

The Metal Isn't Missing. The Route Is.

Copper's record print is an edge failure in a transport graph, not a node failure in a supply curve — and that distinction determines which instrument you can actually own it in.

16 August 2026 • Prices as of Friday 14 August 2026 close • Horizon: 3–16 months
Prompted by J.P. Morgan North America Equity Research, *Sunday Morning Metals: Copper Crunch Worsens; Earnings Takeaways* (16 Aug 2026, Peterson / Moore / Hoffman). That note framed the question. Every number below is independently sourced from exchange data, ICSG, and primary press; no JPM data, exhibit, estimate, or rating is reproduced here.

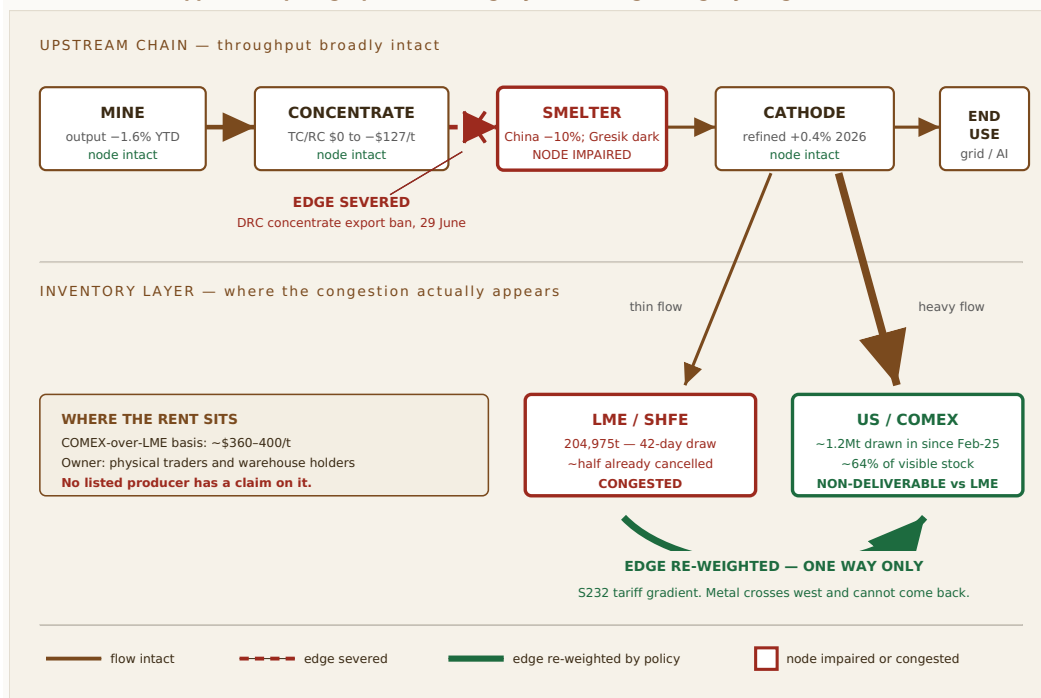
Situation, Complication, Question, Answer

SITUATION. Copper is at or within a hair of all-time highs — COMEX September settled 6.613 ¢/lb Friday after a record 6.7140 on 12 August, LME three-month near \$14,200–14,300/t — and every desk on the street is writing the same word: crunch. COMPLICATION. The system's throughput did not collapse. ICSG has global mine output down only 1.6% through May and refined production still growing, if barely, at ~0.4% for 2026. What changed is not how much metal exists but where it is allowed to go: roughly 1.2Mt has been pulled into the United States since February 2025 — some 64% of globally visible inventory now sits in a jurisdiction where it cannot settle an LME contract. QUESTION. If the tightness is a routing artifact rather than a scarcity event, which claim on the complex actually captures the rent? ANSWER. Own the dislocation, not the metal and not the miner. Buy the COMEX Dec-26 / Dec-27 calendar (long Dec-26, short Dec-27) at the prevailing ~34¢ contango, fade LME front-spread backwardation on any tag beyond \$400/t cash-to-3M, and treat copper equities as a source of premium rather than a source of beta until the Section 232 refined decision lands.
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Why this is a graph problem

When a network under stress starts printing extreme prices, the first analytical job is to determine whether the shock hit a *node* or an *edge*. A node shock removes productive capacity: it is permanent until rebuilt, it lowers total system throughput, and it accrues rent to whoever still owns capacity. An edge shock leaves capacity intact and re-weights the connections *between* nodes: throughput is roughly preserved, but flow re-routes, congestion appears at whichever node the flow now piles into, and the rent accrues to whoever controls the constrained edge — not to whoever owns the nodes.

Copper in August 2026 is a textbook edge shock wearing a node shock's clothing. Two edges in the chain have been severed or re-weighted inside twelve months, and exactly one node has actually gone dark.

