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

**In focus**

2016 was a year of many small and medium-sized surprises, as well as two large-scale political events, Brexit and the US election. Crude oil and industrial metals became more expensive, the latter to a huge extent in some cases. Even copper, which had lagged behind the price trend of other non-ferrous metals for a long time, launched a final rally towards the end of the year. From today's standpoint, it seems unlikely that the turbulence on the global markets will decrease in 2017. Instead, political influences should be expected to intensify, increasing risks at the same time. There are definitely hopeful developments as well. Economic indicators are pointing upward around the world, with few exceptions, and the emerging markets in particular are benefiting from higher commodity prices. According to the German newspaper Börsen-Zeitung, hedge funds are counting on commodity prices to rise.

## Economic situation

At its meeting in mid-December, the US Federal Reserve increased the benchmark interest rate by a quarter of a point, to a range of 0.5 to 0.75 %. The central reasons given for this decision were the higher economic dynamics in the US and solid job growth on the labor market. However, the future is unclear due to significant uncertainty about the future relationship between the Fed and the government and about potential changes in economic and fiscal policy. The Fed's forecast regarding the number of anticipated rate hikes in 2017 is interesting, as it was increased from two to three.

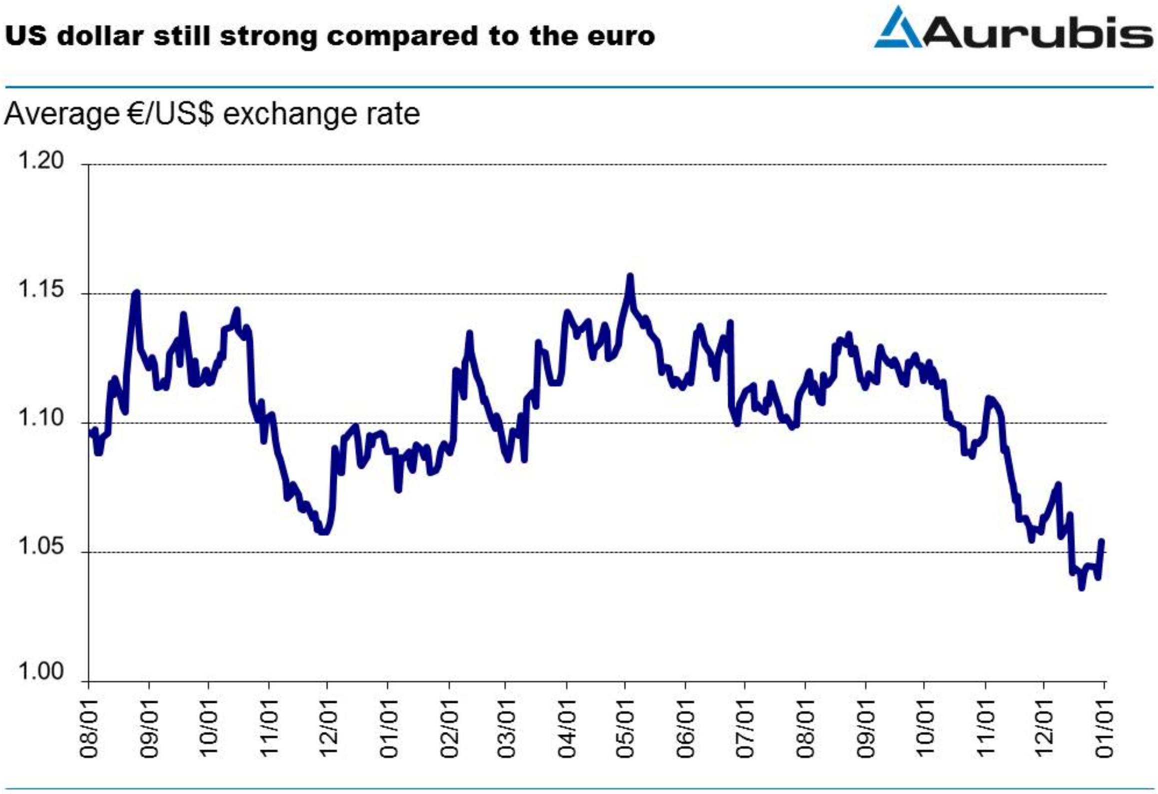
China, whose economic development is crucial for the copper market, is also facing considerable challenges in 2017. These arise from the balancing act between maintaining the growth targets established in the five-year plan (at least 6.5 % for the years until 2020) and the structural reforms necessary to secure growth. The government will also be challenged when it comes to adjusting its lending policy and overcoming speculative bubbles. Overall, the focus will be on tackling problems and promoting stability. Most recently, retail sales (November: +10.8 %) and industrial production (November: +6.2 %) rose more distinctly than expected; at 51.9 points, the Caixin Purchasing Managers' Index reached the highest level since January 2013.

In late March 2017, Europe will celebrate the 60th anniversary of the Treaty of Rome, which led to the establishment of the EU. This celebration will take place against a backdrop of increasing skepticism towards the EU. In 2016, the euro reached the lowest level against the dollar since 2003. There are now additional risks on the heels of Brexit, in a complex constellation comprising monetary policy, economic developments and political shifts. In its last economic forecast for 2017, the European Commission still anticipated possible economic growth of 1.6 %. Furthermore, the mood in European industry brightened in December with a Purchasing Managers' Index of 54.9 points, the highest level since April 2011.

