



COPPER

When headline inventory stops telling you how much metal is really available

The price is important. So is the amount of metal that can actually reach the next buyer.

Copper has moved to levels that would have looked exceptional not long ago. Large quantities of metal have been drawn into the US, while exchange inventories and regional availability have shifted through the summer. The LME has also experienced repeated bouts of backwardation.

This paper is written from the perspective of a corporate expecting to sell copper recovered from an existing asset or network over several years, rather than a conventional mine producer. The timing and quantity of those future sales may remain uncertain well after the decision to begin considering price protection.

A tonne of copper can be visible without being readily available to the next industrial buyer. Location, ownership, warrant status and the economics of moving the metal all affect the effective buffer.

That creates a practical question. If today's economics are attractive but the timing and volume of future copper sales remain uncertain, how much price risk should be protected and how much should remain open?

The answer will differ by company. Three considerations recur: confidence in the future sale exposure, the forward price available for the relevant sale period, and the amount of downside the business is prepared to retain.

Lionel Kruger

Lionel Kruger & Associates | Capital Markets Advisory

Infrastructure | Financial Markets | Energy | Risk

Headline inventory is only part of the story

Deutsche Bank has put a striking number on the current copper market. Daniel Ghali expects copper to reach \$10/lb, approximately \$22,050/t, in Q2 2027. For a hedger, the inventory argument behind the forecast is more relevant than the target itself.

In an interview published by Kitco News on 2 October, Ghali said the US and China combined had probably locked up about 70% of the world's inventory pool. He was referring to above-ground inventory rather than annual copper production.

The US stock build illustrates the issue. Reuters reported on 30 July that CME warehouses held 58% of global visible copper stocks. By early September, COMEX inventory had risen to around 694,000 tonnes after record July imports. Copper had not disappeared; a very large share of visible exchange metal had moved to one market because tariff uncertainty made that location more valuable.

There is a counterweight. If the US premium weakens, the incentive that pulled copper west also weakens. Large US stocks can then become a buffer. The current market therefore reflects both tightness in some locations and a policy-driven redistribution of inventory.

China also illustrates why dated stock observations need care. Shanghai Metals Market data showed Shanghai social copper inventory at 80,900 tonnes on 17 August, up 1,600 tonnes week on week. SMM attributed the build to returning imports and domestic arrivals, while noting that some metal had moved into warrants, limiting the increase in spot material actually available.

Both the stock level and its availability can change quickly, so a dated inventory snapshot should not be treated as a persistent measure of physical tightness.

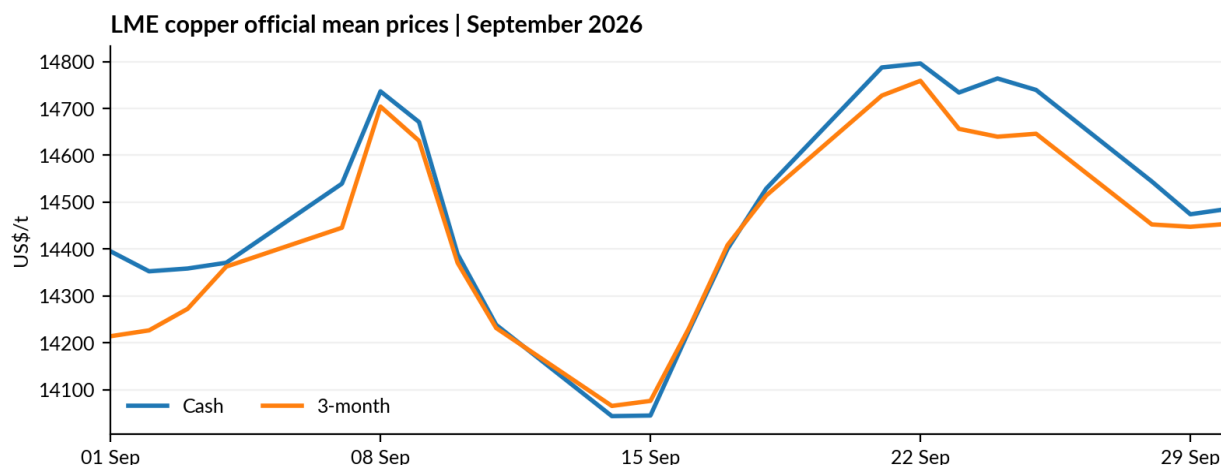
I would separate visible inventory from freely available inventory. The first can be counted. The second determines how easily the next physical transaction can clear.

