LV Longview Economics
Investments. Trades. Macro.

The SHORT VIEW (& market positioning)
Copper: LONG Trade Brewing

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Overview

"…There's still sufficient room for China's monetary policy…"

Source: PBoC Governor Pan, 24th Jan 2024, available HERE

Over the next year or so, copper prices face multiple headwinds. In particular, the key drivers of Chinese copper demand should deteriorate further (in both the power and property sectors), while copper supply growth is likely to reaccelerate, as we highlighted last week.

Markets, though, don't move in straight lines. Indeed, on a 1 - 6 month time frame, there's room for a copper rally (potentially counter trend) given our technical, positioning, and sentiment models. In particular, **price action** has been bullish in recent weeks and months, with copper **(i)** holding above/rallying from its key support level ($3.51/lb); **(ii)** breaking above its downtrend line (which has now become a key support level); and **(iii)** following China's 50 bps RRR cut overnight*, rallying from its 200-day moving average.

FIG A: Copper futures (US$/lb), shown with 50 & 200 day moving averages

Source: Longview Economics, Macrobond

* The PBoC announced it would cut the RRR by 50 bps (effective 5th Feb) and re-lending/re-discount rates for small businesses by 25 bps effective tomorrow.

The copper price is also performing well from an **order flow** perspective, having rallied significantly from its 'point of control' (that is, the price at which volumes have been at their highest in the past 50 trading days, shown as the red line in FIG B below) to the top of its 'value area' (represented by the blue lines, where 70% of copper futures volumes have been traded in the past 50 days).

FIG B: Copper price candlestick futures shown with key order flow levels**

** NB Yellow bars = sell orders; blue bars = buy orders. The red line is the 'point of control', which is the price where most volume has traded; the blue lines mark out the 'value area' where 70% of volumes have been traded (while grey bars represent the other 30%), i.e. in the past 50 trading days.

Added to which, the **narrative** in the copper market is bearish, with the challenges in real estate widely understood (and taking front and centre in media/broader macro discussions).

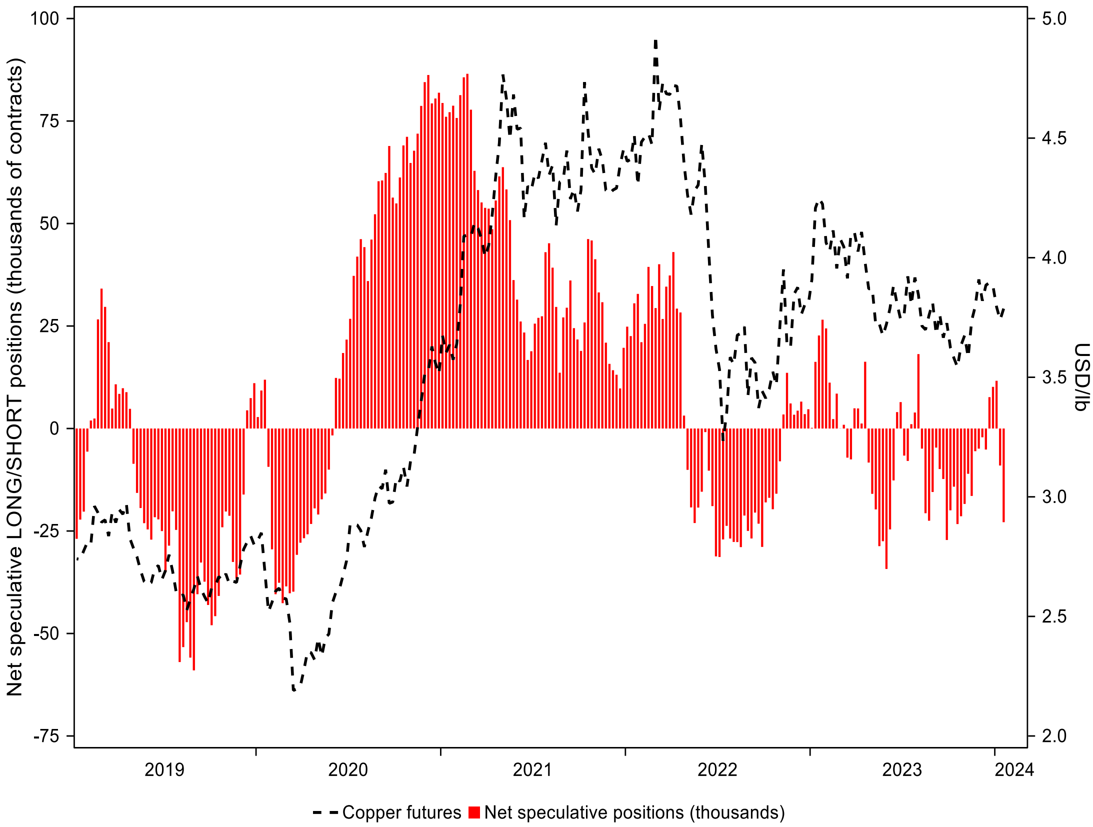
Illustrating that, 'SHORT China' is one of the most popular/crowded trades in markets currently (according to the latest BAML fund manager survey). That's consistent across key measures of positioning. The copper futures curve, for example, is in (relatively deep) contango. Concerns in the copper market are therefore centred around over-supply in the physical market (FIG F). In other words, weak demand, linked to China's bursting real estate bubble, has been largely priced in (at least for now).

In a similar vein, net speculative **positioning** in copper is SHORT (albeit not at extreme levels, see FIG C), while, consistent with that, a number of our medium term technical models are on/close to BUY levels. That includes, for example, our medium term copper 'trend model' (FIG D), as well as our copper 'fast moving MACD' indicator (FIG E). Both of those models have generated timely signals at key turning points in the copper market.

Given that backdrop, the copper price is probably more **vulnerable to positive news flow** (and a potential upside price surprise), than it is to negative news flow. Clearly, the RRR cut announced overnight is a positive newsflow surprise. As policymakers are hinting, further policy easing is likely (i.e. see quote above).

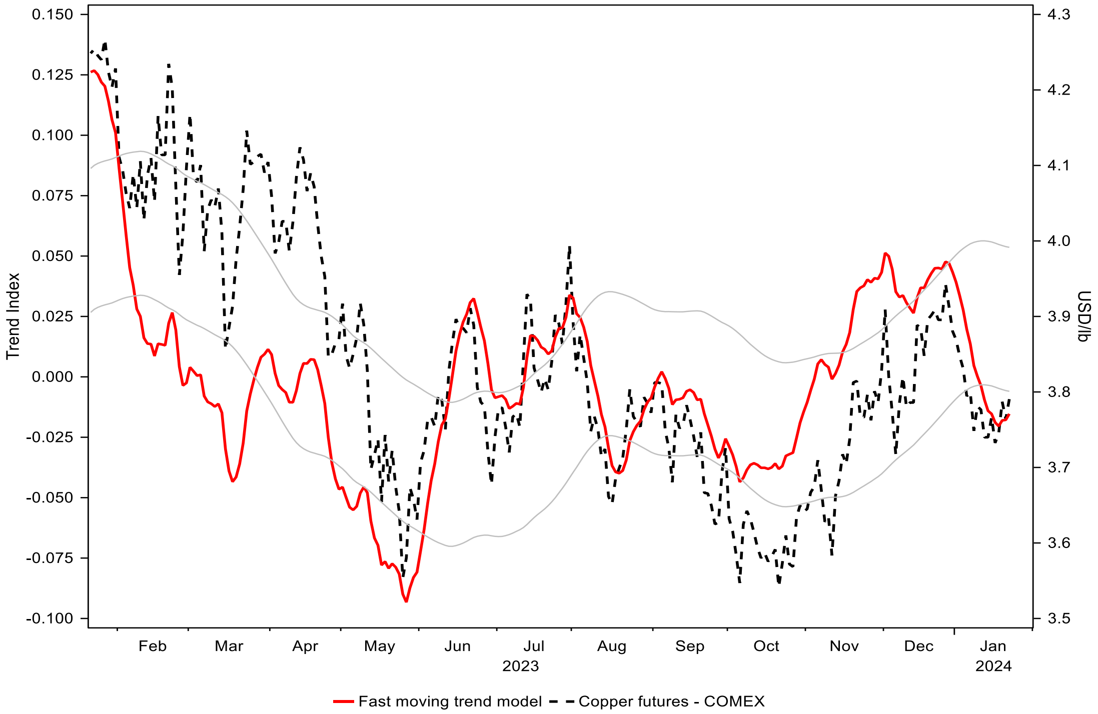
As such, and while there are major ongoing structural challenges in China, which will probably weigh on copper prices again later this year, there's clearly a case for being tactically more optimistic on copper. In particular, and as we highlighted yesterday, that case is most compelling relative to iron ore (see Commodity Fundamentals Report, 23rd January 2024: "Iron Ore vs. Copper: What's Next?" for detail).

FIG C: Copper net speculative positioning vs. copper price (USD/lb)



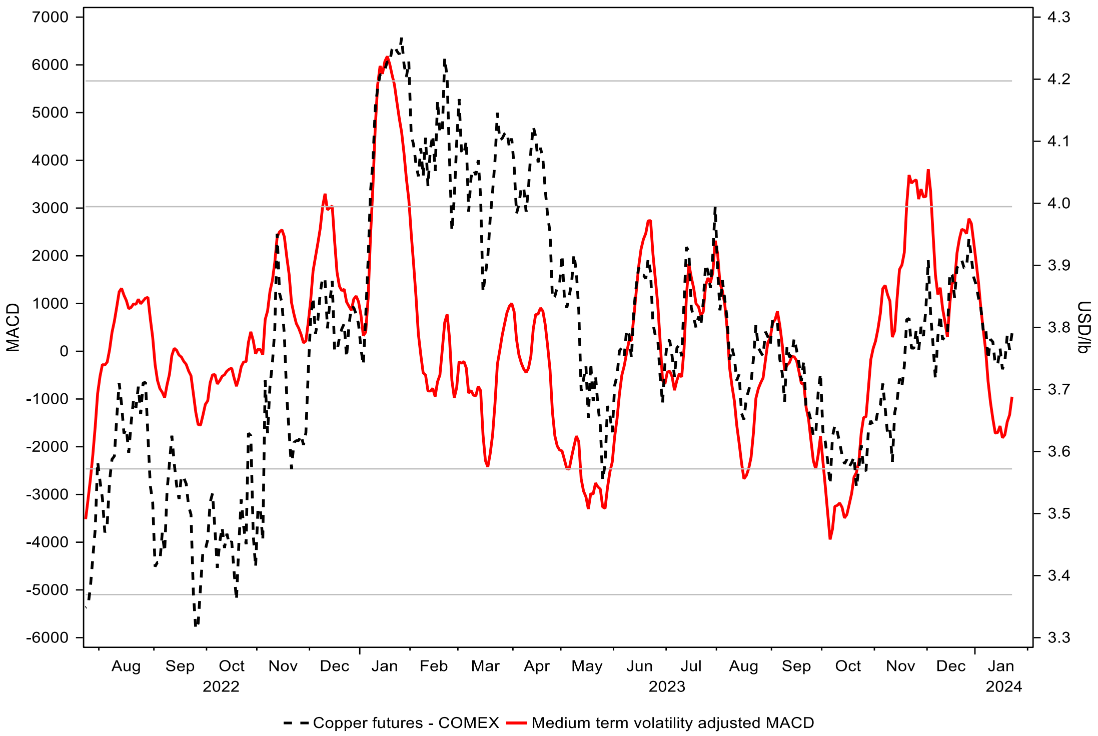
Source: Longview Economics, Macrobond

FIG D: Copper 'fast moving trend model' vs. copper price (USD/lb)



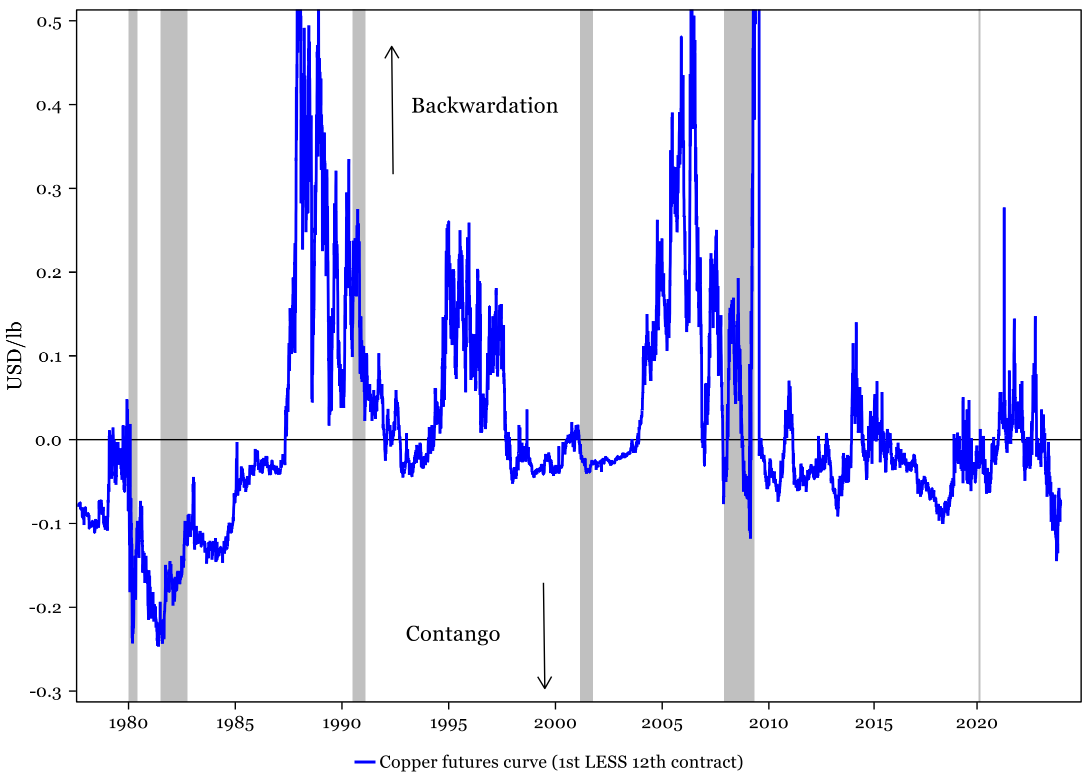
Source: Longview Economics, Macrobond

FIG E: Copper medium term volatility adjusted MACD vs. copper price (USD/lb)



Source: Longview Economics, Macrobond

FIG F: Copper futures curve (1st LESS 12th contract, USD/lb)



