Copper Teeters on the Totter

A Monday Morning Musing from Mickey the Mercenary Geologist

Contact@MercenaryGeologist.com

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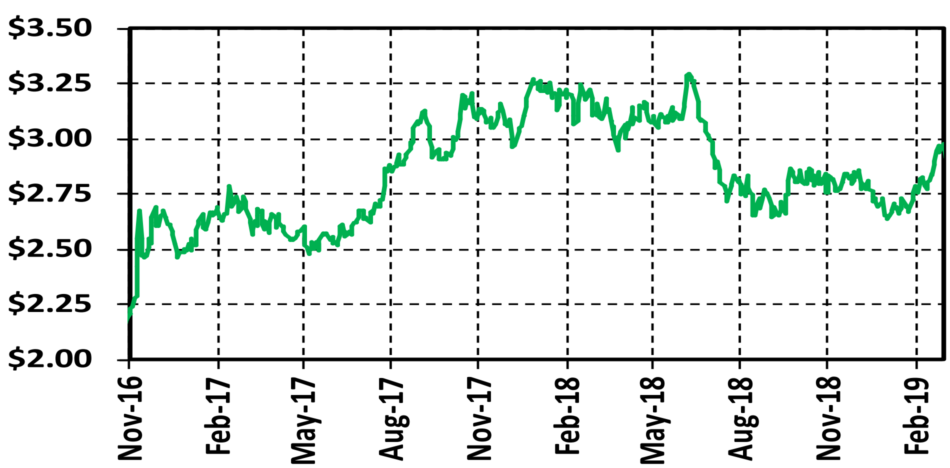
Shy of a world economic collapse, I am a perma-bull on copper in the mid- to long-term. Despite strong supply-demand fundamentals, the short-term price outlook for copper is equivocal; it seems to be teetering on the totter.

Current price uncertainty for the entire industrial metals complex is due to the trade dispute between the United States and China. China is by far the largest consumer of metals in the world with America way behind in second place. Ambivalence with a slowing Chinese economy further weakened by the tariff snafu is well-founded and has cast a pale over normally robust speculative markets for both hard and soft commodities.

Additionally, hedge fund speculators largely abandoned the derivative markets for hard commodities in Q4 2018 with the gross numbers of futures and options contracts at near-historic lows for both energy and metal sectors.

This graph shows copper prices since Donald J. Trump was elected President of the United States in early November 2016:

LME Spot Copper Price: Nov 2016 to Present



My recap follows:

- Immediately upon Trump's election, the copper price jumped 15 % and was volatile until his inauguration in late January.

- Copper peaked in mid-February and was range-bound thru the mid-summer.

- In late July of 2017, hedge funds went massively long and sent the price to multi-year highs that approached $3.30 in late December and then in mid-June of 2018. Then they suddenly went short en masse and copper prices fell to 52-week lows. The hedgies left the derivatives markets altogether in Q4 and stayed out of copper until accumulating short positions in January of this year.

Recent factors in the copper price equation include:

- The "money men" (as per Andy Home of Reuters) are establishing small long positions in copper. They are motivated by apparent progress on trade talks and given China's economic problems, anticipation of a new round of infrastructure stimulus.

- Four-year lows for official copper inventories (Comex, LME, and ShEx) are starting to reverse.

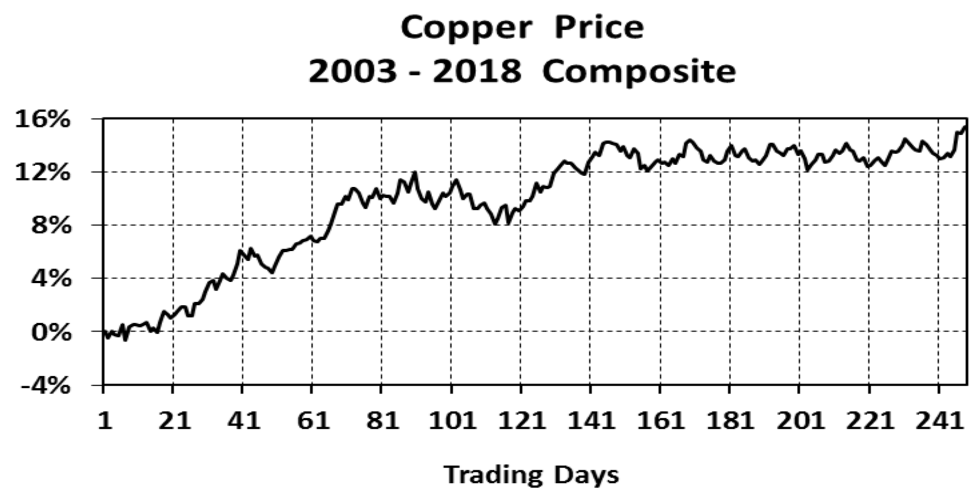
- China has been importing record tonnages of copper concentrates. There are ongoing smelter and refinery consolidations and build-outs that mirror China's vast overbuild of aluminum refineries over the past five years.

