

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

In focus



The “Trump effect,” which has been boosting the stock market and the metal market since November 2016, has lost some of its steam in the past days. The fact that not everything President Trump announced he would do can be realized quickly and without resistance in the USA has cast doubts on the feasibility of his economic agenda. The highs of the stock market have evened out somewhat, and the copper price has also been affected. The strike situation in the mining industry has also calmed, which improves the outlook for supply.

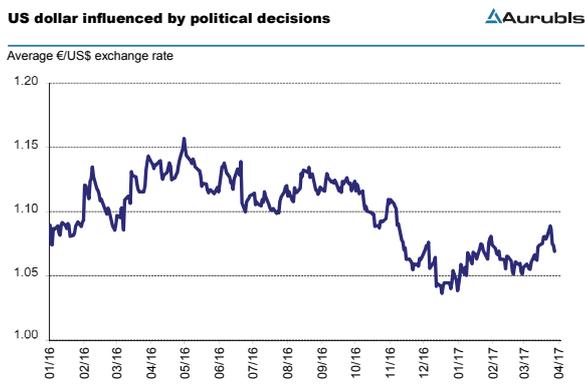
Economic situation



Since Trump’s inauguration it has become evident that it is difficult for the U.S. economy to keep momentum going. While the purchasing managers’ index in March pointed towards growth with a value of 53.2, there have been indications for the past two months that the annualized growth rate will only amount to 1.7 %, according to the research institute Markit. In the fourth quarter of 2016, the gross domestic product of the USA grew by 1.9 %.

Markit considers the economic development in the eurozone to still be headed in the right direction. Markit reported that consumer and corporate behavior fell in line with the upwards trend of the economic indicators in March. Positive stimuli came from the key countries of Germany and France above all. The economy there grew more strongly than it had in six years. In Germany, the index for the private sector climbed by 0.9 to 57 points.

In China, the target economic growth for the current year was set in early March at 6.5 % or better. In 2016, the growth rate had amounted to 6.7 %.



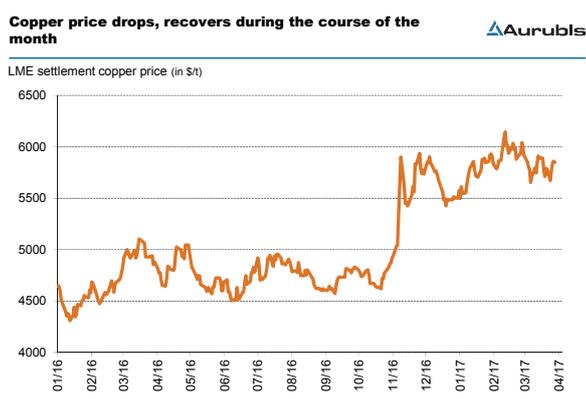
Copper essentials

A mixture of partially counter indicative factors made it difficult to get a consistent picture of the copper market. This can also be seen in the price trend (see Price trend). There were, on the one hand, the known and new disruptions at copper mines, which gave the appearance that there could be bottlenecks and supply shortages: Escondida, Chile; Cerro Verde, Peru; and Grasberg, Indonesia. The workers in Escondida only returned to work on March 25

after 43 days and upon reaching a temporary agreement. In Cerro Verde the workers began striking on March 10 with the option of continuing the strike into April. According to the mining operator Freeport McMoRan, the mine, which has the capacity to produce up to 360,000 t of ore per day, is still operating at 50 % of its capacity. At the Grasberg mine, production was stopped until March 21. After that date it was only resumed in order to supply the Indonesian smelter Gresik. It will likely only reach full capacity utilization in May again, according to market participant estimates. The Indonesian export ban on copper concentrates remains intact. In Peru, terrible weather caused a force majeure to be declared for the Toromocho mine in the north of the country. In all of these cases, the mines were immediately affected, and it may not have been evident to everyone that the situation there did not apply to the smelting level directly. The smelters were still profiting from the good supply of concentrate that had preceded the production disruptions.

There was also a very good international supply situation for scrap copper and blister copper, which could surely have been beneficial for expanding production of refined copper. It can be assumed that the opportunities for use that were available were utilized to their full capacity. This also affected the industry for semi-finished products, which likely partially replaced the use of cathodes in its input mix through increased use of copper scrap. In addition, there were large amounts of cathodes that suddenly appeared on the official warehousing system. At LME alone, inventory was built up in the first half of March by about 140,000 t, with a concentration in Asian warehouses (see Inventories). The question of the origin of this build-up cannot be answered definitively. A part certainly was the result of increased copper imports from China, which rose by over 300 % in February to about 44,000 t. Overall, the individual factors came together to result in a supply of cathodes in March that was so good that the cathode premiums in the international spot business remained on a comparatively low level.