Exhibit 1 — The copper transport graph: node integrity versus edge integrity, August 2026

Read. Total throughput is roughly preserved — the mine node is down 1.6% and the cathode node is still growing. What has changed is the wiring. One concentrate edge was cut by decree, one refined edge was re-weighted by a tariff gradient that runs west only, and one smelter node went dark on a boiler leak with a repair date attached. The observable stress — a 42-day London drawdown, a cash-to-three-month spread that tagged \$434/t, a one-month spread at \$370/t last seen in the 2021 squeeze — is congestion at the node the flow drained away from. And the economic rent created by that re-wiring accrues on the transport edge, which is owned by physical traders and warehousemen, not by any listed producer.

Source: AQI. Underlying data — ICSG (mine and refined output), LME and COMEX settlement and spread data, Reuters and Bloomberg reporting on the 29 June DRC ministerial order and the 8 August Gresik outage, StoneX inventory-location estimates.

Three findings from the graph**1. The concentrate edge was cut, not the mine node**

The DRC's 29 June joint ministerial order banned exports of copper and cobalt concentrate outright, forcing in-country processing the DRC does not have. Note what that does and does not do: it does not remove an ounce of contained copper from the earth, and it does not idle a mine. It deletes an edge between the Congolese mine node and the Chinese smelter node. Contained metal accumulates upstream; smelters starve downstream. That is why the price signal shows up in *processing terms* rather than in metal supply — spot treatment and refining charges have printed as low as -\$78.50/t and -\$126.80/t against an annual benchmark that settled at a record-low \$0/t for 2026, versus \$21.25/t for 2025. Smelters are paying miners for the right to work.

2. The one genuine node failure is small and dated

Gresik, the Indonesian smelter that takes Grasberg concentrate, has been offline since a boiler leak on 8 August. That is a real node outage — roughly 342kt/y of refining capacity — and it is the only one in the chain. It is also repairable on a weeks-to-a-quarter timeline, and Freeport's new Manyar line is ramping into the gap. A node shock you can date the end of is a carry problem, not a regime.

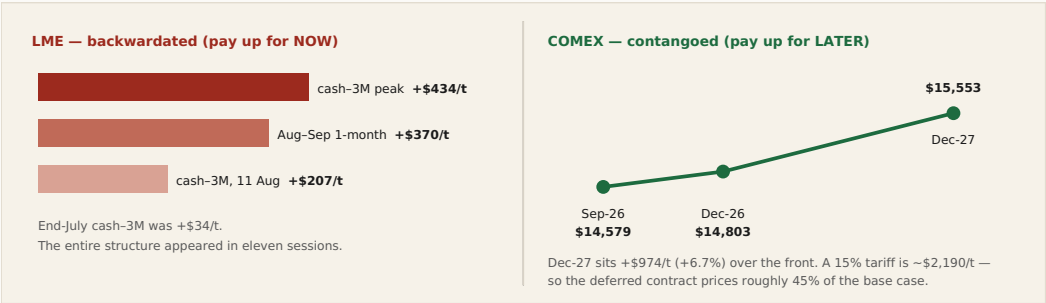
3. The dominant edge is a tariff gradient, and it runs one way

Section 232 on refined copper remains undecided. The market's working assumption is something in the 15-30% band, plausibly effective 1 January 2027. That unresolved threat creates a pure arbitrage gradient: metal in a US warehouse is worth the future tariff more than metal in Rotterdam, so metal moves west and stays west. July US refined imports cleared 200kt, a twelve-year monthly high. StoneX puts cumulative flow since February 2025 at 1.2Mt and the US share of visible inventory near 64%. Every tonne that crosses is subtracted from LME deliverability without being subtracted from world supply. The London drawdown — 42 consecutive sessions to ~205kt, the longest run since 2014, with roughly half the remainder already cancelled — is the arithmetic consequence.

The tell is that the two exchanges disagree about the shape of time

If this were a genuine scarcity event, both curves would be backwarddated. They are not. London is paying a fortune for immediacy while New York is paying a fortune for *deferral*. Same metal, opposite term structures, because they are pricing two different things — London prices physical availability, New York prices a policy option.

Exhibit 2 — One metal, two term structures (USD/t equivalent)



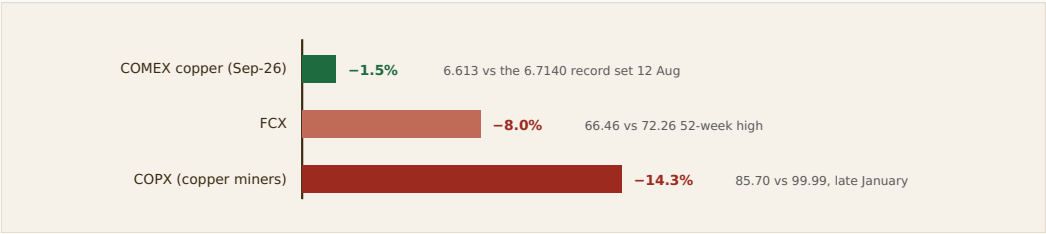
Read. The arbitrage that would normally collapse this divergence is the very thing the tariff threat has switched off. Two venues cannot hold opposite views of the same metal's term structure unless the edge between them is closed — which is the graph statement, restated in basis points.

