



Why Are Copper Producers Like First Quantum Minerals Ltd. Getting Crushed?

Description

The price of copper has seemingly moved in only one direction recently, and that trend continued on Tuesday. As of this writing, the metal decreased by nearly 5% on the day, and now trades below US\$2.60, its lowest level since August 2009. In response, the stock prices of Canada's copper miners are taking a beating. **First Quantum Minerals Ltd.** ([TSX:FM](#)) is down by 14%, **Capstone Mining Corp** ([TSX:CS](#)) is down by 17%, and **Hudbay Minerals Ltd.** ([TSX:HBM](#))([NYSE:HBM](#)) is down by 12%.

So that begs the question: is this an opportunity? To answer that question, below we take a look at why copper is in freefall. Then we take a look at First Quantum, which is Canada's biggest copper miner.

Why has copper fallen so much?

There have been persistent concerns about the copper market for years. Supply remains very healthy, even though producers are cutting back. The price is still well above the cost of production, and thus has plenty of room to fall. And China's slowing growth is having a big negative impact on demand.

And now, there are other factors causing copper's decline. One is the declining oil price, which has turned investors away from commodity markets in general. The low oil price also decreases copper's cost of production, so miners are incentivized to keep supply nice and high. The low oil price has also boosted the U.S. dollar, which has a negative effect on copper prices. Finally, more and more investors are betting against the metal. A perfect storm may be gathering.

But the longer-term outlook for copper prices is more promising. This is mainly because new projects aren't getting financed. And remember, copper mines usually take a long time to bring online. So if demand rebounds, it will take supply a few years to catch up. In the meantime, share prices could soar.

So what are the best ways to make this bet?

First Quantum could be cheap now

If you're looking to bet on copper, First Quantum may be your best option. Its shares declined by about

14% on Tuesday, and are now down by 50% since late July.

The company has faced other problems during this time, including a tax hike in Zambia (where its largest producing mine is located), as well as a nickel mine shutdown in Australia. But First Quantum still has an extraordinary track record – a \$10,000 investment in the company 15 years ago would be worth over \$230,000, even after today's price decline.

So this could easily be an opportunity to buy a great company at a cheap price.

But this is still a risky bet

First Quantum may appear cheap. But the news could easily get a lot worse. China's economic growth has been fuelled by heavy investment spending, and many observers believe the country's economy is on shaky ground.

And if the country experiences further troubles, then copper could crash a lot further. So even though First Quantum is a great company, you should be very careful before buying the shares.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

1. NYSE:HBM (Hudbay Minerals Inc.)
2. TSX:FM (First Quantum Minerals Ltd.)
3. TSX:HBM (Hudbay Minerals Inc.)

Category

1. Investing
2. Metals and Mining Stocks

Date

2025/08/14

Date Created

2015/01/13

Author

bensinclair

default watermark