ANOTHER BLOW TO COPPER FUNDAMENTALS

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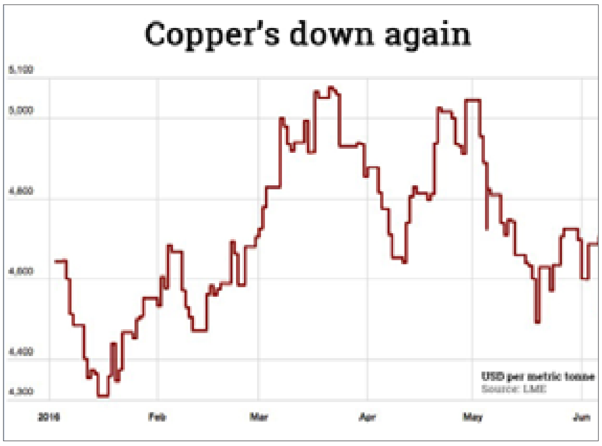
Copper, one of the most instrumental indicative commodities of global growth, continues its slide downwards – a nearly 5 percent fall since the beginning of the year to $4,520 per ton. Earlier in the week, the metal hit a new 4-month low at $4,485 per ton. Though the red metal has halved in price from its 2011 peak – an excess of $10,000 per ton – some experts hope that copper may have finally come close to hitting its lowest price. If further surprises such as the LME warehouse flooding of material remain at a minimum, and after a few more months of repeatedly weakening prices, the market could see copper gradually cycling back upwards over the next several quarters and well into 2018.



Not all analysts have a bullish outlook for the next two years. In the first half of 2016, copper has proved to be one of the worst performing base metals on the commodities market. From the demand perspective, the World Bank downgraded its 2016 global growth forecast of 2.9 percent to an even more tepid 2.4 percent estimated early this year, part of which it attributes to the struggle of exporting emerging and developing economies to adapt to low oil and commodity prices. Demand from China, the world's biggest buyer of the metal, is increasing at the slowest pace in a decade, with its manufacturing activity data indicating that Beijing's economic stimulus may be fizzling out. In currency terms, fears of a consequent renminbi devaluation coupled with a potentially stronger dollar when the U.S. Federal Reserve officials hike interest rates in the summer, making metals more expensive for buyers to pay with other currencies, can further dampen demand and push down prices.

More than the short-term outlook, it is the medium-to-long-term scenario that will have the markets turn favourable, according to bullish investors. With China's GDP growth forecasted a sturdy 6.5 percent for 2016, global copper demand is bound to rise a steady 1.5 percent, claims the International Wrought Copper Council. The Chinese real estate sector has experienced recent mild recovery, due to which the government sharply reduced bank lending and delayed their decision to inject heavy stimulus into its economy. China further stated plans to invest 4.7 trillion yuan in transport infrastructure projects over the next three years. As a result, Goldman Sachs has increased its growth forecast for China from nil to 3 percent and Standard Chartered suggests Chinese demand will be enough to help buoy commodity prices.

Furthermore, copper's continued versatility will also play a role in supporting demand, *"The biggest impediment to a strengthening copper price is the supply glut that seems to be worsening this year. The latest in commodity development tells of the biggest surge in copper inventory inflow in LME storage facilities in a decade that took place in early June."*

according to BHP Billiton Ltd., the world's largest mining company. With the frantic boost of interest in renewable energy and with copper's reputation as one of the best conducting materials of solar and wind energy, the metal can potentially fall into a global deficit in the coming years. Since renewable energy generation requires 12 times more copper than traditional systems, copper could see a sharp demand hike within a few years.

The biggest impediment to a strengthening copper price is the supply glut that seems to be worsening this year. The latest in commodity development tells of the biggest surge in copper inventory inflow in LME storage facilities in a decade that took place in early June. LME warehouses, most especially in Singapore, Taiwan and South Korea where strong financial incentives for storage are being offered, saw a nearly 40 percent spike in copper stores – amounting to more than 50,000 tons influx in the span of a few days. There is speculation that it has been a strategised move to export gradual quantities out of China and flood LME inventories in an effort to create a favourable margin against the Chinese market. China seems to be weighed down with large quantities of copper that overpower its metal requirement, potentially due to the use of copper as backing for financial deals in China.

Another indicator of the supply glut is exhibited by the wide contango between copper's cash price and 3-month contract price, Bloomberg highlights, which currently stands at nearly $15 per ton. Just a month earlier, the situation had been reversed with copper's cash price at a near -$25 premium to the 3-month contract price. It begs to consider that there is much too much supply floating in the market to allow any premiums in current cash price and putting excessive downward pressure on copper price.

Optimistic investors predict a gradual accommodation for the excess copper supply. CRU reports that copper producers are focusing on their operating and advanced projects and cutting expenditure on less developed and exploration projects in an effort to mitigate their high-debt balance sheets. This may help ease the oversupply of copper, which otherwise is continually growing, with this year marking the lowest level of supply disruptions at mines due to an unusual lack of supply-disruptive events, such as earthquakes, landslides and labour strikes. Furthermore, multiple production cuts have been announced by copper giants, which could reduce short-term global supply figures and help support the price of copper.

For now, the Chilean Copper Commission (Cochilco) forecasts an average copper price of $4,740 per ton in 2016, and closer to $4,850 per ton in 2017. CRU maintains a slightly more bearish view, marking their forecasts at $4,700 per ton for 2016 and $4,500 per ton for 2017.