Source: AQI calculations from COMEX settlements (14 Aug 2026: Sep-26 6.6130, Dec-26 6.7145, Dec-27 7.0550 ¢/lb, converted at 2,204.62 lb/t) and reported LME cash and three-month spreads, 6–11 August 2026.

Why the equities have refused to follow

Here is the fact that should govern positioning, and it stops being a puzzle once you accept the graph reading: the metal round-tripped to a record and the equity complex did not go with it.

Exhibit 3 — Distance from own 2026 high, as of 14 August close



Read. Producer cash costs run roughly \$1.90–2.60/lb. At 6.61 the cash margin is about \$4.00–4.70/lb and expanding — yet the equity that owns that margin is fourteen points below its January high while the commodity is one and a half points off an all-time record. The market is not mispricing the miners. It is pricing *where the rent lands*.

Source: AQI calculations from Interactive Brokers price history and 52-week statistics (COPX weekly closes, FCX 52-week range) and COMEX settlements. Cash-cost range from published 2026 producer guidance surveys.

The graph explains it in one line: **equities are node claims, and the rent is on an edge.** Work through who captures what.

Node	What it earns from the crunch	Why the equity does or doesn't capture it
Mine	Cash margin ~\$4.00–4.70/lb, plus the transfer from negative TC/RC	Captures the <i>level</i> , which is real and large. Does not capture the dislocation — realizations are LME- or provisionally-priced, and the US location premium is not in the offtake. Also carries the grade decline, labour and energy inflation, and disruption risk that produced the crunch in the first place.
Smelter	Negative. Processing terms at or below zero against a break-even nearer \$50–60/dmt	Structurally value-destructive right now, cushioned only by by-product credits and record cathode premia. Chinese capacity is cutting more than 10% and new approvals are paused. Avoid the standalone.
Transport / warehouse	The full ~\$360–400/t COMEX-over-LME basis, plus the front-spread carry	This is where the crunch's rent actually sits — owned by physical traders and inventory holders, almost none of them listed. There is no clean equity claim on it. The only listed access is the futures curve itself.
Fabricator	Negative — pays the location premium as input cost	US downstream margin compresses if the tariff lands and the premium becomes permanent rather than anticipatory.

That table is the whole trade. If you want the crunch, you have to buy the edge, and the edge is only listed as a spread.

The entire complex is trading policy edges, not fundamentals

Copper is the loudest case but not the only one. Run the same node/edge test across the subsectors and a single pattern falls out — 2026's dispersion inside metals and mining is being generated almost entirely by policy-created edge scarcity, and only rarely by node-level supply and demand.

Subsector	What is actually driving the return	Node or edge?	Fundamental underpinning — and its durability
Copper	S232 tariff gradient, DRC concentrate ban, LME deliverability drain	Edge	Genuine mine-supply constraint underneath (ICSG mine output −1.6%, refined +0.4%), but ICSG already forecasts a ~377kt refined surplus in 2027 as restarts return concentrate. Durable at the level; not durable in the spread.
Steel (flat)	S232 import severance; HRC spot near \$1,200/st against lead times at 7.7–9.0 weeks versus a 4–6 week norm	Edge	Utilisation is around 80%, not 90%-plus. The scarcity is in delivery slots, not tons — and roughly 13Mst of planned new EAF sheet capacity is queued through 2029. Buy-side is pricing long-run HRC well above forward-curve logic.
Aluminum	Record US Midwest premium (over \$1.10/lb) on tariff, plus an alumina spike on a single gas interruption	Edge	The metal price is ~\$3,250/t and unremarkable; virtually the entire US-specific return is location basis. The alumina disruption resolved within days. Highly reversible.
Rare earth / battery	Government demand and tariff walls — the drone duty action, DoD offtake and price-floor architecture	Node (created)	This is a genuine new node: a sovereign buyer with a price floor is not a normal customer. It is also a single-counterparty concentration. Durable while the appropriation is durable.
Gold	Metal near \$4,400/oz with producer equities showing 3–4x operating leverage over a ten-session window	Node	The control case. Gold has no meaningful location basis and no tariff gradient, so the rent lands entirely on the producer — and the equities behave exactly as textbook operating leverage predicts. That is what the copper equities <i>would</i> be doing if copper's move were a node event.
Lithium / uranium	Contract and policy repricing, not spot scarcity	Mixed	Lithium carbonate import prices have roughly doubled year over year off a deeply depressed base while Chinese net imports run about 50% higher — a restocking cycle, not a shortage. Zimbabwean spodumene re-entry is the swing risk.

