

US unlikely to get desired results from 50% copper tariff

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Copper prices are currently ruling near record highs on the COMEX in the US on the Donald Trump administration's proposal to impose a 50 per cent tariff on the red metal's imports. However, the US may not achieve its objective soon and this may even lead to a retreat by President Trump.

"The economic rationale for Trump's threat to impose a 50 per cent tariff on imported copper is very unclear. Stagnating production has indeed left the US increasingly dependent on imports of the crucial metal. Increasing the cost of imported copper will do little to change this," said research agency BMI, a unit of Fitch Solutions.

AN EXTENDED TASK

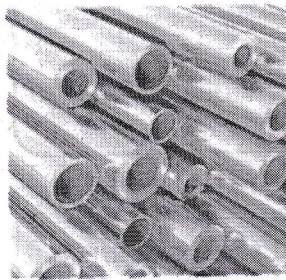
"... The (US) administration aims to encourage the development of new mining projects within the US and sup-

port the domestic copper industry. However, the US produces only about 5 per cent of the world's copper and has seen a 20 per cent decline in production over the last decade," said Ewa Manthey, Commodities Strategist of ING Think, a unit of the Dutch multinational financial services firm ING.

Developing new mines can take up to 29 years due to lengthy permitting processes, she said, adding that previous tariffs on steel and aluminium did not lead to increased domestic production of the two metals.

The development left US financial consultancy firm JP Morgan cautious on LME copper prices for the rest of the year. "We forecast LME copper prices will slide toward \$9,100/tonne in the third quarter of 2025, before stabilising around \$9,350/tonne in the fourth quarter," said Gregory Shearer, Head of Base and Precious Metals Strategy at JP Morgan.

A gain in copper prices is expected to be minimal in



the current half as uncertainty over the global economic outlook weighs on copper demand, said the Australian Office of the Chief Economist (AOCE).

MINIMAL GAIN

The Trump tariffs will be bearish for LME prices, with the wave of copper rushing to the US likely to stop once the tariffs are implemented. "At that point, US buyers are likely to start working through their inventories," said ING Think's Manthey.

Currently, the copper three-month contract on the London Metal Exchange is ruling at \$9,917 a tonne. On

the COMEX in the US, it was quoted at \$5,479 a pound. Prices are down from over \$5.5 after Trump announced 30 per cent tariff on products from Europe and Mexico.

The AOCE said copper prices were volatile in the second quarter of this year, dropping to \$8,538 a tonne from a high of \$11,000 in late March. "Higher prices might eventually encourage increased output, but only over the very long term; opening a new copper mine usually takes 15-20 years," said BMI.

US production has been on a down trend, dropping about 20 per cent over the last decade. Last year, US copper production fell 3 per cent following a 11 per cent drop in 2023, said Manthey.

"For now, the Comex-LME arbitration has widened to more than \$2,000/tonne, which will support the strong flow of copper into the US," she said.

BMI said that given the inelasticity of demand, a tariff on copper would almost certainly push up US domestic

prices. "The tax would be paid by American consumers rather than foreign producers. Indeed, domestic US copper prices have significantly diverged from prices elsewhere since President Trump first announced the threatened tariffs in March," said the research agency.

BMI said since copper is a key input in the manufacturing sector, this will raise the price of US-made manufactured goods and reduce US firms' competitiveness compared to Chinese or European rivals. "The impact will probably be largest in the automobile and electronic sectors," it said.

"Counterintuitively, a tariff might even hurt the US copper refining sector since a widening spread between US and world copper prices will encourage exporters elsewhere to redirect finished copper products towards the US market," it said. BMI said it will certainly discourage US copper exports (worth \$12.2 billion in 2024).