



The Global Economic Outlook and the copper market

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 - The positive feedbacks among Emerging Economies
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 - Is the copper price cycle over?

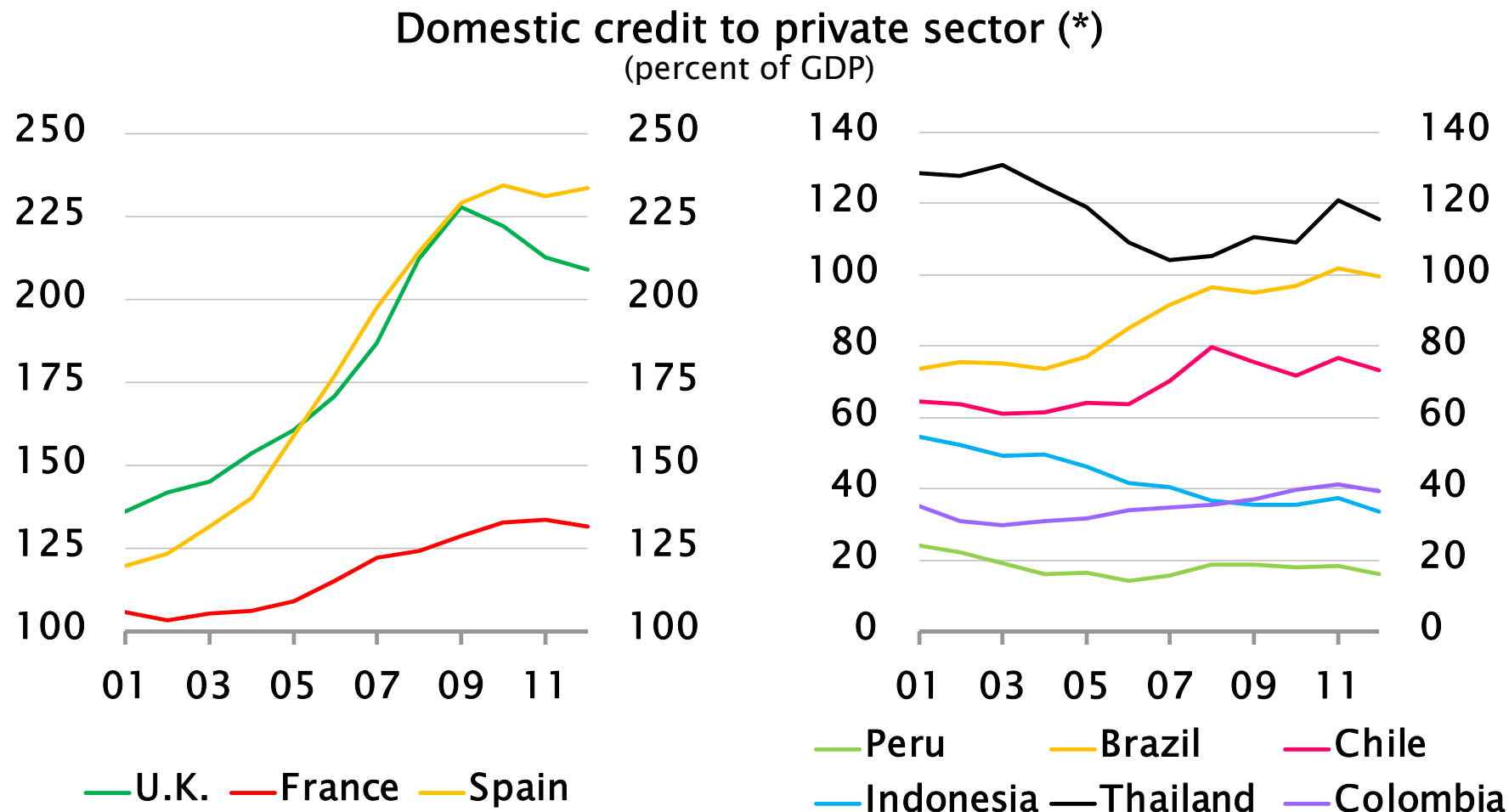


The crisis started in 2008, but is not over yet.

- The first part of the crisis hit the developed world the hardest. Both in the intensity of the recession and also in the long term sequels on the financial systems.
- Since the start of the crisis, the focus of authorities has been on assuring financial stability, and that banks were capitalized. On the other hand, many countries implemented huge fiscal stimulus plans.
- This led to the second part of the crisis – fiscal solvency fears – which is now unfolding. The already high government debt levels in developed countries were exacerbated by the fiscal stimulus plans and the need to capitalize banks.
- The big issue is to restore sustainability of sovereign debts in Europe, in an environment of severe loss of confidence. On the other hand, the “Fiscal Cliff” issue in the US is just one more symptom of fiscal problems in that country.



The deleveraging process has still a long way to go in some developed economies, dragging down growth. Instead, credit has been more stable in emerging economies.



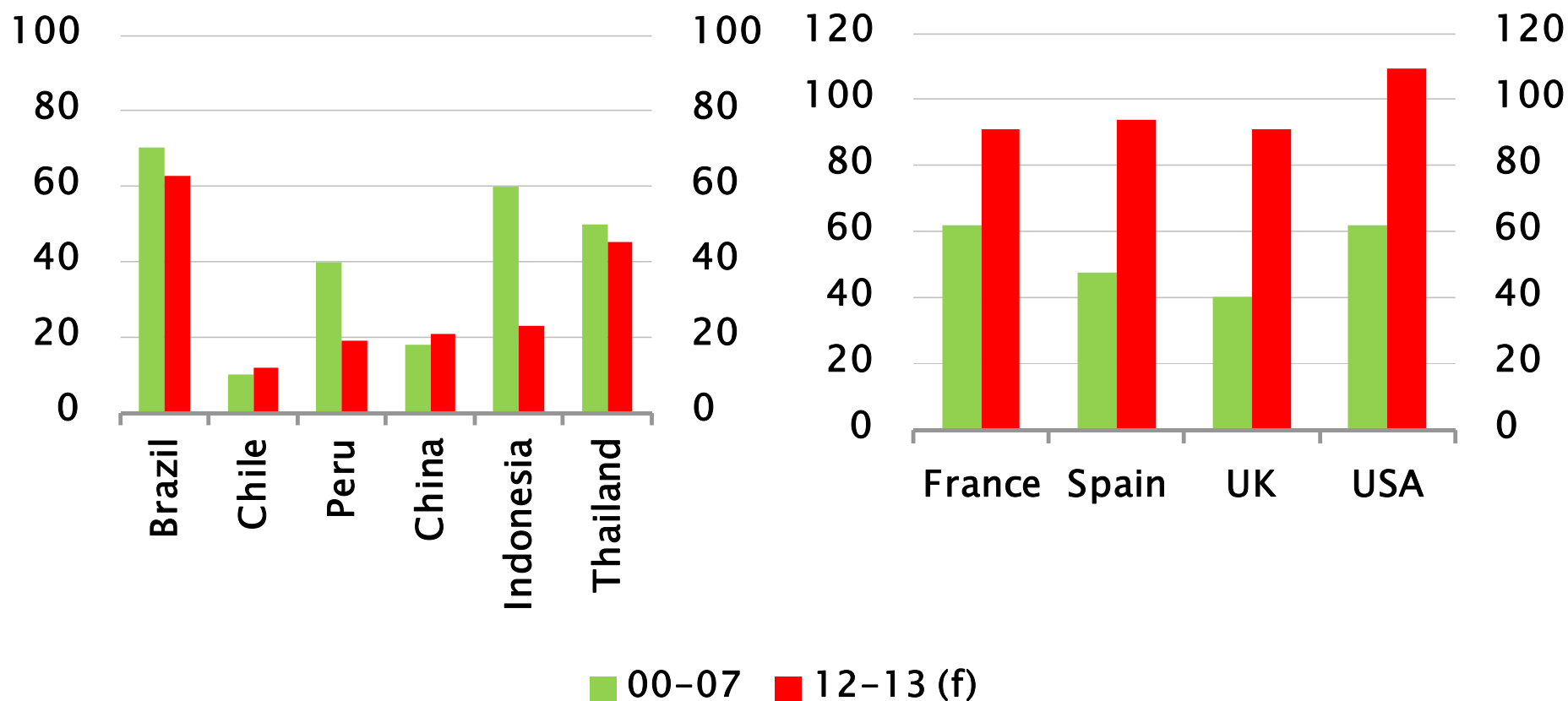
(*) Considers annual data up to 2011 and for 2012 considers 1Q 2012.

