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

In focus

The news on the copper market varied during LME Week 2016. As commentaries on the market situation increased, opinions regarding individual aspects strongly diverged in some cases. This is evident in the evaluation of the concentrate market, for example. One can assume that these opinions reflect different interests in some cases. However, the overall view indicates that the 2017 copper market will be stable for the most part.

Economic situation

In the current economic observations, a key focus has continued to be the development in the US, where the third quarter ended with annualized GDP growth of 2.9 %. The Fed's Open Market Committee (FOMC) left the interest rates unchanged on November 2, a decision that had been expected on the metal markets, not least because of the upcoming presidential election. There wasn't a noticeable influence on the metal prices.

A total of three positive indices sparked hopes of economic stabilization in China. The official Purchasing Managers Index for larger state-owned companies was at 51.2 in October after previous stagnation, as was the Caixin Manufacturing Index, which is focused on medium-sized companies. The official Services PMI increased and was at 54.0 in October.

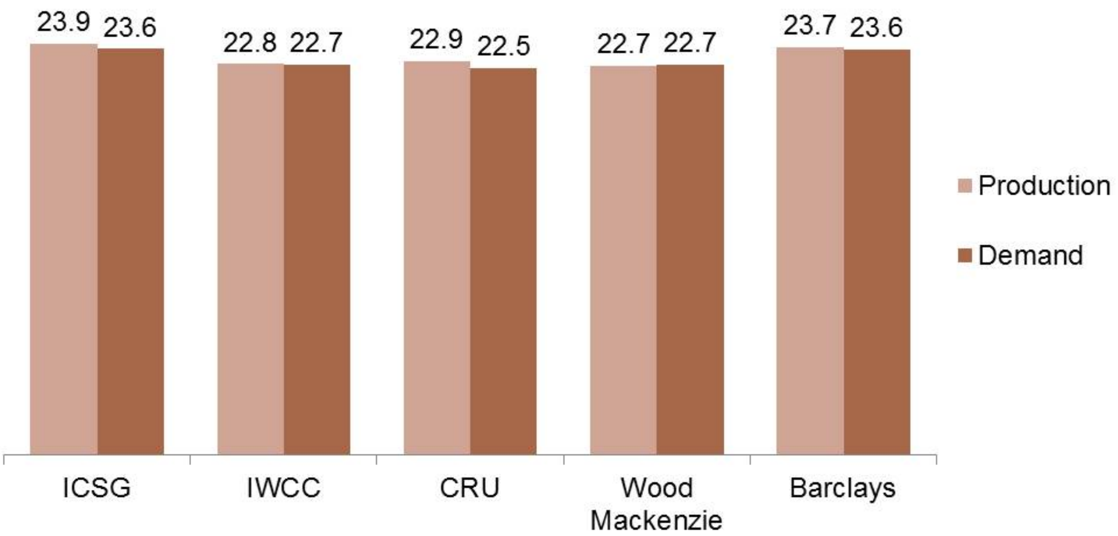
In the EU, the Brexit vote hasn't strained economic development so far. The speed of recovery remained the same. GDP rose by 0.3 % in the eurozone and by 0.4 % in the entire EU in the third quarter. Industry in the eurozone started better than assumed into the final quarter. At 53.5 points, the most recent relevant Purchasing Managers Index visibly exceeded the September figure of 52.6. This is the highest level since January 2014. Significant factors included stronger growth in production, in the level of incoming orders and in new export business.

