

Copper: Grinding towards US\$8,000/tonne

In the very short term, tailwinds from a possible US stimulus package and firm demand picture from China appear to be supportive for copper



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As many in the West start to wind down for the Christmas/New Year holidays, copper has chosen to end the year on a high note. Three-month prices in the LME market are grinding towards \$8,000/tonne, riding the dollar bear trend. In the meantime, US politicians have been banging the drum on the long-awaited Covid-19 relief package, so investors are hoping this will give fresh impetus to copper.

The funds community has been enthusiastic on copper given the macro tailwinds and the long-term bull narrative rooted in copper's increasing usage from electrification - tied to global decarbonisation and energy transition. Both the US CFTC data and LME COTR report are providing a glimpse of the trend here. The data is showing that money managers' net long positions have risen to almost three-year highs; while in LME, the quasi-'money managers' category is now at the highest level (net long positions) since the bourse revamped the data back in early 2018.

There are indeed some new developments on the decarbonisation/energy transition front that should reinforce the optimism towards copper's medium- and longer-term demand narrative. EU leaders decided last Friday (11 December) that emissions should be cut by "at least 55%" by 2030 (vs. 1990 level). The UK has an even more aggressive target. The government shed some light on this in its latest white paper on the energy sector published on 14 December, which calls for a clear step up towards renewable energy and electric vehicles. All of this won't happen overnight, but the message from all major economies, either through pledges or a scaling up of current targets, is clear and should offer support.

In the copper market, exchange reportable inventories (LME & ShFE) continued to decline. China's strong exports of air-conditioners/refrigerators have been helping to keep copper tube/pipe producers busy. According to the SMM report, the average operation rate in this sector grew 4.28% month-on-month in November. In the copper-intensive new energy vehicles sector, sales growth has been picking up momentum over the last couple of months. In November, New Electric Vehicle sales increased by 104.9% YoY to 200,000 units- a monthly record, which brings the total sales year-to-date to over one million units (1.109 mln units; +3.9% YoY).

In the very short term, macro tailwinds from a possible US stimulus package and firm demand picture from China appear to be supportive of copper, in our view.