

A NEW HIGH FOR COPPER WITHIN SIGHTS

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The front month Comex Copper is currently trading at \$4.27/lb¹, less than 10% off from the high of \$4.63 reached in February 2011. We believe that a combination of tight supply and strong demand could push copper prices back to all-time highs. As a metal that will be a key enabler in the energy transition and is likely to be highly utilised in the burgeoning global infrastructure upturn, the longer-term projections for copper may also look positive."

A market in a supply deficit

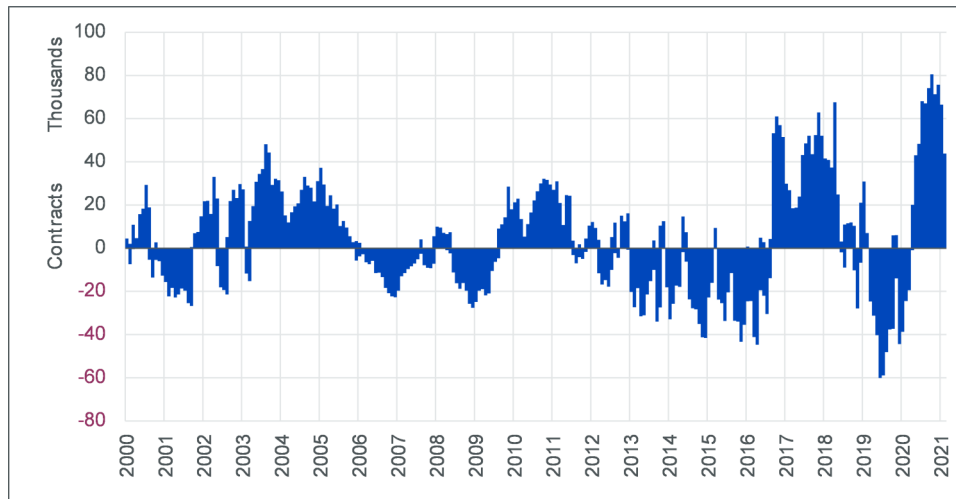
In October 2020, the International Copper Study Group (ICSG) put out a forecast that the copper market will be in a 50k tonne supply deficit in 2020. Data published by the ICSG last month for the full year 2020, showed in fact a 559k tonne deficit, i.e. more than 10 times the deficit expected back in October 2020². In 2019 the copper deficit was 375k tonnes. The ICSG point out that in 2020 demand outside of China was weak, falling close to 10%, but Chinese demand for copper rose 38%, offsetting the weakness elsewhere. Also, some of China's purchases may have been made by the State Reserve Bureau, but the Study Group's estimate adjusted for stock changes in Chinese bonded warehouses still amounts to a deficit of 456k tonnes. We believe the ICSG's 70k tonne surplus forecast for 2021 will likely be revised downwards to a deficit after the group meet for their semi-annual meeting later this month.

Chinese customs³ data indicates imports of unwrought copper and copper products was up 11.7% in the Q1 2021 vs Q1 2020 and stands at the highest level (for Q1) since 2016.

Stretched long positioning has been flushed out

Net positioning in Comex copper futures had hit a decade high of 80k contracts net long in December 2020. But since then, positioning has cooled to just 37k contracts net long. We think that this is a healthy development and could have opened up the better entry point into copper.

Figure 1: Net Speculative Positioning in Comex Copper Futures



Source: Bloomberg, data available as of close 21 April 2021

Historical performance is not an indication of future performance and any investments may go down in value.

Copper futures in backwardation⁴

Front month copper futures are in backwardation. Although the futures curve is somewhat kinked and the market is contango between the May 2021 and November 2021 contract, most of the rest of the curve is in backwardation, which is a sign of tight supply. Historically markets in backwardation can provide a source of positive performance for investors in commodities.

Sources

¹ As of 22nd April 2021 for the Comex Copper Future May 2021.

² In fact in October 2019, the ICSG had predicted a 280k tonne surplus for 2020.

³ Customs General Administration PRC

⁴ Contango is a situation where the futures price of a commodity is higher than the spot price.

Backwardation is a situation where the futures price of a commodity is lower than the spot price.

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