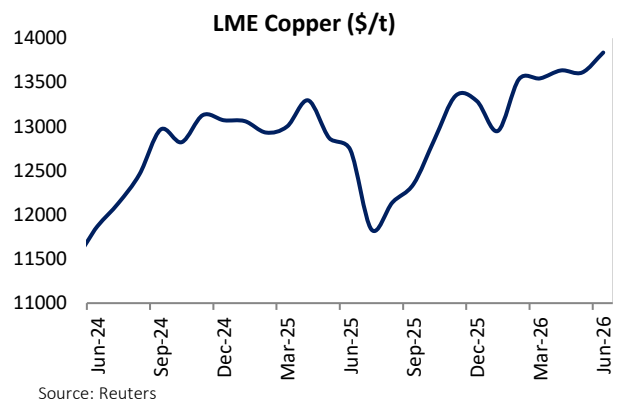


Commodities Insight

05 June 2026

Copper Tariff Play

Copper market experienced a major dislocation during 2025–2026 following the launch of a Section 232 national security investigation into copper imports. Even before any tariff was imposed, the possibility of duties on refined copper triggered a surge in imports into the United States, causing COMEX copper prices to trade at a significant premium to the LME benchmark. Traders aggressively imported copper to capture the expected tariff-driven premium, leading to record inventory accumulation on COMEX and tightening inventories elsewhere. Ironically, the largest market impact came not from the tariffs themselves, but from expectations surrounding them.



U.S. Copper Tariffs: Evolution of Policy

In February 2025, the U.S. administration initiated a Section 232 investigation into copper imports, citing copper's strategic importance to defense, energy infrastructure, semiconductors, EVs, and data centers. The investigation covered the entire copper value chain, including ores, concentrates, refined copper, scrap, alloys, and downstream products.

The market quickly began pricing in the possibility of tariffs on refined copper imports. Speculation ranged from 25% to 50% tariffs, leading traders to secure copper inventories inside the U.S. before any policy announcement was made.

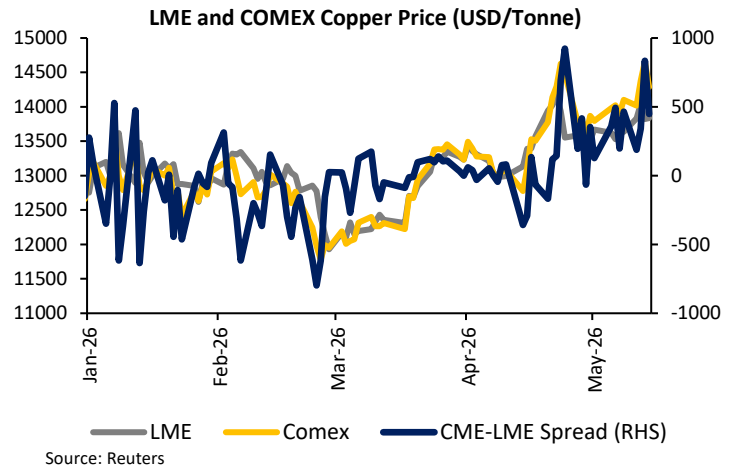
By mid-2025, refined copper cathodes was believed to be included in the tariff regime, with decision pending to be taken in June 2026. This expectation drove substantial physical flows toward the U.S. and created a sharp divergence between U.S. and international copper prices.

However, when the final measures were announced in July 2025, the outcome differed materially from expectations. The Trump administration imposed a 50% tariff primarily on semi-finished copper products and copper-containing derivative goods, while exempting refined copper cathodes, anodes, ores, concentrates, and scrap. Since most

speculative positioning had been built around tariffs on refined copper itself, the announcement triggered a sharp reassessment of market pricing. As of 2026, U.S. policy remains focused on strengthening domestic copper supply chains through tariffs on downstream products while continuing to evaluate future measures on refined copper.

CME–LME Arbitrage

Defining feature of the copper market during 2025 was emergence of a large arbitrage between COMEX and LME copper prices. Under normal conditions, COMEX and LME copper prices trade close to one another, with differences largely reflecting freight, financing, and regional logistics costs. Once tariff fears emerged, copper already located inside the United States acquired an additional strategic value because it could potentially avoid future import duties.



This caused COMEX prices to rise significantly relative to LME prices. Traders responded by purchasing copper globally, shipping it into COMEX-approved warehouses, and simultaneously selling COMEX futures. The trade was attractive because profitability depended primarily on the price spread rather than the outright direction of copper prices.

