Commodity Stock Meltdown Could Be a Great Opportunity to Buy

Description

You can say one thing about investing in commodity stocks — it is certainly never boring. Unless, that is, you find roller-coaster rides boring.

Personally they make me nervous and dizzy, and so do the highs and lows of the natural resources sector.

Commodity stocks plunged alarmingly in 2015, with the likes of UK-listed miners **Anglo American** and **Glencore** losing three quarters of their share price value.

Within a year, they had recovered pretty much all of their losses, generating massive gains for those who bought at the bottom.

Now commodity stocks are on the slide again.

China crisis

If you want to know why mining and minerals giants are performing in a certain way, the answer is usually China.

A slowdown in the world's second biggest economy triggered the 2015 rout but when the Chinese authorities gave the green light to yet another sugar rush of stimulus in spring last year, commodity prices soared on expectations of higher demand.

There were other factors, to be fair. Mining and oil companies worked hard to repair their balance sheets by laying off staff, slashing capital expenditure, offloading non-core assets and paying down debt.

This reassured investors by showing that they had the fight to survive an era of falling copper, iron ore, oil and gas prices.

However, it would have been to little avail without that Chinese resurgence.

Heavy metals

This is a worry, because the Chinese economy is slowing once again, as seen by April's disappointing manufacturing figures.

The People's Bank of China is looking to raise short-term interest rates in a bid to gently deflate the country's property bubble, and crack down on the shadow banking sector.

It isn't just cooling the Chinese economy, it has sent a chill through the commodity sector, with the price of copper, iron ore and coal all falling lately.

Going down

Mining stocks are cheaper as a result. Diversified mining giant **BHP Billiton** is down 20% in the last three months, while Rio Tinto is down 15%.

Anglo American has given up some of last year's stonking gains, falling 25%, as has **Glencore**, down 12%. India-focused miner **Vedanta Resources** is down a stunning 42%.

The sell-off is already well under way.

Get set to buy

The miners could fall further still but this looks like a buying opportunity to me.

Rio Tinto, one of the most solid miners on the market, is trading at around 13.67 times earnings and currently yields a crunchy 4.60% a year. Anglo American is trading at just 7.7 times earnings.

There are plenty more tempting opportunities out there, if you are prepared to do a bit of research.

Dig deep

The meltdown could prove shortlived, with the Chinese economy growing at a faster-than-expected 6.9% in the first quarter, and the IMF raising its 2017 outlook for global economic growth to 3.5%.

You might want to seize this buying opportunity sooner rather than later.

CATEGORY

1. Investing
2. Metals and Mining Stocks

PARTNER-FEEDS

1. Msn
2. Newscred

3. Yahoo CA

Category

1. Investing
2. Metals and Mining Stocks

Date
2025/09/08
Date Created
2017/05/13
Author
harveyjones