



How China Sunk Teck Resources Ltd. Shares by 7% In 1 Day

Description

Teck Resources Ltd. (TSX:TCK.B)(NYSE:TCK) shares have been in free-fall in recent years, and the news only got worse on Tuesday. The diversified miner's stock price fell nearly 7%, closing the day at \$9.40. Back in early 2011 the shares traded for more than \$60.

So, why did Teck fall so far this time?

It's all about China

Teck is the second-largest exporter of metallurgical coal, which is used to make steel. This makes Teck very reliant on the Chinese economy, perhaps more so than any other company listed on the **S&P/TSX 60**. The country accounts for nearly half the world's steel production, and also nearly half of the world's steel demand.

This has been bad news in recent years as China's growth has slowed considerably. The country's steel production has slowed even more, and may have already peaked. Consequently, metallurgical coal prices have plummeted from about US\$300 per tonne in early 2011 to less than US\$100 today.

The latest blow came on Tuesday, when China devalued its currency by 2%. The move makes imports such as metallurgical coal more expensive, which does not bode well for future demand.

It could get worse

According to China's official figures, its economy grew at a 7% annual rate in the first half of this year, right in line with its annual target. So, why is the country devaluing its currency?

To put it simply, many experts simply don't believe the Chinese authorities. After all, there's no reason for such drastic measures if targets are already being met. As put by CIBC economist Avery Shenfeld, while speaking to *The Globe and Mail*, "They're behaving nothing like a government that's on target."

The fact is, it's very difficult to verify this 7% growth figure. But according to more transparent measures, such as exports and manufacturing activity, China's growth is nowhere near 7%. And if

China is being at all dishonest about its growth figure, then Teck could be in serious trouble when the dust settles.

Is Teck still worth buying?

Teck shares have fallen a long way and may look very cheap. But this is an extremely risky bet to make right now. Put simply, there are better options for your portfolio.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

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2. TSX:TECK.B (Teck Resources Limited)

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Author

bensinclair

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