



Trump Effect Driving Copper Higher: Time to Buy Teck Resources Ltd.?

Description

The strong move in copper after the U.S. election has investors wondering if the huge rally in **Teck Resources Ltd.** (TSX:TCK.B)(NYSE:TCK) is about to catch a new tailwind.

Let's take a look at the current situation to see if Teck remains attractive.

Copper shines

Teck produces zinc, coking coal, and copper. Coming into 2016, the three commodities had been in multi-year slumps.

Zinc was the first to break the downturn and has rallied more than 60% this year as production cuts implemented in recent years finally hit the market. Stronger than expected demand could extend the gains into next year.

Coal wasn't supposed to do anything exciting in 2016, but supply disruptions in Australia have combined with new mining regulations in China to bring the market back into balance. As a result, coking coal spot prices are up 200% since July.

These moves have lifted Teck's share price from \$4 in January to the current price above \$30, and the market is looking for a new catalyst to keep the momentum going.

That appears to be copper.

What's going on?

Copper has lagged its peers this year, trading in a tight range of US\$2-2.30 per pound, but in the days leading up to the U.S. election, copper began to test the 12-month high, and, in the wake of the Trump victory, has soared above US\$2.55 per pound.

Investors are betting that copper demand will surge under a Trump administration on the back of strong infrastructure spending in the United States.

China is also in focus as the country's factory prices increased 1.2% in October compared with the same month last year. That was the strongest year-over-year move since 2011.

Trump has been critical of existing trade agreements and has pledged to renegotiate several deals in an effort to protect U.S. manufacturers.

If trade barriers are headed higher between the U.S. and China, pundits believe the Chinese government could ramp up domestic stimulus measures, which would be positive for the construction industry and support higher demand for base metals, including copper.

Should you own Teck?

The last time Teck rallied off \$4 per share, it hit \$60 within two years.

There is no guarantee the same thing will happen this time around, but Teck's stunning rally still has momentum and is now getting support from all three of its core markets.

The longer the commodities rally continues, the more likely it is that analysts will boost earnings targets on Teck for next year. That could provide an additional tailwind for the stock in the coming months.

I wouldn't make a big bet today given the potential for a strong bout of profit taking in the near term, but fans of the stock should consider buying on any significant dip in the share price.

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