

Copper on course for its strongest year

TRENDING



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The beginning of 2018 sees the copper price coming over the top of the top end of its current bull channel and heading into a widely reported growth period expected to continue throughout this year. Prices for the metal employed widely in power and construction rose by around 30 percent in 2017, and the ubiquitous commodity is on course for its strongest year since the immediate recovery period in 2009. Copper's rise to a four-year high lifted confidence in the markets that 2018 will be another year of robust growth around the world.

Prices have achieved recent highs on the back of a sinking dollar, growing confidence in Chinese demand and enhanced positive sentiment as a result of supply constraints caused, in part, by the Chinese government ordering its top nationalized producer, Jiangxi Copper Company, to cease production for at least one week. Further disruptions are expected this year as China continues its "clear skies" environmental crackdown, via which category 7 (high impurity) scrap will be entirely banned by the end of 2018.



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China's attack on the copper scrap market, particular regarding this low-grade material (termed "foreign garbage" by officials) has already sent tremors through the plastic and paper sectors, but a series of new measures present a serious risk to the flow of scrap to the world's largest importer. At the very least, this is going to be a serious disruption to the copper supply chain; already, traders have been barred from applying for scrap import licenses. The government stated in December that only end-users and actual copper scrap processors would be considered for import quotas this year.

However, this upheaval could be overshadowed by the myriad of mine labour contracts newly expiring in 2018. Over 30 labour contracts, covering around five million tonnes of mine supply, are due to expire this year, the majority of which are in Chile and Peru. Looming strike action is a great threat to output capacities, especially for the world's largest producing mine, Escondida, where a 44-day walkout last year ended with zero reconciliation.

Commodity prices were also helped by US dollar slippage this year, with sterling climbing as much as 0.5pc against the greenback to above \$1.345. Although monetary policy was tightened at the Federal Reserve and GDP growth has continued robustly, the dollar has endured its worst year against the euro since 2003, shedding an average of over 10% of its value against a range of other major currencies. This has made dollar-priced commodities cheaper for holders of other currencies and resultantly encouraged selling outside of the US.

China creates around half of global copper demand, estimated to be around 23.5 million tonnes annually. The surge in its imports seen towards the end of 2017 triggered a buying frenzy (329,168 tonnes imported in November, up 19 percent from the same period a year ago). Furthermore, China's serious attitude to reducing pollution is unlikely to abate any time soon, and analysts estimate the nation's copper demand could grow by as much as three percent in 2018 compared to around two percent in 2017. The copper market is expected to see a resultant supply deficit of 130,000 tonnes this year compared to a shortfall of 95,000 tonnes last year, leading me to believe that the current bull run is almost certain to confidently continue.

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