» Price trend



The copper price lost momentum in March. After beginning at US\$ 6,040/t, a monthly low of US\$ 5,655/t was reached after just a few days. Following this, the price performance fluctuated inconsistently within a range from about US\$ 5,700 to 5,900/t. The day-to-day rate fluctuations have been noticeably high of late. Shortly before the end of the month, copper was again trading just below US\$ 6,000/t. The contango (spot price < forward price) expanded and was slightly above US\$ 30/t on some days.

» Copper raw materials

The aforementioned production disruptions reduced the volumes that were available in March on the international spot market for copper concentrates, especially with the additional, weather-related disruption caused by the force majeure in Toromocho. As reported in various media sources, the smelting and refining charges (TC/RC) dipped below US\$ 80/t and 8 cents/lb on occasion. Positive steps towards improving the situation have, however, been made with the end of the labor dispute in Escondida and the partial resumption of production in Cerro Verde and Grasberg. In an interview with Metal Bulletin, the head of the China Smelter Purchase Team (CSPT) had also stated that the TC/RCs could recover after the end of the current production issues so much so that the level of this year's benchmark of US\$ 92.5/t and 9.25 cents/lb could be achieved in the annual average. The smelters' demand for concentrates is not very robust, he noted. At the end of March, the CSPT set a guideline TC/RC for concentrate purchases of US\$ 80/t and 8 cents/lb for the second quarter of 2017, according to Reuters.

There were no significant changes in the European copper scrap market in March. While the copper prices did level off at times, this did not have palpable effects on the available volume. The smelters are well supplied. The refining charges that could be achieved here remained high.

» Production

At 8.44 million t, Chinese production of refined copper in 2016 grew 6 % year over year. This represents an increase by about 480,000 t in light of very good availability of raw materials. Delays with the entry into service of new capacity are anticipated for 2017. This is also the case at Tongling, where aging capacity infrastructure will be shut down in 2017, and replacement systems with higher production capacity will only go into operation in 2018.

Global production of refined copper reached 23.406 million t in 2016, according to the International Copper Study Group (ICSG). This is an increase of 534,000 t or 2.3 % over the previous year. Capacity utilization was at 86.3 % (2015: 85.5 %).

» Inventories

Unexpectedly high deliveries cause rapid increase in LME copper inventories mid-month 

March 30, 2017	Europe	North America	Asia	Total
				
LME	27,700 t	68,375 t	195,100 t	291,175 t
COMEX / SHFE	---	130,068 t	312,584 t	442,652 t
Total Cu inventories at metal exchanges	27,700 t	198,443 t	507,684 t	733,827 t
Shanghai bonded warehouse (End of 2017/03; MB)			rd 610,000 t	rd 610,000 t

The increase in copper inventories in the visible warehousing system that could be noted in March caused a stir. At LME there was an increase in the first half of the month of 140,000 t to 340,000 t. Almost 40,000 t of this left the warehouses again by shortly before the end of the month. This movement is also reflected in the trend of canceled warrants. These were at roughly 160,000 t mid-month and at 132,000 t on March 29. Asian LME warehouses still held 203,700 t on March 29, having held 236,000 t mid-month and 105,300 t at the beginning of the month. At SHFE there was also an increase in inventories in March, though this was considerably more moderate at roughly 23,000 t. On March 29, SHFE had copper inventories of 312,584 t. The volumes

in bonded warehouses in Shanghai also increased, fed by imports and deliveries from Chinese smelters. They were estimated at slightly more than 600,000 t at the end of the month. The negative arbitrage at SHFE/LME gave little cause to supply volumes domestically there.

» Product markets

There was good news from the consumer markets relevant for copper:

The German construction industry is able to report lively demand for construction services. According to information provided by the industry association, order entry increased in January nominally by 9.2 % year over year and thus reached the highest amount since 1996.

Production plans rose in February to the highest level in almost two years in the German electronics industry, the ZVEI reported. Production growth of 1.5 % is anticipated for 2017 overall.

The production level is expected to improve in the cable and wire sector in China, which is the result of the first orders coming in for the expansion of the state-owned electricity grid. The expansion of the rail network also offers potential for additional orders.