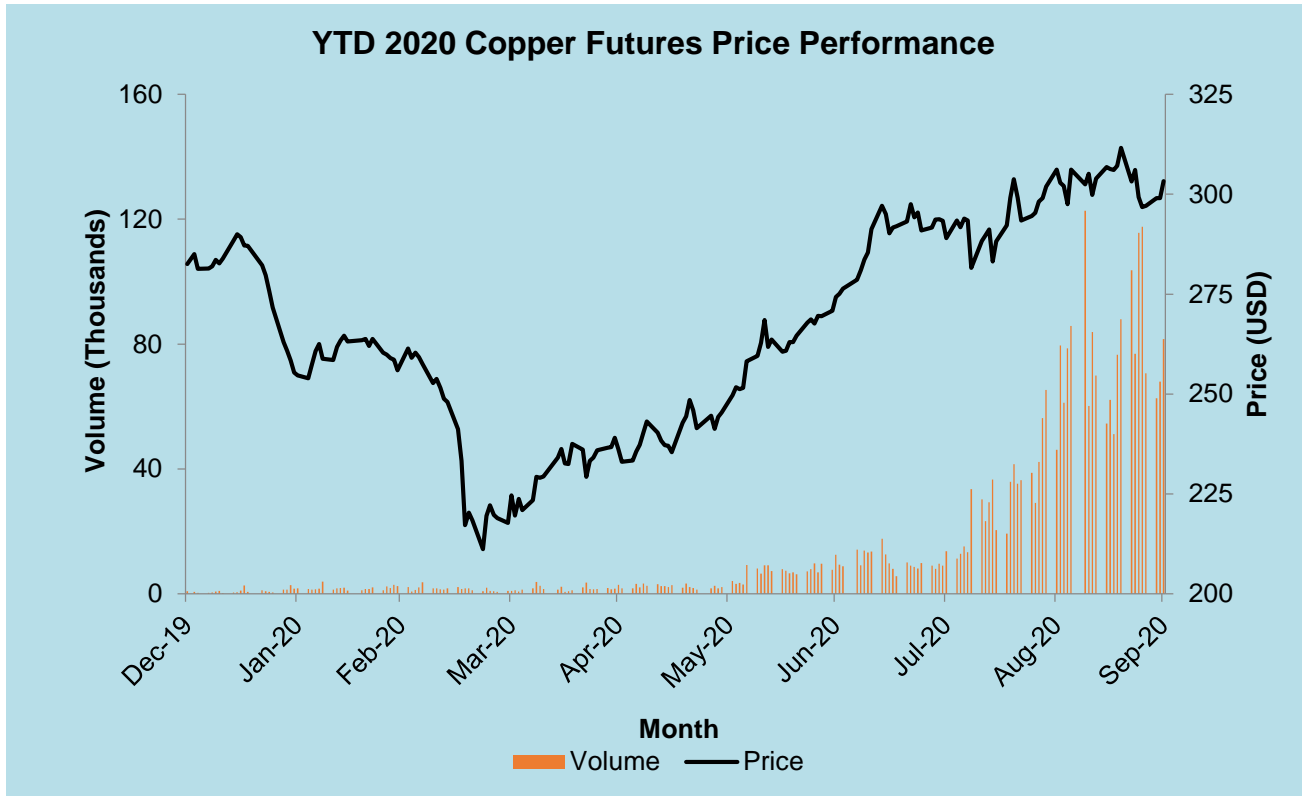




KF Spotlight: COMEX Copper Courting Interest In Q3 2020 By Aron Liew, CFA and Zainal Aiman



