
CHARGING INTO THE FUTURE WITH COPPER

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Since the sharp drawdown in March last year, copper prices have rallied strongly and are up over 70% since then¹. Copper's rally has outpaced broad commodities over this period and stands shoulder to shoulder with the S&P 500 Index. Going forward, copper is expected to evolve from being just a cyclical asset that swings with the economy to an asset that embodies thematic characteristics as well.

Here are the key forces influencing copper prices now and giving it an encouraging outlook going forward:

1. Favourable momentum and sentiment:

According to the International Copper Study Group (ICSG), copper's supply deficit became wider in the third quarter of last year (with the end of September being the latest data point available). What is even more noteworthy is that this has been driven by an increase in demand rather than a reduction in supply.

Investor sentiment towards the metal, as measured by speculative positioning on futures, has been strong in recent months. Moreover, prices have not yet reached previous highs seen at the start of 2011. Speculative sentiment can play an important role in determining the price trajectory just like physical demand and supply.

2. Macro tailwinds:

Several forces have lined up as tailwinds for copper as well as the industrial metals basket. Weakness in the US dollar has been fuelling the sector for several months. This has been supported by continuously improving Chinese economic data pointing to an improving demand trend for base metals. Moreover, since November, the rally has been bolstered by vaccine news which has given markets a lot of optimism despite the challenges in the next few months.

3. Thematic growth prospects:

Copper's future growth is expected to come from fast-growing megatrends including electric vehicles (EVs), 5G, and renewable energy. For example, an EV uses four times more copper than an internal combustion engine vehicle. From energy storage systems to charging infrastructure, copper is integral to the entire EV ecosystem.

The energy transition is expected to accelerate this year. Joe Biden has already signed the US back into the Paris climate accord on his first day in office. This is a sign of

further leadership from policymakers on this front. Innovation on the industrial front is inevitably going to gather steam. Clean energy metals like copper, nickel, and silver stand to benefit from this megatrend.

Further resources on these metals are available on our website: <https://www.wisdomtree.eu/en-gb/strategies/metals>

A short video recording of our 2021 commodities outlook is available [here](#).

Source

¹ Bloomberg. Data as of 21 January 2021.

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