Source: Longview Economics, Macrobond

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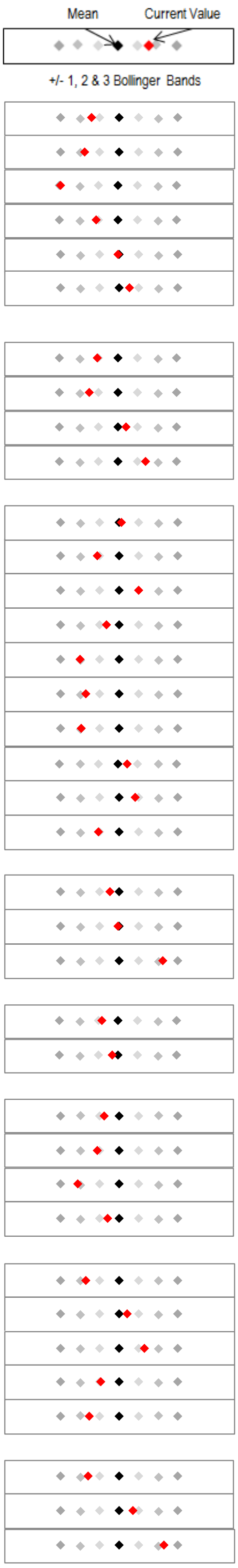
Summary table:

	Fig	Net positions	1 week change	12-week change	Percentile	Data Since
US Dollar, Bonds & Rates						
US 10-yr	1	-659,370	UP	UP	1	Jan-86
US 5-yr	2	-941,195	UP	UP	1	May-88
US 2-yr	3	-1,126,925	UP	DOWN	0	Jun-90
US Long Bonds	4	-352,409	DOWN	UP	3	Jan-86
US Dollar Index	5	17,345	UP	DOWN	71	May-92
Three-month Eurodollar	6	0	DOWN	DOWN	59	Jan-86
Equities						
S&P 500	7	-125,546	DOWN	UP	2	Jun-10
DJIA	8	-17,287	DOWN	UP	1	Jul-10
Nasdaq 100	9	2,242	DOWN	DOWN	32	Aug-10
VIX	10	-34,384	UP	UP	48	Sep-10
Curencies						
Euro	11	128,742	DOWN	DOWN	89	Jan-99
Japanese Yen	12	-111,445	DOWN	UP	8	Jan-86
UK Pound	13	32,581	DOWN	DOWN	86	Apr-88
Swiss Franc	14	-15,844	DOWN	DOWN	37	Jan-86
Australian Dollar	15	-110,012	DOWN	DOWN	0	Jan-87
Canadian Dollar	16	-48,804	UP	DOWN	6	Jan-86
New Zealand Dollar	17	-24,301	DOWN	DOWN	3	Jan-99
Brazilian Real	18	15,669	UP	DOWN	91	Nov-95
Mexican Peso	19	67,745	DOWN	DOWN	78	May-95
Russian Ruble	20	0	DOWN	DOWN	10	Apr-98
Energy						
Oil	21	354,835	UP	UP	82	Jan-86
Nat Gas	22	-75,273	UP	DOWN	31	Apr-90
Heating Oil	23	69,894	UP	UP	98	Jan-86
Base Metals						
Copper	24	-12,312	DOWN	DOWN	21	Jul-89
Steel	25	0	DOWN	DOWN	65	Feb-14
Precious Metals						
Silver	26	29,787	DOWN	UP	28	Jan-86
Gold	27	152,932	UP	DOWN	65	Jan-86
Palladium	28	-10,372	UP	DOWN	0	Jan-86
Platinum	29	14,632	UP	DOWN	61	Jan-86
Agricultural - Grains						
Corn	30	-134,756	DOWN	DOWN	3	Jun-98
Oats	31	1,929	DOWN	UP	34	Jun-98
Rice	32	4,677	DOWN	DOWN	89	Oct-94
Soybeans	33	43,765	DOWN	DOWN	52	Jun-98
Wheat	34	-50,466	DOWN	UP	19	Jun-98
Agricultural - Softs						
Coffee	35	-3,522	UP	DOWN	18	Jan-86
Sugar	36	294,614	DOWN	UP	95	Jan-86
Cocoa	37	91,617	UP	UP	99	Jan-86



1 & 12 week changes show whether positioning has gone up (more bullish) or down (more bearish).
Percentile shows how bullish/bearish positioning is relative to (entire) history.
The charts show current positioning on a Bollinger Band basis (i.e. 200-week standard deviation bands).

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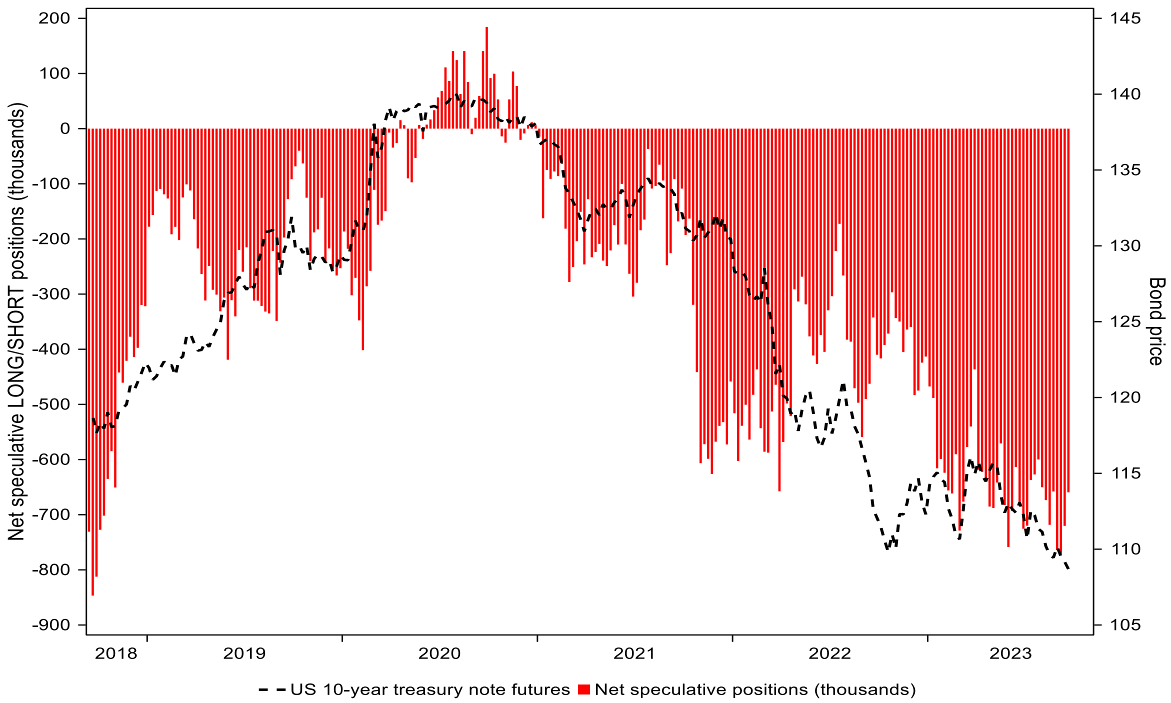
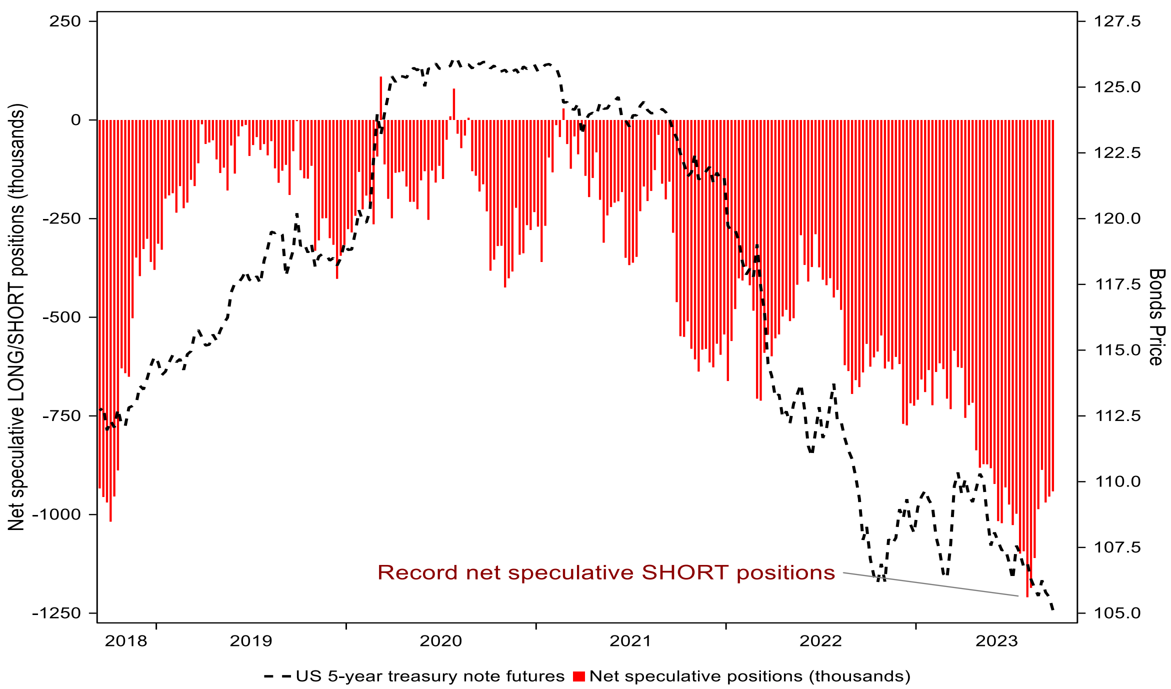
US Dollar, Bonds & Rates

