Are Falling Commodity Prices a Warning Sign of More Bad News to Come?

Description

Commodity prices are broadly down over the past month, and one has to wonder if it all isn't spelling trouble for certain leading Canadian metals and mining stocks.

Negotiations between China and the United States hit another bump in the road with the U.S. announcing on Friday plans for additional tariffs on Chinese imports.

But while the absolute dollar amount the new tariffs sounds onerous, they're actually still relatively minor in when you consider the gross domestic product of both nations' respective economies.

Even still, China is by far the major player in the global market for commodity products, and so it shouldn't be all that surprising that shares in companies like **Teck Resources** (TSX:TECK.B)(NYSE:TECK) and **First Quantum Minerals** (TSX:FM) were down sharply this week.

Even though both are coming off what were, for the most part, fairly strong first-quarter financial performances, Teck, with its exposure to steel markets, and First Quantum, largely a pure copper play (Teck has significant copper operations also, mind you), should continue to feel the pinch if worries about the short-term future of the Chinese market continue to take centre stage.

Meanwhile, one of Canada's other pre-eminent mining companies, **Nutrien** (TSX:NTR)(NYSE:NTR), fared relatively better last week, up over 3% on Friday, despite missing analyst estimates for earnings on Thursday after the market close.

Given weakness in the shares of metals stocks this week, it only makes sense that investors may want to be making a rotation out of stocks with strong exposures to China in favour of the shares of companies like Nutrien, which still has exposure to commodity prices broadly but is much more dependant on the state of agricultural markets and less so that of China and other EM nations.

Nutrien declared its $0.43 dividend on Friday, payable to shareholders of record on June 28 with NTR stock going ex-dividend on June 27.

Yet those who are looking to get out of the way of commodity markets altogether in light of last week's events may find solace in an idea like the **Chemtrade Logistics** (TSX:CHE.UN).

Chemtrade pays its shareholders a regular $0.10 monthly distribution, which, with the CHE.UN shares trading at just $9.16 as of Friday's close, represents a very, very attractive 13.1% annual dividend yield, which is by far and away one of the highest yields you'll find anywhere on the TSX Index these days.

Even though it reported a $29.3 million net loss during the first quarter, management reported higher selling prices across the board for its sulphur products, performance chemicals, and water solutions segments — a development it had been foreshadowing in previous earnings releases and something that should certainly be taken as an encouraging sign as we head into the back half of the year.

Bottom line

Historically, commodity prices have been notoriously volatile to begin with, which only serves to add fuel to fire and means the latest bout of uncertainty regarding trade talks between China and the U.S. could threaten to wreak serious havoc on some of the sectors more highly leveraged names.

At this stage in the game, I'd personally be making a flight to quality within the sector and would be on the lookout for shares of companies operating businesses with less exposure to foreign markets, particularly China.

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TICKERS GLOBAL

1. NYSE:NTR (Nutrien)
2. NYSE:TECK (Teck Resources Limited)
3. TSX:CHE.UN (Chemtrade Logistics Income Fund)
4. TSX:FM (First Quantum Minerals Ltd.)
5. TSX:NTR (Nutrien)
6. TSX:TECK.B (Teck Resources Limited)

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