



BOX II.1:

Recent Developments in Copper Prices and Medium-Term Outlook

In the baseline scenario of this Monetary Policy Report (IPoM), the medium-term assumption for the copper price is revised upward from US\$5.0 to US\$5.6 per pound. Since the previous update, the copper price has increased steadily, reaching nearly US\$6.5 per pound on the London Metal Exchange (LME). This box examines the factors behind this increase and the revision to the medium-term assumption. The analysis draws on two independent methodologies: one based on the physical balance of the copper market and another based on information embedded in financial asset prices.

Physical Market Balance and the Effects of Tariffs

From a physical market balance perspective, analyses by various market participants^{1/}, suggest that the global copper market is likely to remain broadly balanced over the 2026-2028 period. This outlook is supported by the recovery from operational disruptions, the ramp-up of already completed projects, and a range of production expansions, while structural demand remains strong. However, this balance is expected to be temporary. As these projects exhaust their expansion capacity, copper production will face increasing constraints associated with aging deposits, declining ore grades, and the scarcity of new greenfield projects^{2/}. In a context of growing demand, this would imply a structural supply deficit beginning in 2029 (Figure II.12). Consistent with this analysis, estimates by specialized market participants place the medium-term incentive price, defined as the marginal cost of the last mine required to meet projected demand, at around US\$5.6 per pound^{3/}.

Beyond the structural balance outlook for the copper market, cyclical factors are also exerting upward pressure on prices. One important factor is the extraordinary accumulation of inventories in the United States, which appears to be related to uncertainty regarding the tariffs that the country may impose on refined copper. This has incentivized a significant frontloading of imports, reducing the availability of metal in other markets and contributing to higher international copper prices. [Álvarez et al. \(2026b\)](#) estimate that, between February 2025 and July 2026, more than 1.2 million tonnes were accumulated in inventories above the normal requirements of the U.S. economy (650,000 tonnes since December) (Figure II.13). This implies that the current copper price incorporates a temporary premium associated with this excess inventory accumulation. Using supply and demand elasticities from the literature, [Álvarez et al. \(2026b\)](#) estimate that this premium has increased by around 8-12% since December. Removing this premium from the current price yields a level close to US\$5.6 per pound, consistent with the structural physical market balance analysis.

Evidence from Asset Prices and Market Expectations

A second approach extracts information from financial asset prices to determine whether persistent or transitory factors explain the evolution of copper prices. It employs a high-frequency asset-price VAR model (based on [Zelpo et al. 2024](#), details in [Álvarez et al. 2026b](#)), which makes it possible to decompose copper price movements into a set of structural shocks that can be classified as either persistent or transitory (Figure II.14). The results show that,

^{1/} Benchmark Minerals, S&P, International Copper Study Group, and Cochilco.

^{2/} Refers to projects involving the development of new mining operations in areas where no previous productive activities exist, including the construction of the infrastructure required for their operation. These differ from brownfield projects, which involve the expansion, replacement, or improvement of existing operations.

^{3/} Benchmark Minerals estimate, in 2028 U.S. dollars.



relative to the December 2025 projection, slightly more than half of the increase in copper prices is explained by persistent factors. Among these, stronger demand associated with investments related to artificial intelligence (AI) and a geopolitical component stand out. Among the transitory factors, the strengthening of global risk appetite (risk-on) is particularly important, as it has supported inflows into commodities and other real assets, as well as a copper-specific shock that has been especially favorable to the metal. Removing the transitory factors from the current price also yields an equilibrium price close to US\$5.6 per pound. Although this methodology does not directly incorporate the effects of tariff-related uncertainty, such effects would be captured by the transitory shocks. On the one hand, the accumulation of inventories in the United States coincided with the risk-on period, meaning that part of its effect may be reflected in that shock. On the other hand, the copper-specific shock should capture increases in demand that are unique to the copper market and do not affect other assets, and therefore are not explained by the model's other shocks.

Market projections have been revised upward consistently since March. For 2028, forecasts currently range between US\$5.2 and US\$6.2 per pound, with a median also close to US\$5.6 per pound (Figure II.15).

Based on this evidence, the baseline scenario of this IPoM raises the medium-term copper price assumption from US\$5.0 to US\$5.6 per pound. The projected price dynamics over the forecast horizon of this IPoM are shaped by a number of factors. Most importantly, it is assumed that tariff-related uncertainty declines significantly toward the end of this year. Given the excess inventories accumulated in the United States, this would lead to lower demand from that country during 2027. Using a dynamic strategic inventory accumulation model, [Álvarez et al. \(2026b\)](#) estimate an average copper price of US\$5.4 per pound in 2027, converging to US\$5.6 per pound in 2028. These values are used as working assumptions in the baseline scenario of this IPoM.

