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Copper looks bright for investors

By TRACY SHERLOCK, Vancouver Sun December 21, 2011



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Demand is growing for copper, which is mined in B.C. by several companies. Copper is used in motor vehicles, power generation, equipment and household appliances like TVs and refrigerators. The emerging markets, particularly China, are driving demand, and Mohr expects that to remain strong as China further eases its monetary policy, a move that she expects soon.

“Fabrication demand in China is going to rebound, and when that happens [the price of] copper will probably run up on the London Metal Exchange,” Mohr predicted, adding that she expects copper to go back up to \$4 by spring. Today, the value is \$3.36 per pound; the peak was \$4.60 on Feb. 14.

“I hope the commodity price forecast is correct,” said Jock Finlayson, executive vice-president and chief policy officer of the Business Council of British Columbia.

“Copper and coal (which was a top performer in 2011) are B.C.’s two biggest mining sector exports. While I believe the longer term outlook is positive for most mineral commodities thanks to strong economic growth in emerging markets, 2012 may bring softer commodity markets as the global economy further slows.”

Supply of copper has been largely stagnant for the past five years, although it is beginning to pick up, Mohr said.

Central One credit union chief economist Helmut Pastrick said the forecast is good news for British Columbians because high copper prices could mean new copper mines will be developed in the province. That would mean increased employment, and increased revenues through taxes and resource royalty fees. But to open a new mine can take five to 10 years, he said.

Some new supply is coming on stream in 2012, including some from two relatively new mines in B.C.: Copper Mountain and Mount Milligan.

But the minor growth in supply is much more sluggish than the surge in demand.

“In more recent years, there has been a lot more development work, but it hasn’t come on stream yet,” Mohr said, adding that declining ore grades and mechanical problems in Chile further dampened supply.

On top of the supply and demand issues, mining copper is extremely lucrative, making an investment in copper mining companies a wise move, Mohr said.

“Copper, for two years running, has been extremely profitable for mining companies,” Mohr said.

“For mining companies, it yields a 56-per-cent profit margin over full break-even costs, on average, around the world, including depreciation and interest on debt. At \$4 it’s a 74-per-cent profit margin. In 2000, the price of coal was 82 cents a pound.

“The market would never have dreamed copper would stay up this high for this long.”

Despite all the strength in copper, Mohr says oil companies are an even better bet.

“Some of the oil stocks are really a value play now,” she said. “In fact, I think oil is the better choice for retail investors. I don’t think the stocks will go down at all, I think they will go up.”

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