



2020 Market Crash: Commodities and Miners Have Further to Fall

Description

The growing coronavirus pandemic is harshly impacting economic activity around the globe. It has also triggered the worst market crash since the 2008 Great Depression. Despite stimulus measures, including Trump's recently announced US\$2 trillion package, the short-term economic outlook remains bleak. This is weighing heavily on commodities, particularly oil and base metals. That in turn has sharply impacted mining and energy stocks. One of the largest mining ETFs, the **iShares MSCI Global Metals & Mining Producers ETF**, has lost 37% since the start of 2020. There are signs of worse to come for base metals and other commodities.

Looming recession

The coronavirus pandemic will trigger a [worldwide recession](#), which could see global gross domestic product (GDP) contract by 1% or more. It will impact the Eurozone, U.S., and many other developed economies the hardest.

There are claims that the U.S. is already in recession. The exponential growth of coronavirus cases and ever-stricter measures being implemented across the U.S. to contain the pandemic will harshly impact the economy. Economists are predicting that U.S. GDP will contract by 1% in 2020, but it could even be greater, as the pandemic continues to spread at a rapid rate.

That doesn't bode well for commodities, particularly when it is considered that the U.S. is the world's largest national economy. Copper, a key indicator of global economic health, has plunged by 17% for the year to date. Other base metals, including zinc, nickel, and lead have all suffered significant losses to be down 21%, 20%, and 14%, respectively.

Softer growth in China

There will be further losses as the economic downturn deepens. That is because, despite China having seen a marked reduction in coronavirus cases, industrial activity in the world's second-largest economy is weak. A key indicator of economic health, the purchasing managers index, in February 2020, fell to

its lowest level since data being collated in 2004. That doesn't bode well for base metals and energy demand.

China is the world's largest consumer of metals and second-largest user of petroleum products. There are signs that China's manufacturing sector, once considered to be a vital engine of economic growth, is struggling. When coupled with the construction and manufacturing sectors being caught in downturns, the demand for commodities, especially metals, will plunge sharply.

China's annual 2020 GDP growth is forecast to be around 3%, which is less than half of the 6.1% reported for 2019. That substantially lower growth will further negatively affect commodity prices.

No bottom in sight

This will have a considerable negative effect on miners. Diversified miner **Teck Resources** ([TSX:TECK.B](#))([NYSE:TECK](#)) has lost a whopping 59% since the start of 2020 and has further to fall.

Coking coal, a key ingredient in the fabrication of steel, which is responsible for over half of Teck's gross profit has fallen sharply because of weaker steel demand. The poor outlook for zinc and copper is also weighing on Teck. This is because they are responsible for 17% and 22%, respectively, of its gross profit.

The latest oil [price collapse](#) is also weighing on Teck because of its 21% interest in the Fort Hills oil sands mine. The Western Canadian Select benchmark heavy oil price has fallen to record lows. Energy in 2019 generated 3% of Teck's gross profit.

Looking ahead

A commodities recovery is some way off. The coronavirus pandemic will need to peak before the full economic fallout can be quantified. The economic impact of the strategies being implemented to combat the virus will cause commodities to fall further. That means Teck's stock has yet to bottom and there are further losses ahead.

CATEGORY

1. Coronavirus
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