

## ***Inside Freeport McMoRan: Last Quarter's Progress***

***Oct. 27, 2020***

“We’ve been talking about this for a long time. This is the quarter where all this work that we’ve been doing for years and years is beginning to show”. –Freeport McMoRan CEO Richard Adkerson

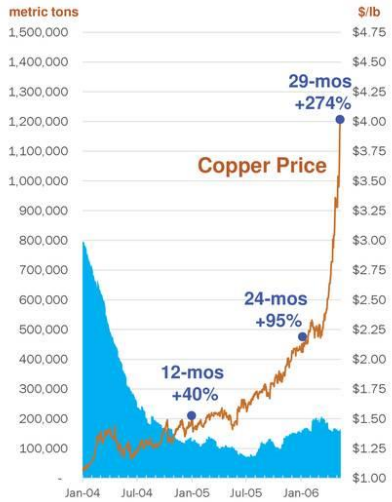
At Outlook, we’ve been writing for almost 2 years about the “transition period” of Freeport’s Grasberg mine in Indonesia going from an open pit mine to an underground block cave mine. Freeport has been planning this transition for a couple of decades, so we can imagine just how excited Adkerson and his team are at the latest results. This past quarter marked the first time the potential of Freeport’s Grasberg mine in Indonesia really felt tangible. The mine hit just under 60% of its eventual capacity, producing 27% more copper and gold than 3 months ago. Combined with its American operations, the cost of production for the whole company dropped 8% more than originally expected for the quarter. The combination of higher volumes and higher copper and gold prices helped Freeport generate \$1.2 billion of cash from operations, a whopping \$1 billion more than a year ago.

Freeport is at an interesting point of the copper supply and demand curve. For years, management has talked about how hard it is to find and extract copper, and that global investment in new mines just wasn’t happening at a rate sufficient to keep up with future demand. When COVID hit hard in March, the price of copper plunged to near \$2. It has since recovered to average \$3 last quarter. People expected the normal reaction to global economic shutdowns: global copper inventory rising as demand hit a wall (like oil’s situation). No one expected copper inventories to fall during the shutdowns. Since the shutdowns first began, the Chinese economy and copper demand have recovered dramatically. As the largest buyer of copper in the world, the Chinese economy has a large impact on the price of copper. The strong levels of demand coupled with stagnating supply is why copper has hit \$3.

In the following graphic, Freeport compares the last 6 months to the beginnings of the last 2 copper upcycles. No matter what happens in the short term, the stage has been set for another large upswing.

# Copper Price History Comparisons

**Price Response in Mid-2000s to Accelerating Demand**



\* Includes LME, COMEX and Shanghai exchanges  
Source: Bloomberg as of 10/21/20

**Copper Price Recovery Following 2008 Global Financial Crisis**



**Copper Price Recovery Following COVID-19 Market Bottom**