Fig 1: US 10-year Treasury note futures vs. net speculative LONG/SHORT positions



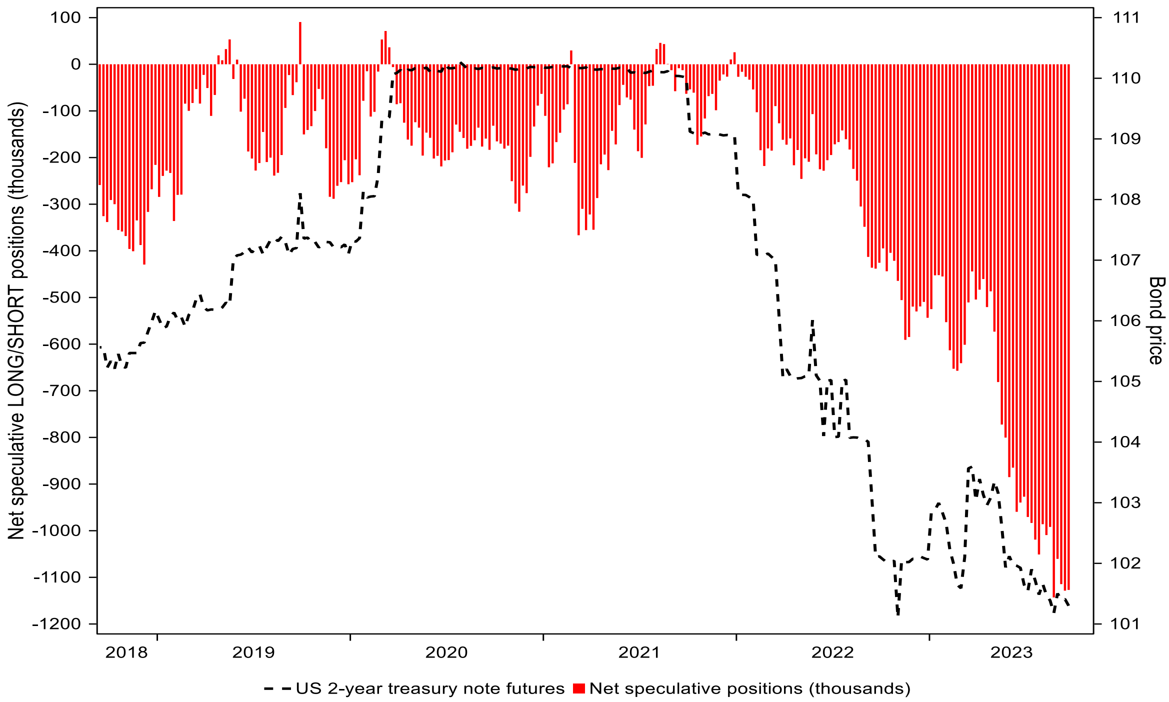
Source: Longview Economics, Macrobond

Fig 2: US 5-year Treasury note futures vs. net speculative LONG/SHORT positions



Source: Longview Economics, Macrobond

Fig 3: US 2-year Treasury note futures vs. net speculative LONG/SHORT positions

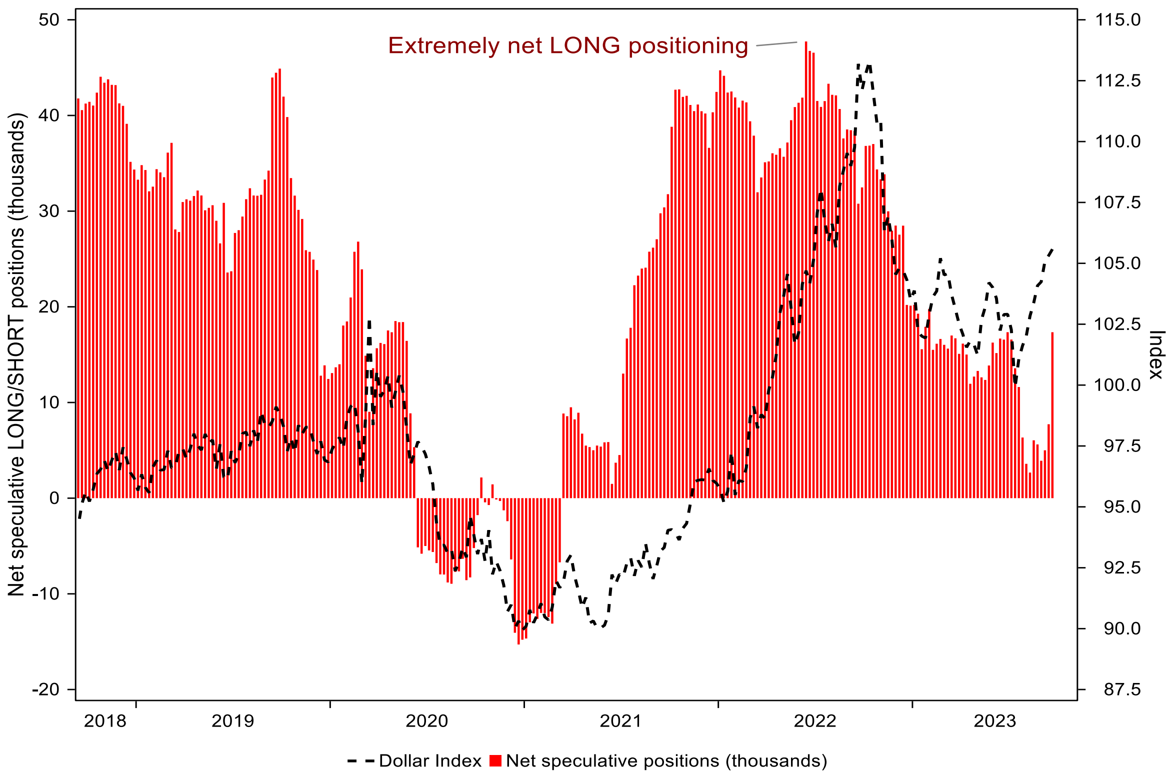


Source: Longview Economics, Macrobond

Fig 4: US 30-year Treasury futures vs. net speculative LONG/SHORT positions

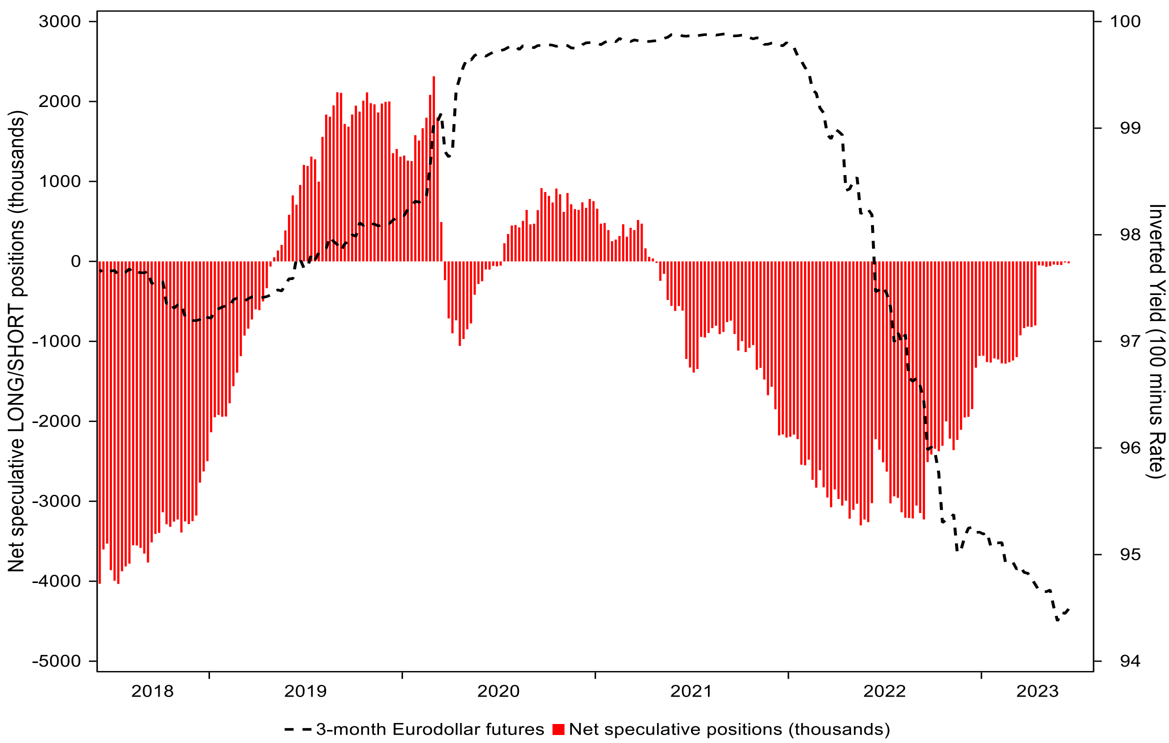
Source: Longview Economics, Macrobond

Fig 5: US dollar index vs. net speculative LONG/SHORT positions



Source: Longview Economics, Macrobond

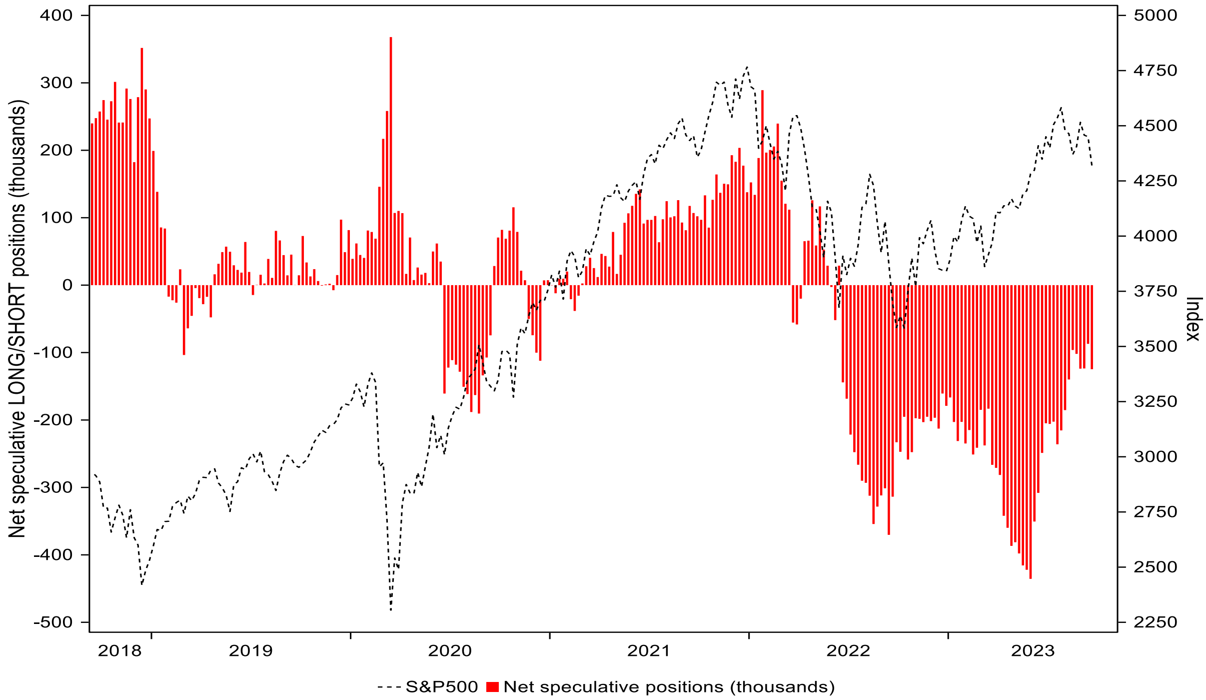
Fig 6: Three-month Eurodollar futures vs. net speculative LONG/SHORT positions



Source: Longview Economics, Macrobond

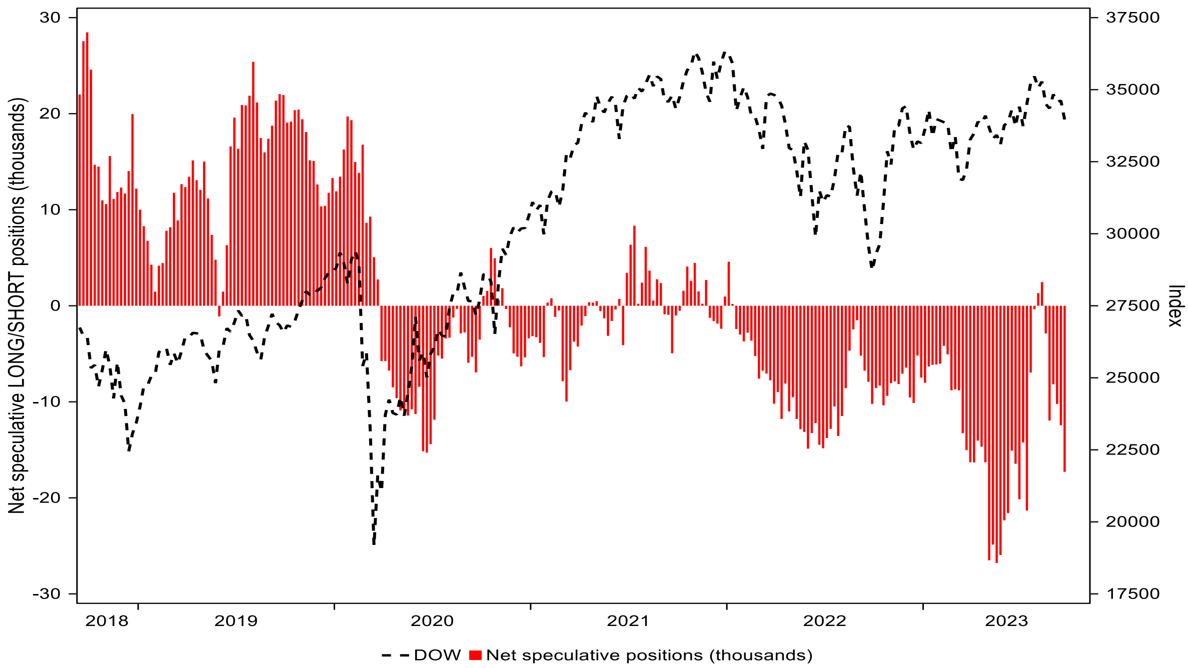
Equities & Volatility

Fig 7: S&P500 vs. net speculative LONG/SHORT consolidated* positions



Source: Longview Economics, Macrobond

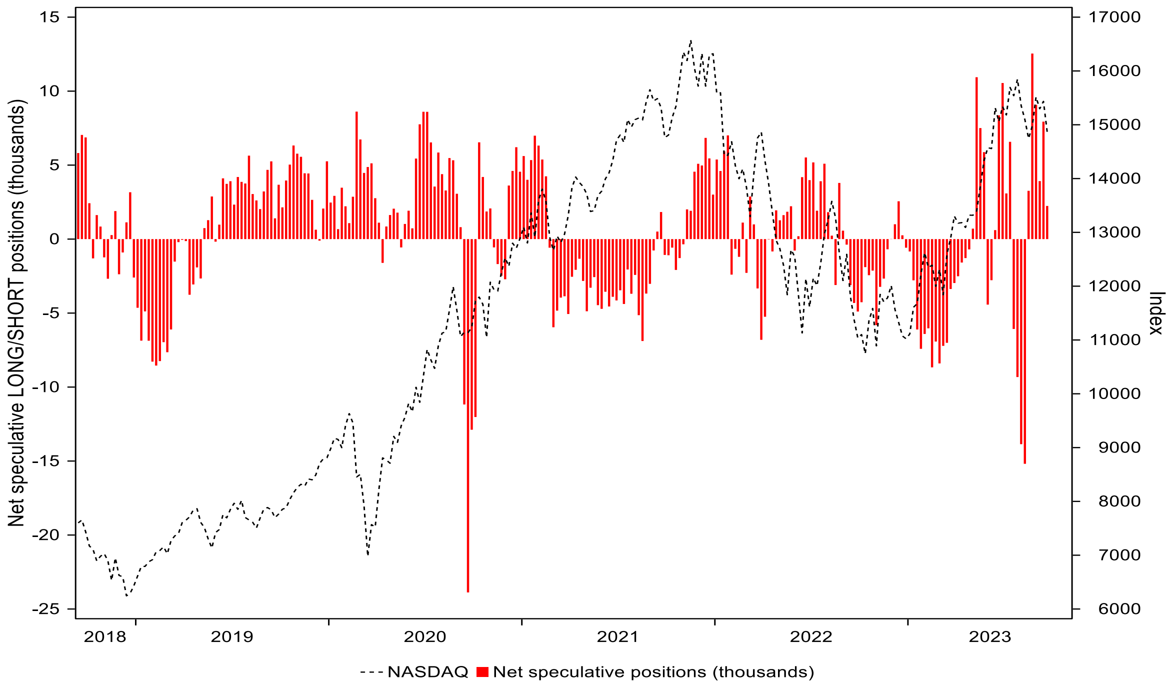
Fig 8: DJIA vs. net speculative LONG/SHORT consolidated* positions



Source: Longview Economics, Macrobond

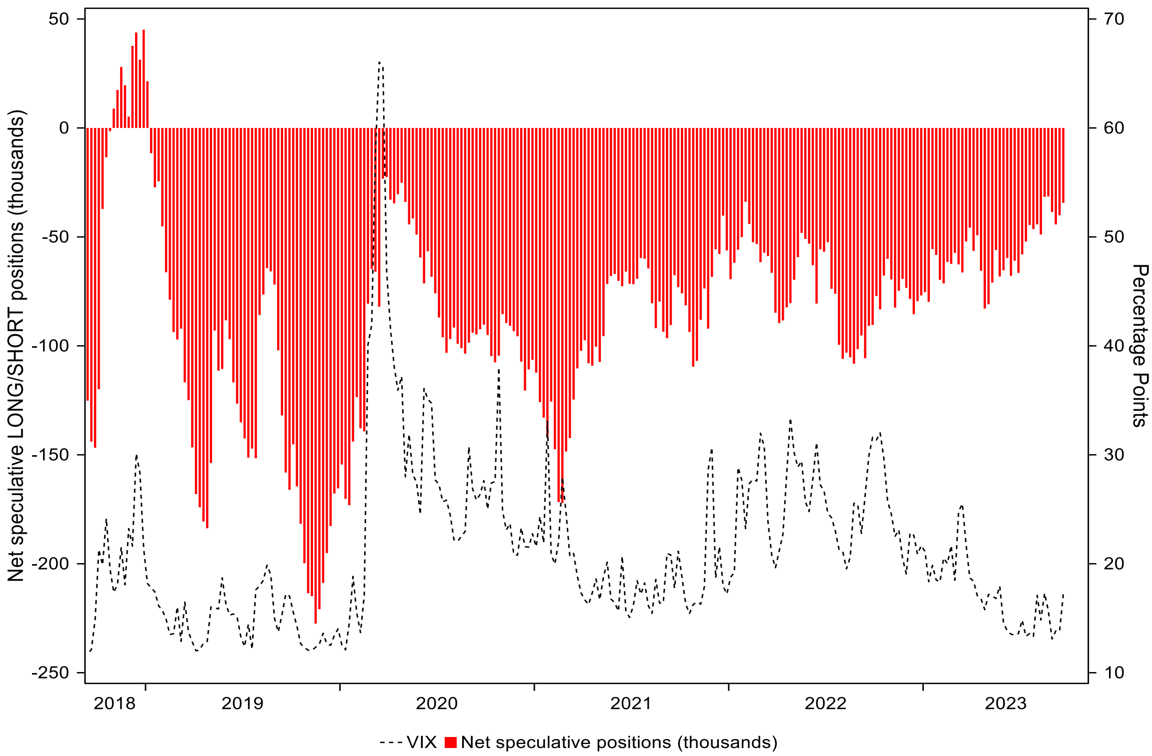
*Consolidated positions aggregate the standard and mini size futures contracts (and weight the mini contracts accordingly).

