



## Teck Resources Ltd.: Will a Copper Rally Take This Stock Even Higher in 2017?

### Description

**Teck Resources Ltd.** (TSX:TCK.B)(NYSE:TCK) has delivered some phenomenal gains in 2016, driven by strong moves in zinc and metallurgical coal.

Let's take a look at the current situation to see if the company's copper division is set to provide additional upside in the coming months.

#### Strong commodities recovery

Teck produces zinc, metallurgical coal, and copper. All three of these markets had been in terrible multi-year slumps, but the tide has turned and Teck's shareholders are reaping the benefits.

Zinc got the ball rolling early this year as extensive supply cuts from global producers began to bring the market back into balance. The metal is currently up 60% in 2016, and many analysts believe the momentum will carry into next year.

Coal has been the big surprise in recent months, rising 200% amid a policy change in China and supply disruptions in Australia.

China's move to limit the number of days in the year a coal mine can operate has taken the steel-making coal market from a position of surplus to tight conditions. As a result, spot prices have surged from US\$90 per tonne back in July to the current price above US\$270.

#### All eyes on copper

Copper has been the laggard this year, but recent strength is signaling a possible breakout. The metal has traded in a tight range for most of 2016 between US\$2 and \$2.30 per pound. Over the past two weeks copper has surged and is now threatening to hit a new 12-month high.

Analysts have mixed views on the near-term direction of copper. The bulls are pointing to stronger Chinese manufacturing data that could signal a turnaround in the sector. The Caixin manufacturing PMI recently hit a two-year high of 51.2, which indicates positive momentum.

Cautious pundits expect copper to remain range bound until large global stockpiles begin to decline at a more meaningful rate.

### **Teck's oil play**

Teck doesn't produce oil, but it has a 20% stake in the Fort Hills oil sands development, which is scheduled to begin production in late 2017. The project has been a cash drain for Teck in recent years and is one reason the stock fell below \$4 per share in January.

If oil can stage a recovery over the next 12 months, Fort Hills could provide another boost to Teck's stock price.

### **Will Teck continue to rally?**

Copper is making a nice move, but the metal is unlikely to see the same gains delivered by zinc and coal. As a result, I wouldn't look for copper alone to drive the stock significantly higher.

Investors should probably watch coal prices for an indication of additional upside could be on the way.

Teck sells most of its coal on fixed quarterly contracts, and the Q3 settlement price in the industry was US\$92.50 per tonne. Suppliers are getting US\$200 per tonne for Q4, and the price could push even higher in 2017 if recent gains in the spot price hold up. That would boost margins significantly.

What's the bottom line?

Momentum looks good in Teck's core products right now, and that should provide further support for the stock.

### **CATEGORY**

1. Investing
2. Metals and Mining Stocks

### **TICKERS GLOBAL**

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

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**Author**  
aswalker

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