

Resources sector may be the one to beat

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With 2017 only a few working days old, mining stocks have already proven that resources will be the sector to watch on the JSE this year.



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Miners had another good day on Tuesday, 10 December, with the resources 10 index jumping more than 3% on firmer copper, zinc and palladium prices. The index has risen 4.04% so far in 2017, beating the all share's 2.15%.

Anglo American and BHP Billiton were star performers on the day, with Anglo American's share price rocketing more than 7%. BHP Billiton was more than 4% higher.

The copper price is up 1% so far this year after rising 17.6% in 2016. But the real performers have been zinc and palladium, rising 3.5% and 10% respectively. Zinc shot up 60% in 2016.

This has led analysts to be cautious about the year ahead, with some pullback predicted for mining companies, despite local GDP growth at about 1% - an improvement on 2016.

"We estimate only a modest revival in commodity prices," said Momentum Investments head of research Herman van Papendorp.

The main action among the miners so far this year has been on the FTSE, where dual-listed Anglo American and Glencore propelled the index to a new high of 7,275.35 on Tuesday.

If past trends are repeated, the JSE resources sector will eventually benefit, especially if the rand weakens against the dollar. For 2017 so far, platinum and gold shares have been the best performers. The platinum index is already 12.9% higher in 2017 after rising 50% in 2016.

The gold price benefited on Tuesday from jitters about the effects a Donald Trump presidency would have on the US.

"Some of Trump's policies appear reasonably encouraging, including extensive tax cuts and a focus on increased infrastructure [spending], but other policy initiatives could undermine confidence, especially aspects of his foreign policy and continuing political wrangling," said Stanlib economist Kevin Lings.

Although spot gold has risen 3.2% so far in 2017, the gold index on the JSE has gained 4.9%. It added 28% in 2016.

The first week of trading on the JSE saw a modest inflow of R468m. Bonds were the largest beneficiaries, with equity flows flat, but mining stocks are set to rise if foreign buying spills over to the JSE.

Liquidity has been thin. "Nevertheless, the year began with inflows rather than outflows that had been widespread in 2016," said analysts at Nedbank Corporate and Investment Banking.

Bond and equity markets saw outflows of nearly R100bn in 2016, the biggest on record.

Source: Business Day

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