Red hot copper hits new record highs. Will other metals follow?

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Wichtige Erkenntnisse

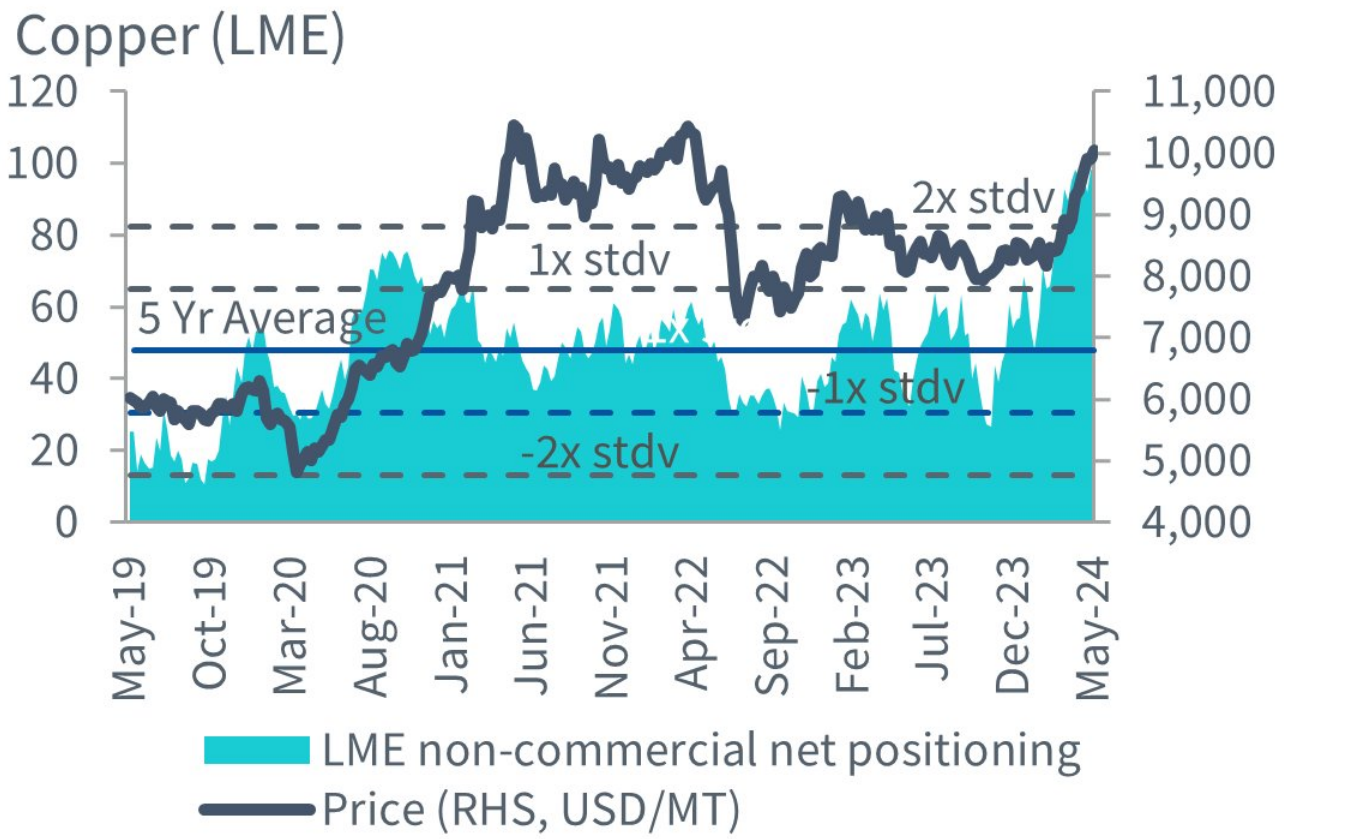
- Sentiment in the futures market is shifting and playing an important role.
- China's piecemeal stimuli are beginning to show their efficacy.
- Copper is not rallying alone and there may be interesting opportunities for investors, especially in energy transition metals.

