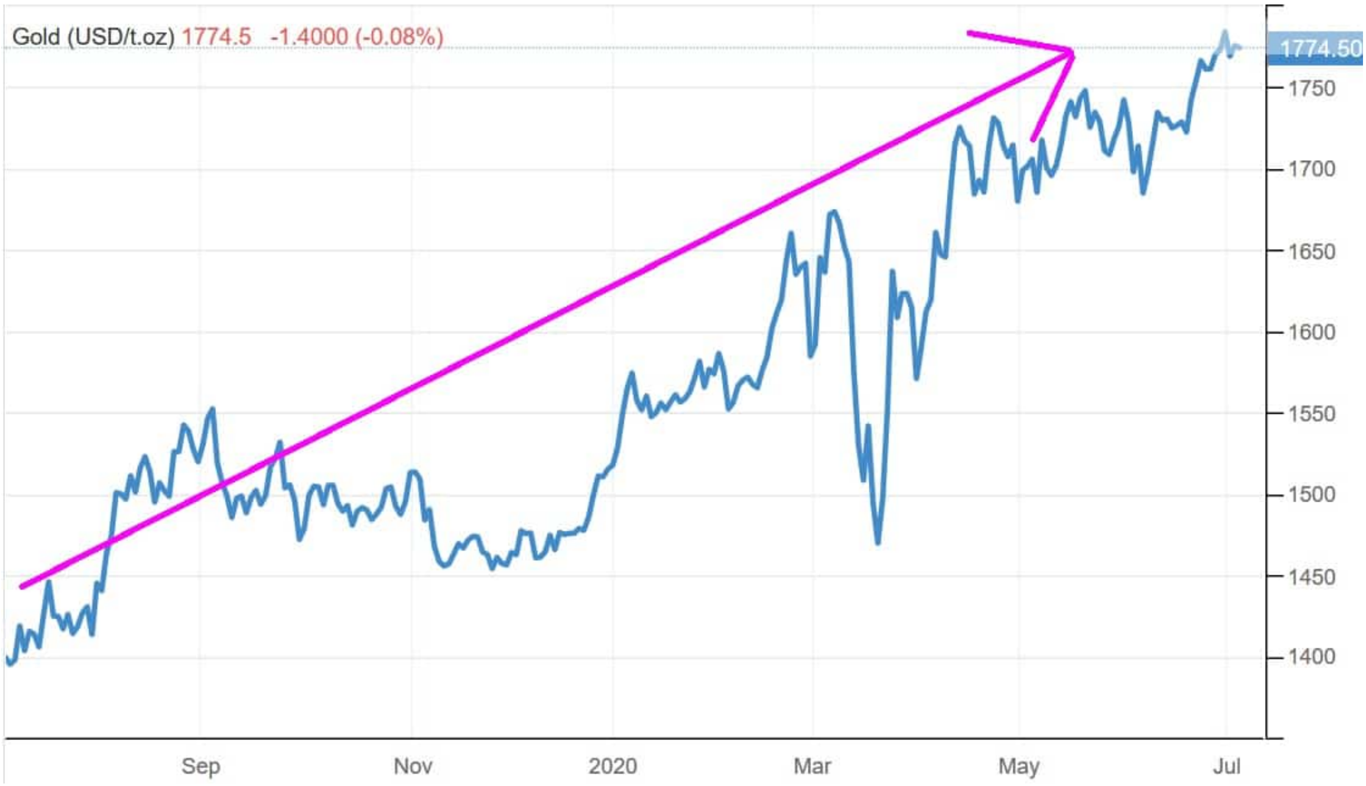
As gold hits new highs and money printing smashes all past records, what's next for the gold sector

2020 has been a great year so far for gold and for gold investors. Gold is up 28% the past 1 year and most gold companies are up more than 50%. So the big question now is, can the gold rally continue?