Sources: IMF, Central Bank of Chile and Superintendence of Banks and Financial Institutions.



The fiscal picture is also completely different, and necessary adjustments in the developed world will lessen growth perspectives.

General government gross debt
(percent of GDP)

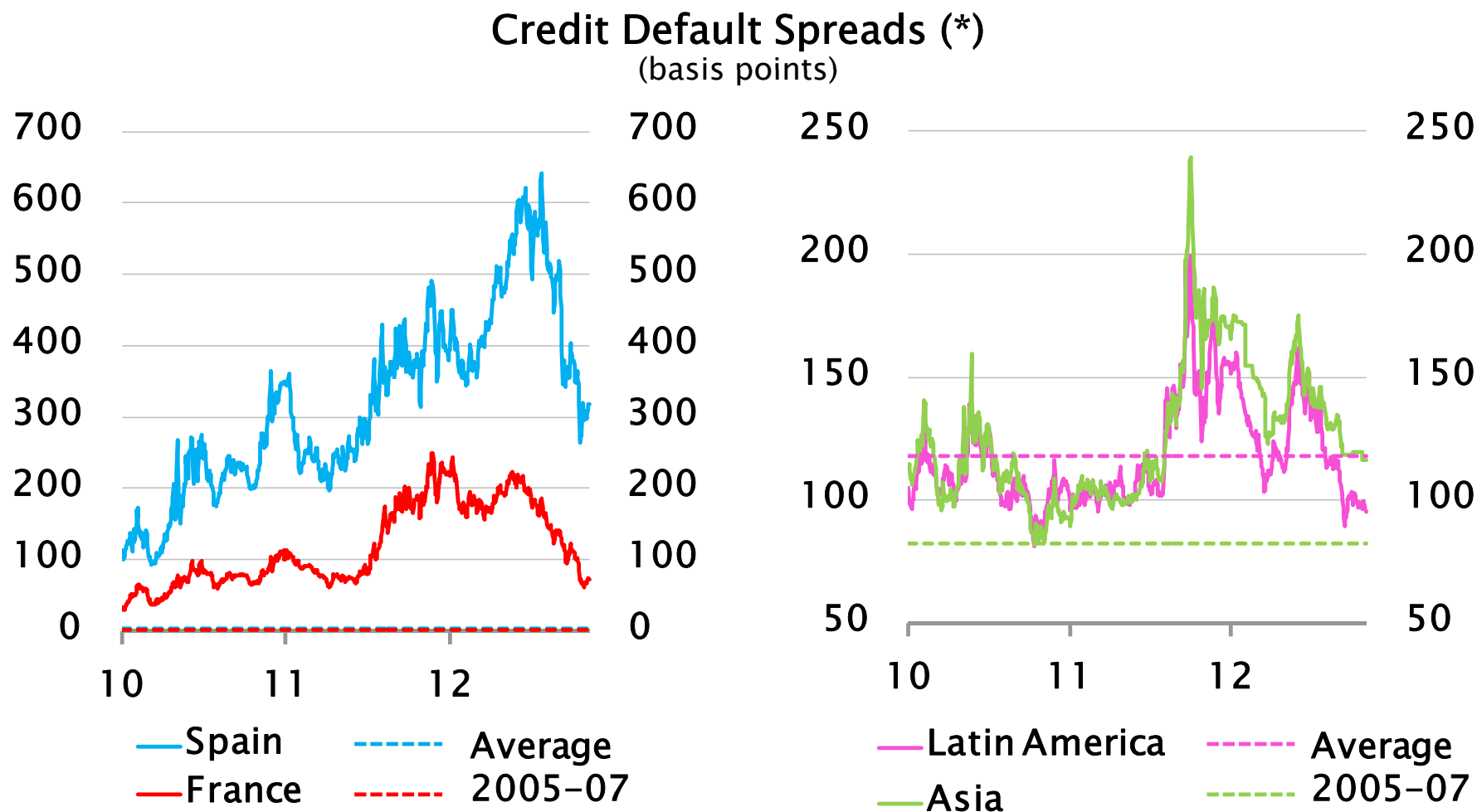


(f) Forecast.

Source: IMF, World Economic Outlook Database, October 2012.



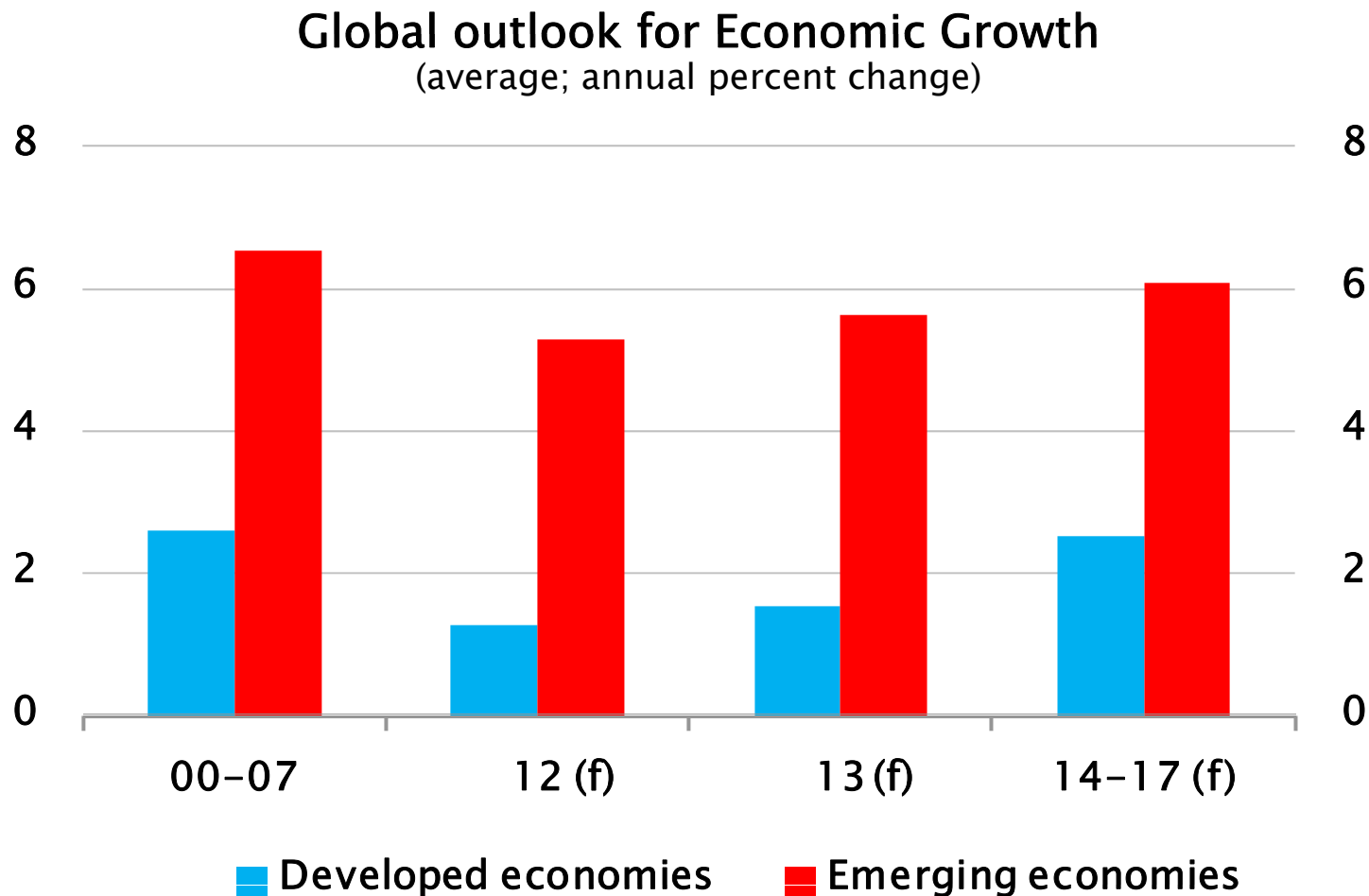
The crisis also changed the role of emerging economies in financial markets. Risk premiums of emerging economies are lower than some developed economies'. In Latin America spreads are below their pre-crisis levels.