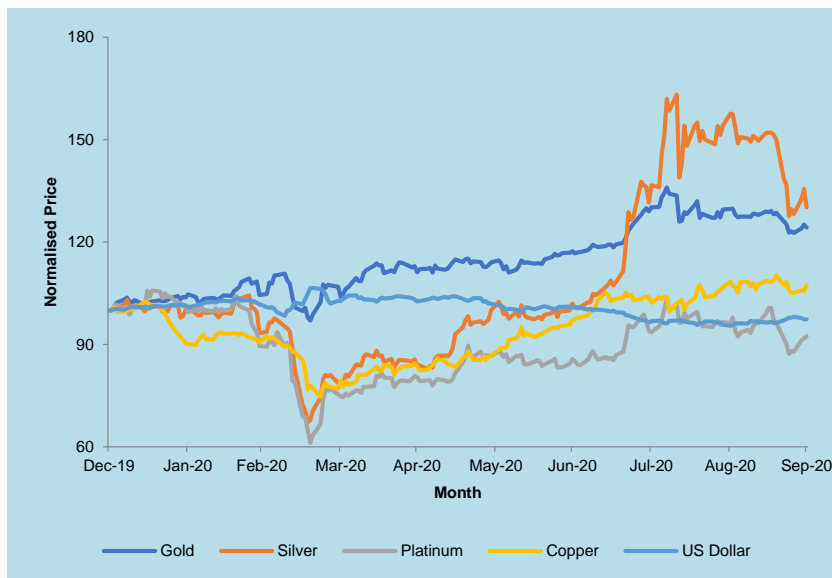
Data as at 30/09/2020

Source : Bloomberg

Apart from Gold which witnessed an outstanding performance so far this year, breaching the record level of USD2,000 per troy ounce for the first time ever, another metal product that saw a surge in interest in recent months is Copper. The copper futures contract listed on U.S. COMEX has seen remarkable growth in terms of price and volume. As seen in the chart above, as at 30 September 2020, the price of copper has risen 7.33% while the volume has grown more than 10,000% from 789 contracts on the first day of the year to 81,631 contracts at the end of September. Like most markets this year, copper prices were hard hit in the first quarter of the year due to the COVID-19 pandemic, as price plunged to its year-low of USD211.15 on 23 March 2020. Prices gradually recovered following the reopening of economies globally while trading interest began to trickle in with the daily volume executed consistently surpass thousands since the end of April. Meanwhile, price also reached its YTD high level of USD311.6 on 18 September 2020.

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COPPER VS. GOLD VS. SILVER VS. PLATINUM VS. DOLLAR INDEX



Asset Classes	YTD Return (%)
Gold	+24.29
Silver	+30.15
Copper	+7.33
Platinum	-7.59
Dollar Index	-2.65

Data as at 30/09/2020

Source : Bloomberg

2019 KEY SUPPLY AND DEMAND FIGURES

Top Producing Countries 2019 (million tonnes)

1. Chile (5.6)
2. Peru (2.4)
3. China (1.6)
4. United States (1.3)
5. DR Congo (1.3)



Top Importing Countries 2019 (Billion US Dollar)

1. China (99.8)
2. Japan (10.9)
3. South Korea (6.9)
4. Germany (3.9)
5. Netherlands (2.9)

Source : Statista and Worldtoexports.com

DO YOU KNOW?



New York's Statue of Liberty is made of more than 80 tonnes of copper which were produced in Norway. The statue was then fabricated by French artisans. Copper was the choice as it withstood the long journey from France to United States of America.

Source : European Copper Institute

FACTORS THAT AFFECT COPPER PERFORMANCE IN 2020

1. Stronger Rebound on China's Economy

Currently, China is the world's biggest importer of copper where, according to a recent report by CME Group, almost 40% of all global copper supply was imported by China in 2019. As the largest copper consumer in the world, any disruption to China's economic activities would definitely cause major distraction to global copper demand. In Q1 2020, copper prices plunged to its YTD low level in line with other major markets due to the economic slowdown brought upon by COVID-19 pandemic.

However, the rapid economic revival from China since Q2 2020 has undoubtedly improved copper demand, which provided a lift for copper prices. For example, official data showed that the Caixin's China General Manufacturing PMI rose to 53.1 in August beating the market expectation, which is the strongest reading since December 2019. Moreover, the recent rally in copper prices was also influenced by the supportive approach taken by Chinese government in releasing the import quota allowance for copper scrap. In July 2020, China's Ministry of Ecology and Environment has published details of its ninth batch of scrap import quotas for 2020 which allows higher import than in previous months. This move has largely boosted the global copper demand as copper scrap accounts for a huge chunk of the global copper market which constitutes around 30%, according to the International Copper Association.

