

Will Recent Gains in Copper Mining ETFs Last? - ETF News and Commentary

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Copper prices had a distressful 2014 on soft manufacturing sector in China, global growth worries, a multi-year high U.S. dollar and surplus supplies. The trouble deepened in 2015 as the greenback continued to gain strength on rising rate speculations in the U.S.

However, the red trading patches in the red metal soon turned green thanks to some encouraging data from both China and the U.S. China matters the most for this metal as the country is the world's biggest consumer of this industrial metal, making up roughly 40% of the global copper demand.

Three rate cuts in the last six months in China aimed at giving a boost to the stumbling economy and hopes of further easing helped copper prices to storm back in recent weeks. Moreover, weakness in the greenback on sluggish U.S. GDP data in Q1 became instrumental in driving the commodity prices across the board. Copper touched this year's high in the week ended May 8.

While this is clearly good news for those who are holding onto copper ETNs such as - prices of which rose over 7.5% over the last month - copper mining equities and the related ETFs became the biggest beneficiaries - which tracks the Solactive Global Copper Miners Index - advanced over 15% during the above-mentioned period (as of May 11, 2015). Yet another mining ETF added over 17.5% in the last one month (as of May 11, 2015).

After all, these mining ETFs generally trade as a leveraged play on the underlying metal. If this was not enough, metals and mining behemoth Rio Tinto commented that it expects to see a sooner-than-expected revival in global copper prices. Rio Tinto also commented that copper would take about two years to rebound in full swing versus three to four years projected earlier, per Financial Times.

Rio Tinto credited occasional disturbances in the industry and deceleration in some projects for its upbeat expectation. Moreover, all of China's previous stimulus plans failed to inject fresh blood into its anemic economy so far. So, possibilities of further easing are high at the current level, suggesting that the worst may possibly be over for the copper mining ETFs.

What Lies Ahead?

Though a China stimulus is a tailwind for the metal, the road ahead is not that smooth. Analysts presently bear a mixed view on the metal's future course. Investors should note that though the greenback took a dive lately, it would spring back to multi-year highs once the Fed hikes key rates spoiling the fate of several commodities along with the metal in concern, copper.

Still, given the rising construction activities in the U.S., which accounts for a fair share of global copper demand and China's frequent easing, uptrend can be seen in copper prices and the copper mining ETFs and the space can emerge as a momentum

play. Otherwise, the outlook is probably not as shiny as it looks right now. China news can give the space the required backup for the near term, but for a long-standing recovery in the copper investing, the Chinese economy needs to be more stable.

Source: <http://www.nasdaq.com/article/will-recent-gains-in-copper-mining-etfs-last-etf-news-and-commentary-cm477017#ixzz3aBfxn9yz>