

Copper Rebound Seen by Barclays as Miners Struggle on Output

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Copper will rally this year on continued supply constraints and robust demand amid economic recoveries in the U.S., Europe and Japan, according to Barclays Plc.

The metal, used by investors as a gauge of global economic strength, will average \$6,313 a metric ton in 2015, with prices climbing the most in the quarter through June, analysts including Suki Cooper said in a report dated March 30.

Copper declined 3.4 percent this year, extending its worst annual loss since 2011, as a property slump in China sapped demand in the world's biggest consumer. Prices won't follow the slump in oil or iron ore, which fell more than 40 percent last year, as those raw materials "underwent revolutions on the supply side" while copper producers struggle to boost output, Barclays said. Commodities fell to a 12-year low this month as crude oil tumbled amid rising supply.

The metal "is continually constrained on the supply side, and that is unlikely to resolve itself in the near future," the bank said. "Prices have sold off by 9 percent over the past six months, which has prompted the question, is copper the next iron ore or oil in 2015? We believe the answer is no."

Periodic disruptions including labor disputes and accidents limit supplies, while declining ore grades increase costs and decrease output, the bank said. The amount of supply disruption so far this year is within the bank's range of allowance, while more may occur.

Copper for delivery in three months on the London Metal Exchange rose 3.2 percent this month to \$6,083.50 a ton by 11:17 a.m. in Seoul. It is down 8.8 percent since end-September.

Economic Expansion

Global economic expansion this year will support growth in demand for refined copper, of which a third is used in construction for pipes and wires and a third in industrial machinery, Barclays said. China accounted for 46 percent of the market in 2014, with Europe, North America and Japan taking 32 percent, the bank estimates.

The copper market will be in a "modest" surplus this year, with consumption growing by 3.3 percent and supply rising 3.5 percent, Barclays said.

Other banks have bearish views. Goldman Sachs Group Inc. predicted this month prices may extend declines amid weaker Chinese demand, while Morgan Stanley sees the metal averaging \$5,945 this year, down 16 percent from its previous estimate.

"The fear of a Chinese slowdown is central to the bearish thesis for copper," the Barclays analysts said. "We believe that this fear is overblown. Economic growth in China is still expected to be strong, at 6.8 percent for 2015."

Prices will rise to \$6,300 in the three months to June and to \$6,600 in the third quarter, before easing to \$6,500 in the final period, the bank said. They'll average \$6,250 in 2016.

“Because we believe the fundamentals of the copper market show a tight market, we remain bullish for the year,” it said.

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