How Does China's Shockingly Bad Trade Data Affect Teck Resources Ltd.?

Description

For shareholders of **Teck Resources Ltd.** (TSX:TCK.B)(NYSE:TCK), the dismal report from the company's single biggest customer, China, was an unwelcome surprise. Canada's largest diversified miner saw its shares pressured yesterday morning in response to broad sell-offs in commodities as concerns about China's growth resurfaced. But was the report really that bad for Teck? Let's take a look.

China's exports dropped more than expected in September

If you were to sum up the overall data in one word, it would be *abysmal*. According to *Bloomberg*, U.S. dollar–denominated exports from the world's second-largest economy declined 10% year over year to the lowest level in seven months, while imports fell 1.9%.

Furthermore, the drop in exports wiped US$42 billion from China's trade surplus, placing further pressure on the yuan, which has already fallen 3.4% against the U.S. dollar year to date. Moreover, the bad data has placed pressure on commodities such as copper, which is approaching seasonally weak demand.

The bad data puts a damper on copper prices

According to the report, China's copper imports fell 26.1% year over year in September, while falling 10,000 tonnes lower from August. To further aggravate copper bulls, yesterday's report follows a bearish outlook from **Goldman Sachs,** which warned of looming oversupply concerns for the ductile metal as the top-20 copper producers ramp up production towards the end of 2016.

But steel demand offsets copper slump

That being said, the release wasn't all doom and gloom. The reported also highlighted that China's iron ore demand continues to be strong in the month of September, which saw 92.9 million tonnes of iron ore imported–an increase of 6% from August.

Moreover, raw materials for steel production reached 763 million tonnes–an increase of 9.1% year over year–as Chinese producers largely shrugged off lower steel prices thanks to strong steel demand from its robust housing market.

Finally, on the zinc front, the bull case for the metal remains intact as supply overhangs are kept in check thanks to China's policies on limiting domestic zinc mining. Furthermore, as **Reuters** reports, Glencore PLC (the world's largest zinc miner) has provided no indications of resuming full-scale production as it waits for further price advancements before turning up its formidable output.

A correction for Teck might be presumptuous

Yesterday's 5% drop in Teck shares is minuscule compared to the remarkable run the stock has made year to date. Even if China's growth sputters into the twilight months of 2016, as long as steel demand is robust and Beijing continues to prop up the housing market, Teck should be able to weather the storm on the back of its met coal and zinc production. In other words, yesterday's abysmal data might prove to be immaterial in the near term.

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1. Investing
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