Three Ways to Trade the Potential for $2,000 Gold

The fear in the market is palpable.

The trade war is only intensifying with no real signs of cooling prior to 2020.

President Trump just threatened to add another 10% tariff on $800 billion worth of Chinese imports by September 1, 2019. China retaliated by halting imports of U.S agricultural products.

Global bond yields plummeted to a low of 1.595% after starting August above 2%.

“A sharp decline in yields as the 10-year note falls under 1.65%. This is raising the ‘Fear Factor’ over the impact of the trade war on the economy,” Peter Cardillo, chief market economist at Spartan Capital Securities told MarketWatch.

All of that happened in the span of a week. That’s not the worst of it, though.

One, President Trump says the U.S. just isn’t ready to end the trade war dispute. Two, Morgan Stanley just made the case that a global recession will hit in the next nine months if we don’t see a near-term resolution. Three, China is threatening to weaponize its rare earth supply.

In fact, should that last one become reality, tech companies and consumers will suffer.

“Chinese producers will pass any tariffs on their exports to customers, in a move that would almost certainly add to the cost of the magnets, motors, light-emitting diodes and hundreds of other devices, according to an industry guild that represents almost 300 miners, processors and manufacturers of rare earth-based products,” notes the South China Morning Post.

So, it comes as no surprise that investors have been fearful of the market.

Herd instincts are kicking into overdrive over the trade war. In short, there’s still a good deal of global uncertainty, and fear of a global recession. As a result, many investors have been turning to the safe havens of gold, as we are today as a hedge.

At the moment, gold trades just under $1,500 an ounce.

However, many analysts believe we could see $1,600, even $2,000 gold this year.

Goldman Sachs believes the rally above $1,500 is just the start of a bigger move. In fact, they believe gold could easily rally to $1,600 over the next six months, given the dimming global economic outlook, fueled by heightening trade tensions between the U.S. and China.
“If growth worries persist, possibly due to a trade war escalation, gold could go even higher, driven by a larger ETF gold allocation from portfolio managers who still continue to under-own gold,” Goldman analysts said, as quoted by Bloomberg. “Gold ETFs have recently built momentum almost as strong as in 2016, and we believe that can be maintained in the short-term.”

Analysts at Bank of America Merrill Lynch say the metal could climb toward $2,000 in the next two years, as “the recent dovish tilt by central banks, accompanied by increases of negative yielding assets,” as also quoted by Bloomberg. UBS Group AG and Citigroup Inc. are also bullish on gold, forecasting prices could rise to as high as $1,600.

Should we see another near-term flare up in the trade war, further devaluation of the yuan, or even another decline in the 10-year Treasury, gold could pick up sizable momentum.

How to Trade a Potential Rally to $2,000

There are two great gold stocks that could run higher on fear.

Barrick Gold Corporation (NYSE: GOLD)

ABX explores for and develops mineral properties. The company primarily explores for gold, copper, and silver deposits. It holds a 50% interest in the Veladero, a gold mine located in Argentina; 50% interest in the Kalgoorlie gold mine located in Australia; 95% interest in the Porgera gold mine located in Papua New Guinea; 50% interest in the Zaldívar, a copper mine located in Chile; and 50% interest in the Jabal Sayid copper mine located in Saudi Arabia. The company also owns gold mines and exploration properties in Africa; and various projects located in the Americas and Africa.

Newmont Goldcorp Corp. (NYSE: NEM)

NEM operates in the mining industry. The company primarily acquires, develops, explores for, and produces gold, copper, and silver. Its operations and/or assets are located in the United States, Australia, Peru, Ghana, and Suriname. As of December 31, 2018, the company had proven and probable gold reserves of 65.4 million ounces and an aggregate land position of approximately 24,000 square miles.
Or, we can even look at a gold ETF such as the SPDR Gold Shares (NYSE:GLD), which is the largest physically backed gold exchange traded fund (ETF) in the world.