

Peak Copper

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Copper surprised everyone with its rapid ascent from the recession, propelled by China's stockpiling program to hit record-high prices. Prices were buoyed by underlying changes to the supply chain, with analysts closely watching eroding stockpiles of copper in warehouses, and predicting that sooner, rather than later, we will run out of copper.

We all have heard the hysteria surrounding peak oil, however, supporters of peak copper claim that there would be more dire consequences to peak copper compared to peak oil. "Advances in oil field technology since the 1980s have greatly extended the ultimate date for peak oil," according to Yu-Dee Chang, Chief Trader at ACE Investment Strategies. Green technology has also provided new means to extract energy, more affordably, from renewable resources. Now for copper, the frightening fact is, with today's current technology, there are no viable substitutes.

How did we get here?

In the past few years, stronger than expected growth from China has resulted in accelerated copper demand. With a market already known to operate on thin margins, Chinese demand has quickly created a copper supply deficit. The potential that other emerging markets are also entering a period of rapid growth is fueling speculation that the increased demand for copper has just begun.

The tightening balance of copper supply/demand has resulted in a rapid rise in the red metal's prices. Furthermore, there has also been a piqued interest in copper as an asset class. Copper prices are now being impacted by investment demand, in addition to the traditional, physical demand. Copper is deemed a strategic asset in China and provides a way to diversify from the US dollar and US treasuries.

While copper demand has risen, supplies have not kept pace. This is resulting in speculation that we are on the path to peak copper. While there are many of supporters of this peak copper phenomenon, date predictions as to when this reality will be upon us are all over the map, and range from 2020 to 2100.

Lagging supplies

The million-dollar question is: Why are supplies lagging? Though exploration for copper is moving ahead at a rapid pace, the market is faced with a supply deficit. The copper supply deficit, however, is not due to a lack of available copper to mine – it is caused by complications in bringing copper to the market.

One of the major factors impacting the copper market is capital investment. Exploration and mining require a great deal of cash. The last major investment cycle was in the 1970s and while, currently, we are in a cycle of increased spending in exploration, new discoveries are few, and have not been enough to compensate for the decline in ore grades from the larger, older mines. Analysts estimate that in order to keep up with the current demand, and compensate for aging mines, three new “world class” copper mines need to be discovered, every year.

The other big factor impacting new supplies to the market is the time it takes to get a new mine into production. First, an economically viable reserve has to be discovered, and then this discovery has to be developed. Many projects don't even make it past this point. Often, by the time a mine is about to be constructed, the metal's price collapses and the project is abandoned. However, miners who make it past the point of exploration and into construction and mining are faced with a multitude of potentially time consuming delays, including everything from equipment shortages to permitting problems.

Juniors supplying future copper

Keeping all this in mind, there are still a great deal of copper projects opening up in the coming years, especially from junior miners. It seems that junior miners are the ones bringing on-line most of the new projects. It is important to consider, that these junior miners are a necessity, and they face unique challenges compared to their larger counterparts. Most significantly is the new credit environment, which may preclude some juniors from gaining the financing necessary to fund their exploration and mining endeavours. These junior miners are very important to the future supply of copper, and many other metals. The large miners, who can easily overcome the financing hurdle, seem more interested in spending money on acquisitions than exploration for new targets.

The future

Analysts claim that the current fundamentals supporting the copper market are here to stay for the long-term. In an interview with Copper Investing News, when asked if peak copper is a current reality, Yu-Dee Chang commented “Although the day will ultimately get here, the answer for now is probably- not yet. According to the projections, based on current technology, we can expect tight fundamentals over the long term. However, advances in extraction technology, unseen at this time, may greatly extend the ultimate date for peak copper.”

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