

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

In focus



In November, copper market participants waited anxiously for news of whether a benchmark transaction for concentrates would take place between the mining and smelting industries. Even though this has not yet happened, market participants paid attention to the China Smelters Purchase Team’s statement that, in their opinion, no shortage of copper concentrate deliveries and a generally balanced market are expected for 2018.

Economic situation

US dollar somewhat stronger again in November



According to the Chinese National Bureau of Statistics, **China’s** economic data was slightly weaker in October but remained at a good level. In October, Chinese industrial production gained around 6.2 % compared to the previous month, whereas this was 6.6 % in September.

The International Monetary Fund estimates that the **USA’s** gross domestic product will grow by 2.2 % in the current year and then gain 2.3 % in 2018.

Chile, the largest copper-producing country in the world, elected a new president in November. After the first round of elections, the conservative candidate Piñera together with the socialist candidate Guillier faces a runoff election in

December. As Reuters reported, both candidates will seek to ensure that the revenues from the state-owned copper group Codelco are no longer primarily used to finance the military. Observers see this as a positive sign for the Chilean copper industry. Piñera additionally announced that he would institute more investor-friendly policies in the Chilean copper industry, in order to stimulate growth.

In their autumn report, the European Commission raised their growth forecast for the **euro zone** to 2.2 % for the current year. This corresponds to an increase of 0.5 percentage points compared to the spring report. For 2018, the Commission expects growth of 2.1 %.

According to the Central Bank, the strong upturn in the **German** economy is expected to continue, also beyond the current year. The ifo Institute had previously revised Germany’s 2017 growth prospects upwards to 2.3 % (formerly: 1.9 %).

The euro was somewhat stronger relative to the US dollar and was at US\$ 1.19 at the end of the month.

Copper essentials

After Aurubis left its premium unchanged at US\$ 86/t for European customers, and Codelco raised its 2018 cathode premium for European buyers by 7 % to US\$ 88/t in October. The Japanese cathode producer Pan Pacific Copper also published its 2018 cathode premium for Chinese customers in November. Compared to the current year, it will remain stable at US\$ 72/t, as reported by American Metal Market.

Freeport had to deal with a fire at its Papuan port facilities in mid-November. According to Reuters, the fire broke out at the port of Amamapare, where the company transships copper concentrates from the Grasberg mine, among others. The incident had no effect on planned concentrate deliveries, as stated by Freeport.

Subsequent to the LME Week, the most important Chinese smelters had an unscheduled meeting in mid-November in Shanghai. Most importantly: After extensive analysis, the China Smelters Purchase Team (CSPT) expects no shortage of copper concentrate deliveries in 2018. Additionally, the CSPT expects a balanced market for the coming year, with a slight surplus. For the fourth quarter, the CSPT fixed its TC/RC basis at US\$ 95/t or 9.5 ct/lb and was thereby above market expectations. CSPT members, such as Jiangxi Copper Co, Jinchuan Group and Tongling Nonferrous Metals Group, expect further talks in the context of the Asia Copper Week in Shanghai from November 28 to December 1, 2017. According to market reports, the chief negotiator for the CSPT, Tongling Nonferrous Metals, wants to ensure that the TC/RC copper benchmark for the current year also applies for 2018.

According to Metal Bulletin, Tongling Nonferrous sees an increased risk of production disruptions or reductions for Chinese smelters in 2018. Due to the emission restrictions enforced by the Chinese government, Tongling Nonferrous, among others, is expected to initially not bring the new smelter planned for the second half of 2018 into production; the smelter has a capacity of 180,000 to 200,000 t. Tongling Nonferrous sees a danger of the Chinese government ordering significant smelter capacity reductions as a result of the possible exceeding of legal thresholds for emissions in the winter months. Overall, this could affect not only existing capacities but also delay further smelter expansion plans.

The latest Reuters poll was published at the beginning of November. In this, the analysts expect on average that the 2018 copper price will stabilize at the level of US\$ 6,315 /t, after it was fueled over the current year by a possible shortage of produced volumes due to strikes and the increasing demand due to electromobility. Analysts additionally expect an average deficit of approximately 80,000 t for the current year and a surplus of approximately 93,000 t for 2018. In contrast, the International Copper Study Group (ICSG) estimates a deficit in the amount of 150,000 t and 105,000 t for 2017 and 2018 respectively.

In November, the International Copper Study Group (ICSG) published its supply and demand analysis for refined copper for the January to August period. Afterwards, the institute sees a generally balanced market for the first eight months of the calendar year, which shows only a slight production deficit of around 50,000 t. In comparison: The deficit was 139,000 t in the same time period during the previous year.