(*) Measured by the 5y CDS. For Latin America considers a simple average of Brazil, Chile and Peru and for Asia includes China, Indonesia and Thailand.
Source: Bloomberg.



The recovery from the crisis will continue to be slow in developed economies. Emerging economies will keep growing at a faster pace.

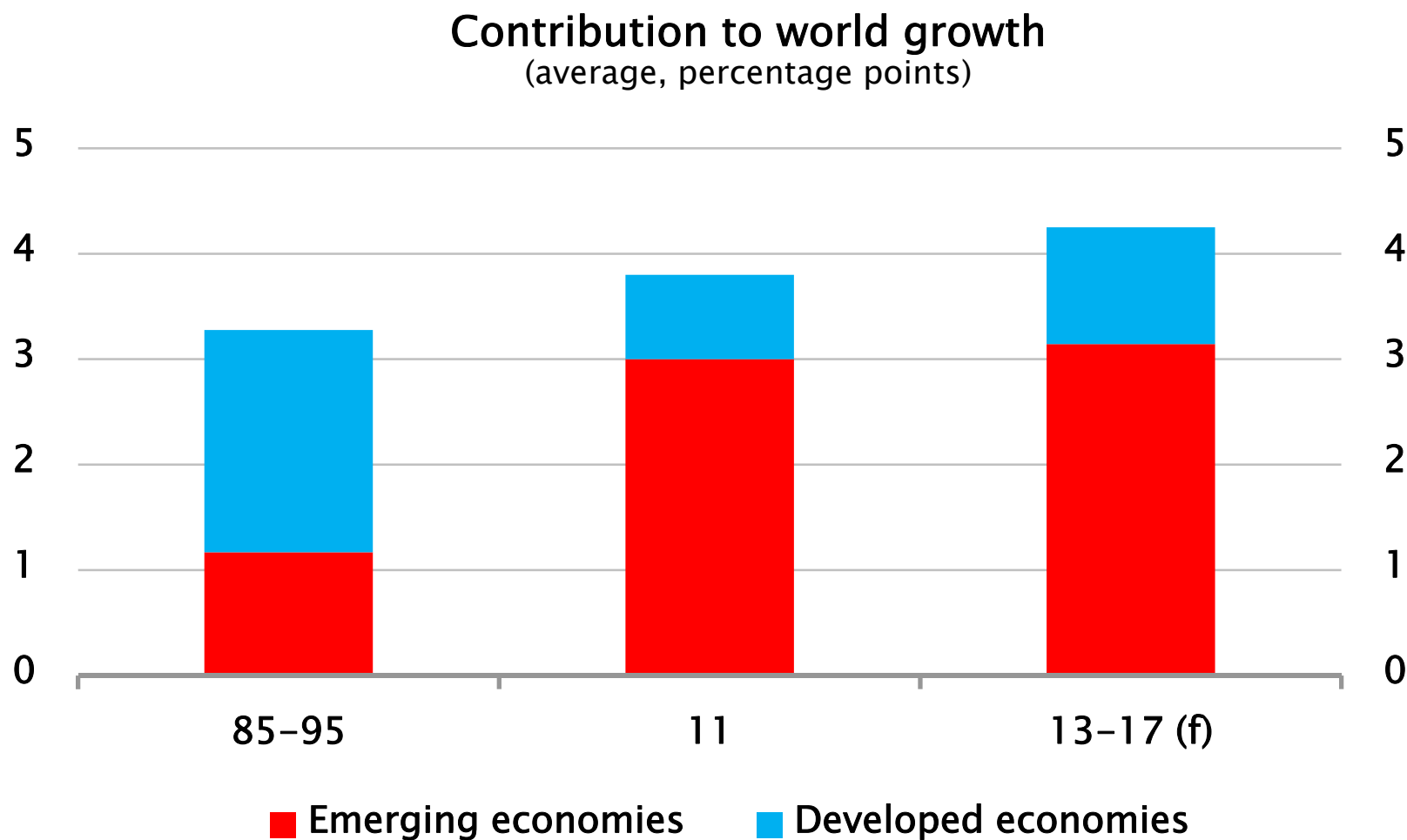


(f) Forecast.

Source: IMF, World Economic Outlook Database, October 2012.



Accordingly, the contribution of emerging economies to world growth will keep growing.

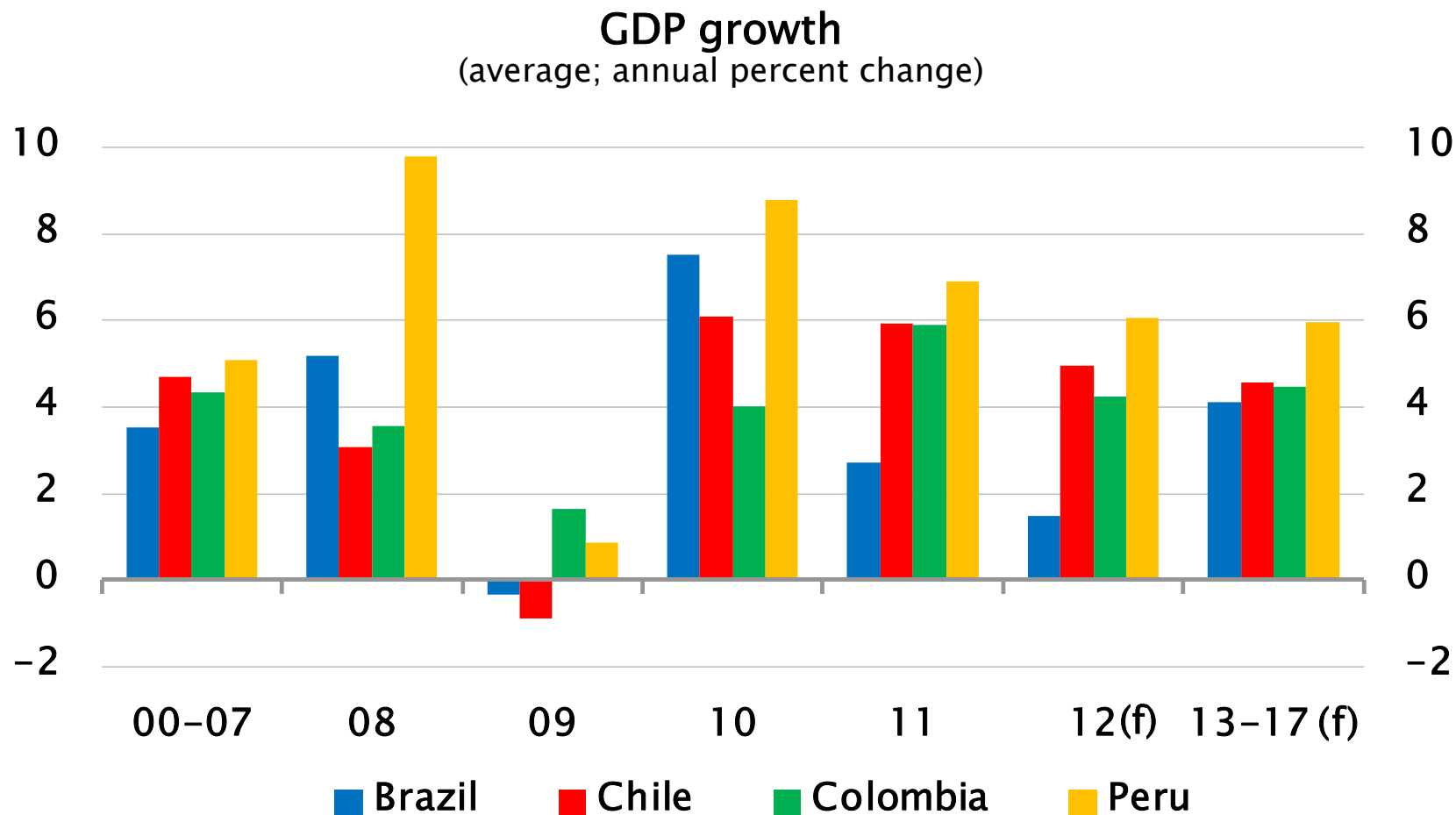


(f) Forecast.

Source: International Monetary Fund, World Economic Outlook Database, October 2012.



Regarding Latin America, the region has rapidly recovered pre-crisis growth rates, with the exception of Brazil.