Fig 9: NASDAQ 100 vs. net speculative LONG/SHORT consolidated* positions



Source: Longview Economics, Macrobond

Fig 10: VIX vs. net speculative LONG/SHORT positions

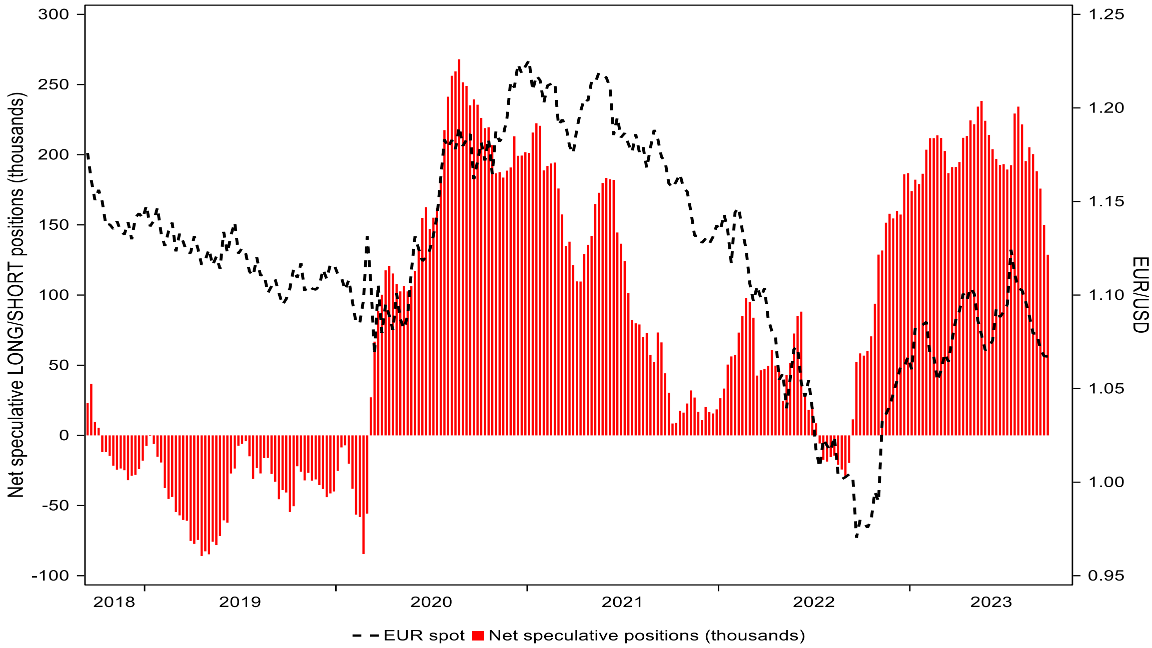


Source: Longview Economics, Macrobond

*Consolidated positions aggregate the standard and mini size futures contracts (and weight the mini contracts accordingly).