Copper prices have hit new record highs. Copper's COMEX price is up 32% and LME price is up 27% year-to-date[1]. What is driving this surge, what lies ahead, and what implications are there for investors of metals?

A short squeeze

The sharp price increase is concentrated on the most-active July contract on COMEX, leading traders to arrange shipments to COMEX warehouses in the US due to the July contract's higher premium over copper prices on other global exchanges. The short squeeze is likely to persist as traders may face difficulties in delivering sufficient metal before the delivery deadline. This is evident in copper's COMEX futures curve which is now in slight backwardation at the front end[2], thus currently offering a positive roll yield to investors.

Until recently, investor sentiment on copper was quite polarised and a race was on between long and short positioning in futures. It appears that more recently, the longs are taking a lead. Copper's COMEX positioning has increased 101% over the past month, indicating a sharp upswing in sentiment from a relatively low base[3]. We, however, observe that while copper's LME net speculative positioning has been steadily rising this year (and now sits beyond 2 standard deviations above the 5-year average), COMEX positioning is still below the 5-year average (see figures below). This suggests that there is further room for a short squeeze on COMEX which could keep the momentum going for prices. This could be fuelled further if data from the International Copper Study Group (ICSG) over the next couple of months points to tightening supply, something that can be expected given mining closures we pointed out recently.



Source: Bloomberg, Source: Bloomberg, WisdomTree. Note: positioning in '000 contracts. St dv is standard deviation. Price as of 17 May 2024, and positioning data as of 14 May 2024. **Historical performance is not an indication of future performance and any investments may go down in value.**

The China factor

China has just announced meaningful measures to stimulate its property market lowering payment minimums to as low as 15%, as compared to 20% previously, and cancelling the floor on mortgage rates nationwide. Policymakers are also looking to enhance the liquidity of developers by releasing 300 billion yuan ($42.25 billion) in financing for local state-owned enterprises to buy unsold, completed apartments to turn them into affordable housing[4].

This is another step in China's piecemeal stimulation of the economy, something we think is gradually paying dividends. In the manufacturing sector, the most important driver of copper demand, Purchasing Managers' Indices have pointed to expansion in activity consistently since November[5].

China's strong push in the energy transition is also becoming clearly apparent for markets to see. As just one example, global electric vehicle (EV) sales hit almost 14 million in 2023, up from around 10 million in 2022, and China accounted for 60% of all sales. In 2024, the market share of EVs could reach 45% in China[6]. The country's rapid expansion in EVs, renewables, and energy storage bodes well for copper demand.

The implication for investors

There are three important things for investors to consider having observed the recent surge in copper prices.

First, markets are waking up to the reality of potentially constrained supply of industrial metals. If demand grows as rapidly as it is expected from the energy transition, supply could constantly be playing catch-up in the coming years.

Second, in the near term, some volatility in prices cannot be ruled out given sharp surges are hard to sustain. But the structural case for copper remains intact. This means there may be opportunities for both tactical and long-term investors.

And third, copper typically sets the tone for industrial metals. Copper's rally could propel other metals as well. Already, the Bloomberg Industrial Metals Index is up over 19% year to date[7]. This resurgence in industrial metals was overdue and may only be the beginning of a new phase of market interest in the sector, especially in metals aligned with the energy transition.

Sources

[1] Source: Bloomberg, data as of 22 May 2024. COMEX is the Commodity Exchange, part of the CME Group. LME is the London Metal Exchange.
[2] Backwardation is a market condition where the current price of a commodity is higher than its futures price.
[3] Source: Bloomberg, with positioning data as of 14 May 2024.
[4] As reported by CNBC on 21 May 2024.
[5] Based on Caixin China General Manufacturing Purchasing Managers' Index (PMI).
[6] International Energy Agency Global EV Outlook 2024.
[7] Source: Bloomberg, data as of 22 May 2024.

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