Is Dr. Copper Diagnosing a Recession?

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We've recently had a look at the outlook for the prices of some critical materials, namely lithium and graphite. As fears of a recession continue to grow, I thought it might be interesting to have a look at the price of copper. After all, Dr. Copper is often used as an indicator when it comes to the health of the economy. So perhaps we can glean some insights on what lies ahead based on how copper prices have reacted over the last few weeks.

Another reason to have a look is that I pretty much nailed the outlook for copper last October when I suggested the price had put in a bottom at roughly US$3.20/lb and that if it broke back above US$3.70/lb, it had very little overhead resistance until the US$4.10/lb threshold. The chart was really speaking to me that day, so let's take another look and see if there is a new story unfolding.

Macro fundamentals for copper

But first, we'll quickly review the macro fundamentals for copper before we dive into what the chart is trying to say. It doesn't take a lot of searching around the internet to find just about any opinion on the future of copper supply and demand. Generally speaking, as the world electrifies in an effort to decarbonize, the demand for copper could prove difficult to meet and, to that end, there tend to be more bullish than bearish opinions out there.

McKinsey recently forecasted that by 2031, annual copper demand will be 36.6 million metric tons, while current supply

projections (including recycled production) are roughly 30.1 million metric tons, meaning another 6.5 million metric tons of capacity (an additional 20 percent) need to be found. Contrast that with the International Copper Association (a leading advocate for the copper industry) which states:

> *"Despite an ever-increasing demand for copper, there is more of the metal available today than at any other time in history. This, together with the ability to infinitely recycle copper, means that society is extremely unlikely to deplete the copper supply, and copper will continue to contribute to global initiatives…".*

However, these views look well out into the future, whereas I'm contemplating the next 3-6 months. Looking more near term we see China emerging from its strict zero-COVID policy leading to a rebound in copper demand from Chinese consumers. Additionally, the Chinese Government is introducing new policies to revive the private and public sectors including numerous stimulus measures to support the domestic construction sector. There is also the issue of increasingly challenged supply streams in South America, particularly in Peru, but Chile is also facing some issues of its own such as labor strikes and community opposition to mining activities.

US dollar impact

Then there's the real wild card – the US dollar. A weaker US dollar typically boosts investor sentiment towards industrial metals and increases demand from emerging markets. Has the US Federal Reserve raised interest rates too far and broken the system? Silicon Valley Bank would say yes. But the question remains as to whether the Fed has ended its rate hiking cycle or does the fear of inflation still poses the greatest threat in

their opinion. I'm leaning towards the Fed not hiking rates any further but have the least conviction on this being bullish near-term support for copper prices.

Overall, I would say the fundamentals appear to be positive for copper pricing in the near term despite Tesla et al reducing their EV prices. Near-term supply and demand seem to be headed in opposite (bullish for price) directions and we all know, new production doesn't come on overnight. And even though over the last decade more than 30 percent of global copper demand was met with recycled copper, I still think 2023 could be a good year for copper pricing for the reasons noted above.

What does the copper chart say?

But what does the chart say? After all, that was what guided my forecast last October.

Price of Copper – 1-Year – Price Per Pound



Source: StockCharts.com

Unfortunately, this chart isn't as decisive for me as it was last October. The longer-term trend (green lines) is intact, which is encouraging. Additionally, the price has broken through

the 200-day moving average (MA) and isn’t all that close to retesting that level. As well the 50-day MA has moved above the 200-day MA which also tends to be a bullish signal.

However, after decisively breaking through the 50-day MA in early November, and holding this support threshold at the beginning of 2023 and again in late February, copper prices fell below again and over the last couple of weeks the 50-day MA is now proving to be more of a resistance level. Additionally, since mid-January, we are seeing a bit of a down channel (blue lines) with lower highs and lower lows, albeit the longer-term (green line) support level has held.

Technically, it appears we are at a bit of a critical juncture for copper prices at present. A few things need to happen over the next couple of weeks to move me from the indecisive camp and back into the bullish camp. First, prices need to move back above the 50-day MA, which in turn should break copper out of the current down channel (blue lines). The next thing I’d like to see is a close above US$4.35/lb to give us a new higher high in the longer-term uptrend (green lines). Satisfying those two criteria would place me firmly back in the bull camp.

Better to understand the question

The question becomes, are you wanting to trade copper or invest in copper? The technical analysis of current prices is more geared toward traders. If you are more of a long-term investor then the fundamentals suggest there could be a pretty good opportunity to be long copper over the next several years, regardless of what the price is today or two weeks from now. To thyself be true…I know what I’m doing when it comes to copper.