

## Contango, contango, they mine it in the Congo

Copper maintains a status as an important economic resource in China, used not only in its efforts to decarbonise the economy, but also in constructing properties across the nation. In fact, the resource is a bellwether commodity for economic growth, given its predominant role in furthering infrastructure across China.

With the housing market taking on a downward trend since February 2022 when investments in property development decreased, copper too begun decreasing and became a bearish market. Both markets' downfall signalled the economic woes and slowdown in income that unfolded because of the pandemic. As such, the property market, and in this case copper, is an important commodity to watch out for in terms of economic direction. This is especially true when such bearishness in the copper market can indicate the looming fear of a financial crisis in China, of which the spillovers on a global scale would be significant.

Copper at present is illustrative of a bearish market that has been impacted by certain Chinese headwinds from last year, namely the property market. It is highlighted in the graph below that copper is currently in contango, with the spot price USD 100 lower than the price in three months' time on the futures contract. Whilst not at record levels (Bloomberg puts this in 1994) it is a significant signal of the weakness in the market at present.

Copper cash v 3 month futures

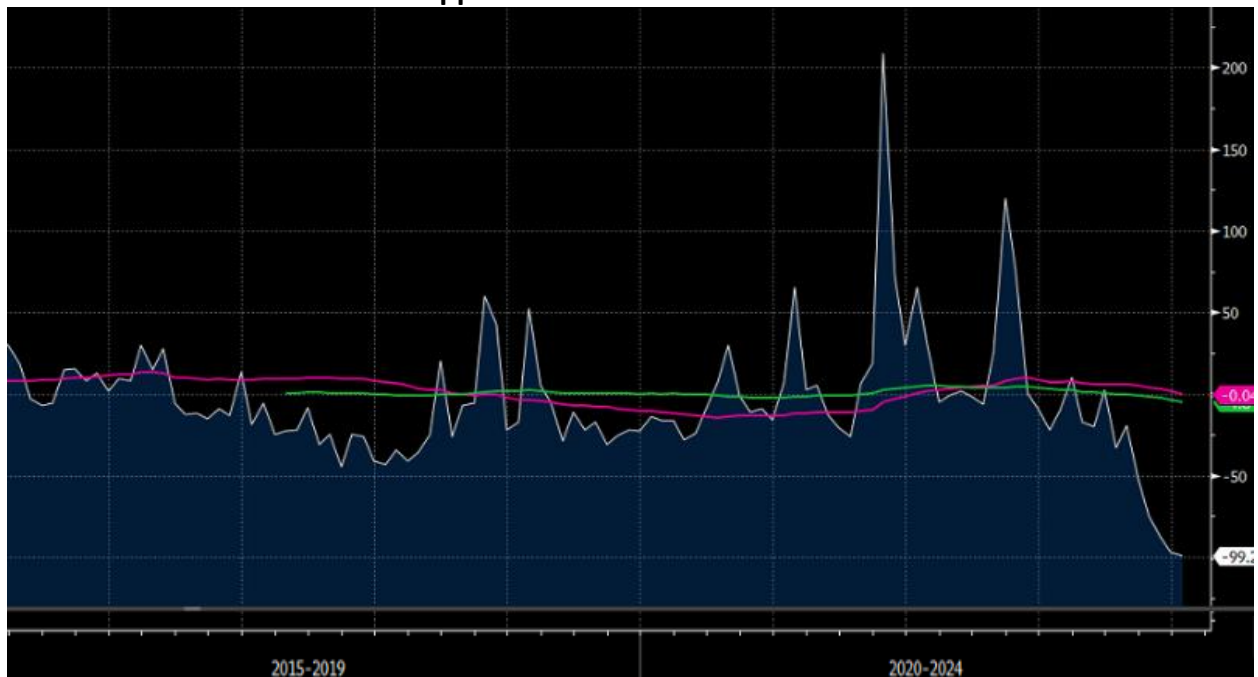


Chart source: Bloomberg



Two points to note on this: first, as prices are much cheaper today than in the future, it is difficult to envision buyers committing to futures contracts on copper for the time being. Rather, purchasing spot will be a much more cost-efficient choice for buyers in the market. Second, and perhaps more importantly, the increase that is priced into the futures contract suggests a return to demand for copper in the medium-term. If the first paragraph is anything to go by, this is indicative of an increase in economic activity and subsequently growth in 2024. This increase is most likely to derive from sectors including the property sector and the clean energy sector, with the latter helping boost consumption for copper amidst lacklustre of demand elsewhere.

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