

Copper hits record amid weak output and metal piling up in the wrong place

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Key Points:

- LME copper hits a record high as persistent supply tightness meets robust demand ahead of China's peak season.
- Mine supply is disappointing, with global output struggling to meet targets and major producers reporting declines.
- Copper is piling up in the US, leaving LME and SHFE inventories depleted and tightening availability elsewhere.
- Structural demand remains strong, driven by power grids, electrification, renewables and data-centre expansion.

Copper on the LME extended gains, hitting a record high for a second straight session at USD 14,624.50 per tonne, supported by persistent market tightness as miners struggle to keep pace with robust demand heading into the annual peak-demand season in China. Meanwhile, the High Grade copper future in New York, which is shown below, trades near USD 6.80 per pound, just below the August record high of USD 6.8665 per pound.

Several supply and demand side developments have emerged at the same time providing the tailwind which is lifting prices to record levels. China, the world's top consumer, is pumping 360 billion yuan, equivalent to USD 53.64 billion, into insurers and banks to support their operations, increase lending and shore up the economy. On the supply side, a string of disappointing results is undermining expectations that global mine supply would post at least modest growth this year. International Copper Study Group data show output fell 1.1% in the first half, with major producers Codelco and Freeport-McMoRan Inc. posting double-digit declines. In addition, governments across Africa are seeking to assert greater control over their mineral wealth - potentially impacting supply and prices - by rewriting mining codes, demanding larger equity stakes or greater local participation, scrapping investment stability agreements and, in several cases, seizing assets outright.

Tightness outside the US has been exacerbated by large flows of refined copper into the US ahead of a potential tariff announcement. While these shipments do not reduce global inventories, they effectively strand metal in a market that accounts for less than 10% of global copper demand, making it less readily available to consumers elsewhere and tightening the physical market in regions where the vast majority of demand is concentrated. Exchange-monitored inventories, while only one part of the broader stock picture, clearly illustrate this months-long migration of refined copper towards the US. COMEX warehouses now account for around 70% of combined exchange-monitored stocks, leaving LME and SHFE inventories comparatively depleted and helping explain the increasingly tight conditions outside the US.

China: tight at both ends of the copper supply chain

The combination of collapsing treatment charges and falling SHFE inventories highlights tightening conditions across the Chinese copper supply chain. Treatment charges have plunged deep into negative territory as Chinese smelters compete for increasingly scarce concentrate, reflecting weak mine-supply growth and continued expansion of processing capacity. At the same time, SHFE inventories have fallen sharply, signalling reduced availability of refined copper as China enters its traditional peak-demand season.

While the two are not directly linked, they point to tightness at both ends of the market: too little concentrate relative to smelting capacity upstream and declining availability of refined metal downstream. The latter has been exacerbated by the mentioned large flows of refined copper towards the US ahead of potential tariffs. The result is a market where the key question is increasingly not just how much copper exists globally, but in what form, where it is located and whether consumers can access it when needed.

Copper's structural bull case

Copper has gained 17% this year and 47% in the past 12 months, supported not only by these near-term dislocations but also by a longer-term mismatch between constrained mine-supply growth and rising demand from data centres, renewable-energy infrastructure and continued investment in power grids and electrification. Copper is also becoming an increasingly important transition metal because of its central role in electricity networks, electric vehicles, renewable generation and energy storage.

Unlike some other materials, it is not easy to substitute at scale: alternatives such as aluminium can replace copper in certain applications, but often involve trade-offs in conductivity, efficiency, weight, reliability or the need to redesign existing infrastructure. This makes copper demand relatively resilient as electrification accelerates, while the long lead times and technical challenges involved in developing new mines limit the market's ability to respond quickly to higher consumption.

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