

Investors Interested in Copper

By Leia Toovey
October 28, 2011

Resource Investing News recently conducted an investor survey, the fourth of its kind in just under two years. The goal of the survey was to gauge investor interest and sentiment when it comes to investing in the resources. According to the results, investors are still interested in resources and see the potential for financial gain in this sector. Of particular interest to the survey respondents are investment opportunities in gold, base metals, potash and phosphate, and energy.

While survey respondents see potential in the resource sector, the recent global economic unraveling has left many unnerved. When asked what is the biggest risk to resource investors common responses included the government, American and Eurozone debt burdens, and the possibility of a slowdown in China. The survey showed a fundamental change in what investors are interested in putting their money into. Since 2009, interest in copper stocks has risen by 28 percent. Remarkably, over the past year, when copper's rally stalled, there was still an 11 percent gain in interest. Historically, copper has lagged behind other commodities, particularly silver and gold, in terms of investor interest. However, this trend is changing, with interest in the copper market as a whole growing.

Of the concerns voiced by respondents, the one most applicable to copper is fears that China's growth will slow. China is the world's largest copper consumer, and relies on imports for the majority of its supply. Arguably, China's stockpiling program was the main reason why copper rallied so aggressively after the recession. China purchases copper and uses it both to maintain and build its infrastructure. With the country's recent growth pattern of moving people from rural to urban environments, China's underlying demand for the red metal is strong, despite what hiccups may come along the way.

It is important to consider China's demand for copper when analyzing the red metal as China responds to differently fluctuations in copper prices than the western world. While westerners panic, worrying that a drop in "Dr. Copper" means the economic has taken a downturn, China is more optimistic, and views it as an opportunity. China knows that it is going to need more copper, for years to come, and if prices dip, they look into purchases. Another concern that is raised about China's likelihood to purchase copper is that the current price—despite having fallen from its record—is too high. But, to address this concern we have to consider that copper is priced in USD, and therefore, when priced in RMB, is nowhere near as high in record terms as it is in US dollars.

While demand from China is a huge factor in copper prices, similar economics in other emerging economies will provide the metal will more fundamental support. China is joined by India and Brazil in the fact that these emerging economies are seeing an unprecedented increase in their population's wealth. As people move into higher income brackets, they begin seeking out better lifestyles, including better housing, more appliances. Better housing and more appliances mean more wiring, plumping and infrastructure, all of which require large amounts of copper.

Strong fundamentals alone will not dictate copper's price. The red metal will react to global macroeconomics, however, analysts say that it would take a very long and very profound recession, perhaps a depression, to alter the favourable fundamentals supporting the metal.

Beyond a “prolonged recession” neither new supply nor substitution have the ability to alter a commodities’ supply/demand fundamentals. In terms of copper, neither supply nor substitution are likely to thwart the metal’s rally. Over the past 10 years demand for copper has increased almost 7-fold, while it has been nearly 100 years since a significant new copper discovery has been made. In order to meet demand, we need to mine one new major mine every year.

Exploration projects were stifled in the midst of the recession, and new supply is very slow to come online, meanwhile, demand keeps growing. The only saving grace that this outlook has is recycling; copper recycling is going to have to ramp up in an effort to meet future demand. In terms of copper substitution, the only viable substitute is aluminum, which is only a suitable substitute for some of copper’s applications. Even so, analysts caution that the aluminum supply is not large enough to replace all of the copper demand, and even if copper users were to turn to aluminum they would create a supply deficit in the aluminum market. A supply deficit would likely cause a price rally, which would in turn erode aluminum’s viability as an economic substitute for copper.

Looking forward

Despite retreating from its record price, copper still appears to be a fundamentally sound investment choice. **Yu-Dee Chang of ACE Investment Strategists, told Resource Investing News believes that over the long term, copper’s fundamentals will remain tight, however, he was quick to caution that long-term predictions are difficult, as the market may change in ways that are not, at the present time, easy to see.**

Past performance is not necessarily indicative of future results. The risk of loss exists in futures trading.