Sources: Kitco News, 2 Oct 2026; Reuters, 30 Jul and 4 Sep 2026; Shanghai Metals Market, 17 Aug 2026.

The August squeeze showed how quickly availability can matter

In August the LME cash premium over three-month copper widened to about \$545/t, the largest backwardation since 2021, while cash copper briefly reached \$14,912/t. Reuters reported that live LME stocks had fallen to just over 103,000 tonnes and that large positions were competing for a limited pool of immediately available metal.

Metal then moved back into LME warehouses and the squeeze eased. A shortage of prompt metal can move nearby pricing very quickly; the resulting price signal can also attract stock and reduce the pressure.

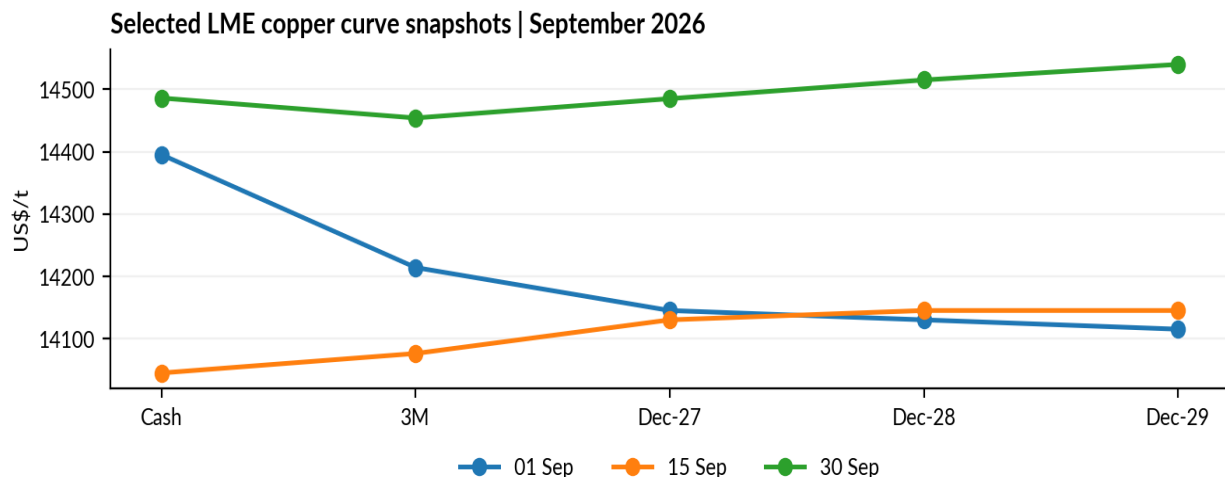


Our September LME data show a less dramatic version of the same behaviour. The official cash mean averaged \$14,482.73/t against \$14,433.46/t for three-month copper. On 1 September the cash premium was around \$181/t. By 15 September cash was about \$31/t below three-month copper. On 24 September the premium had widened again to roughly \$124/t.

Backwardation is evidence about prompt availability, but its scale and persistence matter. A short squeeze in nearby metal has different implications from a shortage that remains embedded further along the curve.

Sources: Reuters, 19 Aug 2026; LME Daily Official and Settlement Prices, September 2026 workbook supplied to LKA.

The forward curve puts the cash price into perspective



For a future seller, the cash price is only the starting point. The price that can be locked for copper expected to be sold in 2027, 2028 or 2029 comes from the relevant part of the forward curve.

On 1 September the gap between cash and the December 2029 official price in our dataset was about \$280/t, roughly 2% of the cash price. That is economically relevant on a large programme without representing an extreme long-dated backwardation.

The shape also changed during the month. By mid-September the front of the curve had moved into contango. At month-end the front was backwardated again while the later December prices sat above three-month copper.

For the type of corporate exposure considered here, the relevant hedge period is the expected sale period. Where sale dates and volumes are uncertain, market participants may use broader pricing periods rather than a series of single fixing dates.

Quarterly, half-yearly and, further out, annual Asian-average structures are examples of how timing uncertainty can be reflected in hedge design. Layered execution is another. Their economics depend on the forward curve: backwardation lowers deferred forward prices, while contango raises them.

