BOX II.1:

Copper price outlook

In recent months, the copper price on the London Metal Exchange has risen significantly, reaching a nominal all-time high of over US$5 per pound (15% above the figure included in the last IPoM). These values are also above the US$4.3 assumption used as the convergence price toward the end of the projection horizon in previous IPoMs. This box analyzes the reasons behind this behavior, which motivates an upward revision in the outlook for the copper price over the projection horizon.

Recent price determinants

The current copper market scenario is characterized by strong demand, in the context of tight supply, which has recently been affected by multiple disruptions. On the demand side, geopolitical and technological factors have consolidated and strengthened. Increased geopolitical tensions have led several countries to expand their defense spending and strategic mineral protection plans (Box I.1, September 2025 IPoM). According to Álvarez *et al.* (2025), the weapons industry will increase its demand for copper by around 485,000 tons over the next decade, equivalent to around 2% of current global consumption and around half of Escondida's annual output. In addition, various international authorities have noted the critical importance of the mineral for "national security," reinforcing its geopolitical importance beyond its use in arms manufacturing[1]/.

The rapid growth of the Artificial Intelligence (AI) industry is another factor driving demand for copper. Conservative estimates indicate that the construction of AI data centers will require between 300,000 and 500,000 additional tons of copper each year until 2030, equivalent to about 2% of annual global demand. Added to this direct demand is the indirect consumption associated with the expansion and renovation of the electrical infrastructure needed to support the advancement of AI. Also contributing are the increased risk appetite in financial markets —also linked to the AI boom— and the prospects for looser monetary policy in the United States, which tend to push up commodity prices.

On the supply side, several accidents and cuts to production plans at mines that have significant weight on global supply stand out[2]/. Álvarez *et al.* (2025) estimate that recent events have led to cuts of around 400,000 tons in global production this year (around 1.5% of annual production). Furthermore, the effects are expected to continue throughout 2026 and 2027. This situation is reflected in the increase in sales premiums —the surcharge that buyers pay to ensure supply— of up to US$335-350 per ton in some cases, equivalent to about US$0.15 per pound. It is also reflected in processing and refining charges, which are down to historic lows due to greater idle capacity in the face of lower ore extraction.

[1]/ For example, the United States is promoting a policy of stockpiling critical minerals, including copper (Final 2025 List of Critical Minerals). The European Commission has proposed the creation of reserves of critical minerals in response to growing geopolitical tensions (Comission work 2026 programme). For its part, early this year, China issued a statement indicating that it is working on a plan to strengthen the copper industry, highlighting its strategic nature (State Council Information Office). It subsequently announced initiatives to increase reserves of key metals (Ministry of Industry and Information Technology).

[2]/ Recent accidents have affected the Grasberg (Indonesia), El Teniente (Chile), and Kamoa-Kakula (DR Congo) mines, which add to planned cutbacks in production at Quebrada Blanca and Collahuasi (Chile).

Based on a high-frequency analysis of financial asset prices, Álvarez *et al.* (2025) estimate that around one-third of the copper price increase since February this year —when it was around US$4.3 per pound— can be explained by supply constraints. The bulk of the remaining two-thirds is divided in similar proportions between geopolitical factors, demand linked to the green transition and AI, traditional demand, and increased risk appetite and monetary policy prospects in the United States (Figure II.10).

Outlook

The central scenario of this IPoM assumes that in 2027 the copper price will average around US$4.6 per pound (US$4.3 in the previous IPoM). This revision estimates that some of the factors that drove its recent months' hike will be persistent, particularly traditional demand pressures, those associated with geopolitical factors, and those related to energy transition and AI. In contrast, it is estimated that the most recent supply constraints will be gradually resolved and that financial factors will also diminish. It should be noted that the main market counterparties, which use structural methodologies to analyze the copper market, have revised their projections by similar magnitudes (Figure II.11).

Effects on the Chilean economy

The impact of these higher copper prices on the Chilean economy could differ from that observed in previous situations, because supply and geopolitical shocks affect it differently than demand shocks. When the price rises due to lower domestic production, economic activity contracts rather than expand, and the effects on foreign currency inflows and the exchange rate are milder. To some extent, this is what occurred in the third quarter of this year, explaining the contraction in total activity during the period (Chapter I).

For their part, geopolitical shocks cause global financial movements similar to those of a risk-off, depreciating the currencies of emerging economies and increasing their financing costs. This offsets the positive effect of higher copper prices on the exchange rate (Figure II.12). According to Álvarez *et al.* (2025), the combination of shocks behind the recent evolution of the copper price would partly explain the apparent mismatch between exchange rate levels and the copper price.