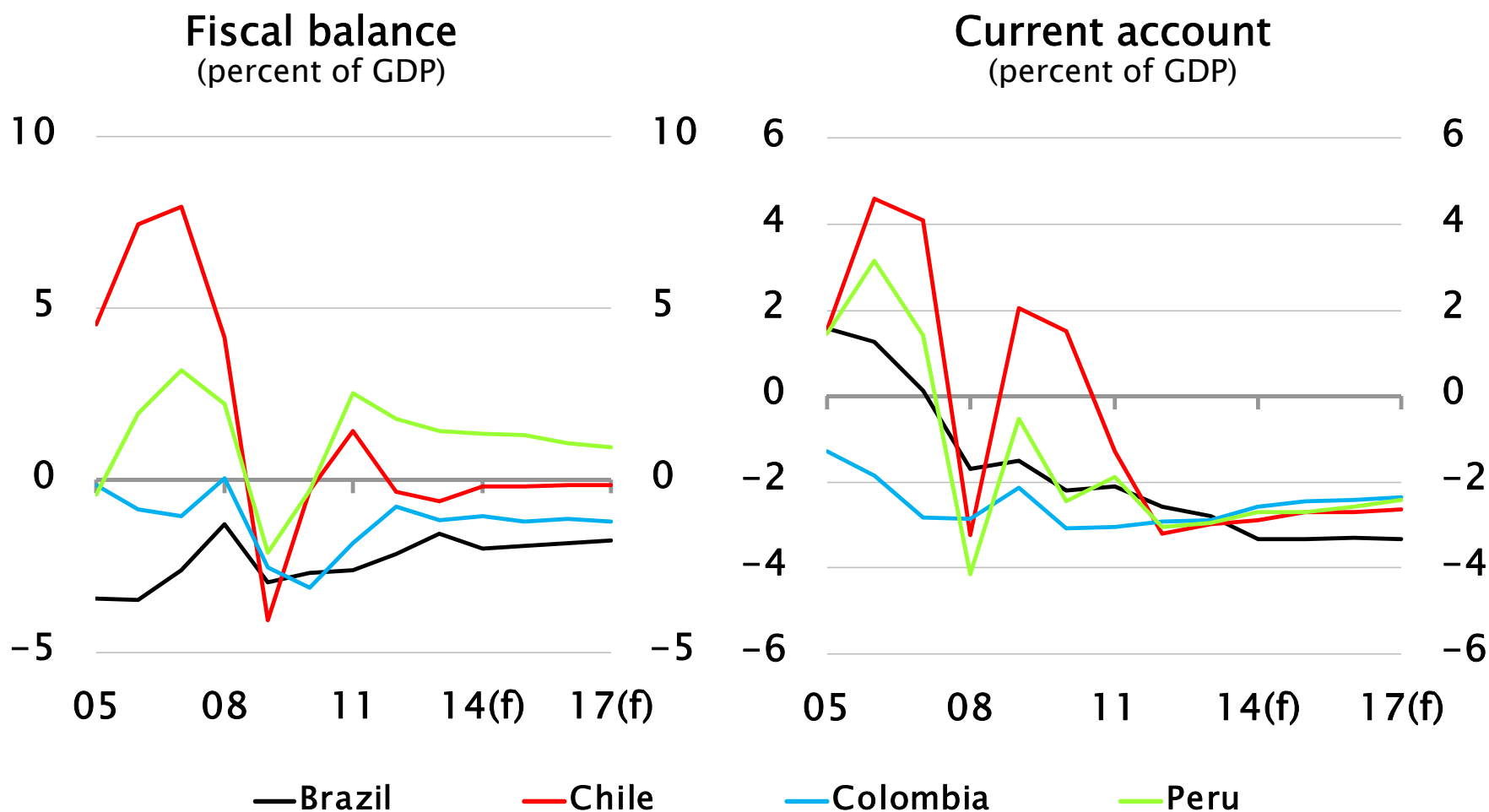


(f) Forecast.

Source: International Monetary Fund, World Economic Outlook Database, October 2012.



Whereas fiscal accounts are almost balanced, Latin American countries are running CA deficits.



(f) Forecast.

Source: International Monetary Fund, World Economic Outlook Database, October 2012.