Copper compact

In the reports on the LME Week, copper was declared this year's outsider, since it didn't participate in the good overall trend in the non-ferrous metals sector. The metal reached its high of US$ 5,131/t in March 2016 already but then fell again. Copper couldn't hold a candle to zinc, whose price increased by 47 % this year. The copper price increase has been less than 1 % since early 2016. The positive trend in the non-ferrous metals sector despite the uncertain political and macroeconomic environment came as a surprise and was primarily due to the expectation of bottlenecks in the supply/demand balance for individual metals. For copper, on the other hand, good mine output and a demand level that had been assessed as weak, especially in China, were at the forefront of market observations. But: rising Chinese cathode exports were mainly carried out in Asian LME warehouses and didn't strain any other regional markets. Furthermore, word during LME Week was that real copper demand in China is supposed to be better than many have estimated. Cathode imports were at 2.8 million t in the first ten months, a 9.7 % increase compared to the same period of the previous year. The fact that, according to the ICSG, there was a 264,000 t production deficit of refined copper in the first seven months of 2016 wasn't given enough weight.
The starting point for 2017 seems to be viewed somewhat more positively in analysts' assessments. The International Wrought Copper Council (IWCC) anticipates a balance between production and demand on the international copper market in 2016 and 2017 overall. Price swings below US$ 4,600/t repeatedly led to buying interest during this year. A handful of analysts expect the production side in 2017 to be less stable than this year. The International Copper Association thinks an increase of up to 15 % in Chinese copper demand is possible in the current five-year plan in light of ambitious economic growth plans. The country's energy sector, which is looking to renewable energies, will be a key industry once again. Momentum is also coming from the rising demand for electric cars. The visible copper inventories shouldn't be classified as excessively high, especially since more volumes from the LME warehouses that had previously received deliveries are being deducted again and delivered back to China. The cathode premiums there in spot business for cif Shanghai deliveries are currently around US$ 90/t according to media reports. The Chilean mining minister expects the average copper price to be US$ 2.20/lb and US$ 4,850/t in 2017, slightly above this year's expected reference value of US$ 2.15/lb and US$ 4,739/t.

With a market volume of about 23 million t, the 2017 global copper balance shows no larger surpluses

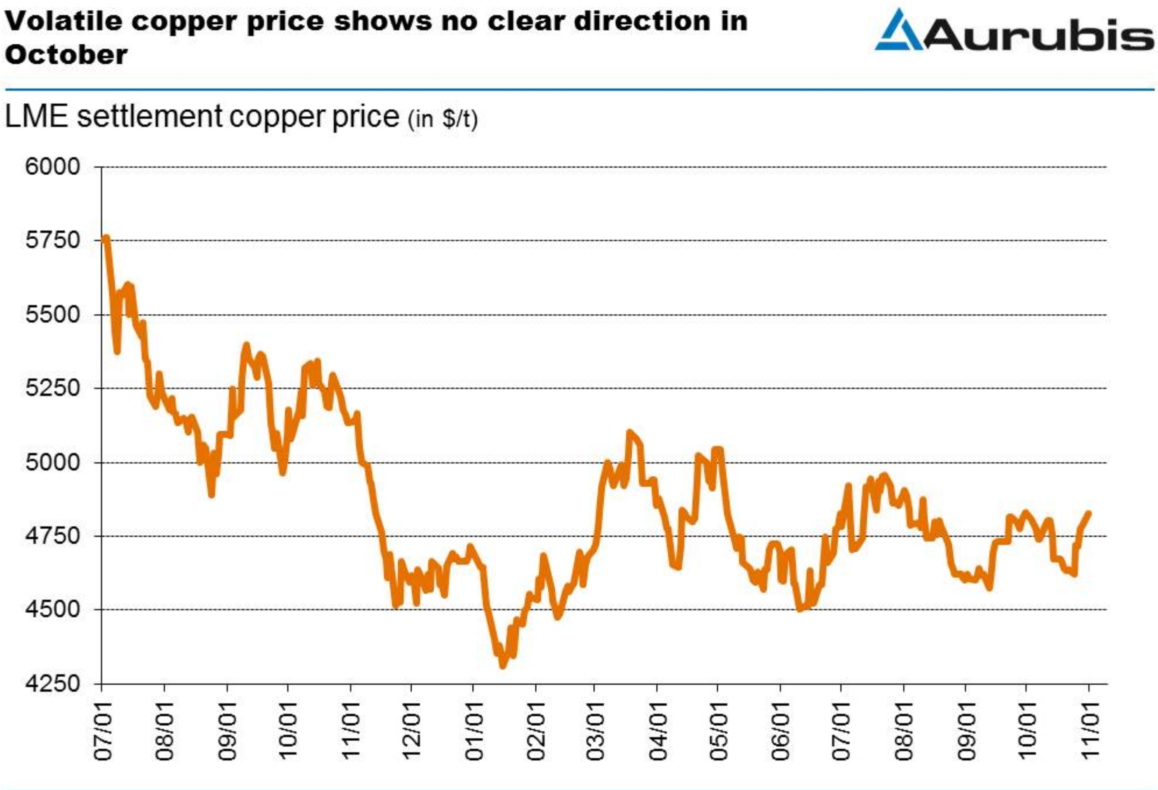
2017 forecast: global production and demand of refined copper
(in million t)



Source: various, see graphic

• Price trend

The LME copper price varied in October and wasn't able to stabilize at the level of slightly over US$ 4,800/t (settlement) that had been achieved at the end of September. There were counter-reactions following this increase. The month's low was reached on October 24 with US$ 4,620.50/t, which nevertheless was followed by a recovery to US$ 4,827.50/t on October 31.