The gold row is the one to sit with. Two metals, both near records, both with constrained supply. In one, the producers are up 26–32% in ten sessions against an 8% move in the metal. In the other, the producers are fourteen points below their January high while the metal makes a new record. The difference is not sentiment, positioning, or multiple. The difference is that gold's rent lands on a node and copper's lands on an edge.

The trade book

Expression	Direction	Thesis	Risk / invalidation
COMEX Dec-26 / Dec-27 calendar Core. Size to two-thirds of the sample-discounted Kelly fraction.	Long Dec-26 Short Dec-27 entry $\approx -34\text{¢}$	The deferred leg is long two contradictory things at once: a tariff premium and a scarcity premium. If the tariff lands, the front-running stops and the 1.2Mt already sitting in US warehouses becomes overhang against a forecast 2027 surplus. If the tariff dies, the deferred premium evaporates outright. The spread flattens on both branches; only a tariff <i>increase</i> beyond the 15-30% band hurts.	A 50%-plus tariff, or a genuine 2027 mine-supply failure (Grasberg, Kamoā, Chilean grade) that converts the surplus forecast into a deficit. Dec-27 liquidity is thin — work the spread, never lift the offer.
LME front-spread fade	Short cash / long 3M on tags beyond \$400/t	A \$370/t one-month spread is 2021-squeeze territory, and the LME has intervened at that level before. Backwardation this steep is a fee for immediacy paid by shorts who cannot deliver — a queue, not a forecast. With roughly half of remaining LME stock already cancelled, the squeeze mechanically resolves once the cancelled tonnage clears or the exchange imposes lending rules.	Path risk is severe and the loss is unbounded into a genuine delivery failure. Defined-risk options structures only; do not carry naked short the front.
Copper equities	Sell upside premium; do not add length	Realised vol in the large-caps is running above 50% annualised while the underlying commodity move is not flowing through to the equity. That is a premium-selling configuration, not a beta configuration. Covered calls or call spreads against existing core positions into strength.	Tariff resolution at the low end plus a China restock could re-rate the group violently. Keep strikes above the January highs, not below.
Cross-node pair	Long concentrate producers / short standalone smelting and US fabrication	Negative TC/RC is a literal transfer from the smelter node to the mine node — the graph made explicit on an income statement. It persists as long as mine supply is the binding constraint, which ICSG data says it still is.	A TC/RC recovery toward \$50/dmt at the November benchmark reverses the transfer. Watch Asia Copper Week.

Tripwires

Trigger	Reads as	Action
S232 refined copper decision published — rate and effective date	The single dominant variable	15% or below → hold the calendar. Above 30% → cut it.
COMEX-over-LME basis compresses below ~\$150/t	The edge is re-opening	Take the calendar off; the thesis has paid.
LME stocks stabilise and the cancelled-warrant ratio falls under 30%	Congestion clearing	Add to the front-spread fade.
Gresik restart confirmed, or Manyar ramps above plan	The only real node failure repairs	Reduces the scarcity leg of Dec-27; press the calendar.
DRC ban carve-outs or enforcement slippage	Severed edge partially restored	Concentrate tightens less; unwind the cross-node pair.
Spot TC/RC recovers above −\$20/t, or the annual benchmark settles above \$20/dmt	Transfer reverses toward smelters	Exit the cross-node pair.
Chile trims guidance a third consecutive quarter, or Chinese cathode output falls a second month	Node shock is becoming real	Cut the calendar; the 2027 surplus forecast is in question.
US refined imports fall back below 120kt/month	Arbitrage pull exhausting	Confirms the thesis; hold to target.

Busy-CEO stress test

IS THE ASK CLEAR AFTER TWO SENTENCES? Yes. Buy the Dec-26/Dec-27 COMEX calendar; do not buy copper miners to express the copper crunch.

WEAKEST ARGUMENT. The ICSG 2027 surplus forecast is doing heavy lifting in the Dec-27 short leg, and ICSG balance forecasts have a poor record of surviving contact with actual disruption rates. The mitigant is that the trade also wins if the tariff simply resolves at the low end — it does not require the surplus to materialise, only for the deferred contract to stop pricing both stories at once.

MISSING ANGLE. Chinese demand elasticity. Cathode premia into China have already eased from July highs, the first observable evidence of buyer fatigue at \$14,500/t. If that becomes destruction rather than a pause, the level leg cracks and the whole complex de-rates. That is a reason to be in spreads rather than outright — which is what this note recommends anyway.

VERDICT. Act.

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