While many continue to temper optimistic views on the global economy with a sense of caution, it is hard to argue that copper and other base metal commodity prices are strengthening at a surprisingly fast rate – exceeding predictions of pundits and investors alike.

When financial markets crashed in mid-2008, few would have predicted such a fast and consistent turnaround for metals commodities. But in the fourth quarter of 2010, demand continues to rise. In fact, global base metal demand grew solidly by four percent annually between 1998 and 2009, exceeding the growth of primary production. What’s more, the International Monetary Fund (IMF) stated in its October 2010 Outlook report that base metals are only about halfway through their current period of trend price increases.

Large-scale expansion of the world’s emerging economies is the predominant factor fueling continued growth, with China and India in particular playing significant roles in the strengthening of base metal commodity prices. While signs of steel, copper and other metal demand recovery were seen in advanced economies earlier this year, the pace has been gradual – meaning that rapid urbanization in emerging economies will continue to drive metal demand. In fact, global base metal demand grew solidly by four percent annually between 1998 and 2009, exceeding the growth of primary production. What’s more, the International Monetary Fund (IMF) stated in its October 2010 Outlook report that base metals are only about halfway through their current period of trend price increases.

Following the market collapse, there is continued concern over metal supply’s ability to keep up with growth. When comparing the difference between primary production and consumption, most metals markets are either on the verge or have entered into a deficit situation. While these deficits are currently being filled by existing inventories or using scrap – these are both limited resources. Back in 2007, supply was starting to show signs of response to higher metal prices, but the problem has since been augmented by a lack of capital investment in greenfields exploration. Hence, the crash reignited existing concerns about supply’s ability to keep up with consumption growth.

Global economic recovery, emerging economies and lack of investment are only partially to blame for metal supply shortages. Other factors include currency volatility, new technologies, geological restrictions, environmental policy and energy costs - not to mention the rising costs of production and developmental difficulties associated with deeper orebodies and declining ore grades.

If we look at the copper market in particular, we can see that a series of fundamental factors have contributed to stable demand, with the balance between refined production and demand providing the basis for future growth.

The International Copper Study Group (ISCG) recently published an updated 2011 market forecast drastically different from that published in the second quarter. In April, a production surplus of 243,000 tonnes was predicted, whereas now, thanks to increasing copper demand that is far exceeding expectations coupled with lower production performance of various copper producers, a deficit of 435,000 tonnes is expected. In 2010, global copper demand is expected to outpace supply by some 180,000 metric tons.

It is also worth noting that copper stockpiles monitored by the London Metals Exchange have fallen 26% this year, whereas orders to draw copper from inventories have risen by 12%. Another factor is the production cutbacks scheduled at Japan’s three largest copper smelters and the closure of a large scale smelter in India, as well as a number of small, inefficient smelters in China. China also faces the issue of low capacity utilization at its smelters; it’s estimated that average utilization is 11% lower than smelters in other countries.

Looking to the future, current trends and continued economic growth in China and India suggest that strong markets and sustainable high base metal commodity prices will continue to dominate, with steady annual growth for metals and mining.