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THEDIALOGUE

FEATURED Q&A

What Factors Are Driving the Rise in Copper Prices?

Optimism about global economic growth has helped to boost prices of copper, a commodity that fuels the economies of countries including Chile and Peru. // File Photo: Codelco.

Q Copper prices soared in August to their highest levels in nearly three years amid optimism about continued global economic growth. Higher prices for the metal have helped to drive the profits of mining companies. What global factors have fueled the rise of copper prices, and will prices keep climbing? What do higher prices for the metal mean for the copper-dependent economies of Chile and Peru, and how well are those countries capitalizing on the price increases? Which copper projects in Chile and Peru are most likely to go forward?

A Leni Berliner, president of Energy Farms International:
"Copper prices are determined by the supply of copper metal in London Metals Exchange (LME)-bonded warehouses, of which there are none in South America. Price is thus determined by demand several steps downstream from mines. Not being vertically integrated, most miners are 'price-takers.' They have no input into technological decisions that affect demand for copper. The secular inflation-adjusted price trend for copper is downward, despite occasional spikes to the present nominal price level. Decisions to expand and modernize existing properties are based on historic average prices, along with short-term company operating costs. Some mining companies protect against price drops by hedging; often this means limiting exposure to price increases as well. Prices will have to be consistently much higher to attract investment in new mines. BHP's cash crunch is such that its planned $2.5 billion expansion of its Spence mine is not likely to go

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TODAY'S NEWS

ECONOMIC

Brazilian Judge Halts Plan to Allow Mining in Section of Amazon

President Michel Temer had sought to allow mining in the 17,700 square mile section of the Amazon by revoking its designation as a protected area.

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BUSINESS

Scotiabank Eyes Purchase of BBVA's Chile Unit

Canada-based Bank of Nova Scotia is in talks to purchase BBVA Chile, according to a statement by BBVA, which is headquartered in Spain.

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ECONOMIC

Mexico's AMLO Calls for Suspension of NAFTA Talks

Mexican presidential hopeful Andrés Manuel López Obrador said the talks to renegotiate NAFTA should be suspended until after Mexico's presidential election next year.

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López Obrador // File Photo: López Obrador Campaign.

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ECONOMIC NEWS

Brazilian Judge Halts Plan to Open Part of Amazon to Mining

A Brazilian federal judge has temporarily halted a plan by President Michel Temer to allow mining in a large part of the Amazon forest, The New York Times reported. The judge ruled Tuesday that the executive branch had exceeded its authority by revoking the designation of the 17,700-square-mile region as a protected area via a presidential decree, saying that only Congress could rescind the designation. The ruling came after the government earlier this week responded to criticism over the original decree by retracting the decree and reissuing it with more details about other protections that will stay in place for the area after the government abolishes the National Reserve of Copper and its Associates, or Renca, designation for the area, Reuters reported. Environmental activists had denounced the plan as being potentially disastrous for the region, believing it would quicken the development that has crowded the rain forests and accelerate the deforestation and displacement of native people living on the land. The government has argued that by legalizing regulated mining in the area, the government will be able to curb illegal gold mining and create new jobs. The Temer administration has said it will appeal the federal judge's decision.

Temer // File Photo: Brazilian Government.

Mexico Raises Growth Forecasts For This Year

Mexico's central bank has raised its growth forecasts for this year and next year and said that high inflation may have reached its peak, the Financial Times reported Wednesday. In its second-quarter inflation report, the Bank of Mexico said the "balance of risks for growth has improved due to the perception that the probability of the most extreme downside risks materializing has diminished." The bank raised its growth forecast for this year to between 2

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forward this year. Teck Resources' planned $5 billion expansion of Quebrada Blanca awaits a permitting decision. The planned expansion of KGHM's Sierra Gorda mine has been canceled due to cost concerns, and several proposed developments have been rejected due to inadequate plans to mitigate environmental risks. Peru hosts a number of long-time copper producers, which do their own exploration. The most successful effort to expand and modernize one of these mines is the $3.5 billion investment by Chinalco in the company's Toromocho mine. Other recently proposed projects have failed to obtain a 'social license' to enable mine development."

Manuel Agosin, dean of the School of Economics and Business at the Universidad de Chile: "Copper prices have been rising. There are some who claim that the days of excess supply are over and that stocks are being drawn down. With Chinese demand a big if, and with a zillion unoccupied apartments owing to its long residential construction binge, it remains to be seen whether the price increase will stick or go further. A collapse in Chinese demand is a possibility, although far from a certainty. For other major economies, the outlook is mixed: Europe on the repair, the United States with the Trump play becoming the Trump blues.

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NEWS BRIEFS

Mexico's AMLO Calls for Suspension of NAFTA Talks

Mexican presidential candidate Andrés Manuel López Obrador, widely known as AMLO, has called for the renegotiation of the North American Free Trade Agreement, or NAFTA, to be suspended until after the country's presidential election next year, adding that he would renegotiate any plan that hurts the country's interests if he is elected, The Wall Street Journal reported Wednesday. Officials from Mexico, the United States and Canada are preparing to meet Friday in Mexico City to begin the second round of renegotiation talks. Mexican and U.S. officials have said they want to finish negotiations before the end of the year.