Conclusions

Different methodologies point to a medium-term copper price of around US\$5.6 per pound, which is the value incorporated into the baseline scenario of this IPoM. The increase relative to the previous update (US\$5.0 per pound) is explained mainly by improved demand prospects, driven by AI-related investment, and by geopolitical factors. Nevertheless, significant risks surround this projection. On the downside, a potential slowdown in AI-related investment stands out (Box I.1). On the upside, it is possible that a significant share of the excess inventory accumulation in the United States is not associated with tariff-related uncertainty, but rather with the desire to hold larger stocks of a critical material for both AI development and the defense industry.



FIGURE II.12 COPPER BALANCE
(million metric tons)

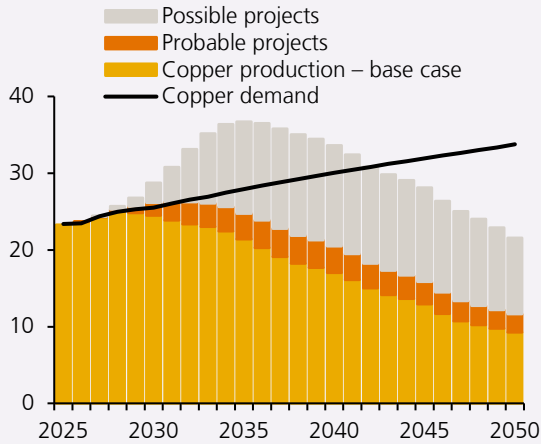
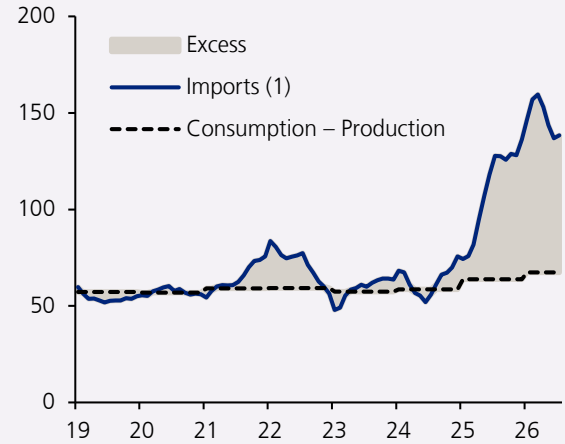


FIGURE II.13 U.S. EXCESS DE IMPORTS
(thousand metric tons)



(1) 12-month moving average.

Sources: [Álvarez et al. \(2026b\)](#), Benchmark Minerals, Bloomberg and the U.S. Census Bureau.

FIGURE II.14 COPPER PRICE DECOMPOSITION (1)
(percent; U.S. dollar per pound)

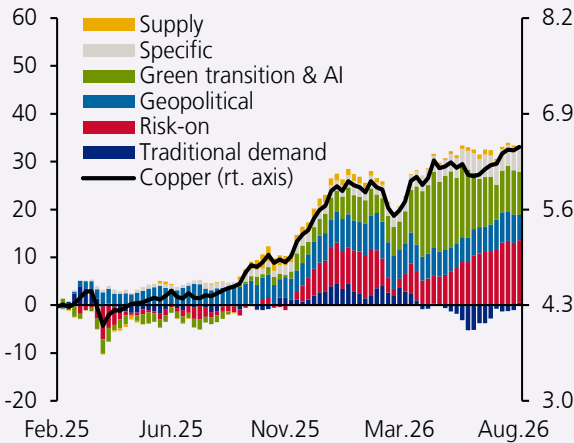
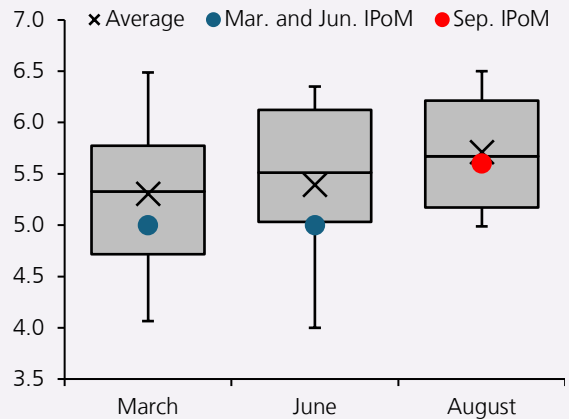


FIGURE II.15 2028 COUNTERPARTIES PROJECTION (2)
(U.S. dollar per pound)



(1) Decomposition based on a Bayesian VAR model using weekly data (2014–2026), estimated with five endogenous variables and one exogenous (supply disruption news), identified by sign and magnitude constraints. Cumulative change from February 2025 to August 2026 is shown on the left-hand axis. Copper (right-hand axis) refers to the copper price in U.S. dollars per pound. See details in [Álvarez et al. \(2026b\)](#). (2) Distribution calculated based on 30 counterparties.

Sources: [Álvarez et al. \(2026b\)](#), Bloomberg and Benchmark Minerals.