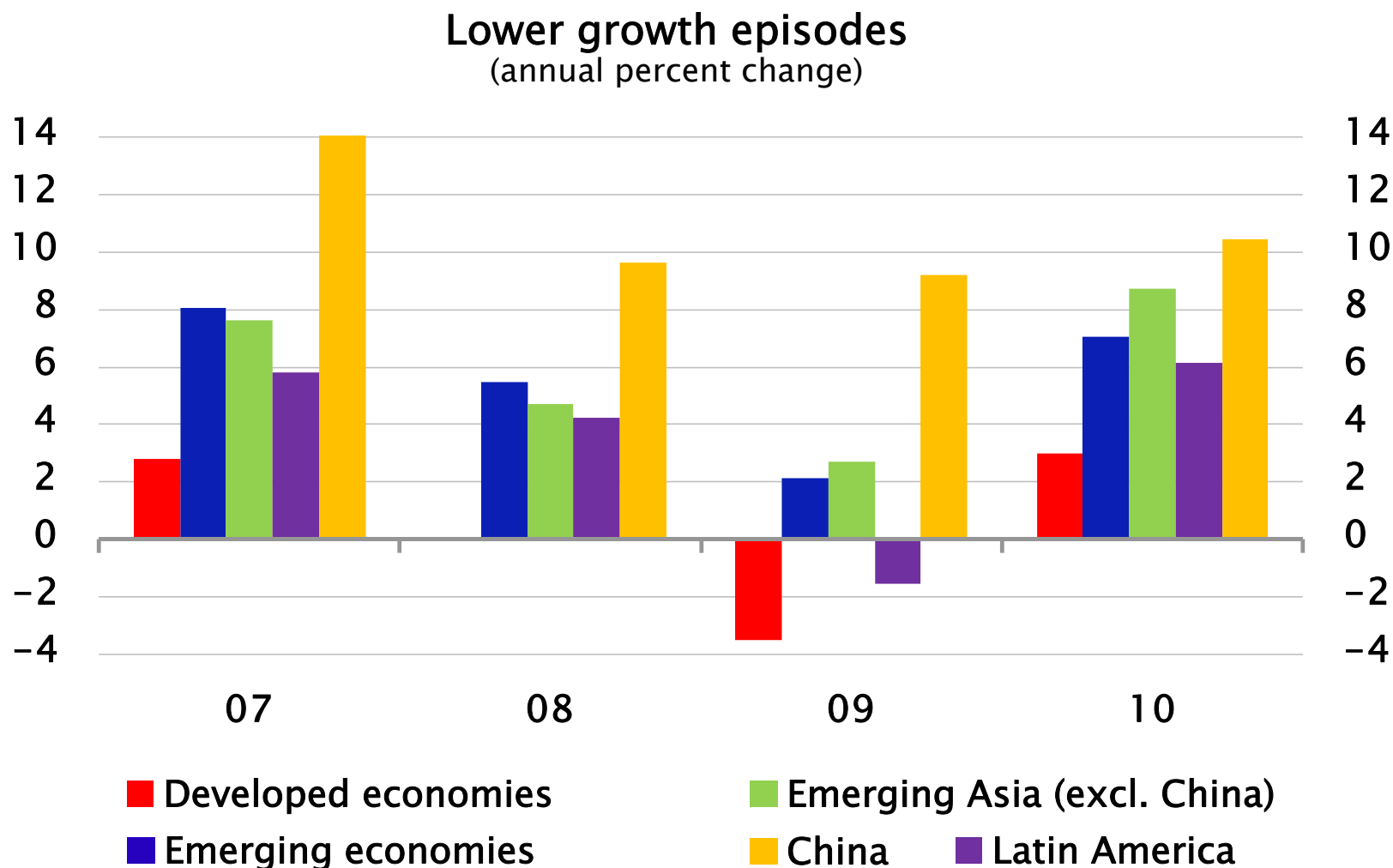


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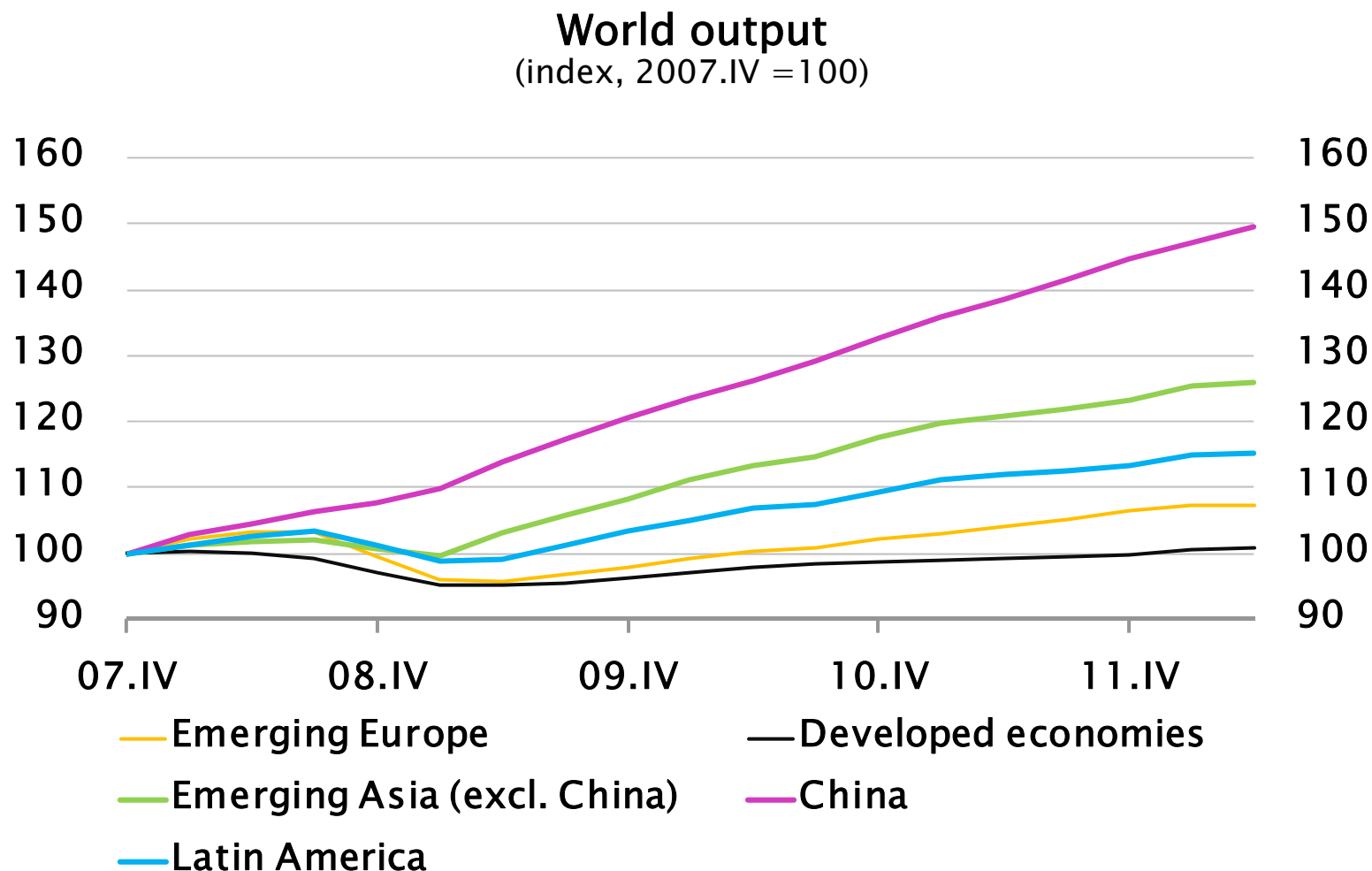


The relative impact of the global recession of 2008–2009 was milder on emerging economies than in previous global shocks.



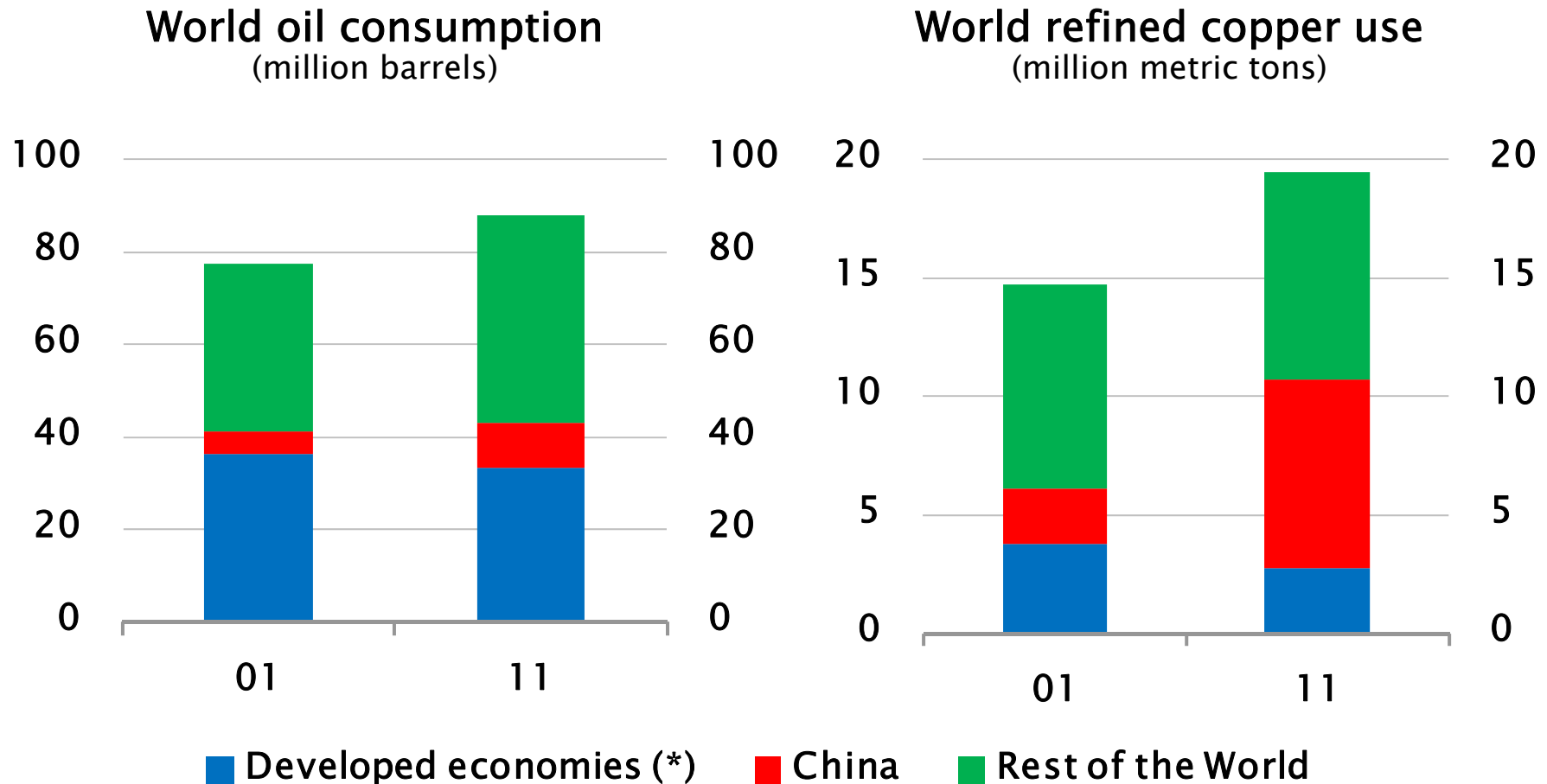


And after the crisis, emerging economies recovered much faster than developed countries.





China's demand for commodities has been increasing, boosting prices and generating a structural change in some commodity markets.