Source: LME Daily Official and Settlement Prices, September 2026 workbook supplied to LKA.

Supply risk remains concentrated, but the picture is moving

Grasberg is a good example of why early disruption estimates need to be updated. Freeport's 2 October 2026 operational update reported third-quarter mill throughput at about 67% of pre-incident normalised rates. Production Block 1S is targeted to restart by mid-2027; Freeport expects the district to reach about 80% of capacity in mid-2027 and approach full capacity by year-end 2027.

China has a different constraint. Reuters reported on 2 October that China's copper smelting industry, which processes 60% of the world's copper cathodes, is facing a severe feedstock shortage. Reuters also reported on 28 September that analysts expected Chinese refined-output growth of only 3.0%-3.4% in 2026, with October-November maintenance potentially reducing output by around 80,000 tonnes.

Chile adds another moving part. Reuters reported on 30 September that 95% of participating members of Escondida's supervisors' union voted in favour of strike action after rejecting BHP's final offer. The parties then moved into a five-day government-led mediation process, extendable by a further five days by mutual agreement. As at 3 October, no settlement had been reported.

There is also a softer-price case. High prices can discourage buying. A stronger dollar and weaker Chinese industrial activity can outweigh the physical story for periods, while large US stocks may become more available if the regional premium changes.

Investec's 2 October Commodities Outlook captured that tension. Copper was around \$14,286/t in its commentary and \$14,243.50/t on its market table, while the note described the broader supply picture as supportive. Investec's one-year high of \$14,767.50/t is from its own market-data convention; our charts use LME official cash mean prices, so the two highs are not the same fixing.

Sources: Freeport-McMoRan, 2 Oct 2026; Reuters, 28 Sep, 30 Sep and 2 Oct 2026; Investec Treasury Sales and Structuring, Commodities Outlook, 2 Oct 2026.

What does this mean for a copper sale programme?

For a company expecting to sell recovered copper over several years, the market presents two competing risks. Too much cover too early can create an over-hedge if sale volumes disappoint and can remove participation in a further rise. Leaving the entire programme open exposes attractive current economics to a substantial correction.

The risk-management problem can be framed around three considerations. Exposure certainty: how much confidence is there in the volume and timing of future sales? The hedgeable price: what forward or average price is available for the relevant sale period, rather than today's cash headline? Downside tolerance: how much adverse price movement can the business absorb while still protecting the economics that matter?

Those considerations explain why hedge programmes often evolve as the underlying exposure becomes clearer. Partial cover, broader average-price periods and staged execution are all approaches used in the market to accommodate uncertainty in volume and timing. They involve trade-offs rather than a universal answer: more cover protects more revenue but leaves less participation in higher prices, while less cover preserves upside but leaves more downside open.

Options create a different trade-off. They can retain participation in higher prices, but that flexibility has a cost through premium or structure. Commodity markets can experience sharp supply-driven moves, so option economics need to be assessed against the actual volatility surface, skew and premium rather than against a directional view alone.

For me, the useful discipline is to keep the market view separate from the exposure. A strong copper view does not remove the need to understand what is actually being sold, when it is likely to be sold and what price can be locked for that period.

LKA works with corporates, sponsors and investors on the analysis of financial-market and commodity risks, including market structure, hedge economics and bank pricing. Services are provided subject to applicable regulatory requirements.

Lionel Kruger | Lionel Kruger & Associates | Capital Markets Advisory

Important notice

This Perspective is provided for general information and market commentary only. It has not been prepared for the circumstances or objectives of any particular person and does not constitute investment advice, a personal recommendation, an offer, solicitation or invitation to enter into any commodity derivative or other financial instrument. It is intended for corporate, institutional and professional readers and is not directed at retail clients.

This material is not directed at any person in any jurisdiction where its publication or distribution would be unlawful or would require LKA to hold a licence, registration or authorisation that it does not hold. Nothing in this publication should be taken as a representation that LKA is authorised to provide a regulated service in any particular jurisdiction.

Selected sources: Kitco News, 2 Oct 2026; Reuters, 19 Aug, 28 Sep, 30 Sep and 2 Oct 2026; Freeport-McMoRan, 2 Oct 2026; Investec Commodities Outlook, 2 Oct 2026; Shanghai Metals Market, 17 Aug 2026; LME September 2026 data supplied to LKA.