As tariff expectations intensified, the COMEX premium over LME expanded from normal levels to double-digit percentages, at times exceeding 20%. The spread was sufficiently large to cover transportation, financing, and storage costs while still generating attractive returns. In effect, the market was not pricing copper scarcity; it was pricing the possibility that imported copper could soon become significantly more expensive.

Inventory Trends Across Exchanges

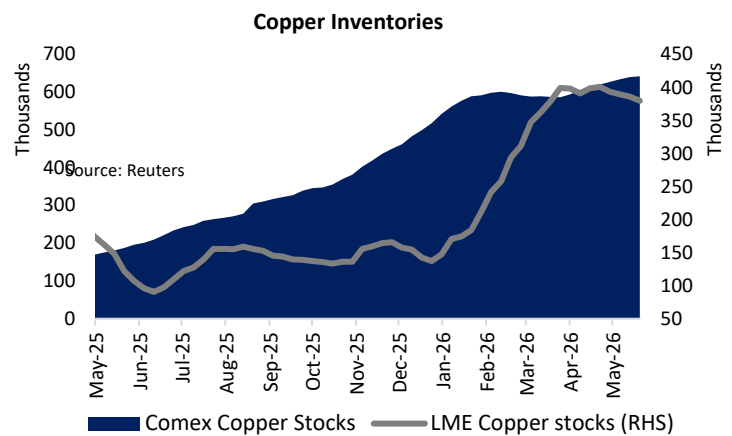
COMEX inventories rose steadily throughout 2025 as metal was redirected toward the United States. Stocks climbed from relatively normal levels to 600,000 tonnes by early 2026, representing one of the largest inventory builds in COMEX history. At peak levels, COMEX warehouses held inventory equivalent to roughly a quarter of annual U.S. copper consumption.

At the same time, inventories outside the U.S. tightened. Large volumes of copper that would normally have remained in Asia, Europe, or LME warehouses were instead diverted to the United States. Consequently, LME inventories declined and regional markets outside North America experienced tighter physical availability. Importantly, this did not reflect a global shortage of copper. Rather, it represented a geographical relocation of inventory. Copper was moving from one set of warehouses to another in response to tariff expectations and arbitrage incentives.

The arbitrage was built on a single key assumption: that refined copper imports would be tariffed. Once the July 2025 announcement exempted refined copper cathodes, that assumption no longer held.

As time passed, narrative shifted from concerns about future supply shortages to concerns about excess inventory within the U.S. market. What had initially appeared to be a looming scarcity turned into a localized oversupply problem.

Copper tariff episode illustrates how policy expectations can sometimes have a larger market impact than the policy itself. Section 232 investigation triggered one of the largest physical copper arbitrage trades in recent years, driving a substantial premium in COMEX prices and causing hundreds of thousands of tonnes of copper to flow into the United States.



Result was a historic build-up of COMEX inventories, tightening inventories elsewhere, and a temporary fragmentation of global copper pricing. When refined copper was ultimately exempted from tariffs, the arbitrage quickly unraveled, leaving behind elevated U.S. inventories and a valuable case study in how trade policy expectations can reshape global commodity flows long before any tariff is actually imposed.

Scenario	Assumption	Impact on prices
Bullish	Refined copper tariffs imposed and U.S. copper stockpiles begin normalizing	Strong upside in COMEX prices, wider CME-LME spread, and eventual support for global copper prices
Base case	Current tariff framework continues and demand remains stable	Range-bound with corrections likely to attract buying interest
Bearish	Weak Chinese demand and slowing global growth	Elevated inventories and weaker demand weigh on prices, leading to downside pressure

Outlook

In the short term, copper appears range-bound with buy on dips outlook. Unwinding of the COMEX–LME tariff arbitrage and the substantial inventory build-up in U.S. warehouses are likely to act as headwinds, limiting near-term upside. However, underlying demand from power infrastructure, data centers, electrification, and renewable energy investments remains robust, while mine supply growth continues to face constraints. Additionally, concerns over sulphur availability and potential disruptions to the sulphuric acid supply chain amid geopolitical tensions in the Middle East provides further support to the market. Overall, unless Chinese demand weakens materially or global growth deteriorates, any correction in copper prices is likely to attract buying interest. Accordingly, a buy-on-dips strategy may be considered near ₹1,330 on MCX and \$13,350 per tonne on LME, and maintaining previous targets of ₹1,400 on MCX and \$14500 on LME.

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