Mexico's Red Cross Sends Volunteers to Houston in Wake of Hurricane Harvey

Mexico's Red Cross sent volunteers to Houston on Wednesday to help in the wake of Hurricane Harvey, just hours after Texas Governor Greg Abbott said the state had accepted an offer from the Mexican government to receive disaster aid, including vehicles and boats, Reuters reported today. At least 25 people have died, and tens of thousands of people have been displaced due to the damage caused by Harvey, the strongest hurricane to hit Texas in more than 50 years. Aid from Mexico's Red Cross is separate from government-provided aid.

Colombia to Use Telecom Fine Revenue to Pre-Finance Budget

Colombia's government will use a $980 million portion of $1.5 billion in fines paid by América Móvil and Telefónica to pre-finance its budget needs, Finance Minister Mauricio Cárdenas said Wednesday, Reuters reported. The government fined the companies for failing to meet contract requirements for cellular services.

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percent and 2.5 percent, up from the previously projected 1.5 percent to 2.5 percent. Next year's forecast is between 2 percent and 3 percent, up from an earlier forecast of between 1.7 percent and 2.7 percent. The bank said that inflation, which remains above 6 percent,

The central bank raised its growth forecast for this year to between 2 percent and 2.5 percent.

is likely to stay at that level in the coming months, but that "this appears to be reaching its ceiling." Factors that may negatively affect Mexico's economy include uncertainty over the renegotiation of the North American Free Trade Agreement, which may lead to delayed investment decisions, as well as a renegotiated agreement that is not favorable to Mexico, or the cancellation of NAFTA. The United States, Mexico and Canada begin their second round of talks on renegotiating NAFTA on Friday in Mexico City. [Editor's note: See **Q&A** on Mexico's goals in the NAFTA talks in the Aug. 15 issue of the Advisor.]

Subscriber Notice

A Conversation With Mexican Presidential Contender Andrés Manuel López Obrador

Introduced by

DUNCAN WOOD
Director of the Mexico Institute at
the Woodrow Wilson International Center for Scholars

Moderated by

MICHAEL SHIFTER
President of the Inter-American Dialogue

Tuesday, September 5
10:30 a.m. - 12:30 p.m.

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BUSINESS NEWS

Scotiabank in Talks for Purchase of BBVA's Chile Unit

Spain-based Banco Bilbao Vizcaya Argentaria, or BBVA, said today that it is in talks to sell its Chile unit to Canada's Bank of Nova Scotia, MarketWatch reported. Chilean media reported that Scotiabank had approached BBVA to express interest in buying 100 percent of the share capital of its Chilean unit, and BBVA confirmed the reports. "Scotiabank has requested to review nonpublic documentation and information from BBVA Chile and interview managers of the company in order to analyze the transaction," the Spanish bank said in a statement. BBVA Chile's board agreed to the request, and BBVA added that it was unable to say whether the talks would result in a deal. A BBVA spokesman said the bank was not considering whether to completely exit Chile, as it also has a consumer finance unit there, Reuters reported. As of Wednesday, BBVA Chile's market value was 1.2 billion euros ($1.4 billion). BBVA owns 68 percent of its Chilean unit, and 29 percent belongs to Chile's Said family. The rest of the shares float freely. Record-low interest rates kept margins under pressure and crimped BBVA's performance in the first half of the year, the wire service reported. The bank's strong performance in Mexico has helped to fuel earnings. Approximately 40 percent of BBVA's earnings come from its Mexico unit. BBVA's units in South America contribute about 15 percent of the bank's profits, and earnings there declined 3 percent to 404 million euros in the first half of this year. BBVA's Chile unit recorded a profit of 96 million euros in the first six months of the year. Brokers, including Alantra Equities and Jeffries, have said a sale of BBVA's Chile unit would benefit the bank by simplifying its structure and increasing its capital adequacy ration by as much as 0.9 percentage points.

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I am on the fence. Seeing is believing. Chile and Peru are benefiting from higher copper prices. Government revenues are up, and investment is showing some signs of picking up. In Chile, the downside is that the price of the dollar is falling dramatically, making it difficult for new exporters to invest. Both countries have to diversify, but particularly Chile, which is still in its copper century. The country cannot really join the OECD until it is more diversified and more resilient."

Francisco Durand, professor of political science at the Catholic University of Peru: " 'Political analysts should pay more attention to copper prices,' said economist Waldo Mendoza after Kuczynski's election in 2016. The advice proved correct. A besieged presidency, lacking strong leadership, accused of being penetrated by lobbyists and unable to coordinate with a Congress controlled by fujimoristas, has recently received good news: copper prices continue to rise. 'There are favorable winds,' the president now says. The economy has been slowing down since 2014, and no major investment projects are on the horizons. Mining is the top Peruvian industry, and within it, copper is king. Peru has doubled its copper production since 2010, but prices have declined since 2014. Investments, also influenced by social protests (such as against the Tia Maria project), have stalled. Now that the winds are changing, government officials expect mining production to increase by 8 percent in 2017. Some big mining copper projects, particularly Quellaveco and Michiquillay, are now more likely to go forward. As usual, investment closely follows the ups and downs of the global commodity market, but it can also be seriously influenced by environmental protests that few managers understand. The question is now how these investors will convince neighboring indigenous farming communities that mining brings more benefits than costs."

> **"Mining is the top Peruvian industry, and within it, copper is king."**
>
> **— Francisco Durand**

The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta at gkuleta@thedialogue.org.

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