It should also be noted that production costs have risen significantly in recent years, so part of the adjustment in international prices acts as compensation for these higher costs, reducing the macroeconomic and fiscal impact of the higher price.

Conclusions

The central scenario of this IPoM assumes that some of the recent shocks to the copper price will be persistent and others will dissipate, leading to raise our forecast from US$4.3 to US$4.6 per pound for the 2027 average. However, the macroeconomic impact of this increase on Chile could be lower than usual, considering the reasons behind the higher price and increased production costs.

FIGURE II.10

Copper price breakdown (1)
(cumulative percentage; US$/pound)

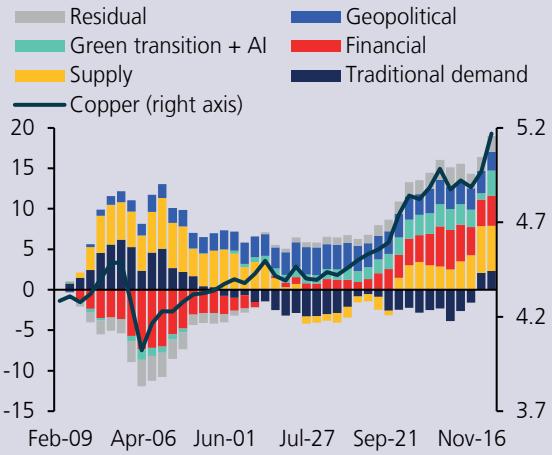
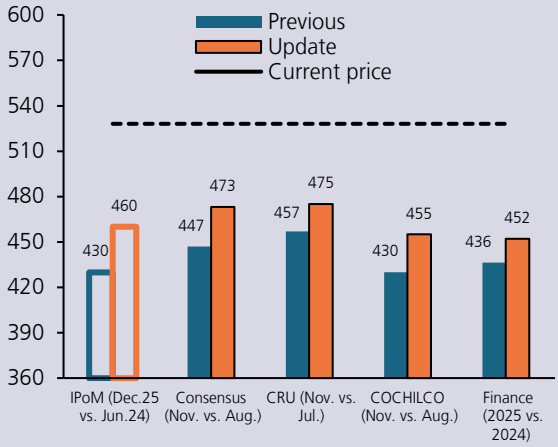


FIGURE II.11

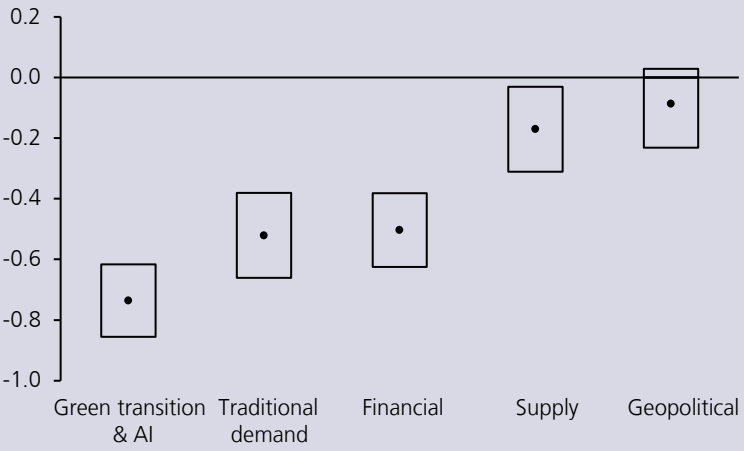
Current counterparty projections for 2027 average vs. previous projections (2)
(US$c/pound, nominal)



(1) VAR with sign restriction on weekly frequency. The cumulative change from the beginning of February 2025 to December 7 is shown on the left axis. Copper (right axis) represents the copper price in US$/pound. See Álvarez *et al.* (2025) for details.
(2) Figures correspond to the 2027 average, except for Cochilco which is the 2026 average.
Sources: Bloomberg, Consensus Forecasts, Copper Research Unit, Chilean Copper Commission and Ministry of Finance and Álvarez *et al.* (2025).

FIGURE II.12

Impulse response functions (IRFs) of the Chilean peso to different shocks on the price of copper (1)
(percent, standard deviations of each shock, cumulative over 10 days)



(1) Figure shows cumulative IRFs two weeks after the initial shock. Confidence intervals are set at 66%.
Sources: Bloomberg and Álvarez *et al.* (2025).