We can see from the chart below that the gold rally really accelerated starting in early 2020 as COVID-19 started to become an issue. This is partly because of gold's tradition as a safe haven but also as a hedge against inflation as the global money printing presses were ramped up as governments attempted to support the economy in the face of a severe global pandemic and associated lockdowns.

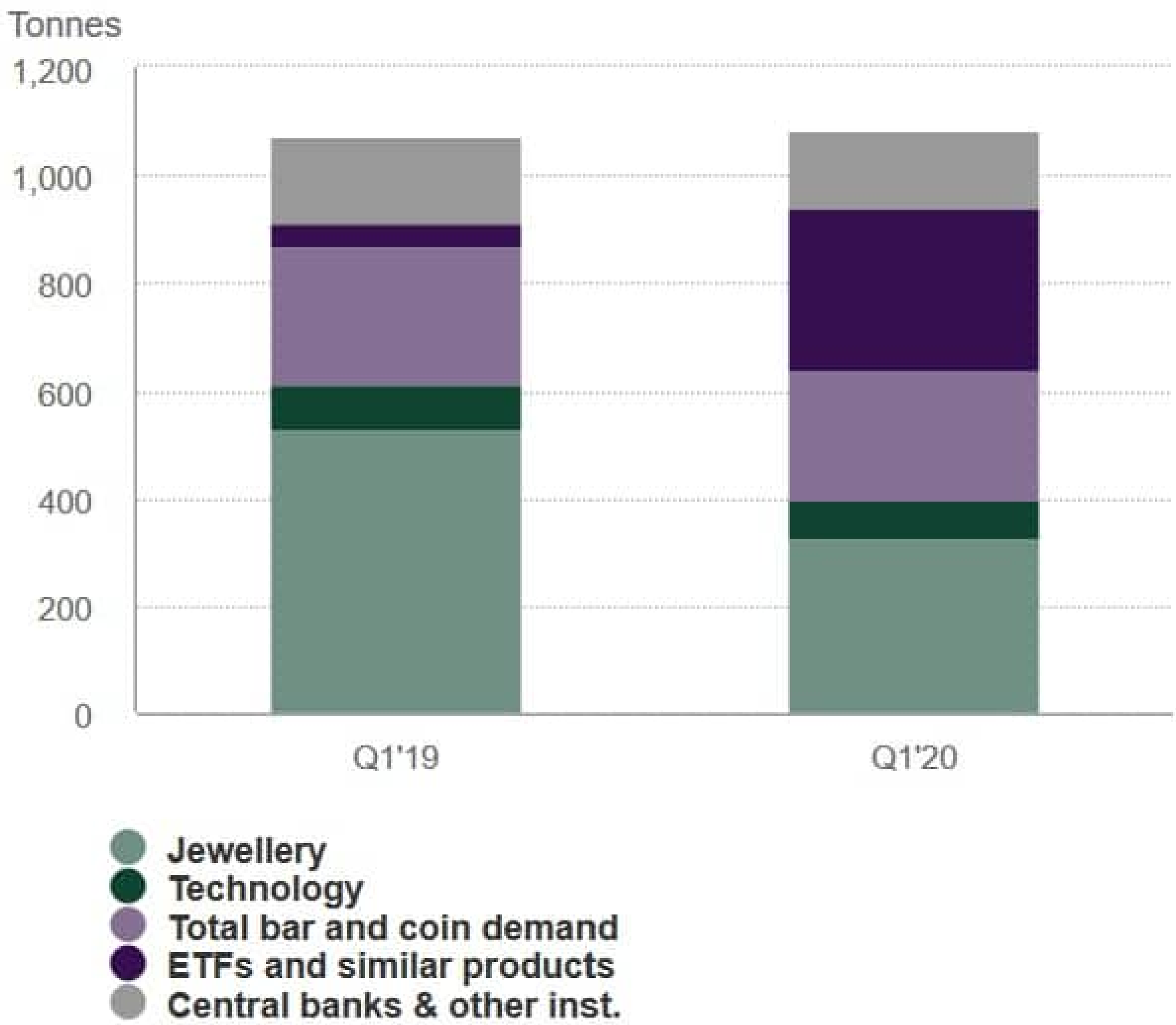
As a result US$33.7 billion of money flow into gold ETFs so far in 2020 has surpassed the previous all time yearly high of US$24 billion in 2016; and we are only half way through 2020!