• **Copper raw materials**

Like every year on the copper concentrate market, the opinions between mines and smelters diverge regarding the “right” TC/RCs for the new annual contracts being negotiated. However, it’s still too early for concrete results. The smelters are supposedly well supplied for the most part, with limited active spot business. In a Metal Bulletin interview, Aurubis mentioned a possible indication of US$ 105/t and 10.5 cents/lb or more. Jiangxi Copper also believes that a TC/RC over US$ 100/t and 10 cents/lb is possible. Moreover, there was a report that a Chinese smelter supposedly made spot purchases with US$ 105/t and 10.5 cents/lb recently.

According to the ICSG, the 2016 mine output is expected to increase by 4 % to 19.9 million t. Concentrate output accounts for an increase of 6 %, while the SX/EW output registers a 3 % decline. For 2017, the ICSG anticipates that mine output will stay at the same level, but the breakdown is more interesting: at 6 %, the decrease in SX/EW is expected to be stronger than this year, which should be balanced out with higher concentrate output. This would mean for the international concentrate market that on this basis – derived purely mathematically – there could be more concentrate volumes available for primary smelters.

Indonesia could also allow copper concentrate exports after 2017. This comment from the ministry of industry isn’t completely unexpected, as the original January 2017 deadline for the construction of a smelter is approaching and there haven’t been reports of any significant progress so far. Freeport McMoRan doesn’t view the completion of a facility like this as realistic before 2021. However, exports might only be permitted with restrictions, such as volume quotas and duties, in order to maintain the pressure to build a smelter.

There were very few changes on the European copper scrap market in October. There was no new momentum for traders that would have led to a significant change in supply behavior. Among other factors, the fluctuating copper price didn’t provide any orientation. Activities on the copper scrap market were therefore restrained. However, refining charges increased slightly towards the end of the month, due in part to weaker demand from Asia.

• **Production**

According to the official statistics office, Chinese refined copper production rose by 7.2 % to 725,000 t in September 2016 compared to September 2015. It fell by 2.4 % compared to August 2016. Output was 6.22 million t for the first nine months (+ 8.4 %). This is primarily attributed to the good availability of concentrates. In light of these numbers, other news was given too little attention: Reuters reported on October 18 about an announcement from the Chinese Ministry of Industry and Information Technology (MIIT) that China's government wants to strictly monitor capacity expansions in the Chinese non-ferrous metals industry. Production expansion in the copper industry is supposed to be limited, for example. The output of copper products in China in the period January-September 2016 increased by 14.1 %, which casts cathode demand in a different light than the pure economic trend does.

• **Inventories**

While the focus in September was on an increase in the LME copper inventories, it was an opposite development that baffled in October. The 75,000 t increase in September was followed by a 52,300 t decrease to 320,000 t in the four weeks of October. An additional 134,575 t were also registered for delivery at the turn of the month. Though there was a brief, limited increase of roughly 14,000 t at the Chinese SHFE, the copper inventories there were 102,548 t at the end of the month and were thus lower than at the start of the month (107,058 t). With an estimated 480,000-500,000 t of copper at the end of October, the volumes stored in the Shanghai bonded warehouse likewise reflect a downward tendency.

Copper inventories in the metal exchange warehouses decrease again in October

October 31, 2016	Europe	North America	Asia	Total
LME	33,875 t	69,250 t	216,350 t	319,475 t
COMEX / SHFE	---	65,282 t	102,548 t	167,830 t
Total Cu inventories at metal exchanges	33,875 t	134,532 t	318,898 t	487,305 t
Shanghai bonded warehouse (late Oct. 2016)			480,000 t – 500,000 t	480,000 t – 500,000 t

• Product markets

In the German electrical industry, incoming orders from January to August 2016 were 1.1 % behind the prior-year level, but orders in August 2016 alone were 5.6 % higher than August 2015. The production plans were scaled down somewhat in September. Nevertheless, 20 % of companies want to increase their production in the next three months and 76 % want to keep it at the same level.