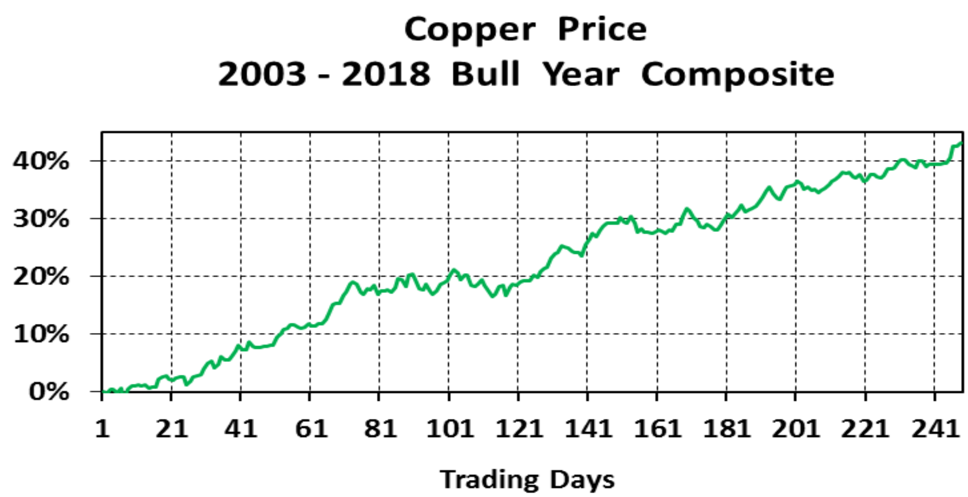
- Copper has been in strong backwardation over the past three weeks. LME warehouse warrant cancellations have accelerated, presumably to arbitrage currently higher spot prices.

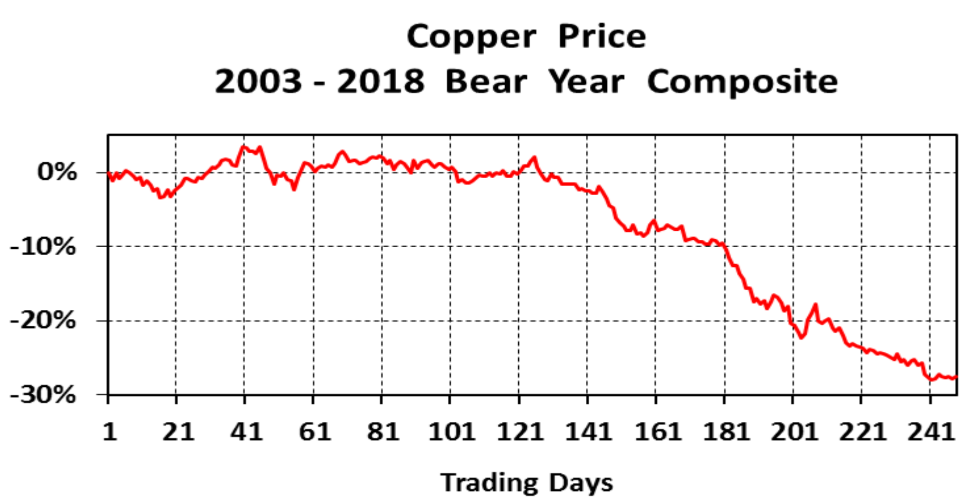
Now let's take a renewed look at the yearly seasonality of copper. We first addressed this subject with a 13-year treatment (**Mercenary Musing, April 11, 2016**). This table shows January opens and December closes of spot copper over16 years. Bull years are defined as ≥ +10% and shown in **green**; bear years are ≤ -10% and shown in **red**; and neutral years are shown in **black**:

Year	Jan Open	Dec Close	% Change
2003	0.73	1.10	50.7
2004	1.10	1.49	35.2
2005	1.42	2.08	46.3
2006	2.06	2.85	38.6
2007	2.81	3.03	7.7
2008	3.02	1.32	-56.5
2009	1.39	3.33	139.2
2010	3.39	4.42	30.5
2011	4.42	3.43	-22.6
2012	3.47	3.59	3.3
2013	3.67	3.35	-8.5
2014	3.37	2.88	-14.5
2015	2.86	2.13	-25.5
2016	2.11	2.49	18.4
2017	2.53	3.25	28.4
2018	3.26	2.65	-18.7

Below are our new charts for composite, bull, and bear years:







Recurrent demand factors strongly influence seasonal copper price patterns:

- Copper is flat from the new year until early February with winter conditions slowing down construction and closing some ports. Anticipation of the pending Chinese New Year also hinders demand. During bear market years, prices are slightly lower.