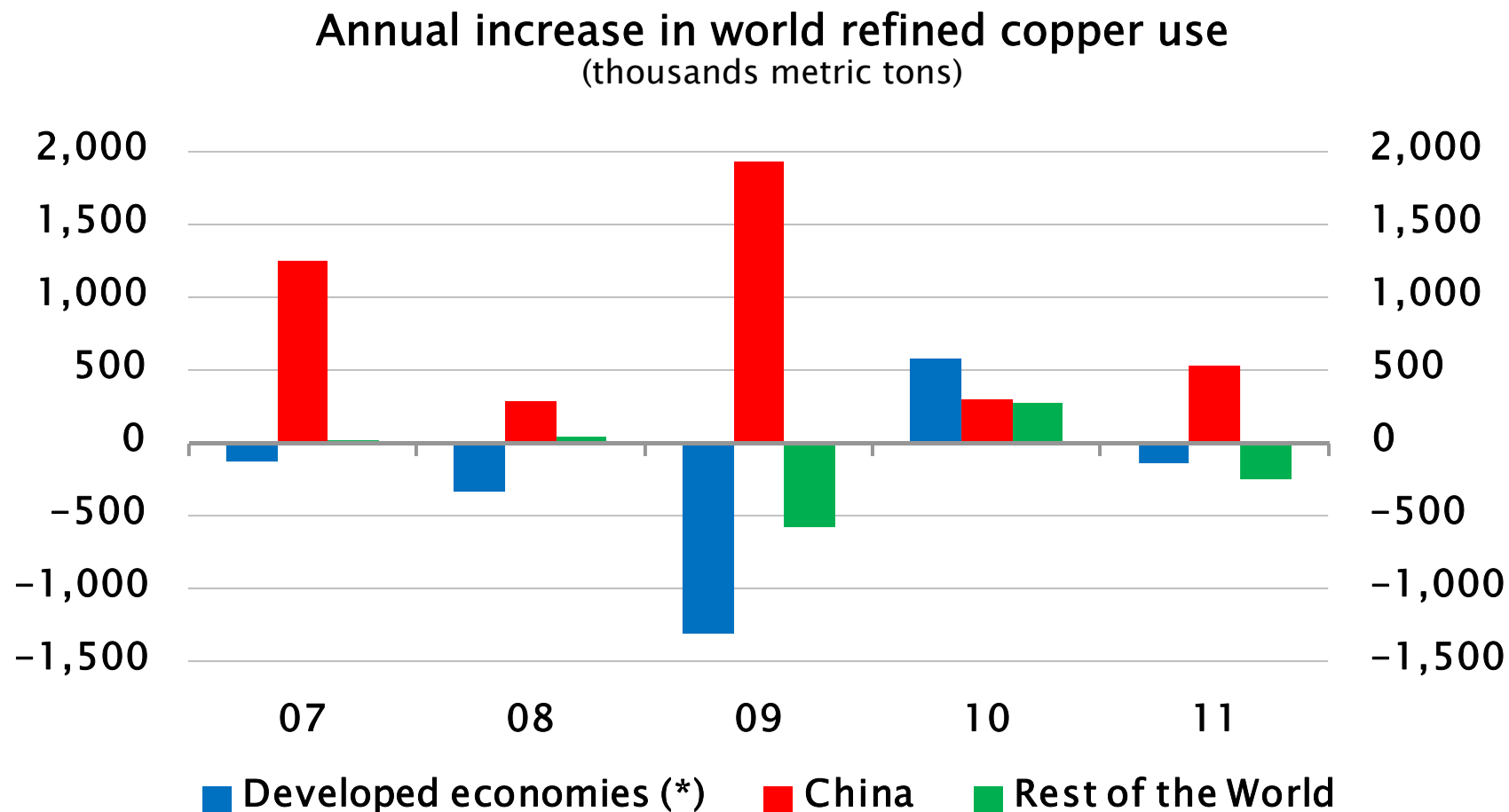


(*) Aggregate of the United States, Japan and the Eurozone.

Sources: BP Statistical Review of World Energy and World Bureau of Metal Statistics.



In fact, the reduction in copper consumption of developed economies due to the 2008–2009 crisis was completely compensated by increased demand from China.



(*) Aggregate of the United States, Japan and the Eurozone.
Source: World Bureau of Metal Statistics.



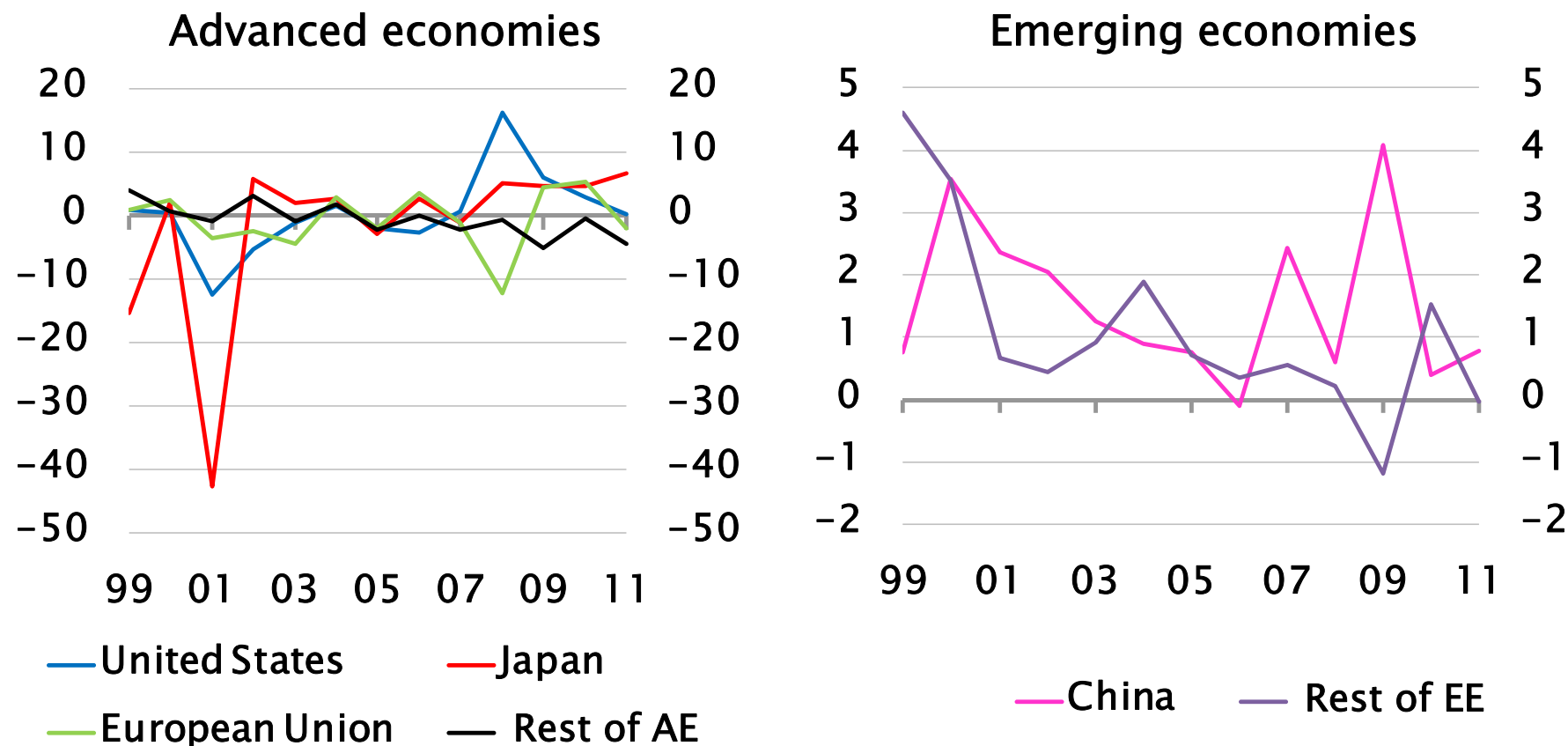
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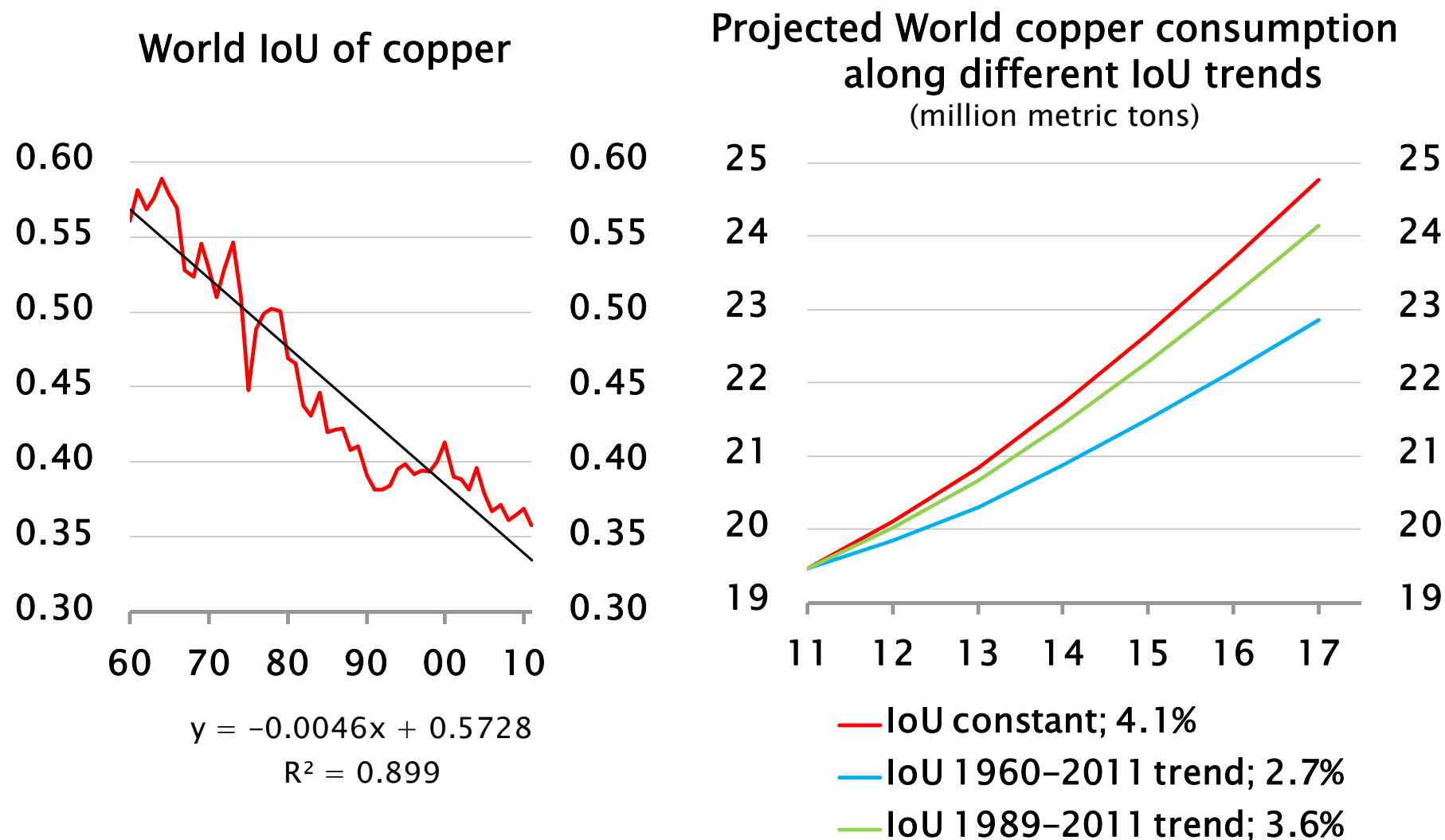
The relationship between economic growth and copper (apparent) consumption is far more complex than what we normally assume.

