More than gold glitters on world commodity markets

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By DERRICK PENNER, Vancouver Sun April 27, 2011

VANCOUVER — Sustained high demand coupled with limited new supplies have made copper the new gold as far as profit margins are concerned.

Soaring gold prices, which reached a world spot price of $1,502 US per ounce on Tuesday, may be attracting a lot of attention, said Patricia Mohr, vice-president of industry and commodity research for Scotiabank Economics. It is copper, however, that boasts the higher profit margin.

Mohr said in an interview that at Tuesday's price on the London Metal Exchange of $4.29 US per pound, copper had a 68-per-cent profit margin over industry-average break-even costs, compared with gold's 52 per cent.

And while copper prices may have waned a little bit from their most recent high of $4.60 US per pound in February, Mohr said the continuing dynamic of demand outstripping supply will keep prices in a range that is lucrative enough to fuel acquisitions in the sector, such as Barrick Gold Corp.'s $7.3-billion bid for Equinox Minerals Ltd.

"We would expect demand for copper to move up again in China in [the second quarter of 2011], and with that prices will probably move up again," Mohr added.

"But whether it's $4.29 or $4.60, both [levels] are exceptionally lucrative and very profitable, more so than gold, and that's why I'm calling it the new gold."

Mohr added that Barrick, the world's biggest gold producer, also invites the comparison with its bid to buy Equinox, which boasts one of the biggest new copper mines in the world.

While Barrick's Equinox bid didn't earn the company favour on equity markets (its share price slipped $1.75 to close at $47.75 in trading Tuesday on the Toronto Stock Exchange) Mohr said it likely sees the strategic value in its target's assets, primarily the giant Lumwana mine in Zambia.

Lumwana, according to company estimates, produced 147,000 tonnes of copper in 2010, about one per cent of the world's supply at a time when the annual deficit in production is running between 300,000 and 1,000,000 tonnes per year.

"[Barrick] may be able to develop it further, and more than likely will," Mohr said.

However, as recently as four years ago, mining companies were reluctant to invest in new copper mines because there was uncertainty over long-term copper prices.

"Maybe five years ago, we thought $1.50 [per pound] was a good price for copper, which gives you an idea that it's at quite an extraordinary level," Mohr added.

And the high prices are good news for the British Columbia-based mining projects.

B.C. is home to Teck Resources Ltd.'s Highland Valley copper mine near Kamloops, as well as Taseko Mines Ltd.'s Gibraltar mine, which the company is spending $350 million to expand.

And Copper Mountain Mining Corp. is about to open its eponymous project, a $438-million exploration and redevelopment project to tap new reserves around historic mining operations.

"There's no question there is a big demand for copper just with what's going on in the world today," Rod Shier, Copper Mountain's chief financial officer said in an interview.

And the high prices now put his company's project in an advantageous position since it arranged its bank financing assuming a $1.60 per pound copper price.

The company is finishing construction of its ore-refining mill to begin producing copper concentrates in June, making it the only new copper mine in North America, and one of only a few in the world, to begin operations in 2011.

"It's almost like the perfect storm to be bringing a mine into production," Shier said. "So we're very fortunate in that sense."