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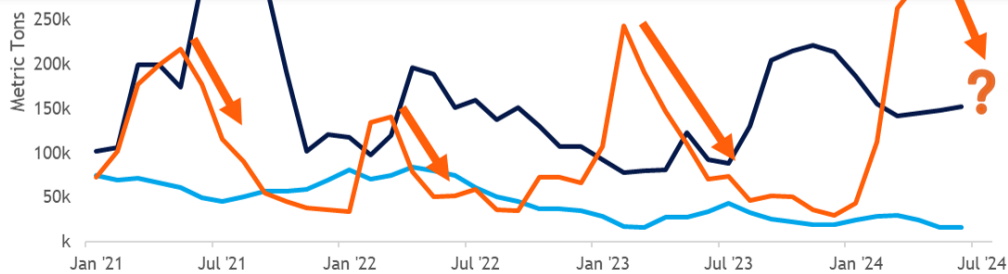
Gold has captured most of the spotlight in the metals complex this year after breaking out to record highs in March. However, copper may be an even more interesting story as the industrial metal has climbed steadily higher in the shadows of the yellow metal, amassing a 19% year-to-date return and topping gold's gain of around 15% (as of June 5).

Copper is not only an important metal utilized across an array of products and industries, but it's also widely considered a leading indicator. Rising demand for copper points to economic expansion and cyclical growth, a message further reinforced when copper is outperforming gold. And while demand for copper remains supported by the various facets of the building construction industry, rapidly increasing investments in the power grid, electric vehicles, renewable energy, and artificial intelligence-related technologies have elevated demand intensity.

Freeport-McMoRan (FCX), the world's largest copper miner, highlighted on their first-quarter earnings call that we could be in the "early stages of a repricing for long-term copper prices." The company further added that tight market conditions remain supported by "constraints on existing supplies, an absence of major new copper development projects, and extended multiyear lead times for supply development."

The supply side of the equation is a bit more challenging. As highlighted below, London Metal Exchange (LME) and Chicago Mercantile Exchange (CME) copper inventory levels have been moving mostly lower throughout the year. However, Shanghai copper inventories have surged higher and continue to deviate from historical stockpile drawdowns into the summer as factory activity ramps up. Proposed cuts among China's top smelters, which produce half of the world's refined copper, have helped offset some of the more recent oversupply concerns.

The unusually large inventory build in China has sparked demand concerns from the world's largest importer of copper. Weakening import demand has surfaced in the Yangshan premium, which recently turned negative and is now at its lowest level since 2017. This closely watched spread is used as an import demand proxy as it represents the premium paid on imported cargo into China over LME benchmarks.

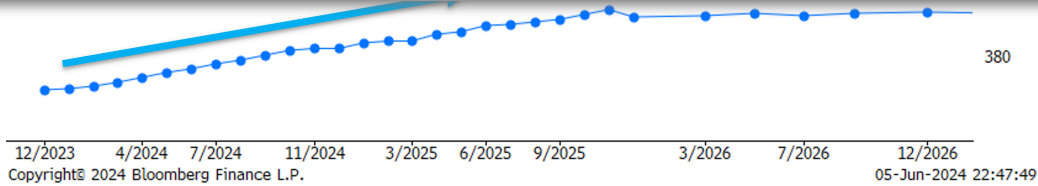


Source: LPL Research, Bloomberg 06/05/24

Disclosures: Past performance is no guarantee of future results. Any futures referenced are being presented as a proxy, not as a recommendation.

The structure of the futures curve can provide additional insight into supply and demand balances. When the copper market is tight due to elevated demand and/or limited supply, the curve often moves into what is called “backwardation,” with spot prices trading at a premium to forward or future-dated contracts. In contrast, when spot prices are below the forward price, the market is in what is called “contango,” indicative of weaker demand. As highlighted below, copper’s futures curve has moved from contango to backwardation over the last six months.

## Copper Futures Curve Points to Improving Demand



Source: LPL Research, Bloomberg 06/05/24

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The technical setup for copper remains constructive. As highlighted below, prices have recently pulled back from overbought conditions and took out support from the 2021-2022 highs. However, buyers have recently stepped up to defend copper’s uptrend off the February lows, an area that coincidentally overlaps with the rising 50-day moving average (dma). The pullback has helped alleviate frothy conditions and reset overbought conditions.

Speculators have also been piling into copper over the last few months. Managed money futures positions – highlighted in the bottom panel – have recently climbed to a three-year high, suggesting the long copper trade could be a little crowded, but the lack of technical damage amid the latest pullback suggests copper may not be over.

## Copper Pullback Finds Support





technical damage has been limited as bulls recently stepped up and defended a key area of support. Demand for copper has been reinforced by better-than-expected global growth, continued momentum in the energy transition, electric vehicle manufacturing, and the proliferation of artificial intelligence-related technologies. While the current supply story is a bit mixed with elevated inventories in China, the structure of the futures curve points to a tight copper market.

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