

## Inside Freeport McMoRan: Last Quarter's Progress

Feb. 16, 2023

The price of copper was rather volatile in 2022, ranging from a high of \$4.87/lb to a low of \$3.18/lb, recovering to \$3.80 by year end and \$4.05 today. The last quarter averaged \$3.77, down from \$4.42 a year ago and leading to a revenue decline of 7% despite higher copper and gold sales volumes. Most of the price volatility has been “sentiment driven” (meaning driven by speculators betting on headlines) rather than driven by actual supply and demand factors. Hopes for China’s reopening towards the end of the last quarter helped boost prices going into 2023. CEO Adkerson was quick to point out that they don’t try to predict short term price movements because it’s nearly impossible. They ride the short term rollercoaster by being financially strong, while keeping focus on the long term direction of copper. That long term expectation has not changed. Even without China operating fully open last year, copper markets were tight: low inventories, not enough supply to meet all customers’ demand, and not enough new mines opening.



For the year, Freeport increased copper sales volumes by 11% and gold by 34% as it completed the ramp up of its Indonesian mine, Grasberg’s, underground operation. It now expects volumes to be stable for the next 3 years, when some new projects will begin. Copper mining is a long process, with 5 to 10 years typical for a single project to start producing copper. Freeport is using this time to focus on a couple of smaller projects that are low cost but can add value to previously mined and future mined material, while being prudent about planning its next set of new projects.

We often only talk about copper and gold when analyzing Freeport, but it also happens to be the world’s largest producer of molybdenum. This is mostly a byproduct of copper mining, although it does own two

pure molybdenum mines in Colorado. The price of molybdenum usually stays within the \$8 to \$12 range. This past quarter, it spiked up to \$30. Molybdenum demand comes from the oil and gas, aerospace, and power generation sectors, all part of essential industries. Supply issues are the most likely culprit for the price spike though, as ongoing challenges for Codelco, Chile's largest miner, have limited its production and political unrest in Peru has dampened production there. For every \$5 increase in the price of molybdenum, Freeport gets another \$400 million in earnings, so this has been a nice development in recent months.

The volatility of the price of copper and Freeport's stock, which generally mimics the price of copper, is unlikely go away this year. If we investors adapt Adkerson's focus on the long term, Freeport is sure to continue to perform well for us.