



Did North Korea Cause the TSX to Drop?

Description

On September 9, *BNN* published an article titled “TSX, Wall Street Fall After North Korea Nuclear Test.” That day the country conducted its fifth and biggest nuclear test, adding that it had mastered the ability to mount a warhead on a ballistic missile. The TSX fell as much as 2% on the day.

While the North Korea story makes a good narrative, there are deeper signs of trouble brewing in the Canadian stock markets.

Energy and materials are leading the charge

If you read beyond the headlines, the real story involved a slew of resource companies. The energy sector fell 1.8%, while materials (primarily mining companies) dropped 2.2%. Those two sectors were enough to drag the average down quite a bit because they comprise roughly one-third of the entire TSX. For example, financials (the biggest component of the TSX) only dropped around 0.1%.

The pullback in both energy and materials involved a few story lines.

For energy companies, the chief issue was a growing concern over another supply glut, which sent oil prices down about 3%. This put a damper on the price surge felt earlier in the week when the Energy Information Administration reported that U.S. crude supplies fell by 14.5 million barrels—the largest weekly drawdown since 1999.

The drop, however, was likely due to inclement weather that shut production and delayed certain transportation routes. **Morgan Stanley** also released a report on Friday saying that its previous oil forecast (an average US\$51 a barrel in 2017) could be too high given that the market will likely remain oversupplied another year.

Most energy-related companies were affected. **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG) was down as much as 10%, while larger names such as **Imperial Oil Limited** (TSX:IMO)(NYSE:IMO) was down just 2%.

Materials, on the other hand, were hit by lower metal prices. Gold was down about 0.5% on the day,

while silver dropped 1.75%. Metals have been hit recently from the direction of U.S. monetary policy.

But there's reason to believe the future is bright.

Sean Boyd, CEO of **Agnico Eagle Mines Ltd.** ([TSX:AEM](#))([NYSE:AEM](#)), recently said that the rally in gold miners is just getting started. "I think in this cycle, they will ultimately set an all-time high," Boyd commented, adding that his company is could "see its output [30-40% higher](#) in five years from now from stuff we already own."

There are some fairly large secular tailwinds out there. "There's still a tremendous amount of debt in the system," he said. "There's an inability to create conditions for growth. You've got a negative-interest-rate environment, which is a great environment for gold from an opportunity-cost standpoint. And you've still got very strong demand coming out of China and India. So all the factors are there that can steadily move gold up."

CATEGORY

1. Energy Stocks
2. Investing
3. Metals and Mining Stocks

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:AEM (Agnico Eagle Mines Limited)
2. NYSE:VRN (Veren)
3. NYSEMKT:IMO (Imperial Oil Limited)
4. TSX:AEM (Agnico Eagle Mines Limited)
5. TSX:IMO (Imperial Oil Limited)
6. TSX:VRN (Veren Inc.)

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