Forbes Middle East

Gold Miners See Gains From Trade Disputes

The old saying ‘it’s an ill wind that blows nobody any good’ seems appropriate when we factor in the global stocks that are benefiting against the odds in today’s climate of escalating trade tensions and economic uncertainties. Global equity bulls have recently charged ahead to challenge global recession fears, reassured by multiple central banks murmurings about monetary easing. Some global stocks have outperformed even in the current rally, at the time of writing.

Gold mining stocks in the US, Australia and South Africa have gained ground on the back of expected demand for physical gold and an overall bull market for the precious metal. The gains are such that they’re approaching a bubble if they continue expanding. The spurt of safe-haven buying which follows China’s stabilising economy has indirectly benefited gold mining stocks. Companies like Eldorado Gold rose by as much as 15% in one day on June 20 as investors jumped on the gold bandwagon. In Australia, the ASX gained significantly as gold reached a six-year high on the same day. Evolution Mining climbed 7%, tracking Northern Star Resources, which saw gains of 9%.

The logic is simple: if spot gold is selling at a higher price, there are more chances of the publicly-listed companies linked to the precious metal clocking higher profits and dividends in the short-to-medium term. Some support for this argument comes from a dovish Federal Reserve (US central bank), which appears to be confirming the markets’ fears over a global recession by hinting at an interest rate cut in the US.

The key question is whether the current level of safe-haven buying can be sustained long enough for the 2019 gold rush dividends to pay off. The answer is conditional on several factors. If US-China trade tensions continue to dictate market sentiment, benchmark gold prices are more likely to sustain gains. Economic data coming from the US and China is equally important. If there are more worrying signs of a slowdown in either of the world’s largest economies, investors are likely to seek shelter in traditional safe havens like gold, the USD and the Yen.

On the downside for gold and linked stock-market assets, the bubble could burst if there is a real chance of a formalised trade deal between the US and China. The concerns of a global slowdown are based on the consequences of the trade disputes, which range from economic disruption to uncertainty and negative investor sentiment. These could literally disappear overnight if there’s a positive announcement from the negotiators in the near future. On the other side of the coin, gold’s dramatic gains could begin accelerating further if there is a stalemate or negative news stemming from trade talks.

Another key downside for gold is US inflation, which is another reason the Federal Reserve is staying cautious about its interest rate path. If consumer and investor spending rise because of better borrowing rates, it’s conceivable that inflation may follow suit, meaning the Fed might reconsider its position on a rate cut. Jobs and wages are still relatively strong in the US, so a combination of a US-China trade deal and rising inflation could be a perfect storm for gold prices.

Bursting spot gold’s bubble might deflate gold mining stocks at the same time, and it should be noted that even though it appears that central bank monetary easing is set for the near future, the Federal Reserve isn’t 100% committed yet on the next direction of US interest rates.

https://forbesmiddleeast.com/gold-miners-see-gains-from-trade-disputes