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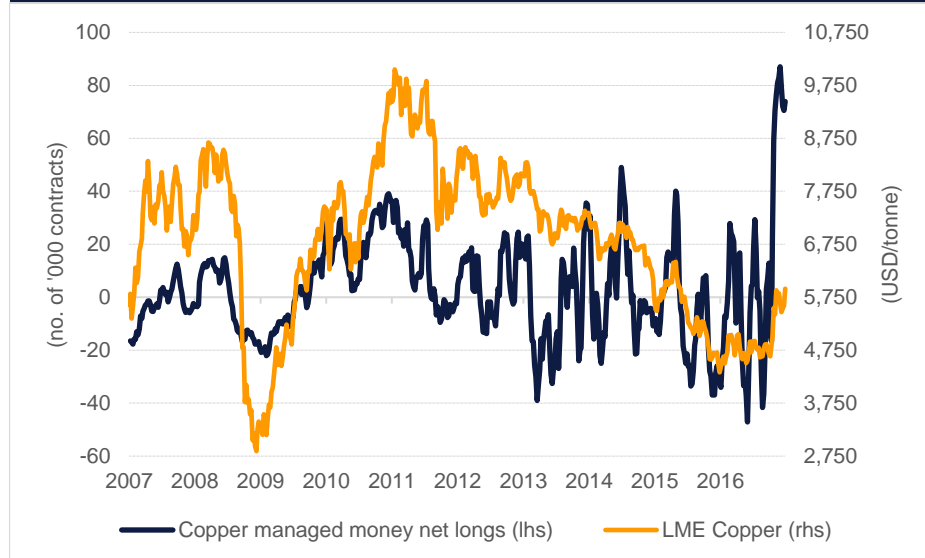
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Copper's 2017 outlook

After spending most of 2016 hovering around USD 4,700/tonne, copper prices soared in Q4 and ended the year at USD 5,535/tonne, a gain of nearly 18% year on year. Prices look to be on track to hit USD 6,000/tonne, a level they haven't seen since mid-2015, and the current forward curve shows prices gradually rising over the course of the year. Momentum is clearly with the copper bulls; speculative net length is close to 10-year highs and rolling volatility is nearing its highest level since October 2015. Average daily gains in 2017 have been close to 2% so far this year compared with less than 1% in 2016 as a whole.

Copper poised for a breakout?



Source: Bloomberg, Emirates NBD Research.

Full year data for the fundamental picture of the market isn't yet available but transparent LME inventories ended the year up 86k tonnes: this looks to be related to several days of heavy inflows in mid-December that may have been trying to target the emerging positive carry on the back of copper's Q4 rally. As of the end of October, the latest available data from the WBMS, global output was running 3.9% higher ytd compared with demand slightly faster at 4.4% consistent with a tightening global market.

Prices appear to be currently supported by steady data coming out of China: PMI data have been on a consistent upward trend since July 2016 and producer prices have now turned more solidly positive. Premiums for delivery of high grade copper into China soared toward the end of 2016 along with elevated imports of both refined metal and ore for processing. However, premiums have already started to come down, around USD 60/b in mid-January compared with USD 90/b in November, and are well below historic highs. China's copper demand was 5% higher ytd as of the end of October but the pace of growth is far off its highs in 2007-09.

As a barometer of global economic conditions—the Dr. Copper effect—the metal's rally would mean there is little to fear for markets this year. Industrial metals prices have rallied over 8.5% since the US election, rising on the hopes that an infrastructure spending programme under the Trump administration would suck in more capital inputs, such as copper and aluminium. Metals have also been benefitting from policy uncertainty in major ore producers. Indonesia has recently introduced new rules that require copper miners to set up smelters in the country and enacting new regulation, including potentially an export tax on unprocessed ore.

We have revised our forecasts for 2017 to an average of USD 5,600/tonne for LME copper futures but expect momentum to fade by H2. A stronger USD will help to limit commodity gains this year while we are cautious how ambitious—and metal intensive—any infrastructure programme in the US will be at this stage. Producers are likely to ramp up output to take advantage of the price rally and some metal stored outside the LME may find its way into stockpiles, dampening the potential for major rallies.

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