
Weekly Market Flash

Copper, the New Texas Tea?

July 21, 2017

Investors with broad-based commodity exposure haven't had much to cheer about in the year to date. The Bloomberg Commodity Index, for example, was down more than five percent at the end of the year's first half. The main culprit? Crude oil prices, and the tendency for commodity indexes to be heavily weighted towards the oozy black stuff. That is for good reason: for more than a century, oil has been the world's most important commodity, the magical elixir powering the modes of transport that arose from the invention of the internal combustion engine. George Bissell, a New York lawyer, in the 1850s succeeded in his obsessive quest to extract the flammable "rock oil" known to reside under the craggy outcrops of western Pennsylvania. Had he not, the world today would know Saudi Arabia merely as a nondescript, likely poor desert kingdom. Nobody would have ever cared about who shot J.R.

While oil continues to struggle with both demand and supply headwinds – the slow pace of global growth on the one hand and the growing importance of non-conventional drillers in supplying the marginal barrel to the market on the other – other commodities in indexes like the Bloomberg are doing just fine, thank you. Precious metals have registered decent single-digit gains, likewise industrial metals like copper and aluminum, and also agricultural staples such as corn and wheat. Of all these, though, there is an interesting larger story about one: copper. It's not a story for today, as in "what's hot for my portfolio in 2017?" – but there is a potentially growing narrative around longer term demand trends based on something that is being much talked about this year: the rise of the electronic vehicle.

Copper for EV-er

Electronic vehicles, or EVs, have been in the news recently with chatter around the planned forthcoming roll-out of the Tesla Model 3, the attempt to bring this company's offerings out of the stratosphere and into the affordability range for the masses. Meanwhile, Volvo has announced its intention to produce only battery-powered or hybrid vehicle by 2019. Scarcely an auto producer in existence has not joined the chorus of paeans to an EV-imagined future.

How soon – and at what cadence – this becomes a reality has major implications for copper. This industrial metal figures into several key parts of the EV manufacturing process including, importantly, the lithium-ion batteries that power the vehicles. Various demand projections for lithium-ion batteries over the coming 10-15 years, assuming certain levels of consumer adoption, show eye-popping ramp-ups that, if remotely accurate, would strain the total volume of commercially mined copper available from current sources. Many of the world's existing facilities are many decades old, so the race is on for those with wildcatter tendencies to locate new sources in politically stable regions of the world to cope with the potential demand explosion.

Devil Is In the Details

Of course, much of the speculation about the potential role of copper in the brave new world of EVs is just that – speculation. There is no consensus on exactly how much of the metal would be required once the production processes become standardized and cost-efficient along the lines of how automobile factories evolved in the first half of the 20th century. Nor is it at all clear that electronic cars and other vehicles will see the same type of rapid, widespread consumer adoption patterns that we have seen from other technology offerings in recent years.

That being said, one of the important things to always remember about investing is that, over time, the tectonic plates do shift. The past is not prologue to the future – and the storied past hundred years of oil may be a poor predictor of the future for "Texas tea." It's worth keeping an eye -- and perhaps a small ante at the table – on copper's future fortunes.

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