



China Crumbling?

Description

Overnight “news” seems rarely to be good these days.

A bit came across through the night indicating the repo rate in China had spiked to 25% (according to Forbes). In a nutshell, this is an indication of a banking meltdown going down right now in China.

This just a day after the country’s flash PMI report missed expectations and came through at a 9-month low.

Both points are bad for Canada’s resource sector.

An elevated, or record high, repo rate indicates a lack of trust within the Chinese banking sector. A similar phenomenon that hit the U.S. banking system during the financial crisis of 2008/09. If banks are nervous to lend to each other, it spells trouble for the underlying economy. An economy that has driven the demand for commodities. Canada’s commodities.

Taking a drubbing

Teck Resources (TSX:TCK.B) look out. Same for you **First Quantum** ([TSX:FM](#)). You are the producers of that which the Chinese economy has craved. And gold companies, such as **Barrick Gold** ([TSX:ABX](#)) and **Goldcorp** (TSX:G), you too are in for some near-term pain given these China issues, as well as the Fed’s potential “tapering”.

In general, Chinese banking issues coupled with a change in the Fed’s game-plan does not bode well for those who have benefitted from this double-barreled ride.

With the spot price of gold currently down 3.7% to about \$1,300/oz (up from its earlier lows) and copper down almost 2%, it’s likely to be an ugly day on the S&P/TSX Composite. Oil is also down more than 2% thus far.

Given the exposure the Canadian market has to resources, those who’ve invested passively in a Canadian index fund aren’t as diversified as they may think. To combat this issue, the Motley Fool has

prepared a [special FREE report](#) "**5 Stocks to Replace Your Canadian Index Fund**". Download this report at no charge, by simply [clicking here now](#).

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Fool contributor Iain Butler is short \$26 August 2013 put options on Teck Resources and \$32 July 2013 put options on Goldcorp and owns shares of Barrick Gold and Teck Resources. The Motley Fool has no position in any stocks mentioned at this time

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:ABX (Barrick Mining)
2. TSX:FM (First Quantum Minerals Ltd.)
3. TSX:TECK.B (Teck Resources Limited)

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