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

In focus

The year 2018 had a stormy start. From a meteorological perspective, “Friederike” – the strongest storm in eleven years – kept large parts of Germany on tenterhooks. Turbulence also occurred on the international copper market. Copper smelters worldwide were characterized by production disruptions, China tightened the conditions for the import of copper scrap with wide-reaching implications and larger volumes entering the LME warehouses briefly caused a significant price decrease. Apart from these events, the physical market for copper cathodes remained calm. In China, demand was restrained ahead of the Lunar New Year festivities there in mid-February and the European market also showed only limited buying activity.

Economic situation

In January, the IMF revised its October 2017 prediction for global economic growth in 2018 and 2019 upwards by 0.2 percentage points respectively. According to this, growth is expected to amount to 3.9 % in both years. The anticipated effects of the US tax reforms and a stronger recovery in Asia were the pivotal factors for the change. The IMF counts protectionist tendencies and a possible correction on the financial markets among the most significant risks.

According to statements from China’s National Bureau of Statistics, the Chinese economy grew by 6.9 % in 2017 and thereby achieved a higher increase than in the previous year (2016: 6.7 %) for the first time in seven years. In the fourth quarter of 2017, growth amounted to 6.8 % compared to the previous year’s value. In the most recent IMF forecast, an increase of 6.6 % is anticipated for 2018.

A recovery of 2.2 % is expected for the eurozone in 2018; this is 0.3 percentage points higher than the October 2017 forecast. Consumer confidence in the eurozone was higher than expected at the beginning of 2018 (+ 0.6). The indicator collected by the EU Commission rose by 0.8 to 1.3 points.

In Germany, economic experts expect that 2018 economic growth will be very strong, despite the lengthy process of forming a new government. According to a survey from the Centre for European Economic Research (ZEW), optimism will prevail for the first half-year. Growth of 2.3 % is possible for the whole year. This also corresponds with the figure predicted by the IMF.

In the euro to US dollar exchange rate, the euro was most recently quoted at US$ 1.24.

Copper essentials

In mid-January, Chile’s state copper commission Cochilco updated its estimate for the average 2018 copper price. According to this, the price could now amount to approximately US$ 6,750/t (previously: approximately US$ 6,500/t). The reasons cited for the increase were the upcoming wage negotiations in Chile and Peru, as well as stricter environmental policies in China. At the end of January, copper was quoted at about US$ 7,100/t. Cochilco believes that a deficit of 175,000 t of refined copper on the global copper market is possible for 2018, compared with 67,000 t in 2017. For the period from January to October 2017, the ICSG has now published their figures, according to which the deficit in this period amounted to 175,000 t. However, it is worth noting that October exhibited only a balanced production/demand ratio.
According to statements by the Reuters news agency, Peru’s government is currently considering developing railway connections between the copper-rich Andean region and the Pacific coast. The project for copper transport on the approximately 600-km-long stretch could involve a budget of US$ 2.4 billion and provide a better connection, especially for the Las Bambas mine.

Protests by freight forwarders occurred at Turquoise Hill’s Oyu Tolgoi copper-gold mine in Mongolia, which blocked the main access road to the mine and thereby made concentrate deliveries from Mongolia to China impossible, according to reports by Bloomberg. However, the output of copper concentrates from the mine continued as normal.

In order to improve air quality in China in the winter months, the government instructed energy providers on short notice to switch from coal to gas. In addition, the housing sector is expected to be given preference over the industrial sector. Among other things, this led to energy shortages at the beginning of the year for manufacturers of copper wire, who use gas as their primary energy source. Metal Bulletin reported on possible production disruptions as a consequence of this development.

**Price trend**

Despite inventory increases, copper price largely stable at over US$ 7,000/t in January

In January, the copper price was largely able to remain above US$ 7,000/t. The highest level of the month was already reached on 04 January (US$ 7,202.50/t); afterwards, there was a weakening, with prices around US$ 7,050/t. As a result of a strong increase in LME copper inventories (see inventories), on 23 January the price fell below the US$ 7,000/t mark and a settlement price of US$ 6,905/t was registered. However, this was only a short-term setback. In the following days the copper price recovered again, to more than US$ 7,100/t.

**Copper raw materials**

After the announcement of the reference transaction for 2018 copper concentrate deliveries in the amount of US$ 82.25/t and 8.225 ¢/lb (previous year: US$ 92.5/t / 9.25 ¢/lb), which took place between the Chinese smelter Tongling and the mining company Freeport-McMoRan, it was interesting to see whether this level would also establish itself on the January spot market. This was not quite the case. Various factors, such as swift, strike-free wage negotiations (see below) on the mining side and production disruptions on the smelter side (see Production) raised the spot conditions, according to Metal Bulletin. Released quantities are expected to be increasingly available on the market. Demand from traders and smelters will be well represented.

There was also news at the beginning of January regarding the wage negotiations at the Lomas Bayas mine: According to Reuters, Glencore and the trade union reached an early agreement regarding a new collective agreement for the Chilean mine and were thereby able to forestall a strike. Antofagasta had already reached a new wage agreement for their Centinela mine at the end of December. At the end of January, Reuters additionally reported that Codelco had swiftly negotiated a new collective agreement for the Andina mine for the next three years.

