



Philequity Corner (March 29, 2021)
By Wilson Sy

Dr. Copper

A combination of vaccination rollouts, global re-openings, and the worldwide push for decarbonization pushed copper prices to their highest in 10 years. While it recently retreated on concerns over coronavirus resurgence, this red metal is still up 100% from where it was a year ago. Often referred to as Dr. Copper, it is frequently used by some portfolio managers as a signal or forecaster of economic activity.

Global economic recovery

Copper prices surged higher in recent months amid a global vaccination program and worldwide reopening of economies. Copper price hit a high of \$4.37 / lb last month and is trading just slightly below 10-year highs. Along with oil and other industrial metals, copper performs well in a reopening economy.

Since crashing to a low of \$1.97 / lb in March 2020, copper has been on an uptrend, thanks to central banks and governments' stimulus measures worldwide. This year, global GDP is expected to increase 5.5% after a -3.5% contraction last year. China, the world's second-largest economy, is slated to post 8.1% annualized growth for 2021, rebounding from its slower 2.3% increase in 2020. Additionally, prospects for a more robust recovery in the US are emerging given the additional \$1.6 fiscal stimulus and accelerated vaccination rollout.

A myriad of uses

Most copper is used in electrical equipment such as wiring and motors. In construction, copper is utilized for roofing, plumbing, and the tubing of heating and cooling systems. It is also a major component in the push toward renewable energy and electric vehicles. Copper is used in batteries, electric motors, busbars, and charging stations.

Supply disruptions in Chile

The coronavirus pandemic disrupted the supply of copper. Mines in Chile, which accounts for 28% of the global copper supply, were partially closed in 2020. This led to a substantial drop in production. The impact of COVID-19 on the global supply chain and logistics resulted in tighter supplies.

Strong demand from China

While copper supplies declined during the pandemic, global demand remained robust. Copper consumption in China rebounded quickly in 2020 as Chinese manufacturing roared back. As measured by the PMI, factory activity in China is on its 10th consecutive month of expansion. China is the world's top consumer of copper. They account for anywhere between 40% to 50% of copper demand each year.

Green revolution

Longer-term, copper's demand is backstopped by the growing global demand for renewable energy, sustainable infrastructure, and green transportation. Governments worldwide are aiming for net-zero emission targets in the coming decades. Copper is a crucial ingredient of this green revolution. It is used in solar panels, wind turbines, electric vehicles, battery storage, and grid infrastructure.

Copper Super Cycle

According to Trafigura, the global push towards green energy would push copper prices into a “supercycle.” The world’s biggest copper trader expects copper to hit \$10,000 per ton this year before entering a range between \$12,000 and \$15,000 per ton this decade. Global investment banks like Goldman Sachs, Blackrock, Bank of America, and Citigroup are likewise bullish on the metal due to the long-term secular decarbonization trend.

Surging virus cases is a risk

While the intermediate target for copper remains at \$4.63 per lb (all-time high), it has been range-bound between \$3.85 and \$4.37 the past month. The surging coronavirus cases in many parts of the world like Europe, Brazil, India, and the Philippines, the appearance of more contagious variants, and new lockdown measures have caused copper prices to consolidate. As shown by the recent drop in copper prices, these new risks need to be contained. A resurgence in virus cases might imperil global economic growth and cause a steeper correction in this industrial metal.



Philequity Management is the fund manager of the leading mutual funds in the Philippines. Visit www.philequity.net to learn more about Philequity’s managed funds or to view previous articles. For inquiries or to send feedback, please call (02) 8250-8700 or email ask@philequity.net.