2. Supply Disruption in Key Producing Nations

Other than the recovery in copper demand, the disruption in the world's two largest copper producers: Chile and Peru, had given copper markets more booster in their prices due to the supply disruptions. Chile mines, which account for a quarter of global copper production, have halted their non-essential activities in a move to combat COVID-19 pandemic. According to statement made by Chile's Mines Minister Baldo Prokurica, the country's copper output are projected to decline by 200,000 tonnes in the wake of coronavirus. In the meantime, like Chile, the copper production in Peru, the world's second largest copper producer, have also slumped in March and April. Although the virus situation seems to be slowly under control, a return to full production in Peru is expected to be slowed

3. Massive Stimulus Package Further Supported the Copper Prices

To restart economies after experiencing the Great Lockdown due to the rapid spread of coronavirus, many nations began to implement massive stimulus packages. The much-needed stimulus packages by many countries especially major economies like United States, China and European countries had ignited some hopes among many investors and traders including that of copper, of potential faster-than-expected economic recovery. Like any other metals market, copper is also a major beneficiary of these stimulus packages.

4. COVID-19 Pandemic Uncertainty can Impede Copper Performance

Copper demand growth for 2020 onwards will largely depend on the continued recovery in the global economy. However, an improvement in world's economy is highly influenced by the global COVID-19 situation, which until today, remains unclear. At this point of writing, the number of cases has already breached the 35 million globally, while the number of deaths have passed 1 million people. Meanwhile, the cases in major economies in the world which include the top importing countries of copper like Europe, United States and India keep on rising which might affect the metal performance moving forward. Until the vaccines are found and distributed, COVID-19 uncertainty will remain to be the major barrier of the economic growth, which eventually can hinder copper performance.

5. Depreciation in US Dollar will Support Copper Prices

Just like any other international commodities in the world such as gold, soybean and crude oil, copper metals are also priced in US dollar. Any depreciation in value of US dollar can cause the metals to be less expensive for the buyer who used other currencies and thus, making the demand for copper to be more attractive. So far, the value of US dollar seems to be supportive to copper futures prices given the dovish monetary stance taken by the US Federal Reserve. In its latest monetary policy meeting, the Fed has decided to maintain their interest rates near zero and will keep its stance through 2023 until inflation has risen to 2 percent. With this, we can expect US dollar to remain weaker in near future.

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SHORT TERM PRICE OUTLOOK 2020



Data as at 30 September 2020

Source : Bloomberg

A positive price action of the copper futures market at the end of 2019 was carried over into the beginning of 2020 as the market kicked off 2020 relatively well, able to sustain its USD 280 level. Nevertheless, the narrative began to change afterwards due to the unprecedented COVID-19 pandemic which started to dominate the market, causing copper futures contract to plunge into its year-low level of USD 211.15 on 23 March 2020. Beginning early April, a bullish MACD crossover was formed, which propelled the futures prices upwards enabling the price to return to its pre-COVID-19 level of USD 280 in early July. Another bullish MACD crossover was formed in early August which pushed prices upward to reach its YTD high level of 311.6 on 18 September 2020.

Moving forward, given that another bearish MACD crossover was formed in late September, together with the rising global COVID-19 cases, we expect copper futures contract to trade cautiously in the near term within a range of USD 270 to USD 300 in the near term.

CONTRACT SPECIFICATION

Product	Copper Futures Contract
Product Symbol	HG
Contract Multiplier	25,000 pounds
Minimum Price Fluctuation	Outright : 0.0005 per pound = USD 12.50
Listed Contracts	Monthly contracts listed for 24 consecutive months and any March, May, July, September and December in the nearest 63 months
Settlement	Physical Delivery
Trading Hours (Malaysian Time)	0600-0500 (Daylight Saving Time) 0700-0600 (Non-DST)

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