



Trade War Uncertainty Weighs on Teck Resources (TSX:TECK.B)

Description

Many commodity miners have been roughly handled by the market since the start of 2019 because of the U.S. China [trade war](#) and fears of a global recession, which have weighed on commodity prices.

Diversified Canadian miner **Teck Resources** ([TSX:TECK.B](#)) ([NYSE:TECK](#)) has lost 20% since the start of 2019, triggering speculation that it is attractively valued and poised to rebound because of signs that the trade conflict may finally be resolved.

There are indications that the increasingly optimistic outlook for the end of the trade war and improved global economic growth, may be overblown, making Teck a stock to avoid at this time.

Poor outlook

The outlook for many commodities, including steel-making coal, copper and zinc, which for the third quarter 2019 generated 42%, 20%, and 30%, respectively, of Teck's revenue, remains muted. Demand for coking coal is highly dependent upon the consumption of steel.

The expectation is that the global demand for steel in 2020 will remain flat and could even fall because of weakness in China's construction and manufacturing sectors, which are the world's largest consumers of the metal.

In fact, manufacturing data from October 2019 showed a general slowdown in activity across nearly all major industrialized economies, which doesn't bode well for the demand for steel, copper and zinc.

That will be exacerbated by the imposition of U.S. tariffs on a broad range of imported goods from China and Trump's expansion of the conflict into [Latin America](#) by imposing tariffs on steel as well as aluminum imports from Brazil and Argentina.

It is for this reason that coking coal fell sharply during the latter half of this year, and despite a modest rebound in November, it is expected to remain weak going into 2020.

That certainly doesn't bode well for Teck's financial performance because the vital ingredient used for the manufacture of steel is responsible for around 60% of its gross profit.

The outlook for copper, which has gained a modest 3% since the start of 2019, is also poor. Demand for the red metal, which is viewed as a general indicator of world economic health because of its crucial role in many industrial applications, is expected to remain flat during 2020.

This will weigh on prices, with many analysts expecting copper's price to soften unless there is a marked improvement in global growth. That's not good news for Teck because copper is responsible for earning 23% of its gross profit.

Even zinc, which rocketed to a multi-year high in 2018, has come off the boil, having lost 10% since the start of 2019 and is expected to fall further as industrial activity and hence demand for the base metal weakens.

The impact on Teck's financial performance will be considerable because the metal generates around 17% of its gross profit.

The only positive news thus far has been the run up in oil prices on the back of OPEC its partners announcing that 500,000 barrels of oil daily will be shaved off their collective output.

This will lift the profitability of the Fort Hills oil sands operation in which Teck has a 21% interest, but crude is only responsible for a mere 0.5% of its gross profit, meaning that any significant bounce in oil won't make up for the decline in coal and base metals.

Foolish takeaway

While Teck is focused on driving efficiencies and reducing costs at its operations, it's difficult to see the miner's financial performance improving, until there is a clear end to the trade war in sight and global growth improves. Until then it is a stock to monitor closely because of the cyclical nature of commodity prices.

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