



The Bears Are Getting Bullish on Copper and Other Metals

Description

The sudden surge in commodity prices, particularly copper, zinc, and nickel, has caught many analysts and pundits off guard. In a recent surprise move, investment bank **Goldman Sachs**, which has been feverishly banging the bear-drum for the many commodities, including copper, for some time, has reversed its position. This is because the recent rally in copper, which now sees the orange metal up by 23% over the last year, has defied the Wall Street heavyweight's bearish outlook.

Other investment heavyweights that had also adopted a bearish perspective on base metals are now also adjusting their views and taking a more bullish approach. This includes investment bank **Morgan Stanley**; while it's bearish on the outlook for coal and iron ore, it believes that copper, zinc, and nickel will shine during 2017.

The sudden change in direction by some of Wall Street's largest firms can be attributed to a sudden shift in demand for copper, zinc, and nickel; along with a range of other factors, this indicates that the rally may have just started. This bodes well for base metals miners such as **Teck Resources Ltd.** ([TSX:TECK.B](#))([NYSE:TECK](#)), **First Quantum Minerals Ltd.** ([TSX:FM](#)), and **HudBay Minerals Inc.** ([TSX:HBM](#))([NYSE:HBM](#)).

Now what?

While many investors attribute the recent rally in metals and steel-making coal to the fiscal stimulus planned by President-elect Donald Trump, the reality is that it is being driven by China. The world's single largest consumer of most commodities has found itself caught in the grip of a construction frenzy, which can be attributed to Beijing's decision to stimulate economic growth through investing in infrastructure.

For November 2016, investment in real estate development, while lower than the previous month, was still five times higher than it had been a year earlier.

It isn't only construction activity that is surging after Beijing's fiscal stimulus, industrial activity has also swelled; the November Manufacturing Purchasing Managers Index rose to its highest level in over two years.

This has triggered a surge in demand for copper, zinc, steel, and nickel, which are all important elements used in construction and manufacturing. Steel-making coal also rose in value—it went up four-fold over the last year.

Meanwhile, it seems Beijing is determined to continue with its economic stimulus as it seeks to bolster economic growth to meet its GDP targets. The tailwinds of Beijing's stimulus have yet to be fully felt, making it highly likely that demand for copper, zinc, and nickel will remain strong through at least the first half of 2017.

Then there is the potential overlap between China's economic stimulus and the growing demand for metals with Trump's planned trillion-dollar infrastructure investment. This would cause demand for metals to surge even higher, potentially propelling copper, zinc, and nickel prices into the stratosphere because of demand significantly outstripping supply.

You see, during the prolonged commodities slump, the majority of miners slashed spending on exploration and mine development, meaning that there are fewer new sources of supply to come online in coming months. Some pundits believe this will lead to significant shortfalls in copper, zinc, and nickel supplies, especially after the lengthy lead-in times associated with expanding existing mines and bringing new mines to production are considered.

So what?

If anything, investors are now witnessing a diametric shift in the global economy that will see metals and miners perform strongly in coming months. These factors can only mean one thing: earnings for Teck, First Quantum, and HudBay will swell, and, along with growing demand for metals, this will sustain the monster rallies that they have already experienced.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

1. NYSE:HBM (Hudbay Minerals Inc.)
2. NYSE:TECK (Teck Resources Limited)
3. TSX:FM (First Quantum Minerals Ltd.)
4. TSX:HBM (Hudbay Minerals Inc.)
5. TSX:TECK.B (Teck Resources Limited)

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