The gold price is up 28% over the past 1 year



Gold demand grew slightly in Q1 2020 driven by the large pickup in demand from gold ETFs. This shows that both retail and institutional investors have been flocking to gold. Somewhat surprisingly central bank gold purchases decreased slightly in Q1, 2020. Demand for gold jewelry reduced as expected due to lockdowns. As global economies reopen I would expect there to be some pent up demand from the jewelry segment.

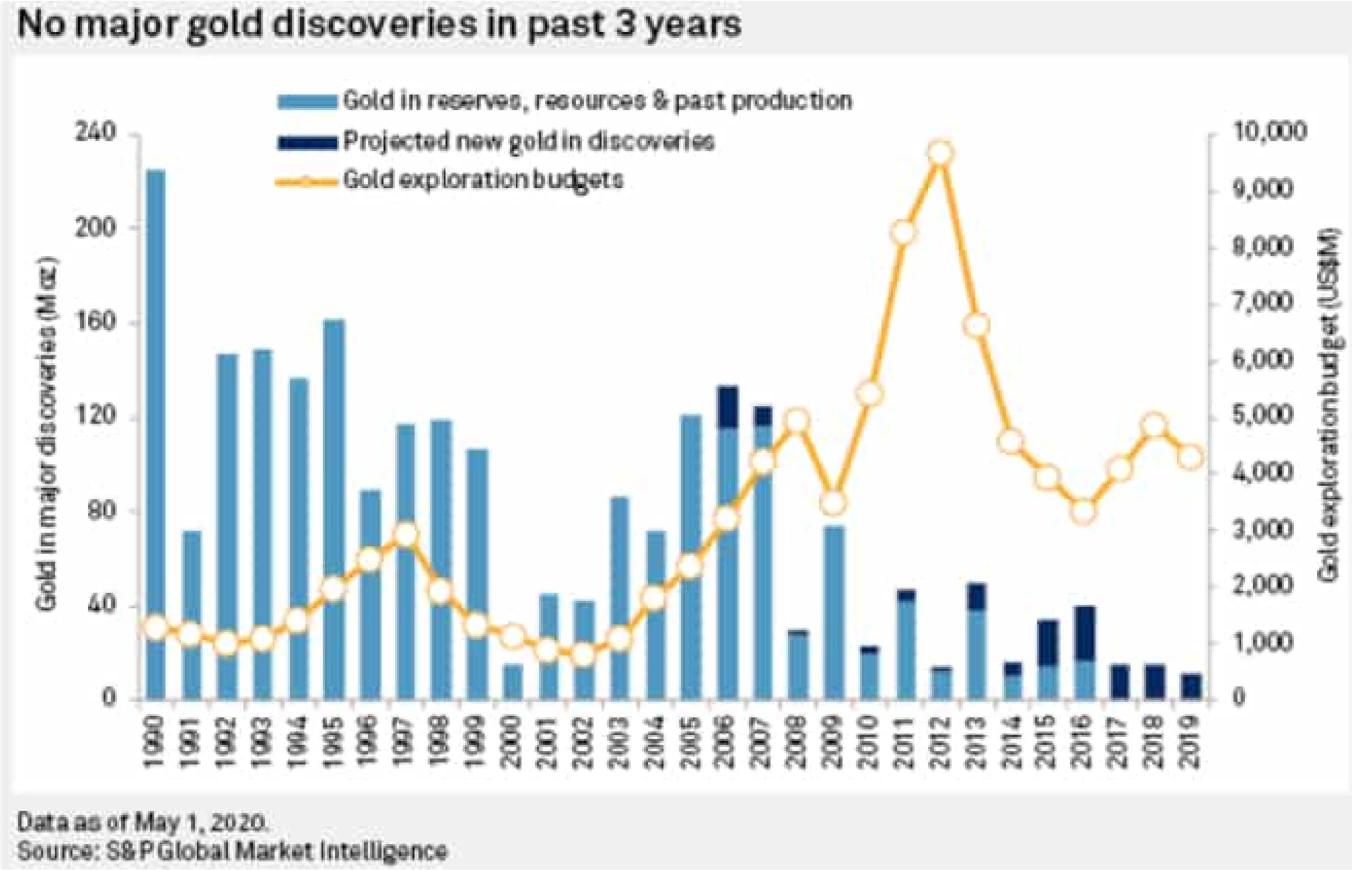
Gold demand grew slightly in Q1 2020 led by demand from gold ETFs



