The Outlook: May 25, 2021

"China Warns: "Zero Tolerance!" for Commodity Price Hikes"

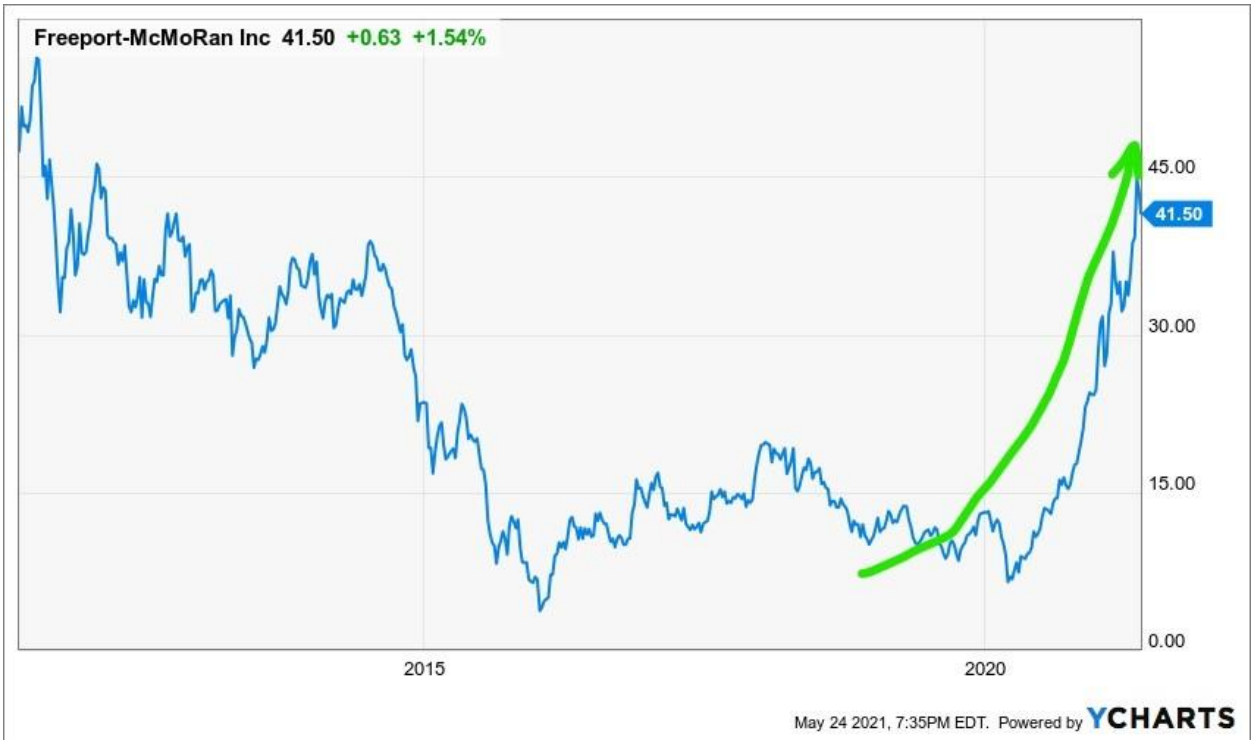
When we look into the stories of the "Celebrity Speculators," pretty often we find one particular pattern. We might label that pattern, "One Killing Makes a Career!" It means that the richest, most famous and seemingly all-knowing speculators actually spend their careers striking out almost as much as the humblest day-trader, hunched over his Robinhood screen . . . but those Celebrities got it right, once. They saw something crying out to be bet upon, or bet against . . . and they had the money and the nerve to put all their chips on the table and hang on until the bet turned their way. When it did, they made their fortunes, their reputations and their careers—and then had the sense to limit all their future bets enough to preserve those fortunes, no matter how many strikeouts they might endure.

And when we peer a little deeper into their stories, we find one more common pattern. We might call this, "When Big Government takes a position against some market . . . bet the ranch against Big Government." One of many colorful examples of this pattern is Mr. George Soros, who made his killing betting against the Bank of England's attempt to stop the plunge of the British pound in 1992.

At Outlook we were reminded of all this by that headline: "China Warns "Zero Tolerance!" for Commodity Price Hikes," with such sub-headings as "Government Will Strengthen Management of Supply and Demand to Curb "Unreasonable" Price Increases."

Indeed. Governments, of course, have tried to "manage supply and demand" to "curb unreasonable price hikes" for several thousand years. They have piled up a mountain of strikeouts, historically speaking. They have learned the hard way, each time, what King Canute knew so well, when he showed his followers that no matter how strongly he commanded the incoming tide to reverse itself, right now . . . it paid no attention. But Governments keep at it anyway. Being seen to be "doing something" about an impossible problem, they figure, is better than being accused of doing nothing by great crowds of people who don't understand the problem—and the media, of course.

China consumes shocking volumes of iron, steel, copper and many other commodities, so the investment world pays attention, with a certain respect, when China comes out with some "roll back the tide" directive, like yesterday's. So the world's speculators and the world's investors find themselves somewhat worried about "betting against the China directive" no matter how much they remind themselves of history and King Canute. The particular tide which has been washing over China's price-directing bureaucrats, and looks to Outlook as if it will wash them all the way from Beijing to Mongolia, if they don't watch out, is pictured below. That's Freeport, the Copper King, which has spent the last 12 months swimming with that tide, after an agonizing 8 or 10 years trying to keep from drowning as it rolled the opposite way.



Freeport, of course, did a great deal more than just "keep from drowning." It strengthened its financial position enormously and lowered its production costs emphatically. All the while it stayed confident in its judgment of the copper world around the corner: strongly-growing demand; sharply limited supply. That's a formula for a long-term tide of rising copper prices. Supply and demand working as they do—in fits and starts, or ebbs and flows—the formula never means "continual, uninterrupted rising prices." But it's a tide, nevertheless; and it's running with Freeport, and against the Government of China—no matter how frightfully it threatens its "greedy speculators." We're betting on Freeport.

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