



Now Is the Time to Boost Your Exposure to Commodities

Description

In a somewhat surprising move, bond trader extraordinaire and fund manager Jeff Gundlach, who famously predicted the 2007 U.S. housing meltdown, has told investors to sell stocks and buy commodities. While, as a long-term investor, I am not predisposed to chasing the next hottest trade, there is certainly some merits to his latest brash claim.

You see, commodities — most notably, metals and coal — even after the monster rally experienced at the end of 2016 and into 2017, appear ready for another breakout and could very well be among the best-performing investments in 2018. Even the normally bearish global investment bank **Goldman Sachs** has become extremely bullish on commodities, recommending an overweight position during 2018. The reason for this massive uptick in optimism is easy to explain.

Now what?

The global economic upswing that has seen the IMF revise its growth forecasts upwards for the global economy is being fueled by manufacturing and construction booms in several countries, most notably India and China. That has sparked a tremendous surge in demand for metals, especially steel, copper, and zinc, which are all important construction materials.

In fact, when it comes to commodities, it is all about China. The country, which is known as the workshop of the world, is the single largest consumer of commodities globally, including base and precious metals as well as coal. Its insatiable demand for everything from metals through to oil is responsible for the massive commodities rally that commenced in late 2016. Manufacturing activity in China continues to expand, while Beijing's investment in infrastructure will drive greater [consumption of steel](#).

Burgeoning demand for consumer electronics, increasing demand for solar power, and an uptick in the volume of vehicles being manufactured will drive greater industrial demand for silver. That final point will also trigger greater consumption of platinum and palladium, which are both necessary components used in the manufacture of catalytic converters.

Nickel is another metal that will benefit because of rising steel consumption and growing rechargeable

battery demand, mainly from electric vehicle manufacturers. Copper is also expected to rise further, although it will be a bumpy ride, because of uncertainty over the state of global inventories.

Finally, the optimism surrounding oil [continues to grow](#). Brent, the international benchmark, is nudging the US\$70 mark, and there are signs it could make it all the way to US\$80 per barrel during 2018 with a range of geopolitical risks likely to disrupt supplies.

So what?

Among the best means of cashing in on the solid outlook for commodities is to invest in those companies that mine them. Greater steel consumption, along with rising demand for copper, bodes well for **Teck Resources Ltd.** ([TSX:TECK.B](#))([NYSE:TECK](#)), which earns 57% of its gross profit from steel-making coal and 19% from copper. The miner has enjoyed a solid run-up in its price over the last year, gaining 12.6%, and for the reasons already discussed, it will rally further.

A riskier option that offers considerable upside is nickel miner **Sherritt International Corp.** ([TSX:S](#)), which is 12% down over the last year. Growing demand for nickel, coupled with it being the largest independent oil and gas producer in Cuba, will give earnings a healthy bump over coming months, which should cause its stock to appreciate.

For those investors seeking exposure to palladium, now could be the time to dip their toes in the water with miner **North American Palladium Ltd.** (TSX:PDL). It has gained a whopping 77% over the last year, but growing production and higher palladium prices will give earnings a solid lift. Third-quarter 2017 palladium production shot up by an impressive 29% year over year, which, when coupled with a healthy 8% decrease in all-in sustaining costs, caused net income to surge to \$11 million compared to a \$1.6 million loss.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

1. NYSE:TECK (Teck Resources Limited)
2. TSX:S (Sherritt International Corporation)
3. TSX:TECK.B (Teck Resources Limited)

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