Copper Procurement Strategy

As professional metal managers with more than 30 years of 'hands on' experience, we have found that the single most costly mistake a procurement professional can make, is buying on the basis of the lowest price offered.

A more practical and rewarding decision process is driven by:

1. Quality of Product – Very simply, if the quality of the anodes does not meet (or better, exceed) your specifications, your process and final product quality are in jeopardy. The yield on the copper anodes you purchase will be markedly reduced.

2. Dependability and Excellence of Service – This attribute requires your suppliers to be attentive to your unique needs and just as importantly, they must be an unfailing partner whom you can trust, and have confidence in, that a long-term relationship will withstand the test of time.

3. Competitive Prices – Assuming your suppliers are able to meet the first two parameters, they must also provide competitive, market driven, pricing structures.

Interestingly, on the surface, 'a competitive price' sounds simple and straightforward. However, it is considerably more complex than the term implies.

For example, did you know that more than 90% of the total product price is driven by global market forces, reflected in minute-by-minute price changes on the New York Commodity Exchange, the London Metal Exchange, and the Shanghai Futures Exchange? It is the management of this 'base metal price' that will determine the ultimate profitability, or outcome, of your purchase.

It necessarily follows that you need a strong, dependable supply partner, who not only understands your individual pricing requirements, but also has the knowledge, skills and experience, as well as the requisite capital structure, to carry out your pricing requests.

Another insight we have acquired over the years is that, 'how you sell your product, should dictate how you buy your raw materials'. To illustrate this point, if you have offered your customer (or he or she has demanded) a fixed price for your product to be delivered sometime in the future, it is incumbent upon your organization to lock in the cost of the raw materials associated with that sale. This is particularly important given the extreme level of volatility that copper has experienced over the past ten years.

Notably, the market rose to an all-time high of $3.94 in April 2008, just as the global economic crisis began to emerge. Subsequent to that record being reached, the price of copper went into a freefall, as it lost $2.55, or 65% of its value to average $1.39 in December 2008.

Although it appeared the price of copper and other metals would continue falling, they instead reversed direction and turned higher in response to unprecedented quantitative easing by Central Banks in the United States, Europe and Asia. While the Central Bankers' actions were intended to steady market conditions, they actually sent prices higher, with copper specifically propelled to yet another new high, as it averaged $4.50 in February 2011, up more than 200% from the low of two years earlier. Since then, copper has been trending lower, in a 'saw tooth motion' as evidenced by lower highs and lower lows, since 2011.

Most recently, however, it has become increasingly difficult to forecast copper prices, as expectations of rising global production in the face of weak demand were expected to generate a surplus of metal, thereby weighing on the market this year and next. Curiously, we have seen the opposite occur.

In their latest survey, the International Copper Study Group reports a 155,000 MT, (4.7%) increase in global production, bringing the total to 3.46 million MT during the first two months of 2014 from the year ago period. Consumption was also higher as it rose 388,000 MT, or 12% from last year, to 3.59 million MT, resulting in a deficit of 130,000 MT. This is in sharp contrast to expectations and the 105,000 MT surplus in the comparable year ago period.

Correspondingly, inventories of copper held in COMEX and LME warehouses have fallen to a six-year low of just 247,590 MT and are down 448,720 MT (65%) from 696,310 MT last year.

Based on these fundamental factors alone, it becomes increasingly clear that your price risk exposure must be properly managed and that you have a strong supply partner who can assist in your efforts. Whether you want to lock in a daily spot price, a monthly average or have a specific transaction or time period to cover, IMC stands ready to help you reduce the risk of dramatic metal price movements.

Our team of metals experts is available to meet with you and your colleagues to discuss price risk management in greater detail and to explain the various approaches we can offer your firm.

Ultimately, our goal is to exceed your expectations and become your trusted long-term partner.