



BOX I.2:

Recent evolution of the copper price

Compared to the statistical closing of the March IPoM, the copper price has increased around 10% (+15% this year to date). Determining the persistence of this increase is important for evaluating the macro framing for the coming years, due to its effects on aggregate demand, expectations, the exchange rate and inflation, among others. This Box examines the causes of the recent increase in the price of the metal and estimates of its persistence.

The causes behind the price increase

The most common explanation among experts is that the recent dynamics are linked to news about supply constraints, in a context of structurally high demand given the importance of copper for the energy transition (electromobility, changes in the generation matrix, and electrification, among others). The relative scarcity is reflected both in the trend of global inventories (Figure I.19a) and in the reduced refining margins, which are close to zero. Moreover, the sanctions against Russia on copper storage in the London Metal Exchange and the increase in speculative positions could have pressured the price beyond the imbalance between supply and demand.

The rise in copper price is occurring alongside a widespread increase in the prices of metals and other risky assets (Figure I.19b). A simple statistical exercise suggests that more than half of the increase in copper prices since the beginning of the year can be explained by the behavior of other metals ([Zelpo et al., 2024](#)). In other words, there are elements common to the price of all metals that explain a significant part of the copper rally.

[Zelpo et al. \(2024\)](#) highlight five factors that could be behind the rise in metal prices. First, a ‘green demand’ shock, which also boosted the price of financial assets associated to the energy transition. Second, a ‘growth’ shock, associated with the strength of the U.S. economy, the resilience of China—which, despite more pessimistic views at the beginning of the year, seems to be consolidating growth of around 5%—and the prospects of India as the new driver of world growth. Third, geopolitical reasons would lead different governments to try to secure the supply of strategic commodities, including copper. Fourth, the increased appetite for risk since the beginning of the year, which has boosted the prices of various risky assets, especially in the United States. Finally, there are factors particular to copper, associated with supply and/or speculative elements. In line with the above, [Zelpo et al. \(2024\)](#) estimate that these specific factors explain less than half of the increase in copper prices since the beginning of the year.

Persistence going forward

The duration of high prices depends on the persistence of the factors that caused its increase. Although doing a precise assessment is a complex task, a relatively conservative assumption is that the entire copper-specific component and the one related to the increase in risk appetite would be transitory, while the rest would be persistent.^{2/} With this, more than half of the recent increase would persist (see [Zelpo et al., 2024](#)). This would raise the medium-term outlook to around 10%.

This result is consistent with the change in the medium-term price outlook of various market agents. Consensus Forecasts’ 2025 copper price outlook increased between 6% and 14% between January and May of this year. That

^{2/} In the copper-specific component, speculative factors (which are transitory) and possible supply-side elements also play a part. Since the main supply-related elements were known prior to the recent price increase, the conservative assumption is that the entire specific component is transitory.



of the Ministry of Finance rose slightly more than 8% between the fourth quarter of 2023 and the first quarter of 2024. This, in a context where the medium-term outlook has reacted quickly to the change in the spot price (see [Zelpo et al., 2024](#)), in line with the interpretation of persistent elements in the recent rally.

After considering all these elements, the central scenario of this IPoM raises the forecasted copper price for 2024-2026 from US\$3.85 to US\$4.3 per pound.

The higher price of copper will affect the local economy through various channels that operate with delays, and whose impacts increase as the rise becomes more persistent. First, it encourages investment in mining, which has indirect effects on other sectors, such as construction and entrepreneurial services. This generates positive impacts on employment, labor income, and consumption, in addition to improving household and business expectations ([Albagli y Luttini, 2015](#)). The gains in our terms of trade increase the current account balance, which tends to reverse as domestic spending and investment rise ([Box V.1 in March 2013 IPoM](#)). On the other hand, the rise in copper price leads to an appreciation of the peso, reducing short-term inflationary pressures. However, higher domestic demand and its effects on the activity gap increase them in the medium term. These effects are incorporated into the central scenario, in line with the anticipated rise in copper price. A larger and/or more persistent increase—if not offset by cost increases—would have stronger impacts on investment and other components of demand, including public spending through the structural balance fiscal rule. Such a situation is evaluated within sensitivity scenarios.

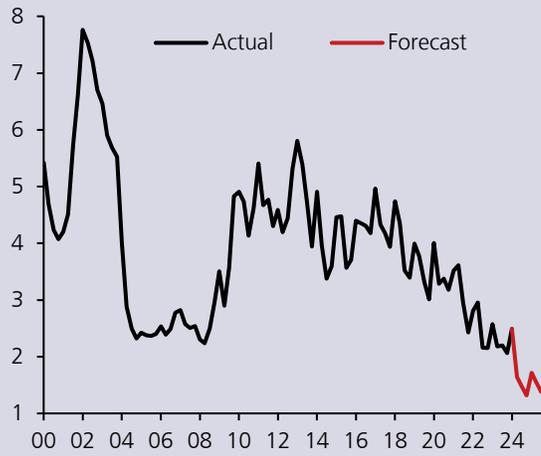
Conclusions

The recent episode of rising copper price occurs in a context of relative supply scarcity and high demand driven by several factors, most notably the energy transition. The central scenario of this IPoM revises up the projected price from US\$3.85 to US\$4.30 per pound for 2024-2026. In addition to the associated peso appreciation, the higher price will boost investment and other components of demand, whose effects on inflationary dynamics and monetary policy strategy will continue to be evaluated in the coming quarters.



FIGURE I.19

a) Global copper inventories (*)
(index Dec.22 = 100, nominal)



b) Asset prices
(index, 30.Dec.22 = 100)



(*) Total estimated level of visible inventories, as reported by CRU and measured as weeks worth of consumption.
Sources: CRU, Bloomberg and London Metal Exchange (LME).