Copper having a 'Goldilocks' moment

COPPER is having a “Goldilocks” moment, not too high and not too low, but how long that can last is anybody’s guess, and the people doing the most guessing will be delegates at LME Week which starts in London on Monday.

Copper > Research

24 October 2019

Comments

Share

Tim Treadgold

What's driving copper is a perfect storm of competing forces. Demand is being crimped by the US-versus-China trade war, while supply is being constrained by widespread industrial and political strife in two of South America's major copper-producing countries, Chile and Peru.

The net result is a price marooned around US$2.60 a pound, which is good enough for most miners to make money even while they fret about the impact of the trade war on demand, and battle militant unions and local protestors close to their mines.

Copper's status as a bellwether metal means it can be a useful pointer to the broader economy because of its multiple uses across a variety of industries, from construction and transport to electronics and household appliances.

That's why copper has such a large following and why what happens at LME Week, the annual gabfest and gourmet dining experience organised by the London Metal Exchange, is a scene setter for the months ahead - even if conditions are as uncertain as today.

One view of copper is that without the current round of strikes, blockades and political turmoil, for which South America is famous, the price would be a lot lower, perhaps back to the $2.21/lb average seen in 2016. Another view, best expressed by analysts at the investment bank, Morgan Stanley, is that copper will ride out this year roughly where it is before steaming up to average $2.93/lb next year, and then over the magic $3/lb mark in 2021.

Right now, however, the Goldilocks market of a perfectly balanced situation in the days ahead of LME week is described by Morgan Stanley as a precursor to a similar situation next year with the consensus view of the market being one of, "slightly better demand met by slightly better supply to keep the price flat".

It could be better because Morgan Stanley is not in full agreement with the consensus view of perfect balance. It reckons mine supply next year will rise, but only by a modest 0.9% while demand could grow by 1.9%. If that forecast is correct then copper could be heading into a potential 350,000 tonne market deficit next year which should be translated into a higher price.

In a separate report by the bank last week the ability of the copper market to shrug off the latest round of strikes and other outage events was seen as a timely event given the weak demand caused by the trade war.

"Together with this year's various mine suspensions, transitions and grade difficulties, these supply losses are keeping the market in balance, preventing the formation of large surpluses, which leaves copper well positioned to move higher as demand recovers in 2020," Morgan Stanley said.

Other metals which will feature at LME week include aluminium, zinc and nickel, each with its own supply/demand story to tell.

Aluminium, after a strong recovery between 2016-and-2018 has reverted to its status as a sick man of the base metals complex after a 30% price fall to about US77c/lb, a level likely to trigger a fresh round of smelter closures.

Top of the list to have its plug pulled is Alcoa's Portland smelter in the Australian State of Victoria. Rio Tinto's Tiwai Point smelter near Invercargill on the South Island of New Zealand could be next to hang up the shutters.

Zinc, another star performer in the 2016-18 period thanks to the closure of several big mines, has also wandered into a period of over-supply with a significant price fall being delayed by smelter disruptions in China.

As Chinese zinc production rises a glut of metal is on the horizon, but how that affects the price will be an equation which takes into account the opaque world of treatment and refining charges.

Nickel, if market sentiment is a guide, could get the most positive reviews at LME Week thanks to the imminent start of the next attempt by Indonesia to ban the export of unprocessed ore, and rapidly shrinking stockpiles such as those on the LME which have plunged to a perilously low 88,000 tonnes, 75% down on the 380,000t at the start of last year.

What should be a particularly interesting discussion at LME Week is the pace at which demand for nickel might grow in the battery business.

In theory, nickel has a bright future as a battery metal, one which might eventually match its use in the production of stainless steel.

In reality, the nickel-for-batteries case might be a case of premature enthusiasm because while there is no doubt that battery makers require nickel there is a slowdown in the broader battery-metals business which reflects a slower-than expected uptake of electric cars.

Aspermont
Information for Industry