a meaningful catalyst for gold and its miners.

Things are looking up for gold prices

Further, the robust U.S. greenback (spot gold prices are denominated in U.S. dollars) could have room to cool over the coming months, which, again, could provide gold prices with the means to test its recent resistance level of around US$1,850 per ounce. Finally, crypto winter may cause subtle inflows back into gold, especially from the crowd that swapped their gold exposure for **Bitcoin** (CRYPTO:BTC) when the speculative asset was hot in the back half of 2020.

Now, nobody knows if Bitcoin is on its way out. Regardless, I think the case for owning Bitcoin or its like over gold has been demolished following its latest plunge alongside the broader stock market.

Gold demand has faded of late. But it looks to have been oversold amid mounting geopolitical concerns and inflationary conditions.

From a technical perspective, gold looks like it could be in to make up for lost time over the next month or so. A head-and-shoulders bottom pattern looks to be in formation. If it comes to fruition, gold could find itself flirting with US$1,900 per ounce by autumn. Indeed, such a run in gold would be incredibly bullish for the beaten-down miners — many of which have suffered a 50% haircut this year.

A golden opportunity with Kinross?

These days, I think it's hard to top **Kinross Gold** (TSX:K)(NYSE:KGC) and its 3.5% dividend yield. The firm recently finished the sale of its Chirano mines within the Ghana region. The deal frees up $225 million worth of cash and shares of the venture miner it sold to, helping Kinross free up a bit of financial flexibility.

With a focus on production within the Americas, Kinross is looking to double down in the area that lies within its circle of competence. Looking ahead to the second half of the year, Kinross's management sees production coming in at the lower end of its original 2022 guidance due to delays at one of its mines (La Coipa). Capital expenditures of around $850 million are also expected. Despite the La Coipa setback, Kinross looks in great shape to bounce back in the latter half of the year, especially if gold prices can rally higher from here.

Indeed, the 3.5% yield is the main draw on shares of Kinross. Pending a collapse in gold prices, the payout looks safe but somewhat stretched. In any case, K stock seems too cheap to pass up with a 0.7 times price-to-book multiple, which is well below the industry average of 2.8.

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