The Bullish Outlook for Metals Makes Now the Time to Buy These 3 Miners

Description

Many commodities, including metals, experienced an impressive recovery over the last year after a multi-year slump that brought many miners to their knees. While the marked recovery in coal and metals prices that started in late 2016 and continued into 2017 saw many mining stocks rebound strongly, there are signs that there are more good times ahead for metals and miners.

Now what?

A key driver of the increased optimism surrounding the outlook for metals is an uptick in economic growth in China. The second-largest economy globally has become known as the workshop of the world, and it's single greatest consumer of the majority of raw materials including metals and coal. This means any improvement in the outlook for China will give those commodities a boost.

The International Monetary Fund upgraded its forecast for China in mid-2017, and there is every sign that this, along with Beijing's moves to crack down on heavily polluting unproductive mining and milling operations, will spark greater demand for most metals.

While China's December 2017 official Purchasing Managers' Index, or PMI, which demonstrates whether industrial activity is expanding, dipped by 20 basis points compared to a month earlier to 51.6%, but it still indicated that industrial activity is growing. That combined with Beijing's planned infrastructure investment in 2018, especially in China's transportation network, will likely substantially boost demand for metals, notably steel, copper, zinc, and nickel.

The outlook for copper, which is a key indicator of global economic health, has progressively become more upbeat. Analysts from various global investment banks are predicting that the red metal could rise to as high as US$7,700 per tonne, or roughly 7% higher than the spot price. This will be a boon for copper miners, including **Teck Resources Ltd.** (TSX:TECK.B)(NYSE:TECK), **First Quantum Minerals Limited** (TSX:FM), and **Hudbay Minerals Inc.**(TSX:HBM)(NYSE:HBM), giving their earnings a healthy bump over 2018.

There is also considerable optimism among analysts over the prospects for zinc over the course of 2018. While the metal isn't expected to deliver stunning gains, as it did in 2016 and 2017, where it gained 64% and 30%, respectively, supply constraints and firmer demand will give prices a boost.

In fact, zinc recently hit a 10-year high of US$3,394 per tonne and is expected to strengthen in coming months, as Beijing's infrastructure investment starts to be rolled out. This is all good news for Teck, which earns 27% of its gross profit from zinc as well as Hudbay Minerals, which generates 23% of its revenue from the metal.

First Quantum and Hudbay Minerals will also benefit from higher precious metal prices. Gold has rallied solidly since mid-December 2017 because of increased geopolitical tensions in the Middle East and northeast Asia to now be trading above the psychologically important US$1,300 per ounce mark. There are signs gold and silver will firm over the course of 2018, because of those and other geopolitical tensions as well as the uncertainty surrounding over the impact of Fed's tightening of monetary policy.

So what?

The positive outlook for many base metals, notably copper and zinc, augurs well for a solid performance from Teck, First Quantum, and Hudbay Minerals. Teck, as Canada's largest miner of coking coal, also stands to get a boost from growing demand for steel, while firmer gold prices will give First Quantum and Hudbay Minerals' bottom lines an additional boost.

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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