



## Despite the Rally in Commodities, Investors Should Avoid Miners

### Description

It has been a tough year for miners with weak commodity prices and concerns about the outlook for China weighing heavily on mining stocks. Now it appears that there are further dark skies ahead as a falling U.S. dollar and rising oil prices renew cost pressures on miners. This is certainly not good news for beleaguered coal and metals miners such as **Teck Resources Ltd.** (TSX:TCK.B)(NYSE:TCK) and **First Quantum Minerals Ltd.** ([TSX:FM](#)).

### Now what?

The primary problem for miners has been the sharp collapse in commodity prices. Key commodities such as iron ore, coal, and copper have fallen between 20% and 50% over the last year. This has caused considerable pain for miners that earn substantial amounts of their revenue from coal and copper such as Teck and First Quantum.

Teck recorded a 2015 net loss of \$2.5 billion; gross profits from steel-making coal fell by 1.5%, and copper fell by 21% compared with 2014. First Quantum also recorded a net loss for 2015 of US\$610 million because its revenues from copper, which generates three quarters of its total revenue, fell by 20%.

However, this pain was offset in part by the marked devaluation of the loonie against the U.S. dollar; the loonie has plunged by 18% since 2014. Many Canadian miners, including Teck, incur costs in loonies but generate revenue in U.S. dollars. The collapse in crude was also a boon for struggling miners, because with diesel fuel being a key input cost for miners, it helped to reduce their overall costs.

But with the loonie appreciating by just over 5% against the greenback and oil rallying by 2% in the last month, the benefits this was generating have significantly deteriorated.

Meanwhile, with steel-making coal still hovering around 10-year lows and copper only recovering slightly from its lowest price since 2009, there are no signs of relief for Teck or First Quantum. The likely outcome will be another cost squeeze for miners, forcing them to further cut costs and even close mines as they struggle to survive the impact of the sharpest commodities downturn since the global

financial crisis.

There are also few signs that Beijing's stimulus program is having any real positive effect on China's economy, meaning that the outlook for commodities (steel-making coal and copper in particular) remains poor. In 2015, China's consumption of steel fell by 5%, while the demand for copper was weaker than expected, and this trend is expected to continue during 2016.

You see, China's construction sector, which is one of the world's single largest consumers of steel, remains locked in a contracted slump that is causing the demand for steel to fall. Its industrial sector (also another important global consumer of steel and copper) saw activity contract for the seventh straight month as of February of this year.

### **So what?**

The recent rally in Teck and First Quantum's stock, which caused their share prices for the year to date to spike by a massive 110% and 64%, respectively, certainly offered considerable respite for investors. Nonetheless, the poor outlook for steel-making coal and copper means that there is little further upside and those rallies have drawn to a close.

As a result, investors seeking long-term value would do better to look elsewhere.

### **CATEGORY**

1. Investing
2. Metals and Mining Stocks

### **TICKERS GLOBAL**

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

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### **Author**

mattsmith

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