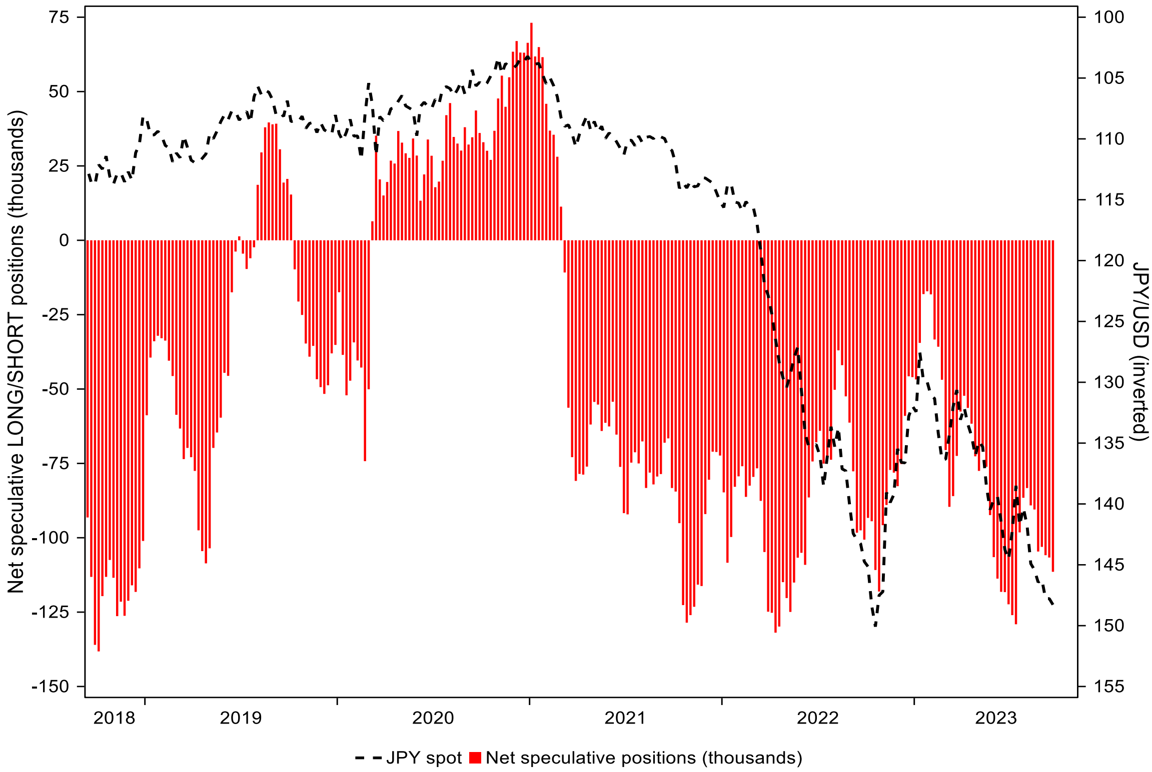
Currencies

Fig 11: EUR-USD vs. net speculative LONG/SHORT positions



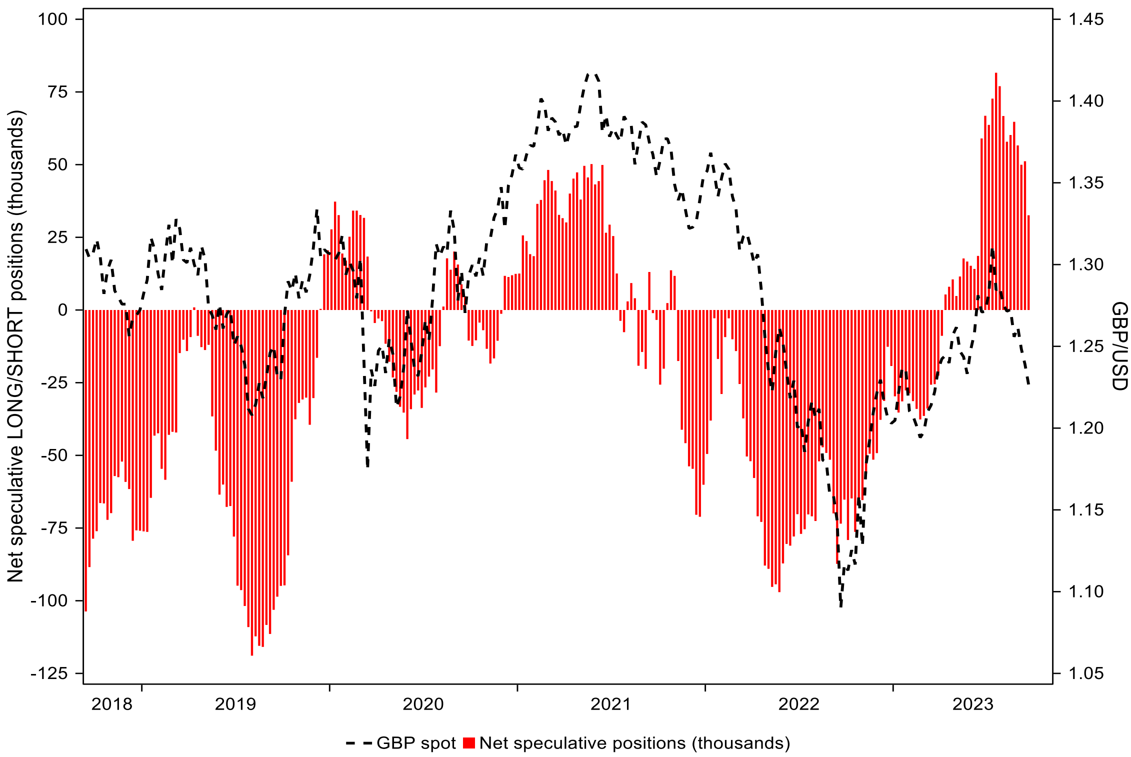
Source: Longview Economics, Macrobond

Fig 12: JPY-USD vs. net speculative LONG/SHORT positions



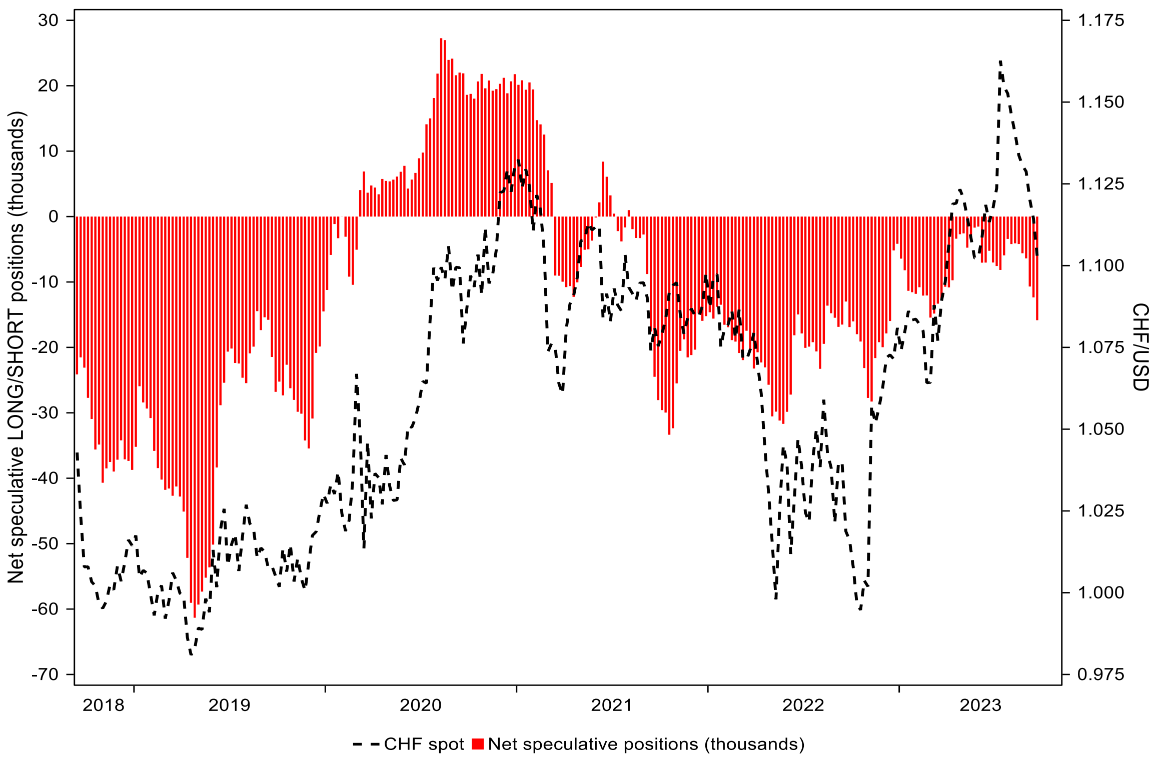
Source: Longview Economics, Macrobond

Fig 13: GBP-USD vs. net speculative LONG/SHORT positions



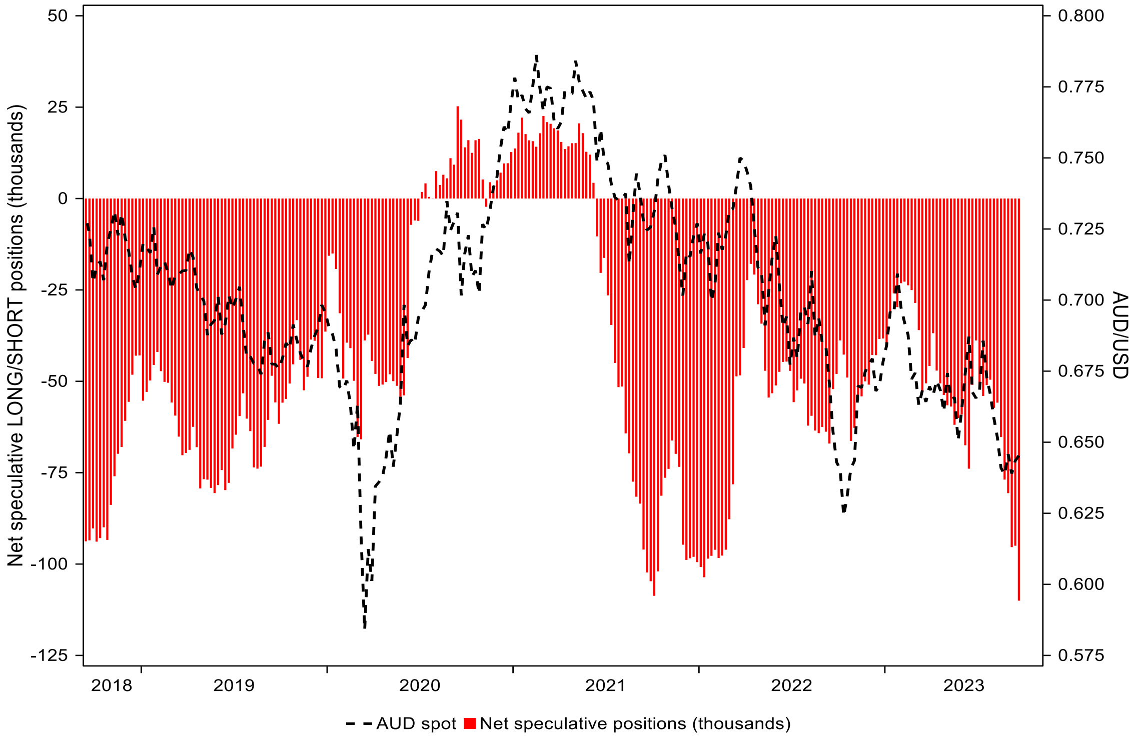
Source: Longview Economics, Macrobond

Fig 14: CHF-USD vs. net speculative LONG/SHORT positions



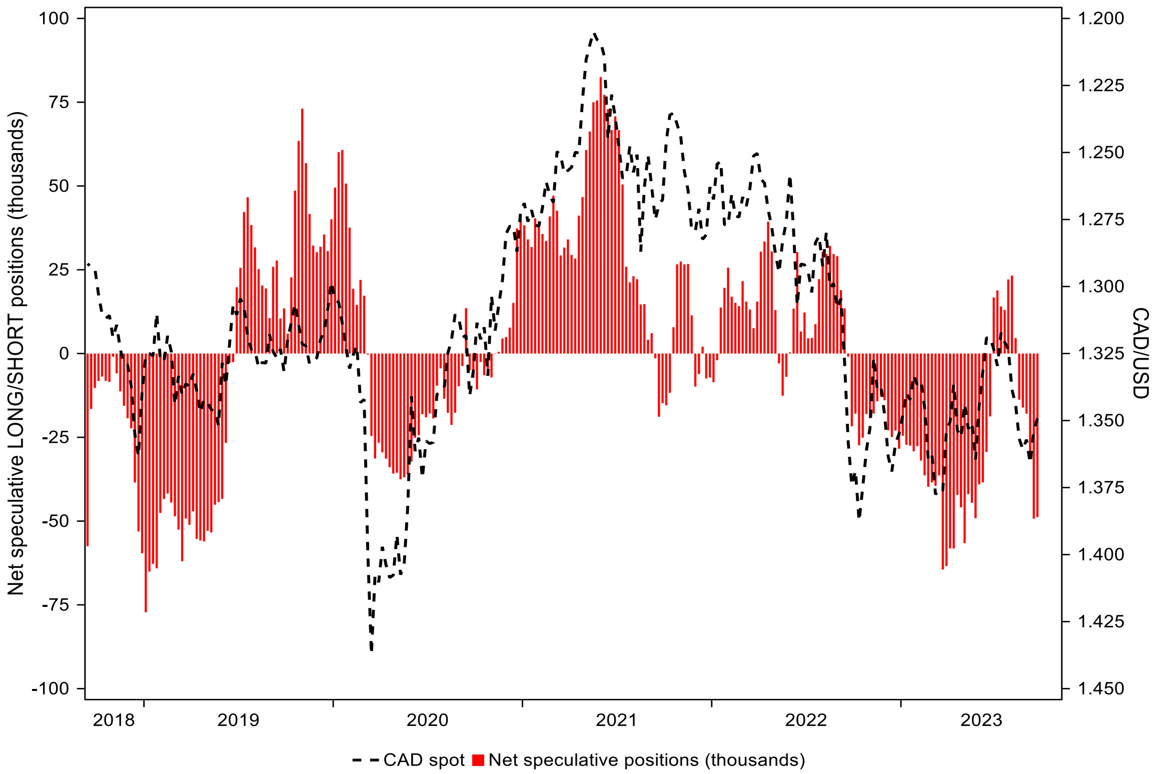
Source: Longview Economics, Macrobond

Fig 15: AUD-USD vs. net speculative LONG/SHORT positions



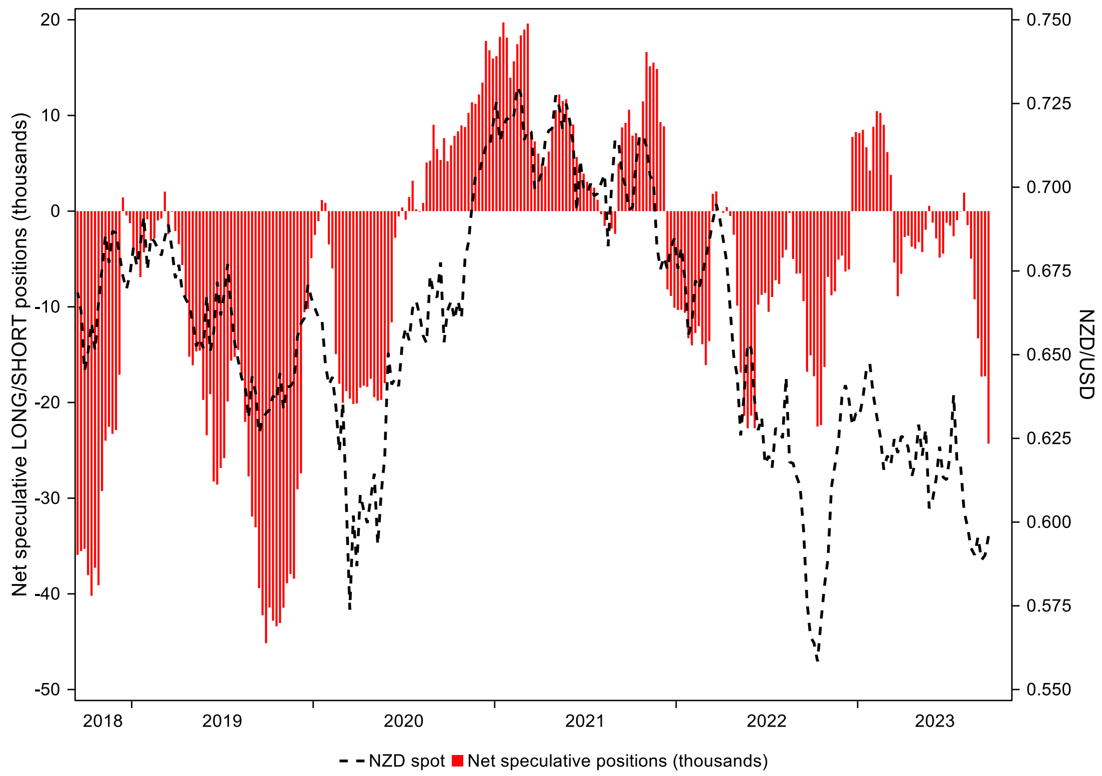
Source: Longview Economics, Macrobond

Fig 16: CAD-USD vs. net speculative LONG/SHORT positions



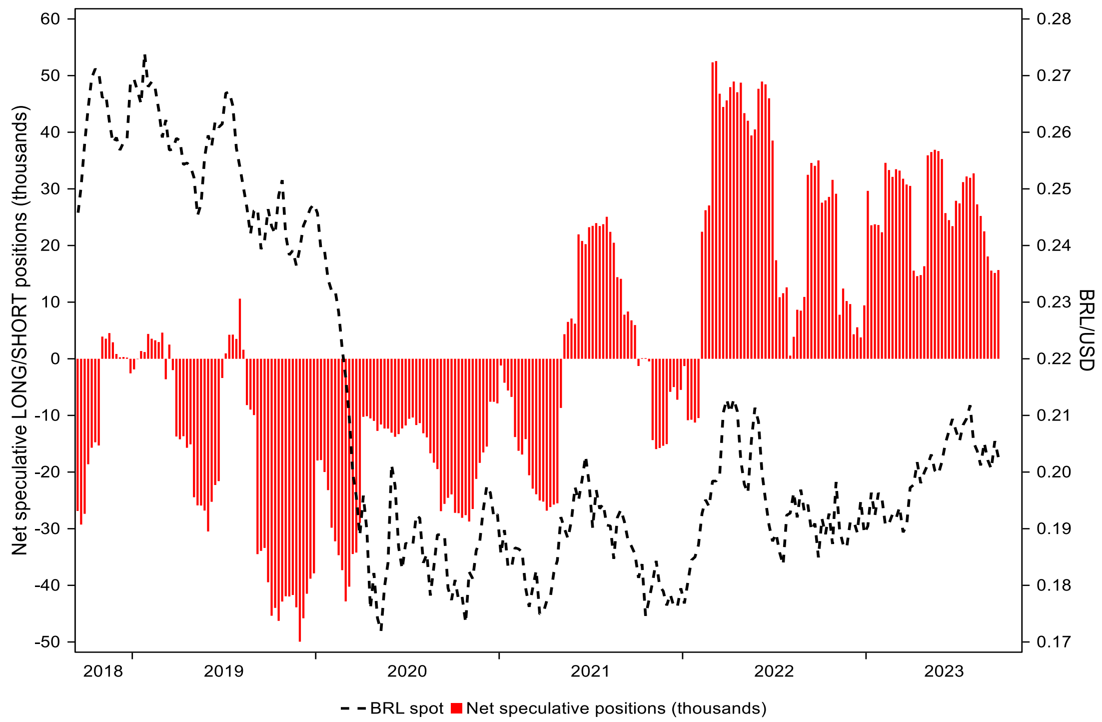
Source: Longview Economics, Macrobond

Fig 17: NZD-USD vs. net speculative LONG/SHORT positions



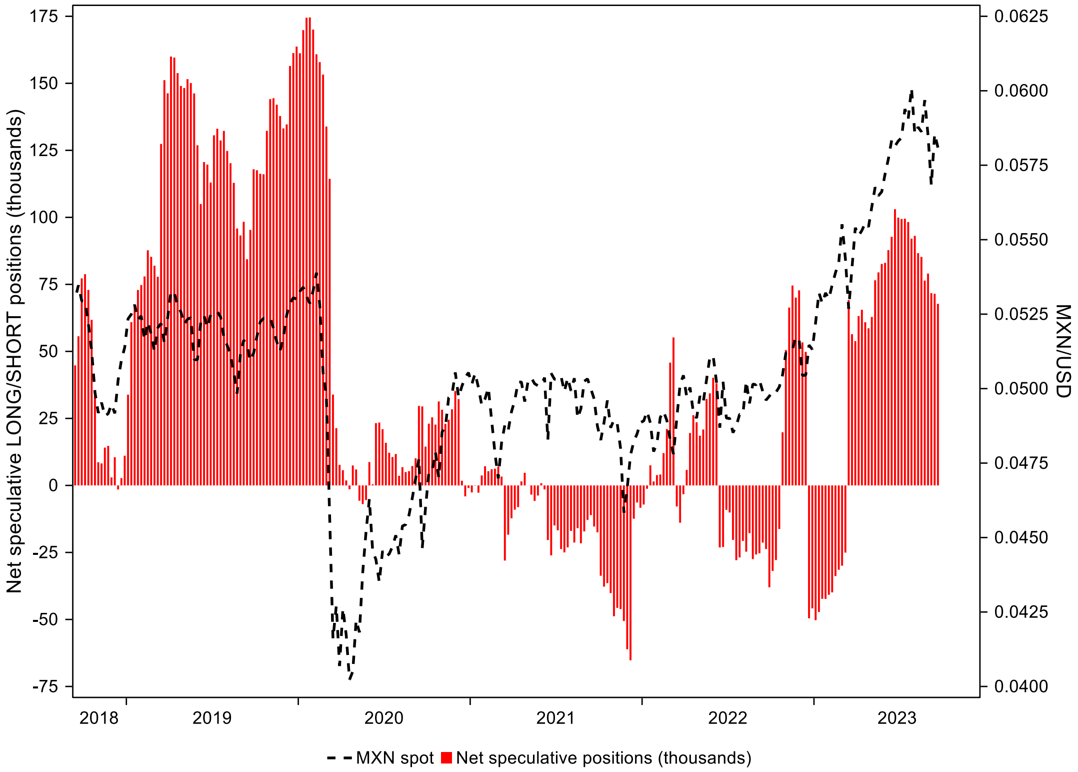
Source: Longview Economics, Macrobond

Fig 18: BRL-USD vs. net speculative LONG/SHORT positions



Source: Longview Economics, Macrobond

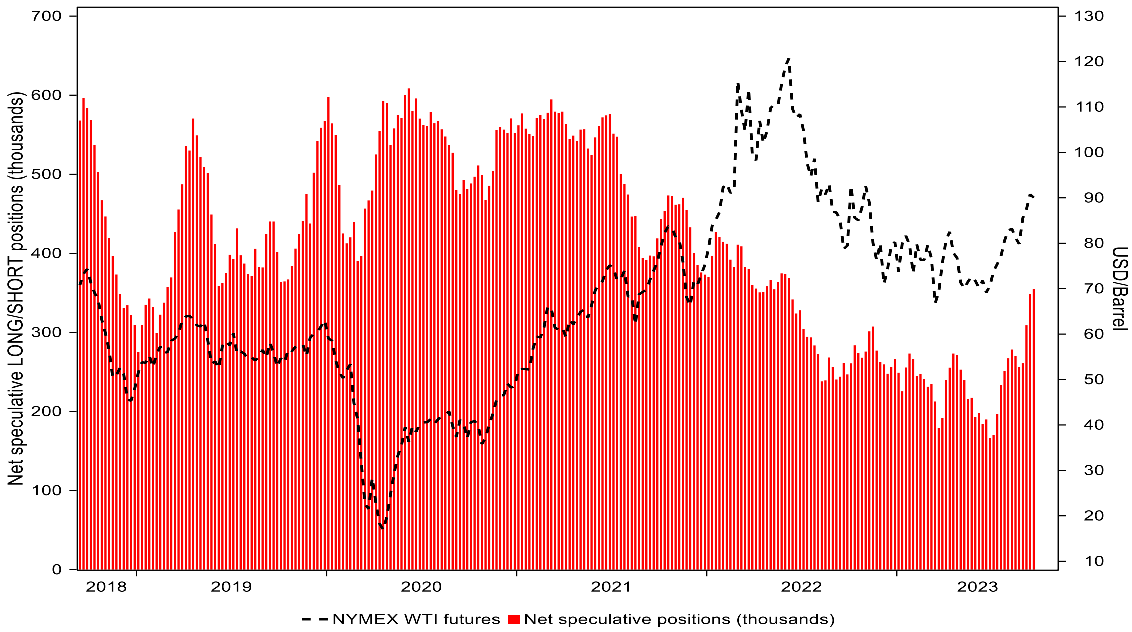
Fig 19: MXN-USD vs. net speculative LONG/SHORT positions