After the expanded supply agreement until June of this year, the negotiations between Freeport-McMoRan and the Indonesian government regarding the Grasberg mine rights also continued in January. With regard to concentrate availability, this can be taken as a positive sign. At the end of 2017, government representatives signed an agreement with the state-owned company PT Indonesia Asahan Aluminium (Inalum), which is expected to serve as a basis for the transfer of the Freeport-McMoRan shares to the local company. Nonetheless, the negotiations for the increase of the local company’s shares to 51 % of the Grasberg mine (incl. the Rio Tinto portion) are continuing. Both parties have the objective of concluding the talks in the first half of 2018.

China is currently the focus of attention on the international market for copper scrap. In the course of the efforts to limit the airborne emissions in particular, the Chinese government has stepped up the pace considerably: In addition to the widely discussed ban on so-called “Scrap no. 7” – scrap with a high proportion of plastic and a low copper content (under 40 %) – import trading will also be eliminated as an intermediate step, beginning on
March 1, 2018. Thus, import licenses for clean grades of scrap will only be issued to processing plants according to quotas after then. Additionally, as a further restriction, the import of standard copper scrap will only be allowed with impurities of up to one percent. This does not seem achievable at present. What could the possible consequences be? Market participants could search for regional alternatives for copper scrap processing in countries close to China, or upgrade technically. According to reports from Metal Bulletin, representatives from the Chinese smelter Jiangxi Copper calculate that the Chinese copper industry could thus face a possible copper scrap deficit of 500,000 t, which would correspond to around 45% of copper scrap imports in the People’s Republic. The extent and the implications of the developments described here are difficult to predict at the moment, but have the potential for structural changes on the international copper scrap market. For example, North American trade could become more interesting for European scrap processors as a result. Availability of certain copper scrap grades on the market, especially granulate, would generally increase for them. On the European market for copper scrap, supply levels remained high in January. Above all, both the increased copper prices and the good supply situation among scrap processors contributed to this, preventing any acute purchasing needs from occurring.

Production

Global production of refined copper is currently providing a mixed picture. According to China’s National Statistic Bureau, output there reached an all-time high of 865,000 t in December 2017 and thereby had annual production of 8.80 million t (+7.7%). It is important to remember that, in the fourth quarter, special efforts are normally made in order to achieve the annual goal. The high copper price and maintenance shutdowns, which had less of an effect than expected, may have contributed to this. The Chinese research institute Antaike expects a capacity increase of 300,000 to 400,000 t in China for 2018. On the other hand, reports of isolated production disruptions/restraints at international copper smelters appeared in news media recently, which also had an effect on the spot market for concentrates (see raw materials).

As reported by Reuters, KGHM currently expects that their smelters in Glogów will not achieve full capacity in 2018. In this context, a three-month shutdown in the second quarter is planned for the newer of the two units at the site. Glogów II has a production capacity of 235,000 t of refined copper per year. According to statements by Metal Bulletin, Glencore’s Pasar smelter in Indonesia was also idle in January. Technical difficulties were cited as the reason. As a result of the shutdown of the 330,000 t unit, a number of concentrate shipments have already been diverted. Also operating with reduced output in January was Birla’s Dahej copper smelter in India. Further details regarding the reasons for this have not yet reached the market. There were two incidents in Chile: ENAMI’s Paipote copper smelter was idle from mid-December until 8 January. According to information from CRU, the smelter was supposed to be operational again in January after the signing of a new collective agreement. A technical malfunction occurred at Codelco’s Potrerillos smelter, but the tankhouse was not affected.

Inventories

Between the Christmas and New Year’s festivities in the west and the Lunar New Year celebrations in China in mid-February, unusual inventory developments are indeed possible, but the increase in LME inventories by 65,000 t to approximately 277,000 t within two days was still surprising. A majority of the deposits took place in the South Korean warehouse in Busan, but receipts were also recorded in Singapore and Malaysia. Deposits in these amounts in such a short period of time are a reminder of similar actions last year. Therefore it remains to be seen whether this is once again only an interlude, or whether the volume increase proves to be sustainable. Currently, only around 52,000 t are booked for removal. Copper inventories also increased at the SHFE. After an increase of 26,000 t, these were at approximately 176,000 t. In mid-January, around 470,000 t were located in the Shanghai bonded warehouse. The volumes stored in COMEX warehouses showed little change and ranged between 191,000 t and 194,000 t.

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<th>LME copper inventories increase in January by approximately 100,000 t</th>
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<td><strong>January 26, 2018</strong></td>
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<td>LME</td>
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<td>COMEX / SHFE</td>
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<td><strong>Total Cu inventories at metal exchanges</strong></td>
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<th>Shanghai bonded warehouse (Mid Jan 2018)</th>
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Product markets

At the joint press conference for the associations representing the German construction industry at the beginning of 2018, the representatives appeared confident. As in the previous year, sales growth is expected to increase nominally by approx. 4 % to € 117 bn. For commercial construction and public-sector construction, sales growth of approximately 4 % is anticipated; residential construction is predicted to increase by 3.5 %.

The German Electrical and Electronic Manufacturers’ Association also began the new year with optimism. After 2017 closed with record sales and exports, a further increase in price-adjusted output of approximately 3 % is expected for 2018. From January to November 2017, the growth amounted to 4.6 % compared to the previous year. Exports were particularly strong, with an increase of 10.1 %.