Investors bet on Copper price fall

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Investors are betting the price of copper will fall further as the US dollar continues to strengthen and global economic growth shows few signs of recovery.

Yet a reduction in mine supply last year has left the market almost balanced, meaning any pick-up in demand or further supply reduction could tip the price into positive territory, leaving those short the metal on the wrong side of the trade.

At 16 per cent of the London Metal Exchange market, the largest market in the world for metals trading, contracts betting that copper will fall are at the highest level since the exchange started publishing the data in July. On the Shanghai Futures Exchange, the number of similar contracts has jumped by 180 per cent since the beginning of December.

While Brent oil fell more than 50 per cent last year, copper's 14 per cent decline has left speculators betting the metal has yet to feel the full impact of negative sentiment across the energy sector.

"Looking at the energy complex, base metals have held up well, if you want to play the commodity short side you wouldn't sell oil at multiyear lows, you'd play for something which hasn't had the effect of the stronger dollar quite yet," one metals trader said.
Still, while a continuing strong US dollar bodes ill for copper, any pick-up in growth in China, the world's largest consumer of the red metal, could push the market into deficit, making the short trade a risky one.

"Nobody knows where the bottom will be," said Pengjiang Fu, head of Asian commodity trading at Newedge.

China's copper consumption grew by 5.5 per cent last year, according to consultancy CRU. It forecast an increase of 4 per cent this year, which is still enough to "maintain" tightness in the copper market, according to analyst Matthew Wonacott.

That could depend on China's property market, and whether a recent cut in interest rates will feed through to increased demand. A pick-up in China's stock market since last year is offering an attractive alternative for investors after years of being in the doldrums.

Demand for use of copper in financing deals has yet to pick up after a scandal over metals stored in warehouses as collateral in the port city of Qingdao left local banks tightening their lending criteria.
On the supply side, this year's copper surplus will be small and vulnerable to supply disruptions, Gayle Berry, metals strategist at Jefferies, wrote in a report. She forecasts a surplus of 221,000 tonnes for 2015, moving into a deficit a year later.

"We expect price downside to be limited by the small size of the surplus and its temporary nature," Ms Berry said.

Adding to those risks, Chinese smelters are starting to have problems with cash flows, which could reduce their output of the metal. One smelter, Yantai Penghui Copper Industry, in eastern Shandong province, has stopped production due to cash problems, according to a person familiar with the matter.