Why This Stock Could See Massive Volatility in 2020

Description

The iron ore market has been on a bumpy ride of late, to say the least. Canadian iron ore producer **Labrador Iron Ore** (TSX:LIF) has seen its stock price come off substantially of late. Concerns about supply and demand fundamentals are hampering this stock. Here's why I think such volatility could continue for the rest of the year.

Global demand is key

Like most commodities, iron ore demand is driven by China's growing and incredible economy. In fact, the Chinese economy utilizes approximately 50% of the world's iron ore and metallurgic coal used to make steel. This fact has grown much more important in recent months. The potential medium- and long-term impact of the coronavirus outbreak and its impact on key commodities like iron ore could be substantial.

Iron ore demand is generally driven by Chinese growth in housing (condos and towers mostly) and industry. Therefore, the residential and commercial impacts of Covid-19 are perhaps most impactful for companies like Labrador Iron Ore over supply-side movements. China has seen housing demand decrease by 75% in parts of China on a year-over-year basis. This fact is reflected in the 50% drop some North American rail companies have reported for iron ore shipments.

Iron ore likely still mispriced

I am of the view that iron ore prices have a ways to go on a decline. This is due not only to the coronavirus outbreak but due to a number of other factors. The idea that China could continue to build empty highways to massive ghost cities at an ever-increasing pace is ridiculous. Those who believe that iron ore prices are cheap based on supply and demand fundamentals do not know what they are talking about.

I think we're getting very close to a serious bear market in the price of iron ore. Thus, I would encourage investors bullish on this commodity to check their assumptions. Furthermore, I believe many investors in companies like Labrador Iron Ore underestimate the importance of China and emerging markets. They place too much emphasis on domestic drivers, which, quite frankly, don't matter in the grand scheme of things.

Bottom line

I continue to be shocked by what I perceive as a massive disconnect between the medium-term/long-term fundamentals and drivers of specific commodities and the market's perspective of said commodities. In my mind, iron ore is a proxy for growth. Oil is a proxy for growth. Consumption for both commodities is usually closely tied to economic growth, particularly in emerging markets. But it still seems as though iron ore prices are inflated to a greater degree than other commodities that are less sensitive to economic growth. This makes no sense to me.

Stay Foolish, my friends.

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1. Investing

POST TAG

1. coronavirus
2. iron
3. recession

TICKERS GLOBAL

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