Source: Longview Economics, Macrobond

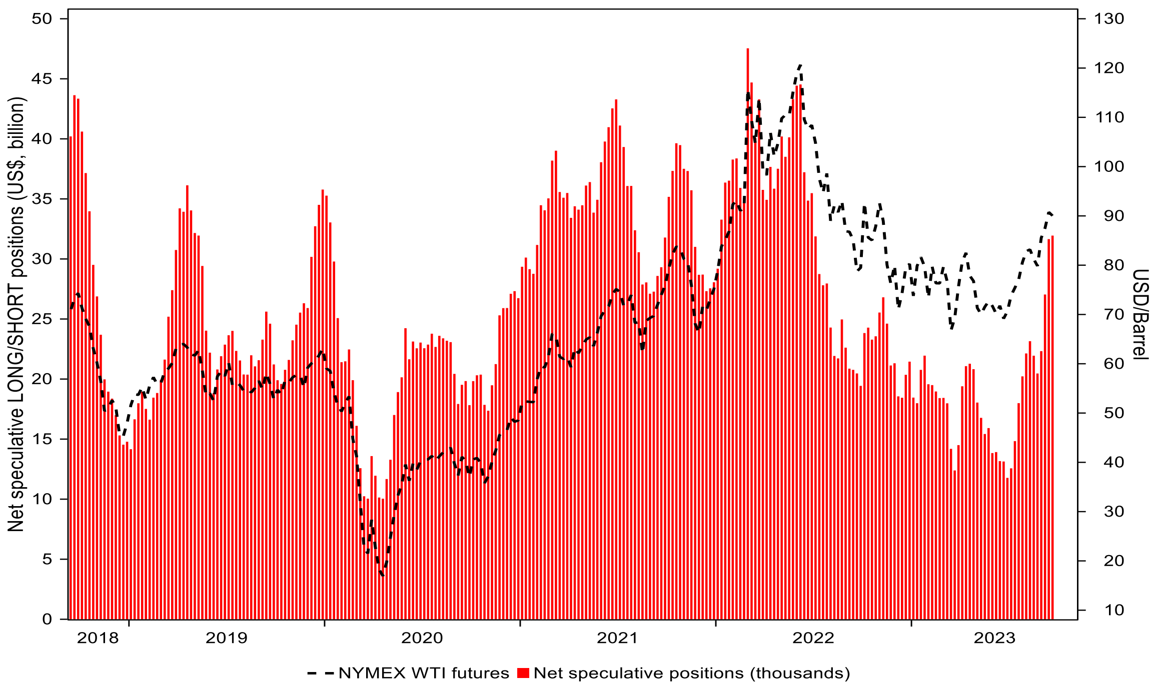
Energy

Fig 20: Oil futures price (USD/bbl) vs. net speculative LONG/SHORT positioning (no. of contracts)



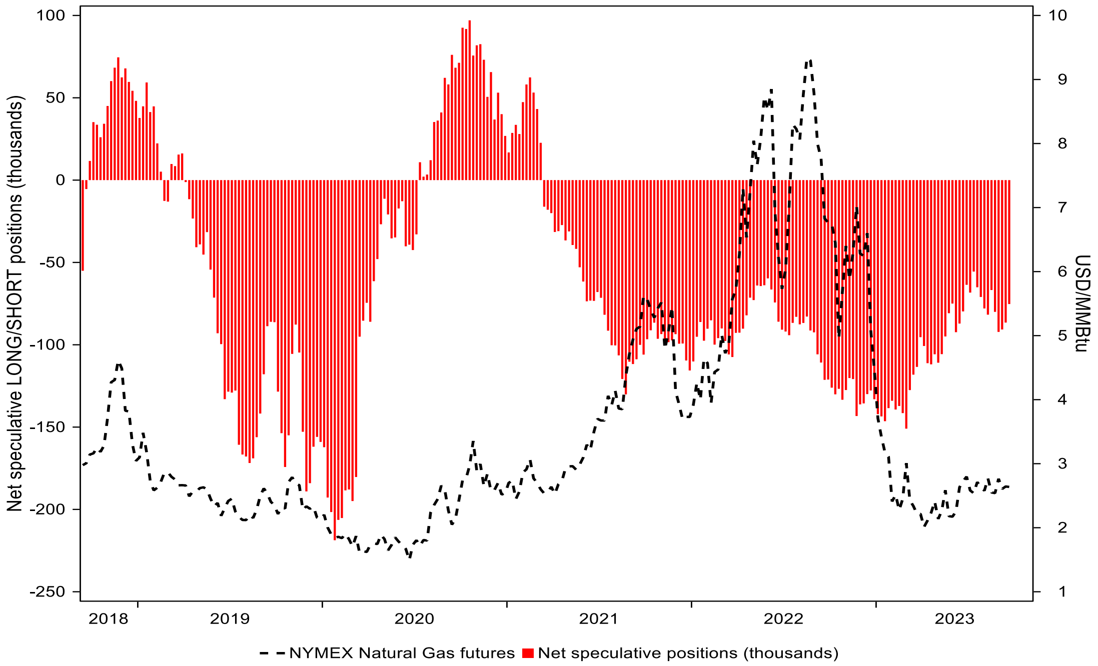
Source: Longview Economics, Macrobond

Fig 21: Oil futures price (USD/bbl) vs. net speculative LONG/SHORT positioning (in USDbn, i.e. value)



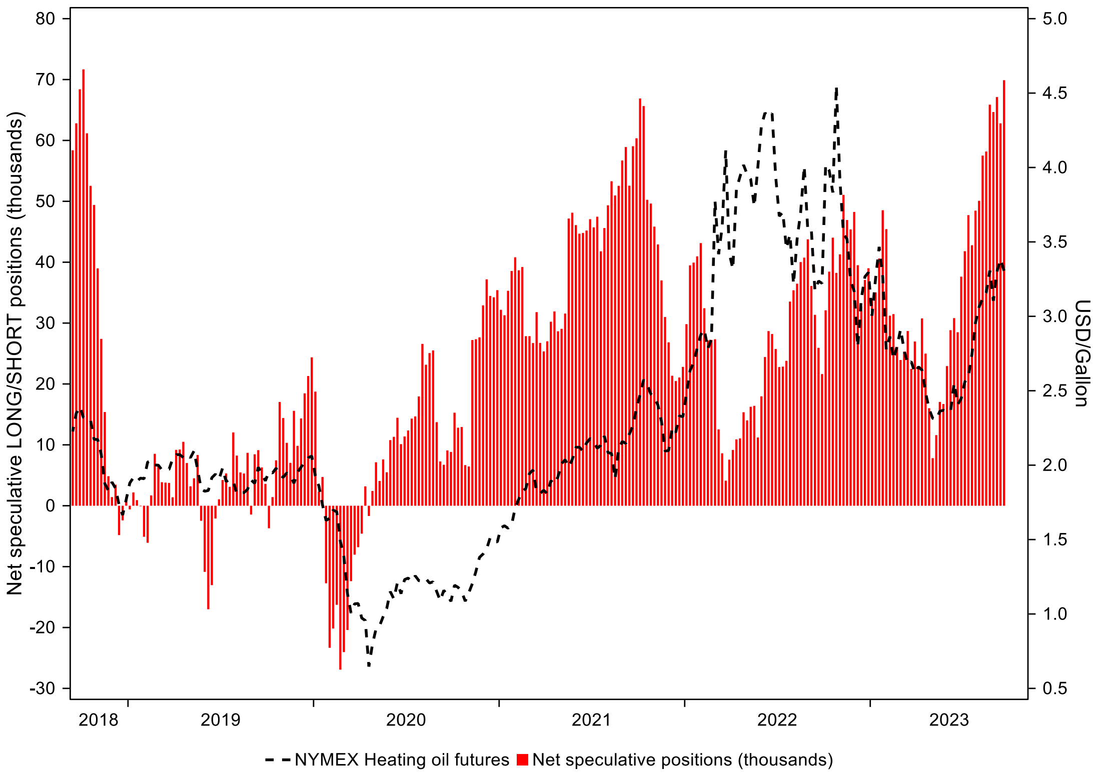
Source: Longview Economics, Macrobond

Fig 22: Natural gas futures (USD/MMBtu) vs. net speculative LONG/SHORT positions



Source: Longview Economics, Macrobond

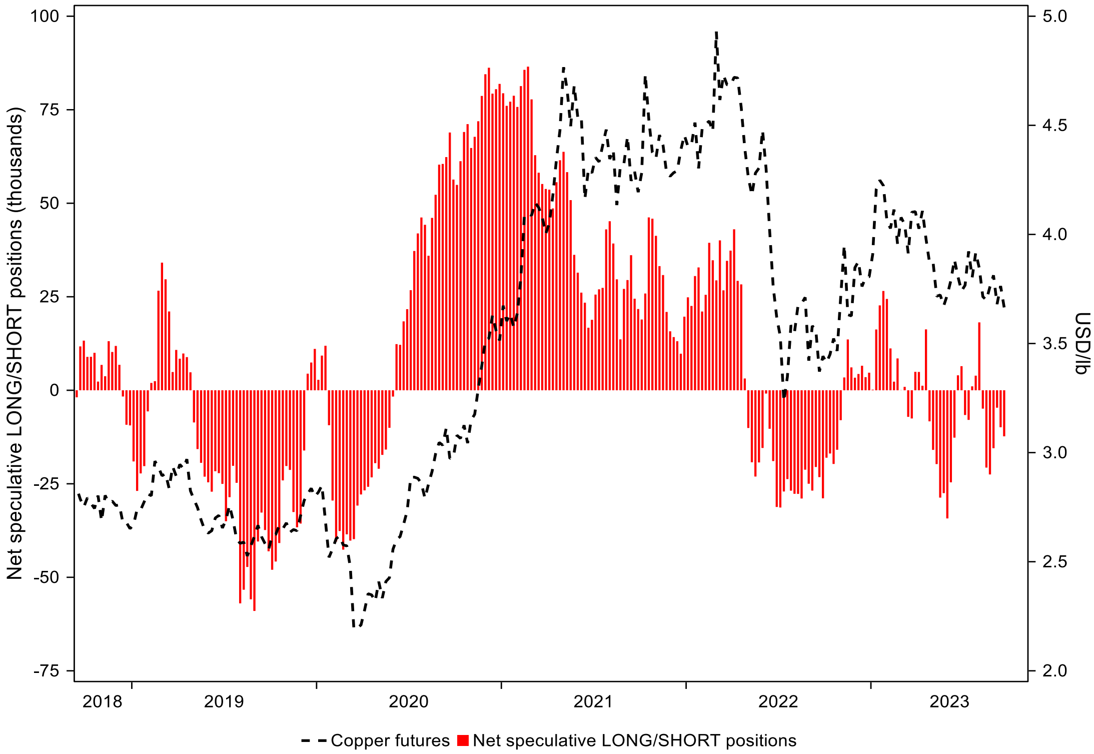
Fig 23: Heating oil futures vs. net speculative LONG/SHORT positions



Source: Longview Economics, Macrobond

Base Metals

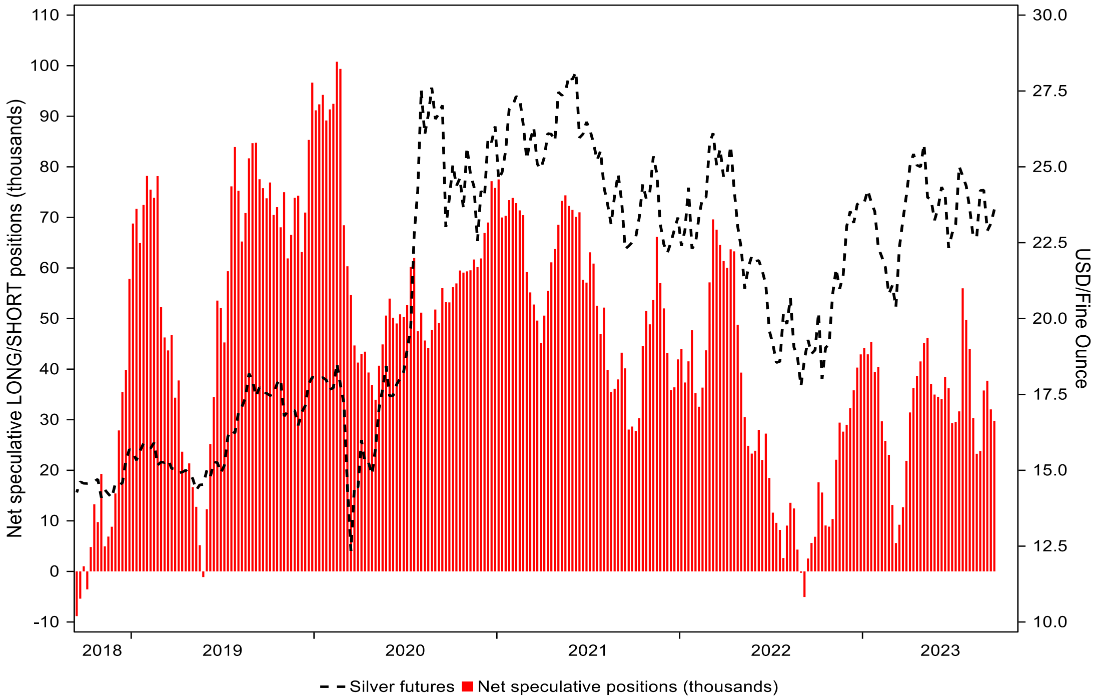
Fig 24: Copper futures (USD/lb) vs. net speculative LONG/SHORT positions