- Prices rebound significantly thru early March under all market conditions. This is due to resumption of industrial activity in China.

- After a brief dip in mid-March, copper enters a significant uptick phase in composite and bull market years as consumers build inventories prior to the Northern Hemisphere construction season. However in bear years, prices flat-line until early July.

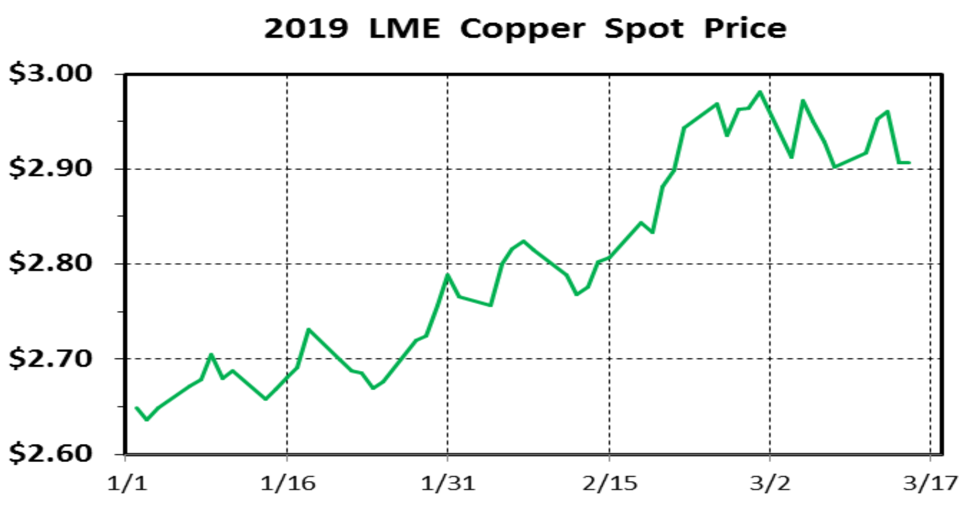
- In all cases, copper takes a significant hit over the month of June. I have no ready explanation.

- The 16-year composite shows a strong price rise until mid-August and then a vacillating pattern to year's end.

- There is extreme bull and bear market divergence over the second half of the year. Strong and sustained price moves are a function of the economic health of the industrialized world. The average gain in bull years is nearly the same as the average loss in bear years, about ± 25%.

- In all cases, seasonal factors are of little consequence from mid-July thru the end of December.

Finally, here are year-to-date prices. With a 10 % gain so far, this is a familiar bull market pattern and an encouraging start for the year:



In summary, there has been no near-term consensus for copper by speculators, traders, suppliers, and/or consumers from August 2018 to January 2019. This led to a directionless and range-bound market with prices at or near all-in costs for low-margin producers.

The market has rebounded nicely since the beginning of 2019, with prices up over 10% and closely tracking seasonal bull market trends. Supply and demand fundamentals are strong.

That said and in my opinion, copper will continue to teeter on the totter until real progress is made on the thorny trade issues between the United States of America and the so-called “People’s Republic” of China.

I also opine that once a satisfactory resolution is reached, prices for copper and other industrial metals are set to soar.

Ciao for now,

Mickey Fulp
Mercenary Geologist

Acknowledgment: Troy McIntyre is the research assistant for MercenaryGeologist.com.

The **Mercenary Geologist Michael S. “Mickey” Fulp** is a Certified Professional Geologist with a B.Sc. Earth Sciences with honor from the University of Tulsa, and M.Sc. Geology from the University of New Mexico. Mickey has 35 years experience as an exploration geologist and analyst searching for economic deposits of base and precious metals, industrial minerals, uranium, coal, oil and gas, and water in North and South America, Europe, and Asia.

Mickey worked for junior explorers, major mining companies, private companies, and investors as a consulting economic geologist for over 20 years, specializing in geological mapping, property evaluation, and business development. In addition to Mickey’s professional credentials and experience, he is high-altitude proficient, and is bilingual in English and Spanish. From 2003 to 2006, he made four outcrop ore discoveries in Peru, Nevada, Chile, and British Columbia.

Mickey is well-known and highly respected throughout the mining and exploration community due to his ongoing work as an analyst, writer, and speaker.

Contact: **Contact@MercenaryGeologist.com**

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