

The Aurubis Copper Mail informs you monthly about current trends on the copper market.

In focus



After initial excitement about significant short-term inventory increases on the copper market in May, everything has calmed down again. If, in the months before, assumptions about new infrastructure measures in the USA were still serving as a driving force for copper price performance, this is now being looked at much more soberly. In May, the Chinese market was perceived as economically weaker than it actually was. The country's current demand for copper can be described as good because local key industries have satisfactory incoming orders. On the production side, the early conclusion of collective labour agreements in Chile's mining industry comes as a relief. Overall, the mixed situation was not sufficient to raise the price of copper to February's level of US\$ 6,000 level again.

Economic situation

According to the Ifo Institute, the global economic climate noticeably improved in the second quarter of 2017. This positive development applied to almost all regions of the world, with the increase in industrialized countries, particularly in the European Union, being the main driver. Prospects for many emerging countries were also more positive in the second quarter than before.

In the first quarter of 2017, China showed economic growth of 6.9 % compared to the corresponding period in the previous year. Whether this level can be maintained is questionable. The official PMI (purchasing managers' index) for May was at the previous month's level with 51.2. The subindex for production fell by 0.4 to 53.4. Chinese leadership is increasingly looking abroad for future growth, including in the form of the New Silk Road Initiative known as One Belt, One Road. China was downgraded in Moody's credit rating, which only had short-term effects.

The Organization for Economic Co-operation and Development (OECD) has confirmed growth in the Eurozone in the first quarter of 2017 over the preceding quarter. Like Japan, the region grew 0.5 % in the first three months of the year. In the USA, however, economic performance was somewhat weaker according to the OECD. Developments in the interest rate, specifically, a departure from a loose monetary policy, is still viewed as a factor that could contribute uncertainty.

The mood among companies in the eurozone remained good. According to the institute IHS Markit, the purchasing managers' index that covers industrial and service companies stabilized at the high level of 56.8 points in May. In the USA, the figure decreased slightly to 52.5 points. A value over 50 points is seen as an indication of economic growth.

Copper essentials

The International Wrought Copper Council (IWCC) presented a new annual forecast for the copper market in 2017 during their spring meeting. It states that the production of refined copper should reach 22.7 million t and thereby be at the level of the previous year. On the other side, demand should be at 23.0 million t (plus 2.8 %). This would result in a production deficit of about 300,000 t. Other institutes, analysts and companies (e.g. Antofagasta) share this expectation of a slight shortage for this year. IWCC key data signals a balance of supply and demand for copper in 2018 with global production at 23.3 million t and demand also at 23.3 million t. In particular, this year is seen as characterized by weak production. The industry faced mine strikes in Peru and Indonesia. In addition,

maintenance shutdowns at smelters must be included, which could lead to a loss of up to 500,000 t by summer 2017, according to CRU.

On the demand side, development in China remains in the foreground. The country now accounts for 49 % of the annual global copper consumption. In 2017, the demand should increase 4.6 % and reach 11.2 million t. Other sales regions like Europe (EU-28: plus 0.2 % to 3.1 million t) and the USA (plus 1.7 % to 1.8 million t) admittedly cannot keep up, but they definitely are showing positive performance.

The Chinese copper producer Jiangxi Copper estimates China's copper demand in March 2017 at 822,500 t, an increase of 22 % compared to February 2017 (676,500 t). Stimuli came from the construction industry as well as heating and air conditioning. This is also reflected by the quarterly figures from the sectors. Investment in real estate rose by 9 % compared to the previous year to a converted value of US\$ 289 billion. In April, the domestic sales of air conditioner units are expected to have risen to 7.85 million, an increase of 69.8 % over the previous year, and exports are expected to have risen by 5.4 % to 6.78 million according to the Metal Bulletin, which refers to data from the Chinese data provider ChinalOL. The fact that Chinese imports of refined copper in April were at 202,626 t, which is nevertheless 30.7 % below the previous month's figure and 40.7 % below the previous year's level is justified by other factors: Strikes in the international mining industry are not yet expected to have affected the Chinese smelting industry. They are falling back on raw material stocks. The utilization of copper smelters in China should therefore have been at the level of the previous month. Furthermore, there is talk of a reduction in available cathode inventories. Cathode exports from China also decreased from 44,000 t for March to 19,000 t in April. There's also the more fundamental argument that the use of imported copper for financing purposes is no longer playing a large role and that the reduced import volumes represent a return to normal conditions.

» Price trend

Copper price on a low level without clear direction 



The price of copper showed signs of exhaustion in May. Little remains of the upswing that led to LME prices of US\$ 5,900 to US\$ 6,000 in February in particular. The attention of market participants was largely focused on the immediate daily events, including economic indicators from the USA and China. The month's highest settlement price was already reached right at the start of the month with US\$ 5,746.50/t. The lowest monthly price of US\$ 5,466/t followed only a few days later. The remainder of the month showed little movement in a range from US\$ 5,600/t to US\$ 5,700/t. The contango (spot price < forward price) averaged US\$ 23/t.

