2 Commodities Set to Rally in 2017

Description

The last year saw a massive rally in a range of commodities that stunned many market pundits. Iron ore, steel-making coal, thermal coal, and zinc all surged ahead because of a marked increase in demand coupled with underlying supply constraints. While many analysts are tipping that these commodities will more than likely weaken over the course of 2017, there are signs that other commodities will take their place and rally strongly in 2017.

Now what?

Iron ore and coking coal surged over the course of the second half of 2016 because of declining global supplies and a massive spike in demand triggered by Beijing's credit-led economic stimulus. This stimulus package focused on stoking activity in China's flagging construction and manufacturing sectors.

Real estate development activity swelled over the course of the year, and the purchasing managers index — a key measure of industrial activity — grew in November 2016 to it highest level since 2014.

Any increase in activity in these sectors bodes well for commodities; metals such as steel and zinc are important materials used in a range of construction and manufacturing applications.

While some analysts believe that prices for these commodities will diminish, copper is set up to take their place. It is one of the most widely acknowledged indicators of global economic health because it is widely used across a range of construction, manufacturing, and electrical applications.

There are signs that the health of the global economy has improved from where it was in late 2015 when many pundits predicted yet another economic crisis. On top of which, Trump's promised trillion-dollar investment in infrastructure — coupled with other fiscal stimuli, such as tax cuts — will help to stimulate further economic activity.

Then there is the failure of the so-called wave of copper to eventuate.

Many pundits, including **Goldman Sachs,** expected a massive expansion in global copper supplies, but this has not occurred, and rising demand can only cause the price of copper to rally further.

In fact, even Goldman Sachs — consistently the most negative voice in global metals markets — has turned bullish.

This is certainly be good news for copper miners, including **Teck Resources Ltd.** (TSX:TECK.B)(NYSE:TECK) and **First Quantum Minerals Limited** (TSX:FM). They have the potential to sustain the monster rallies that they have already enjoyed.

Then there is the story that every investor is talking about: the rally in crude that now sees it at trading at almost double its February 2016 lows. While there are valid concerns that a recovery in prices will spark a surge in production, particularly among U.S. shale oil producers, this should be offset by increasing demand as the global economy continues its recovery.

This is not only great news for beaten-down oil stocks, but also for Teck, which — along with **Suncor Energy Inc.** (TSX:SU)(NYSE:SU) — has invested heavily in the Fort Hills oil sands project.

In fact, some analysts are predicting that crude could rise to as high as US$70-80 per barrel over the course of 2017. If this occurs, it would certainly buoy energy stocks with cashed-up major players that took advantage of the prolonged slump to make acquisitions at fire-sale prices; Suncor is among the most likely to benefit.

So what?

Despite the naysayers, it appears that higher metals and oil prices are here to stay. This is even before the impact of Trump's fiscal stimulus can be measured. Any rise in copper and oil prices will benefit Canada's energy patch and help to sustain the monster rallies already experienced by Teck and First Quantum, which are up by a whopping 432% and 161%, respectively, over the last year.

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