In November, a number of market participants commented on the copper market situation in the context of the LME Week:

Analysts from Metal Bulletin remain optimistic for 2018, especially due to the economic development in China and the electromobility boom. A prevailing opinion is that due to the many strikes and production losses at mines in 2017, the supply of concentrates will increase in 2018. Codelco's Executive Board conveyed a similar opinion in an interview. According to the Metalsupdate news website, Chile's Minister of Mining also expressed confidence. He predicted that Chile is on the way to producing 5.5 million t of copper in this year. At the same time, the project pipeline would allow this volume to realistically increase to 6.3 million t within the next decade. BHP's CEO expects the strong demand from China to continue, despite the current decline in real estate and the automotive industry. He ascribes this to the so-called "One Belt, One Road Initiative" and measures regarding security, environmental protection and industrial efficiency, which will keep infrastructure expenditure at a high level. In his opinion, this will also have a positive influence on metal prices.

» Price trend



After the price rally in October, during which LME rates reached just over US\$ 7,000 /t at times, copper was initially quoted lower in November. The settlement price hit a monthly low of US\$ 6,715.50 /t on November 15. According to market experts, a significant reason for this was a series of weaker Chinese economic data for October. Investors covered the purchasing positions. No decisive stimulus came from the development of the exchange inventories, because the LME and SHFE inventories neutralized in their development (see **Inventories**). In the second half of November, the copper price recovered again and at the same time received support from a low US dollar as well as strikes in Peru and Chile. Towards the end of the month, settlement prices just under US\$ 7,000 /t were temporarily attained.

» Copper raw materials

On the **concentrate market** in November, people were still waiting for a reference transaction between the mining and smelting industries. Isolated strikes also occurred in the last month.

In November, the unionized employees at the Escondida copper mine in Chile carried out a 24-hour strike in order bring attention to BHP's plans for job cuts. There were also strikes at the Cuajone and Toquepala copper mines in Peru, both of which are operated by Southern Copper. According to Southern Copper, this did not have an effect on production.

The **European market for copper scrap** remained a buyer's market in November and continued to be saturated, as well as characterized by high refining charges. A similar situation applied to the US market, where refining charges once again increased slightly, according to reports from "American Metal Market." Additionally, traders complained that they had difficulties selling material, due to the good supply levels at smelters.

» Production

In general, current-year global production of refined copper is expected to develop steadily. Most smelters should currently have an adequate supply of concentrates, and the scrap supply is described as advantageous for producers in many countries.

After a six-week downtime, Rio Tinto was able to restart its smelters at the Kennecott mine in the US state of Utah. As a reminder: In October, there was an unscheduled downtime at the smelter, due to a sulfur dioxide explosion. According to the company, Rio Tinto subsequently declared force majeure on the production, which has not yet been lifted.

» Inventories

LME copper inventories declined further

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November 28, 2017	Europe	North America	Asia	Total
				
LME	75,225 t	26,300 t	90,200 t	191,725 t
COMEX / SHFE	---	189,811 t	164,813 t	354,624 t
Total Cu inventories at metal exchanges	75,225 t	216,111 t	255,013 t	546,349 t
Shanghai bonded warehouse (20-24 November 2017, CRU – Metal Bulletin)			435,000 – 470,000 t	435,000 – 470,000 t

The copper inventories in the LME warehouses continued their downward trend in November. After 273,850 t at the beginning of the month, they decreased by approximately 82,000 t to 192,000 t (Nov. 28). They have thereby declined by almost 40 % since mid-September. Most recently, 75,000 t were registered for delivery. At the SHFE, on the other hand, there was a steady increase of about 57,000 t to 164,813 t. According to CRU's estimate, there are still 435,000 t of copper in the Shanghai bonded warehouse, after 460,000 t at the end of October. The aggregate of the exchange inventories has reached the lowest level since December 2016, with approximately 546,000 t. At that time, copper inventories at the LME, SHFE and COMEX were at a level of

just over 1 million t.

» Product markets

The automobile industry is an important buyer of copper products. The market for new vehicles in Germany strengthened once again in October 2017. Compared to the previous month, new vehicle registrations increased by 3.9 % to around 273,000 vehicles, according to the Federal Motor Transport Authority. For the period from January to October, car sales also rose by 2.1 % in China, according to the China Association of Automobile Manufacturers. Total vehicle sales there grew by 4.1 % in the first ten months.

According to the German Electrical and Electronic Manufacturers' Association, German electrical industry exports rose in September by 6.4 % to € 17 billion, compared to the previous month. In the first nine months of 2017, branch exports grew by 10.2 % compared to the prior year to a total of € 147.2 billion.

The mood on the German copper market is also expected to remain positive in 2018. As MBI Metals reported regarding nonferrous metals, buyers continue to expect a good market level for the coming year. The mood amongst the market participants surveyed would be excellent and consumption continues to be at a very high level.