Source

Gold supply is a constant struggle as each year existing mine reserves decrease. In the past decade lower budgets for exploration has meant less gold has been discovered, particularly large gold discoveries. The pipeline is increasingly short of large, high-quality gold reserves needed to replace ageing major gold mines.

S&P Global Market Intelligence reports major gold discoveries are on the decline



Source

The IMF recently released a report "A crisis like no other, an uncertain recovery." The report stated:

"**Global growth is projected at –4.9 percent in 2020**, 1.9 percentage points below the April 2020 World Economic Outlook (WEO) forecast. The COVID-19 pandemic has had a more negative impact on activity in the first half of 2020 than anticipated, and the recovery is projected to be more gradual than previously forecast. In 2021 global growth is projected at 5.4 percent. Overall, this would leave 2021 GDP some 6½ percentage points lower than in the pre-COVID-19 projections of January 2020. The adverse impact on low-income households is particularly acute, imperiling the significant progress made in reducing extreme poverty in the world since the 1990s."

Globally government money printing continues at a record pace, led by the USA. For example in April 2020 it was estimated that spending for COVID-19 will nearly quadruple the 2020 US budget deficit to a record US$3.8 trillion, or 18.7% of US economic output. By the end of May 2020 the Fed’s balance sheet increased to over US$7 trillion, of which over 40% of this has been added in 2020 alone.

By a way of comparison QE1 during the GFC resulted in a US$458 billion increase in money supply. It is frightening to think where we will be by end of 2020, as we have literally printed our way out of trouble.

The verdict

In late April we published “Is $3000 gold possible?” At that time there was ~3 million COVID-19 cases globally and 206,997 deaths. Fast forward to today and we are now about to reach 11 million cases and are at 524,036 deaths. The last 1 million new cases have been added in only one week. If we continue to add at 1 million per week, we will add another 26 million new COVID-19 cases in H2 2020 alone. From a COVID-19 perspective the case for holding gold is only getting stronger.

A combination of strong gold demand particularly from gold ETFs, building pent up jewelry demand, and struggling gold supply suggests the outlook for gold in H2 2020 continues to look strong.

Gold does well in uncertain times and we certainly have that. We have an out of control global pandemic, a brewing trade war between the US and China with relations deteriorating by the day, strained relations between China and multiple countries, record levels of unemployment, a -4.9% global 2020 GDP projection, unprecedented money printing, and an enormous amount of fear and uncertainty.

I think gold will continue to do well until we get the above issues resolved. Gold miners that can make good discoveries and grow their resources will continue to have a stellar 2020. As for US$3,000/oz gold by October 2021, it is very possible and the idea is supported by the Bank of America and many others.

Gold miners on our radar at InvestorIntel include:

- Alkane Resources Ltd. (ASX: ALK | OTCQX: ALKEF)
- Angkor Resources Corp. (TSXV: ANK)
- Euro Sun Mining Inc. (TSX: ESM)
- Granada Gold Mine Inc. (TSXV: GGM)
- Harte Gold Corp. (TSX: HRT)
- Quebec Precious Metals Corporation (TSXV: CJC | OTCQB: CJCFF)
- West Red Lake Gold Mines Inc. (CSE: RLG | OTCQB: RLGMF)