

Markets

Copper Tapped as the Next Big Metals Trade of 2020

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- ▶ Most analysts are positive on base metal miners next year
- ▶ Gold miners may not see similar blockbuster performance



Supply Crunch Hits the Global Cooper Market

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HG1
Generic 1st 'HG' Future
 281.30 USD/lb.
 ▲ +0.05 +0.02%

GC1
Gold
 1,478.20 USD/t oz.
 ▼ -0.50 -0.03%

FM
FIRST QUANTUM
 13.40 CAD
 ▼ -0.34 -2.47%

GS
GOLDMAN SACHS GP
 230.45 USD
 ▼ -0.70 -0.30%

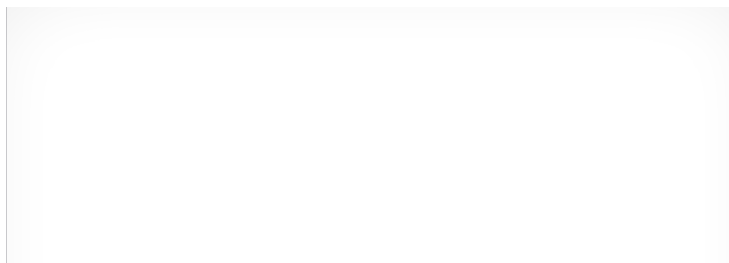
MS
MORGAN STANLEY
 50.66 USD
 ▼ -0.24 -0.47%

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Copper, often called “Dr. Copper” due to its correlation with the economic cycle, could be the trade of 2020, as most industry analysts expect a “lift-off” for the metal as global demand recovers.

Gold miners had a blockbuster year in 2019 owing to expectations of U.S. Federal Reserve rate cuts and as geopolitical tension mounted between the U.S.-China. But concern about dampened global demand as a result of trade threats left base metal miners limping into the new year.

But that might reverse next year thanks to improved demand, making copper “poised for liftoff,” according to Jefferies analyst Christopher LaFemina. Low copper inventories, high short positions, supply constraints and better demand are creating conditions for the metal to rally, he wrote in a note to clients.



READ: Hedge Funds Cut Net Bearish Comex Copper Bets to 7-Month Low

Joining LaFemina in his optimism is Goldman Sach's Jeffrey Currie, who thinks copper is "set to inflect" in 2020 due to strong growth out of China. Morgan Stanley, Bank of America and Citi also have positive expectations for copper and an improving global economy.



History shows that base metal miners have often caught up with gold equities after precious metals outperformed. The S&P/TSX Equal Weight Global Base Metals Index (TXBE) underperformed the S&P/TSX Equal Weight Global Gold Index (TXGE) in 2016, but caught up by the end of 2017. If analysts are right about the outlook for copper in 2020, the same trend may be coming soon.

READ: Rush to Risk Assets Makes Traders Doubt Popular Gold-Bug ETFs

Here is what the analysts are saying about what to expect for metals and mining in 2020:

Jefferies

The firm is most bullish on copper miners for 2020 as current supplies won't be able to meet "even a modest cyclical recovery in demand," LaFemina wrote. Expects Freeport-McMoRan Inc., First Quantum Minerals Ltd. and Glencore PLC to benefit most from the copper price recovery. Freeport and First Quantum are his top picks. Also expects select iron ore miners such as Anglo American PLC, Vale SA and Rio Tinto PLC to outperform as prices are expected to remain high, peaking at more than \$100 per ton in the near-term. The firm is "least bullish" on gold.

Goldman Sachs

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“Copper is our most bullish view,” for 2020, according to the commodity team. Copper demand in China has been particularly restrained by “poor performance in the grid, property and transportation sectors” and that’s likely to change heading into 2020. “We expect strong completion growth in the next two years, continuing a positive trend in the property sector since August,” and grid investment is likely to pick up strongly in the first quarter of 2020 thanks to the government infrastructure stimulus. Meanwhile, the “strategic case for gold” is still strong.

Citi

Most bullish on alumina, copper and coking coal in 2020, while bearish on zinc and iron ore. Thinks commodities will benefit from modestly higher global growth, with much of the improvement coming from emerging markets. The commodities team is also bullish on gold in the medium-term. The bank’s equity analyst upgraded [Teck Resources Ltd.](#) to buy on better a coking coal outlook and valuation.

Morgan Stanley

The bank’s commodities team expects a moderate rise in demand in 2020, driven by a “mini-cycle recovery” through year-end. Remains constructive on the North American mining sector and particularly favors copper exposure. Sees Freeport-McMoRan and Teck Resources as the best way to gain exposure to bullish copper sentiment. Commodities team is bearish on the aluminum and alumina outlook, but the equity analysts still see some upside in 2020 for [Alcoa Corp.](#) The team also expects higher met coal prices as ex-China demand should tighten the market. Bank’s top commodity picks are cobalt and copper, while the least preferred are iron ore, lithium and zinc.

Bank of America

Sees cyclical raw materials benefiting in 2020 from a potential inventory restocking cycle, easier Fed policy and an interim China trade deal, providing an attractive inflation hedge. Thinks that copper and nickel are likely to rally in 2020, while the outlook for gold and precious metals is more cautious.

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