Annual gross GDP-elasticity of copper use (percent)





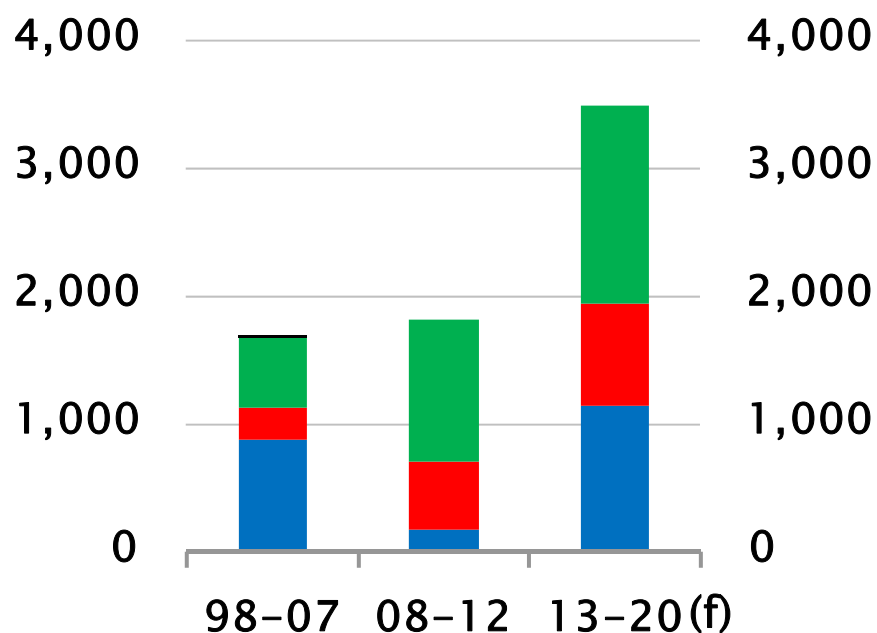
Even if we take long-term trends, simple forecasts yield wide range of plausible scenarios.



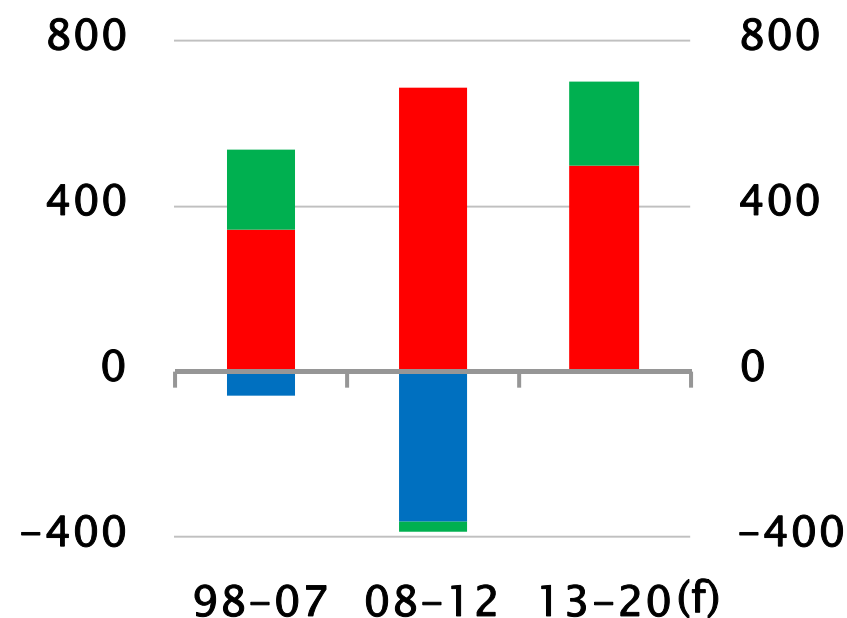


Thus, using “moderate assumptions” we can foresee strong demand pressure for the rest of the decade coming from the Emerging economies.

Absolute contribution to World GDP expansion from different regions (*)
(billion USD of 2010)



Absolute contribution to World Copper use from different regions (*)
(thousands metric tons)



■ Advanced economies

■ China

■ ROW

(f) Forecast. (*) Per year in the indicated period.