Source: Longview Economics, Macrobond

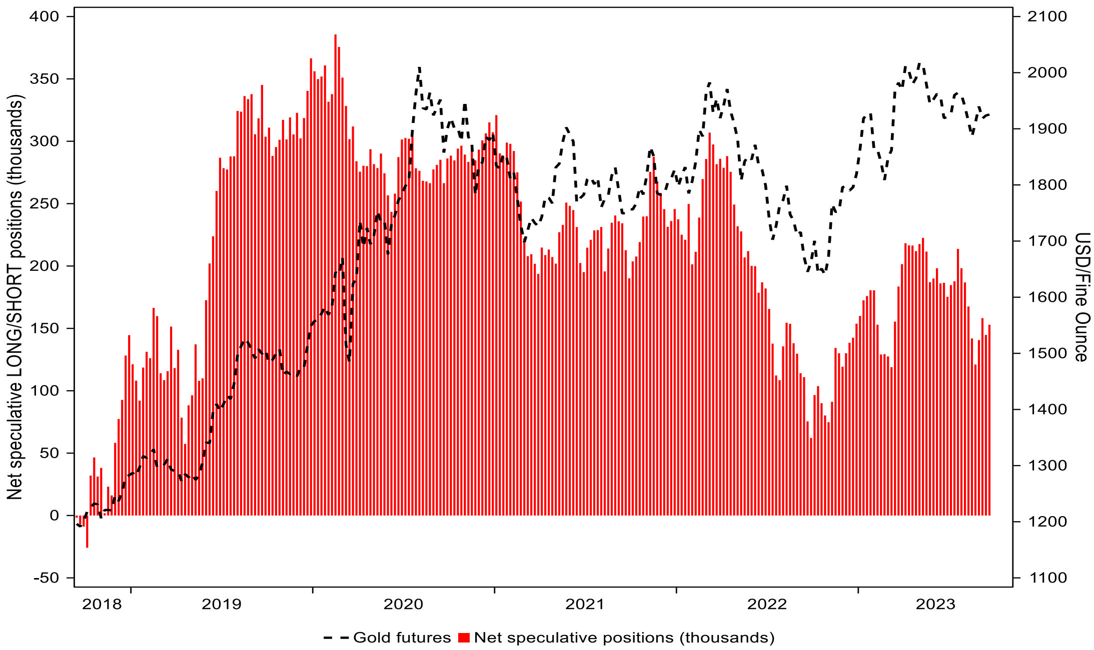
Precious Metals

Fig 25: Silver futures (USD/fine ounce) vs. net speculative LONG/SHORT positions



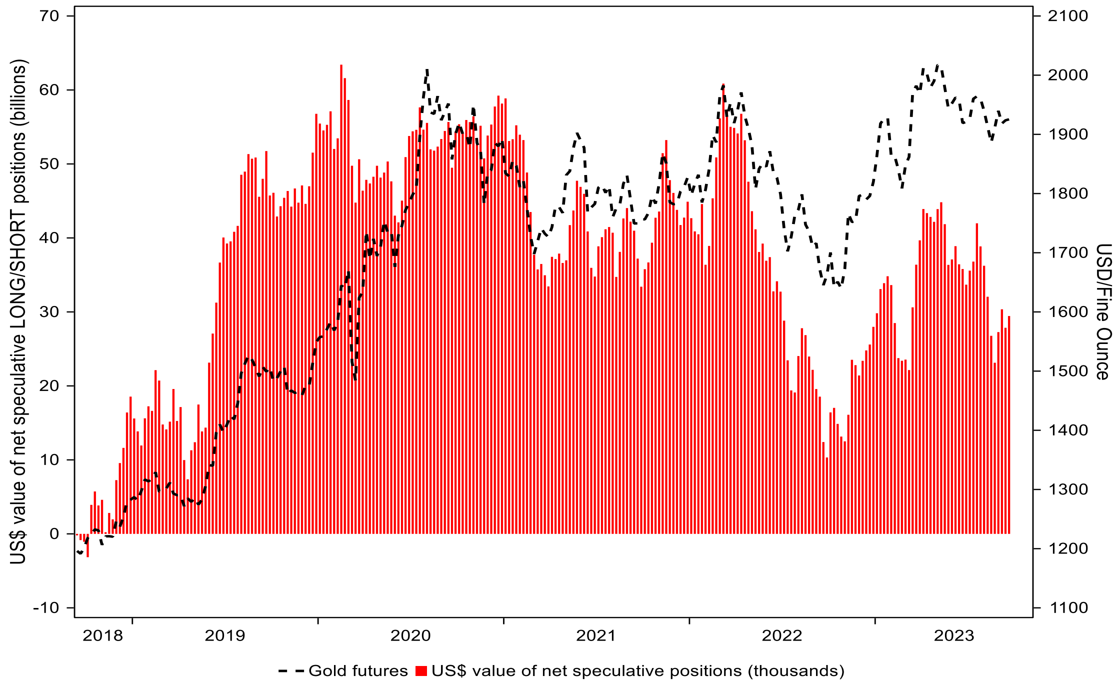
Source: Longview Economics, Macrobond

Fig 26: Gold futures (USD/fine ounce) vs. net speculative LONG/SHORT positioning (no. of contracts)



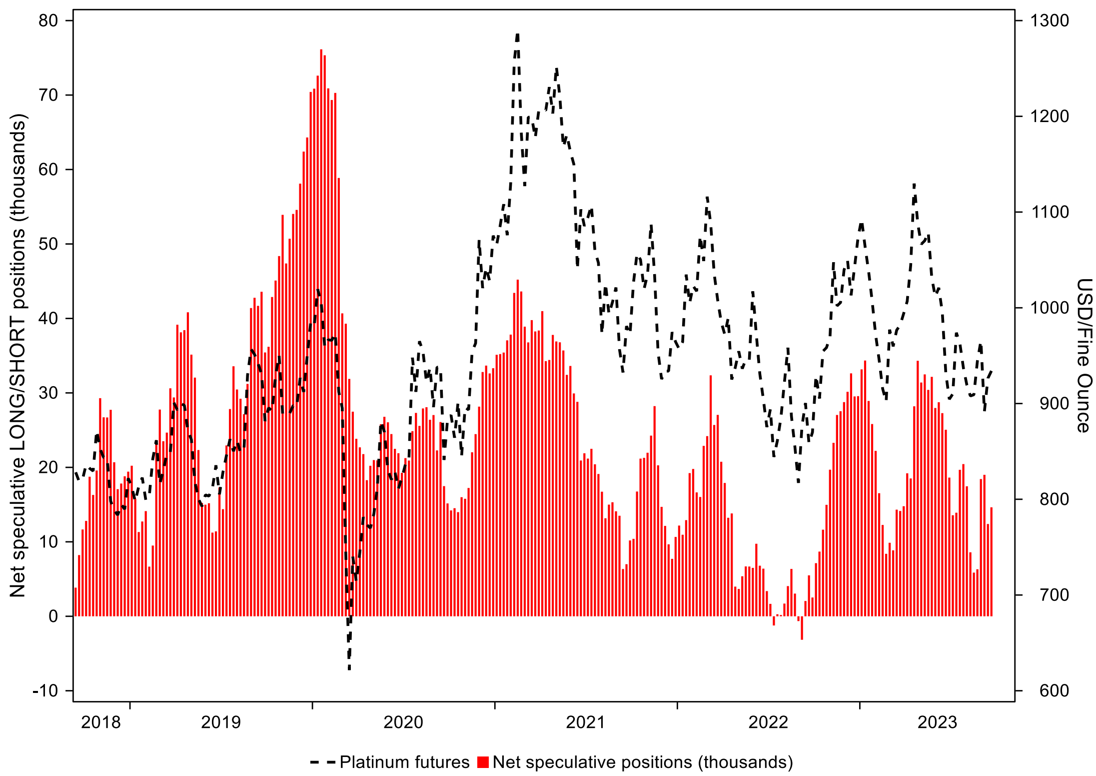
Source: Longview Economics, Macrobond

Fig 26a: Gold futures (USD/fine ounce) vs. net speculative LONG/SHORT positioning (in USDbn, i.e. value)



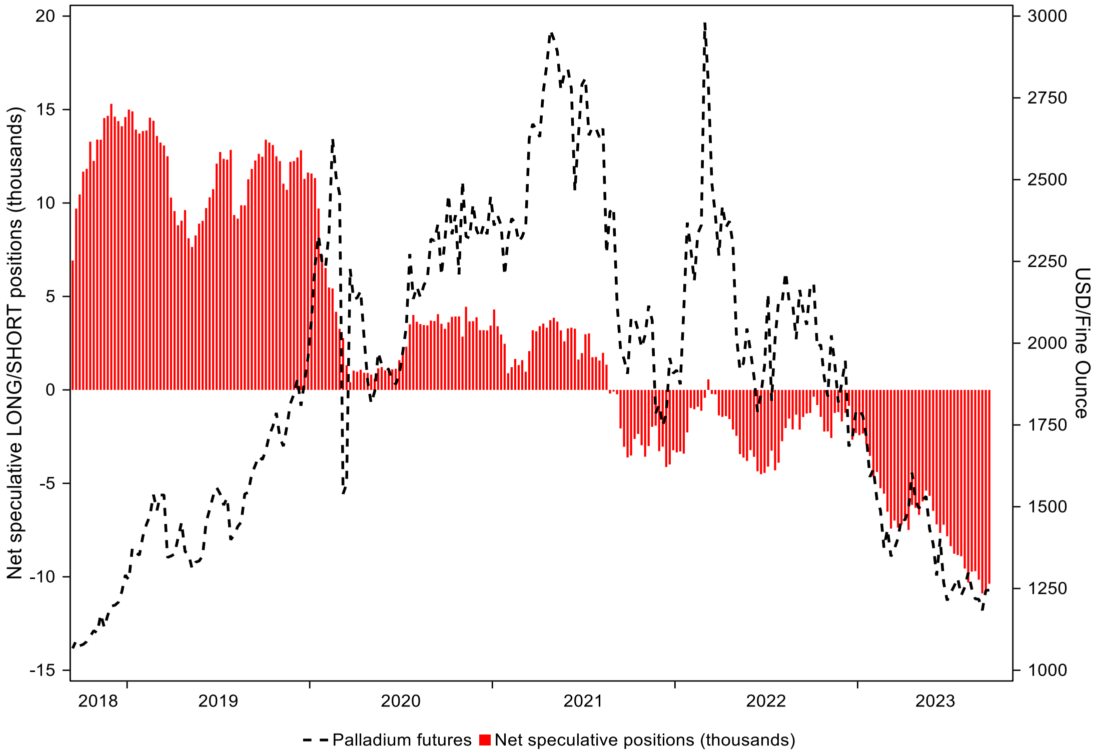
Source: Longview Economics, Macrobond

Fig 27: Platinum futures (USD/fine ounce) vs. net speculative LONG/SHORT positions



Source: Longview Economics, Macrobond

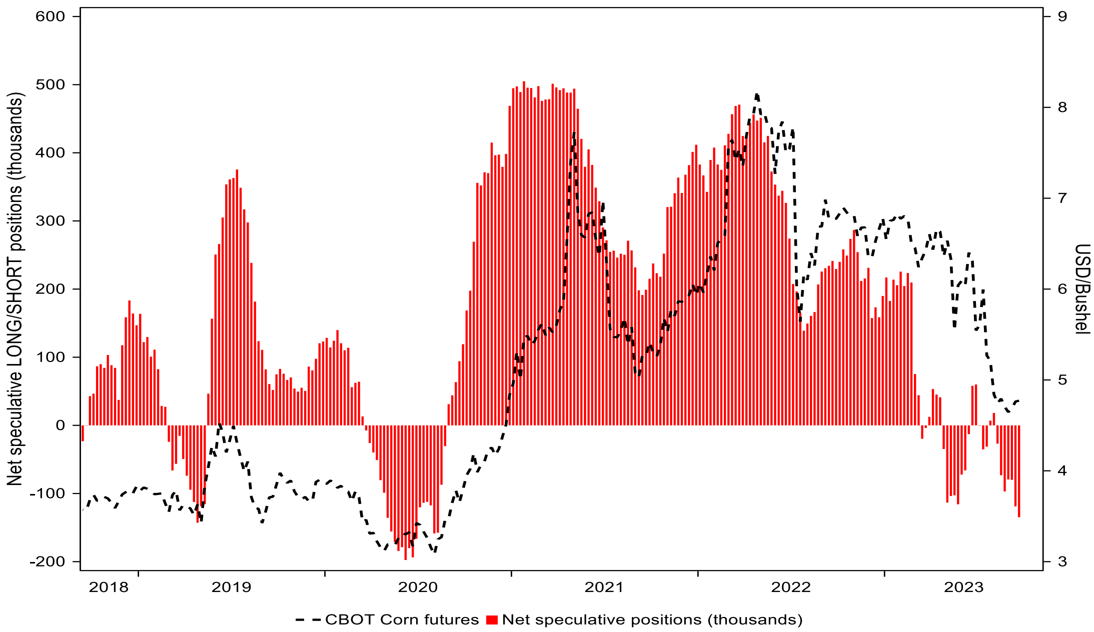
Fig 28: Palladium futures (USD/fine ounce) vs. net speculative LONG/SHORT positions



Source: Longview Economics, Macrobond

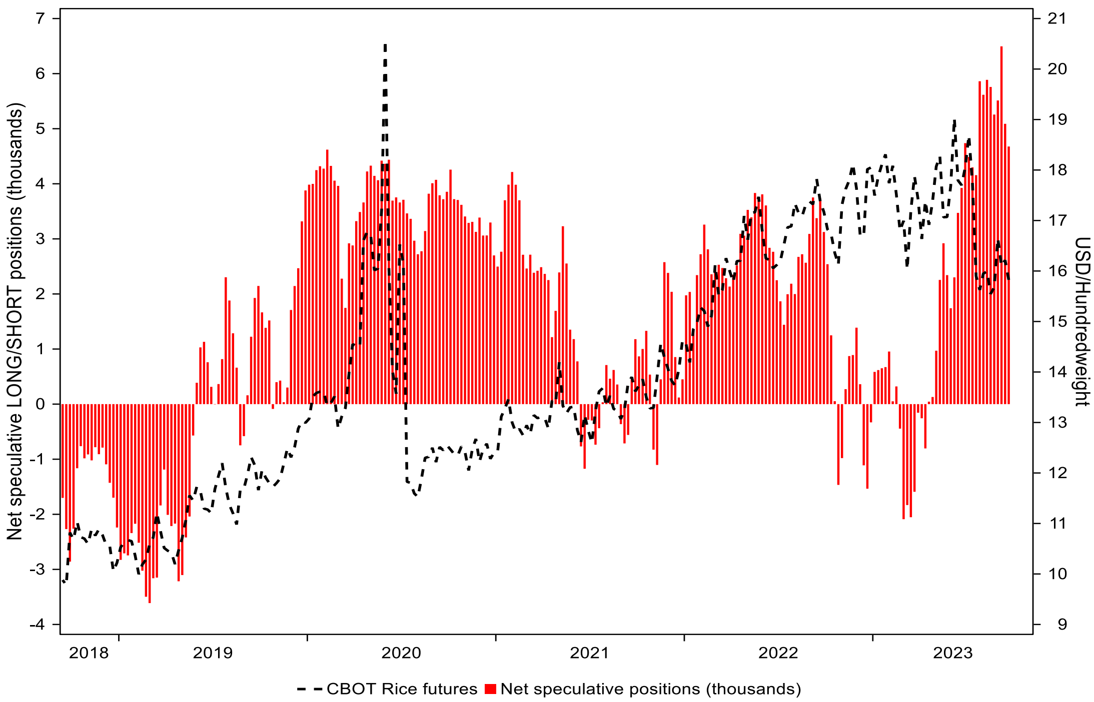
Agricultural - Grains

Fig 29: Corn futures (USD/bushel) vs. net speculative LONG/SHORT positions



Source: Longview Economics, Macrobond

Fig 30: Rice futures (USD/hundredweight) vs. net speculative LONG/SHORT positions



