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Weekly Global Market Commentary

May 15, 2024

Self-Driving for Minerals: Destination Copper

by James Balfour, CFA, Senior Portfolio Manager

The unpredictable nature of Elon Musk saw him reverse his December comments and commit to an affordable Tesla model using existing assembly lines. The launch of a $25,000 vehicle in early 2025, alongside a new robotaxi initiative, distracted the market from underwhelming quarterly numbers as competition and softening demand to eat into the Electronic Vehicle (EV) market. Despite a double digit miss on quarterly earnings the shares were up 12% on the day and a further 15% on subsequent days after announcing a partnership with Baidu. However, the strategy of putting an affordable model on the road is not only a key to unlocking broader swaths of the market but also positioning themselves against the EV manufacturers from China who have benefited from significant subsidies; this has the potential to be the new growth strategy for Tesla.

There are several benefits from introducing significantly more EVs into the global fleet, the primary being to reduce the human reliance on hydrocarbon products. Although reducing global oil reliance has been high on Conference of the Parties (COP) agendas, it does drive demand for other precious metals and ores that dominate battery technology. Lithium mining capacity has been increased significantly in the last few years as the majority of EVs utilize lithium-ion battery technology. Lithium is a metal with high abundance, so the issue is purely having operational mines to meet capacity; the same story is not true across the rest of the sector.

Copper is more complicated; the surplus that has been in the market is expected to evaporate as not only are ore grades in decline but current operations suffer supply shocks (the process tends to be water-intensive) and new mines are difficult to open. For current mining operators, this is a potential gravy train, similar to the iron ore supply boom to support the industrial growth of the Chinese economy. The opportunity to take control in the market has been accelerated by BHP Billiton tendering two rejected bids for Anglo American, the latest at nearly $43 billion. BHP have not been alone in this endeavor, with both Rio Tinto and Glencore also speculated to be mulling offers.

This hunt for mineral security has not been limited to corporate operators, states want to control the market in ever more important commodities. China has just renegotiated the Sicomines contract for copper and cobalt with the DRC, putting $7 billion investment into the country. The UAE bought a 51% stake in Mopani Copper Mines for $1.1 billion and are negotiating further investment in Zambian mineral assets. The US have directly invested over $1 billion into Angola, Zambia and Congo to improve the infrastructure for transporting critical minerals while gaining control of the flow of minerals.

A significant alteration to such a well-established market is an opportunity for investment as new winners can emerge and sustained demand cycles start. The copper price has already moved 19% year to date but exposure to the underling beneficiaries has shown to be a less volatile return from such market shifts. Current producers, such as Freeport-McMorRan, will see growth in cash flows to reinvest for growth, driving the order books of mining equipment manufactures like Caterpillar. It is no surprise that these names are around 52-week highs as the market begins to appreciate the potential earnings direction.

LOM Asset Management Ltd., The LOM Building, 27 Reid Street, Hamilton HM 11, Bermuda
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Stock Market Performance	5/11/2024	W-o-W	M-o-M	Y-o-Y
DJIA	39,513	2.2%	2.7%	18.6%
S&P 500	5,223	1.9%	0.5%	26.4%
MSCI World	3,420	1.7%	0.9%	21.5%
SP/TSX	22,309	1.6%	0.9%	9.3%
BSX	2,533	4.4%	9.0%	20.1%
FTSE100	16,057	2.8%	6.8%	13.6%
DAX	18,773	4.3%	4.6%	18.6%
CAC	8,219	3.3%	2.4%	11.3%
Nikkei	38,229	0.0%	-3.1%	31.3%
Hang Seng	18,964	2.6%	10.9%	-4.0%
Shanghai	3,155	1.6%	4.0%	-4.7%

Key Rates and Prices			
Currencies	**5/11/2024**	**Month Ago**	**Year Ago**
EUR	$1.08	$1.07	$1.09
GBP	£1.25	£1.26	£1.25
JPY	¥155.78	¥153.27	¥134.53
CAD	C$0.73	C$0.73	C$0.74
CHF	CHf1.10	CHf1.10	CHf1.12
AUD	A$0.66	A$0.65	A$0.67
Fixed Income			
3M LIBOR	5.58	5.59	5.32
3M Treasury Bill	5.40	5.40	5.16
2Yr Treasury Note	4.87	4.96	3.90
10Yr Treasury Note	4.50	4.59	3.39
Fed Funds Rate	5.50	5.50	5.25
Commodities			
Gold/oz.	2,360.50	2,372.52	2,015.05
Silver/oz.	28.18	28.44	24.18
Copper/lb.	4.54	4.24	3.70
Oil	78.26	85.02	70.87

Global Economic Calendar (May 13th to 17th)	
Monday	PPI YoY (JN)
Tuesday	ZEW Survey Expectations (GE);
Wednesday	CPI YoY (FR); CPI MoM (US); GDP SA QoQ (JN)
Thursday	Industrial Production MoM (JN)
Friday	CPI YoY (EC)

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