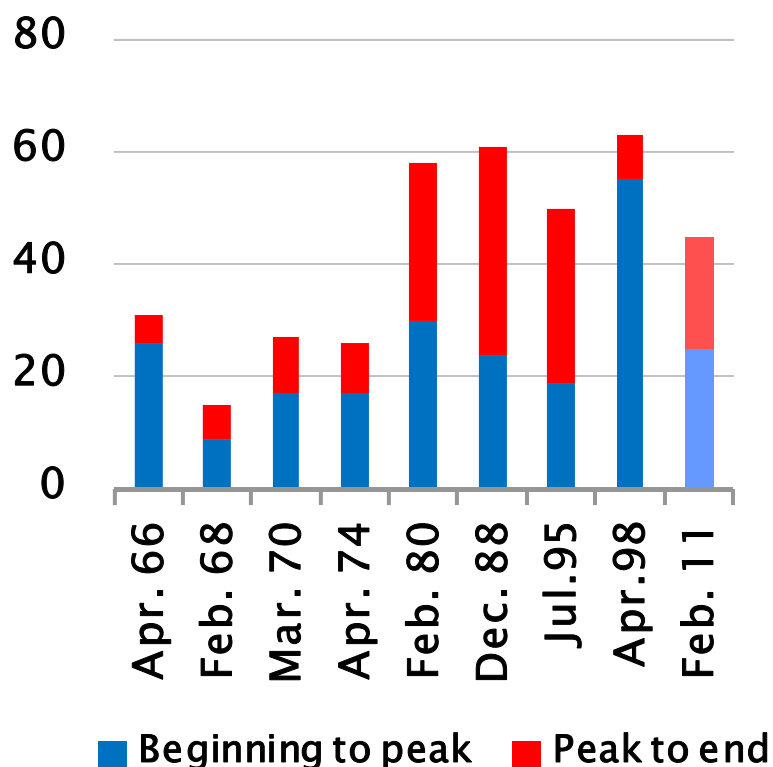
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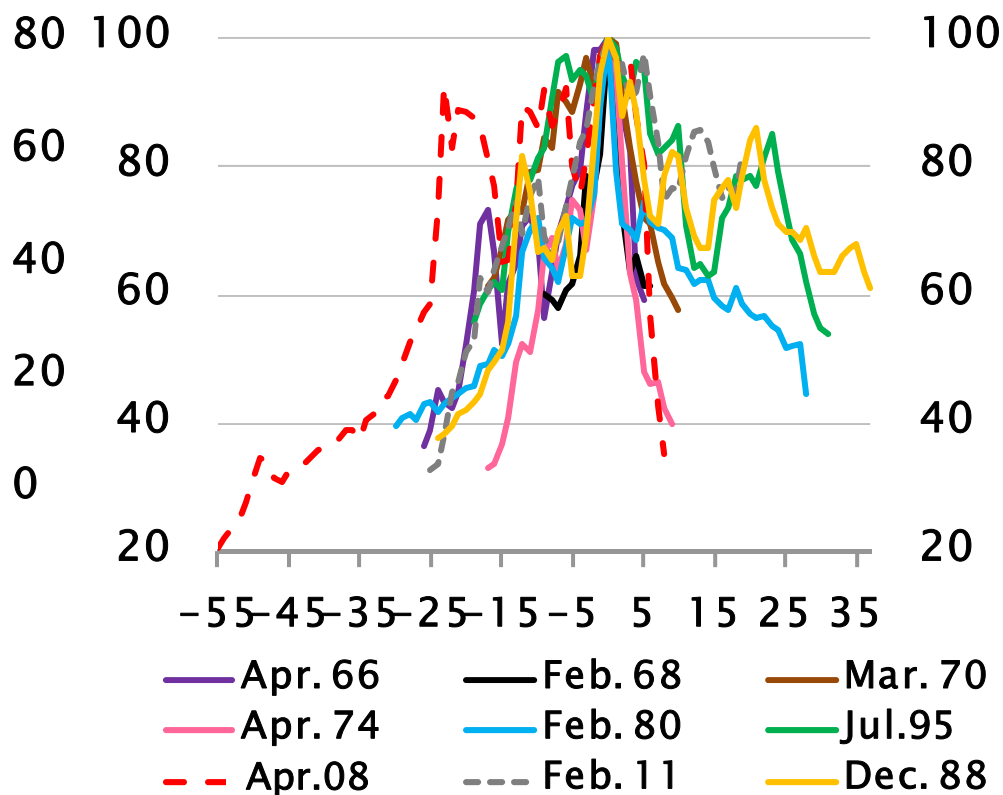


The price of copper is volatile with relatively long cycles. On average, in the last 50 years, cycles lasted about 4 years, but its length has been rising (apparently)

Duration of copper price cycles (1)



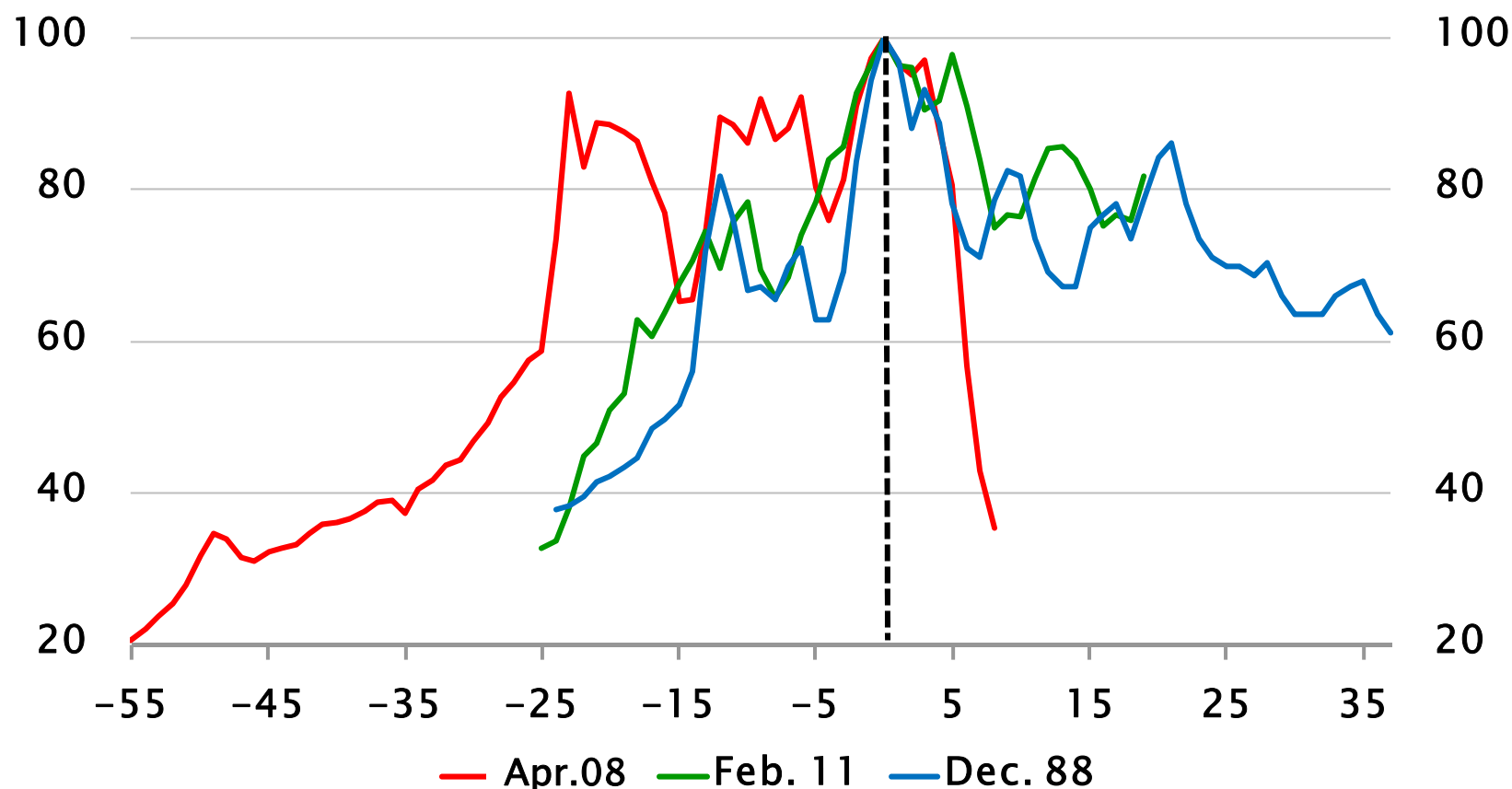
Copper price cycles (2)
(peak price = 100 for every cycle)





The current cycle is the most remarkable: the build-up phase is the longest in the last 50 years; whereas the drop in 2009 is the sharpest and if we take this as just one cycle, it would be the longest.

Comparison of three copper price cycles (*)
(peak price = 100 for every cycle)



(*) LME average monthly prices.
Source: Central Bank of Chile.



Conclusions

- Even though the outlook for most of the Advanced Economies is rather bleak for the coming years, global growth will remain high due to the strong performance of the Emerging Countries.
- Even under conservative assumptions these bodes well for Copper demand.
- But there is considerable uncertainty about the short and medium term outlook.
- In the short -term due notice must be taken to the very unusual pattern of the current cycle. Supply has taken far more than normal to respond and consumption will remain weak over the next year.
- Over the medium term a lot depends on the impact of structural changes in China in copper use.



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