

## Copper mining profits open door to lower prices

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The pain rippling through the copper market isn't yet threatening profits for most miners, and that could mean more tears for bullish investors.

Even with prices near a six-year low, about 90 per cent of copper mines are profitable, meaning most producers have little incentive to reduce output, according to Standard Chartered. Prices need to fall another 24 per cent before major companies begin cutting back, Bloomberg Intelligence estimates.

"You want miners to throw in the towel, start shutting down some mines," Kenneth Hoffman, an analyst at Bloomberg Intelligence, said by telephone. "They keep forging ahead with all their plans. They're still bringing new stuff on."

As producers dig up more metal, demand for the raw material is weakening with China's economy expands at the slowest pace since 1990. Societe Generale estimates that copper's oversupply will almost double this year. Goldman Sachs Group expects prices to reach \$US4800 a metric ton in the next six months, a 9.4 per cent drop from Tuesday's settlement.

There are some signs the mine expansion will slow. Freeport-McMoRan, the biggest publicly listed copper miner, has promised a sweeping operational review, is considering spending cuts and may adjust production, it said in a statement Tuesday. Power restrictions in Zambia could lower output in the second half of the year, TD Securities and RBC Capital Markets forecast.

The Freeport plan signals "some capacity being taken offline, which should be good news for the copper price," Christopher LaFemina, an analyst at Jefferies LLC in New York, said by telephone. "It stops the bleeding to some extent, at least."

Supply concerns pushed copper higher by the most in almost three weeks on Tuesday, climbing 2.1 per cent to \$US5297.50 in London. Citigroup on Monday reiterated that prices could rally 33 per cent to \$US7050 in the next 12 months because of disappointing production from mining companies.

The metal is still down 16 per cent this year. That would be the biggest decline for the first seven months of the year since 1996.

"We do not see a magic reversal," Artur Passos, who produces the metals outlook at Itau Unibanco Holding, said by telephone. "Supply issues have to be very large to generate any kind of deficit in the global market."

Mined output will rise 5.3 per cent in 2015 to 19.4 million tons, according to BMO Capital Markets. Next year, production may increase 8.2 per cent, the most since 1996, said Jessica Fung, an analyst at BMO, citing figures from the World Bureau of Metals Statistics.

Stockpiles monitored by the London Metal Exchange are at the highest in more than a year.

Low energy prices and the decline in currencies of copper-producing countries such as Chile against the dollar are making it cheaper to produce the metal. That means companies can still make money, even as prices keep falling.

"They are able to keep mining," Rob Haworth, a senior investment strategist in Seattle at US Bank Wealth Management, which oversees about \$US126 billion, said by phone. "This is unfortunately turning into being a story like oil, gold. We have more than we need."