Source: Longview Economics, Macrobond

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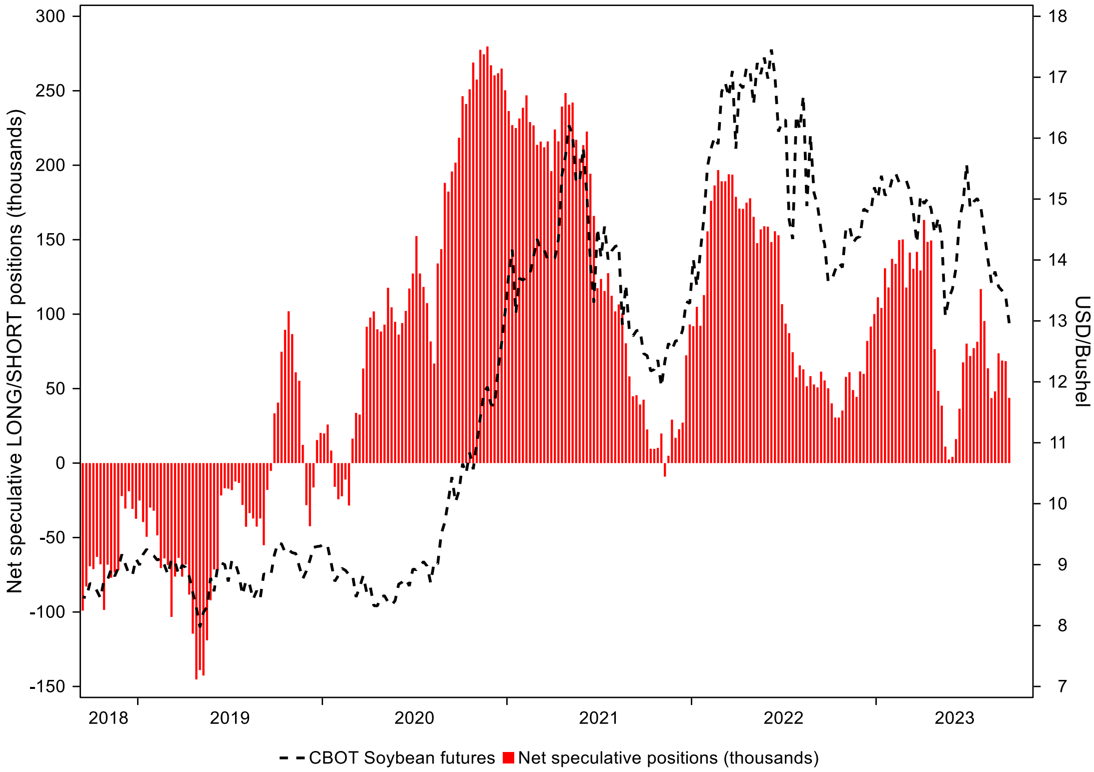
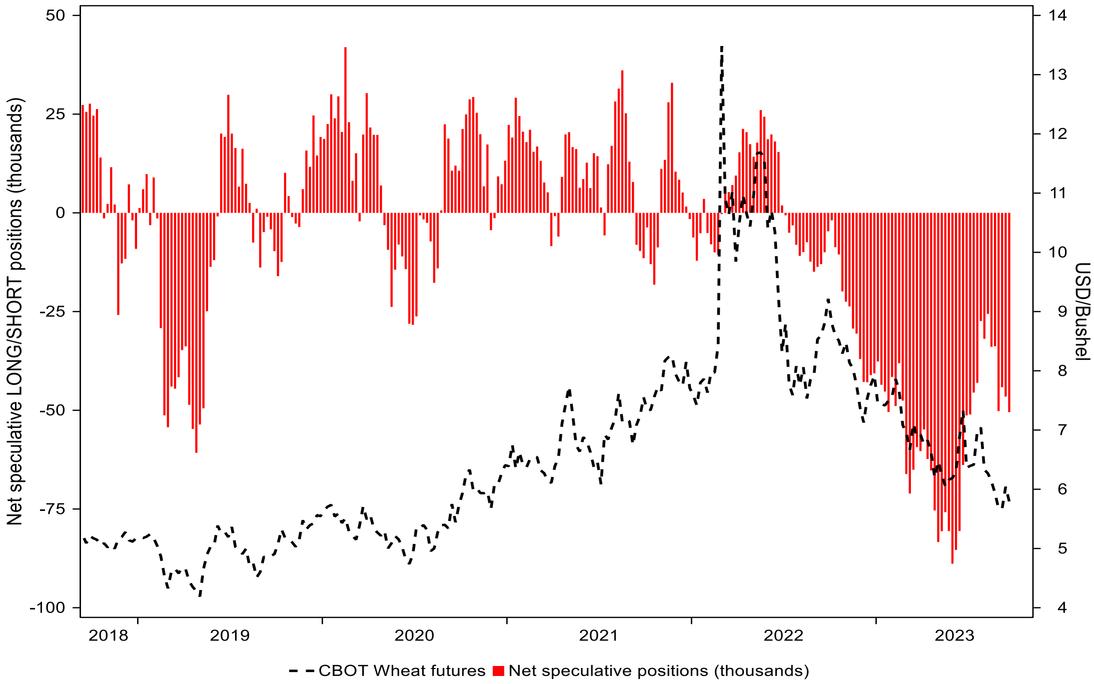
Fig 31: Soybeans futures (USD/bushel) vs. net speculative LONG/SHORT positions



Source: Longview Economics, Macrobond

Fig 32: Wheat futures (USD/bushel) vs. net speculative LONG/SHORT positions



Source: Longview Economics, Macrobond

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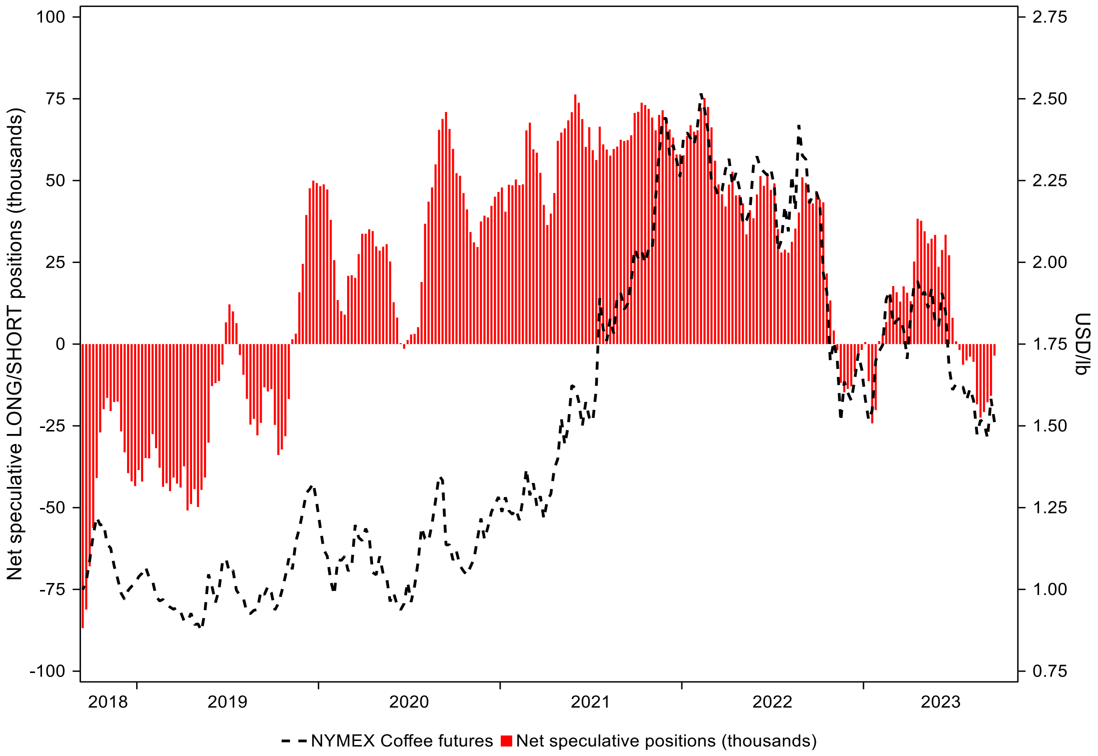
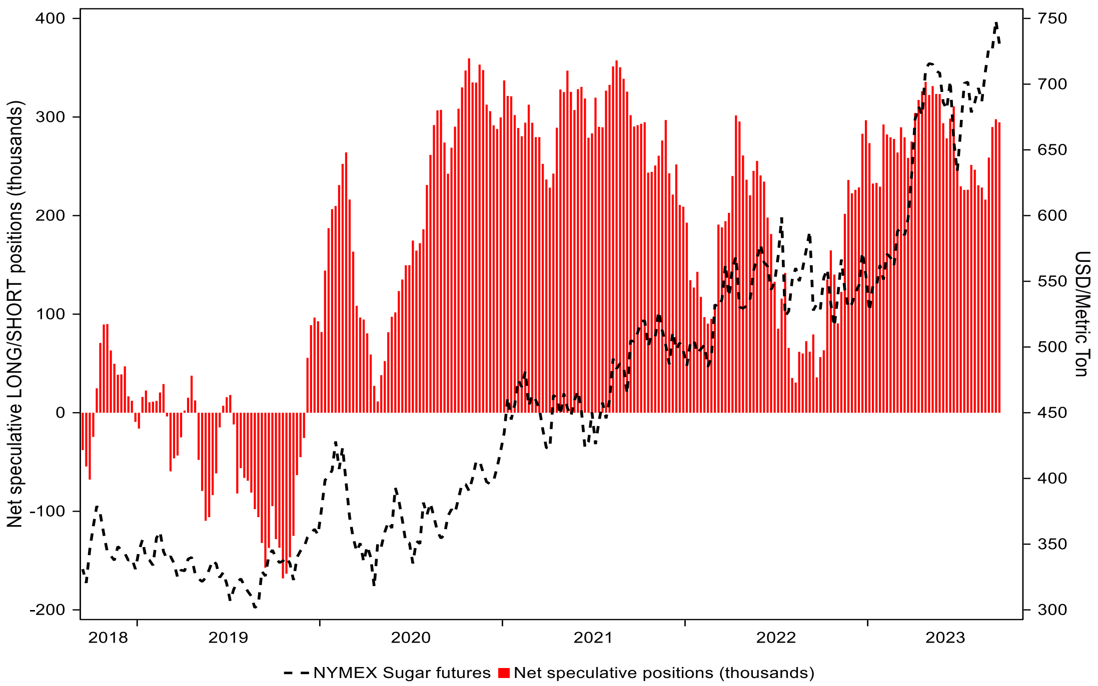
Agricultural – Softs

Fig 33: Coffee futures (USD/lb) vs. net speculative LONG/SHORT positions



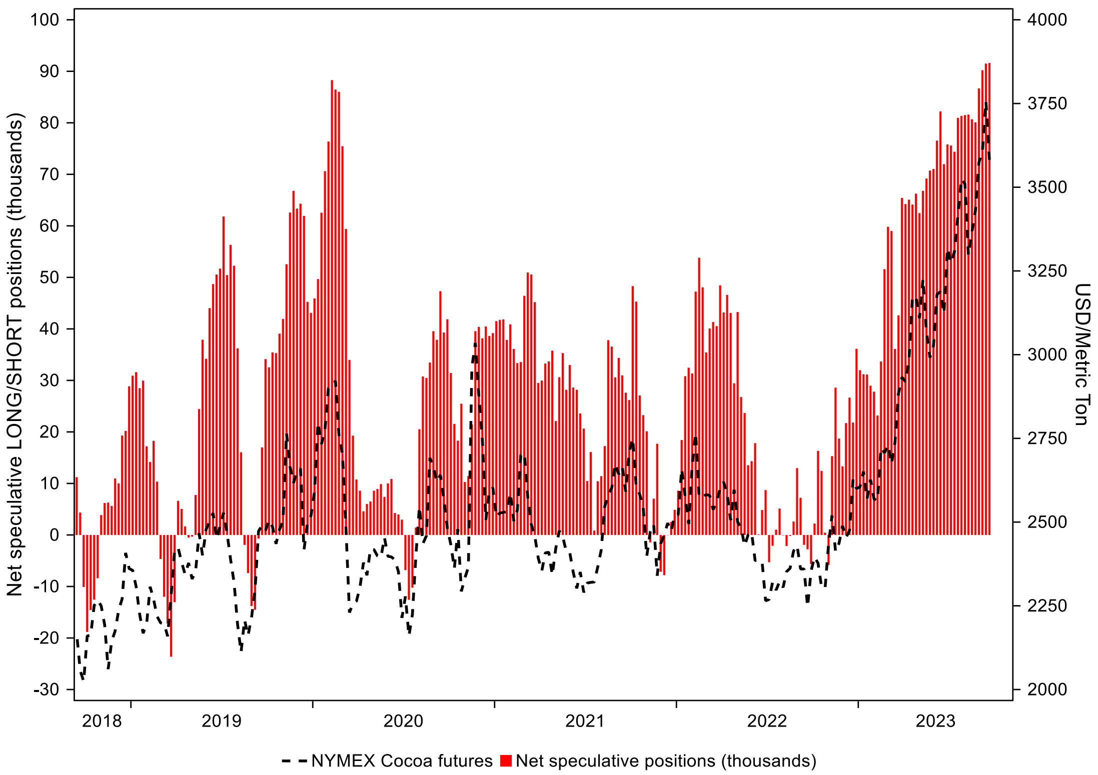
Source: Longview Economics, Macrobond

Fig 34: Sugar futures (USD/lb) vs. net speculative LONG/SHORT positions



Source: Longview Economics, Macrobond

Fig 35: Cocoa futures (USD/Ton) vs. net speculative LONG/SHORT positions



Source: Longview Economics, Macrobond