» Copper raw materials

After the wage disputes accompanied by strikes in the South American mining industry, the early negotiated settlements were a surprise in May. At the Chilean Collahuasi mine, which has an annual production of about 500,000 t of copper, the existing collective agreement would have expired in October. However, a new three-year contract was able to be agreed upon at the beginning of May after a three-week negotiation. A two-year contract was also concluded on May 10 for Codelco's San Salvador division, which represents the smallest unit in the Codelco Group with 60,000 t of copper production. While this indicates a certain amount of relief there, workers in the Indonesian Grasberg mine (annual production in 2016: ca. 680,000 t of copper content in concentrate) have started a second month of striking. This represents a further setback for the country's copper industry, especially after the Indonesian export ban was lifted in April for the time being. However, the effect of the strike has not yet been noticeable on the market. Concentrate inventories that were built up during the export ban are currently still being reduced. The first quantities from Indonesia are expected to have reached key customers in Japan, South Korea, India and China. The copper smelters there are mainly regarded as well supplied. Even if it is unclear how deliveries from the Grasberg mine will proceed, there does not seem to be a need for them to become active on the spot market. This is also due to maintenance shutdowns in some companies. According to Metal Bulletin, the TC/RC indications for mines/smelter deals for deliveries close-by was most recently visibly around US\$ 85/t and 8,5 cents/lb.

The situation returned to normal in May on the European copper scrap market, compared with the latest months. The low copper prices have reduced the traders interest in selling. However, scrap processors mostly had a good reserve quantity. The refining charges were not able to completely keep up with the level of the previous months.

» **Production**

Despite severe storms, Peruvian copper production remained largely stable in the month of March with an increase of 0.71 % over March of last year to 189,390 t.

Copper production in China did not reach the previous month's high numbers again in April, which was partly caused by smelter maintenance shutdowns. According to the national statistics office, 724,000 t of copper were produced. This is 40,000 t less than in March 2017. When considering the first four months of 2017 as a whole, however, at 2.9 million t, there was a 7 % increase over last year's corresponding figure. The production of copper products in April increased by 8.5 % over the previous year to 1.78 million t, which indicates solid demand for refined copper.

» **Inventories**

Copper inventories Aurubis

May 30, 2017	Europe	North America	Asia	Total
				
LME	49,950 t	33,225 t	227,975 t	311,150 t
COMEX / SHFE	---	142,732 t	198,585 t	341,317 t
Total Cu inventories at metal exchanges	49,950 t	175,957 t	426,560 t	652,467 t
Shanghai bonded warehouse (End May 2017; CRU)			590,000 t	590,000 t

The copper market experienced unease at the beginning of May, as some irregularities became evident in copper inventory trends. Within a few days, LME inventories rose by about 98,000 t to 351,550 t on May 5. With deliveries of around 40,000 t each day, the increase was mainly in the Asian LME warehouses. It was later said that an international trading house was the driving force behind these events. It is said to have made deliveries using quantities that stemmed from long-term contracts with Chinese smelters with tolling licenses. Immediately after the increase, the trend reversed. By May 25, quantities were reduced by 36,000 t. At that time, a further 157,900 t were registered for delivery. In the SHFE warehouses and in the bonded warehouse in Shanghai, there was a significant volume decline with decreases of 33,000 t and 30,000 t.

» **Product markets**

The following developments occurred at select European end markets for copper:

The Western European automobile market proved to be weaker this April compared to April 2016. According to the European producers' association ACEA, at 1.2 million vehicles, 6.6 % fewer cars were registered. However, the registration figures from EU-12 countries showed a positive development with an increase of 8.2 % in April. This refers to all countries that have been introduced into the European Union since 2004. With new registrations of more than 5.5 million new vehicles since the beginning of the year, the market remains in the black according to the VDA.

In the German mechanical engineering sector, orders in the first quarter of 2017 increased 23 % due to demand from Eurozone countries in particular and orders from China. Nevertheless, the record number of orders from March of the previous year could not be repeated according to the Association for German Mechanical Engineering and Construction (VDMA). Correspondingly, the results in March 2017 were actually 4 % below the previous year's figure.

After strong performance in February 2017, production in the construction industry within the Eurozone fell by 1.1 % in March compared to the previous month, according to Eurostat calculations. Increased construction activities in civil engineering (plus 1.1 %) were not able to compensate for decreases in building construction (minus 1.7 %).

According to ZVEI, the German Electrical and Electronic Manufacturers' Association, production in member companies rose by 4.4 % in the first two months of 2017 over the corresponding period of the previous year, and order entry increased by 6.4 %. The business climate has been on an upward trend for seven months, and production plans were raised in March. Overall, 34 % of the sector's companies expect business to increase in the next six months, and 60 % expect it to stay the same.