**Copper essentials**

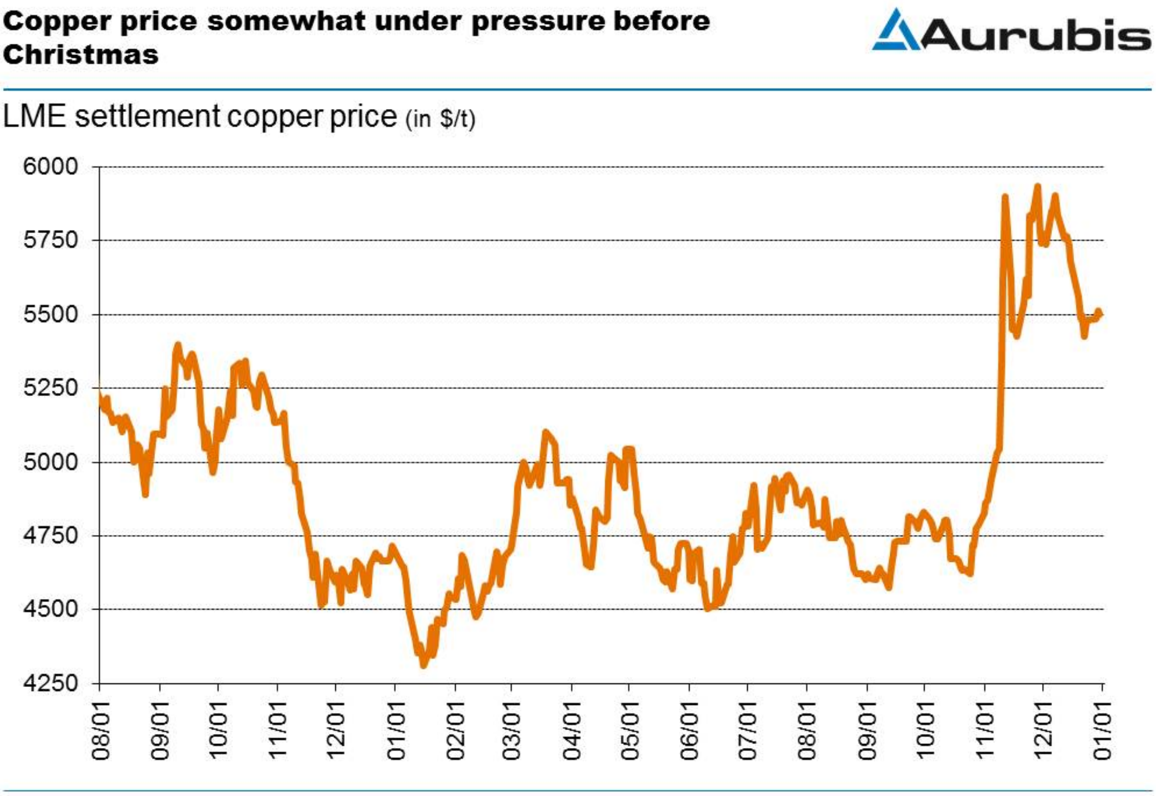
With the holidays and year-end, December is generally a time of transition on the copper market. Industrial activities decline, exchange positions are adjusted and willingness to enter into new ones also decreases. The LME's Commitments of Traders Report, which indicates the trading positions of market participants required to publish this information, still showed a multi-week high for long positions in early December, but these were later reduced in some cases. Inventory trends in this period can't serve as a guide for fundamental trends, either, as they are often due to disposals undertaken at short notice. Nevertheless, higher storage levels in the LME and SHFE warehouses before Christmas placed pressure on the copper price. The price seems to be in a consolidation phase in the meantime, however.

Hardly any new information was available to provide any enlightenment about the fundamental situation on the copper market. The International Copper Study Group published its September figures for the global market, which indicated a monthly deficit of 15,000 t of refined copper, following a surplus of 156,000 t in August. For the period January to September 2016, the global production deficit was 84,000 t. During this time, demand increased by 565,000 t compared to the previous year, a 3 % boost. China evidently played a key role in this development, though at 276,730 t, the country's imports of refined copper in November were 23 % below the level of November 2015. However, an increase of 45.8 % was recorded compared to the weak prior month of October. The significant positive shift in Goldman Sachs' forecast also resonated strongly on the market. In a fundamental analysis, the bank switched its expectation of a market surplus of 360,000 t to a deficit of 180,000 t. Reportedly, the decisive factor in this case was China's copper demand, which appears to be higher than originally estimated. Prices of over US$ 6,000/t are considered possible in the next six months. Others are less optimistic. The future inventory trend is expected to provide initial direction. Larger warehouse deposits at the LME, which had been discussed before the start of the year, haven’t occurred yet. Instead, LME copper inventories have decreased again every day since Christmas.



**• Price trend**

The LME copper price wasn't able to maintain the level of roughly US$ 5,900/t that had been achieved at times in November. A settlement price of US$ 5,903.50/t was registered just once more, on December 7. Afterward, the price gradually decreased to US$ 5,426/t until shortly before Christmas. After a slight post-Christmas recovery, the copper price ended 2016 at US$ 5,501/t (settlement).



• **Copper raw materials**

On the international copper concentrate market, the year 2016 didn't end the way that many had expected during LME Week in early November. For example, in an interview with Metal Bulletin at that time, Jiangxi Copper expressed the opinion that the 2017 benchmark for treatment and refining charges (TC/RCs) could be over US$ 100/t and 10 cents/lb. The media reports stating that Jiangxi, of all companies, negotiated a TC/RC of US$ 92.5/t and 9.25 cents/lb with Freeport-McMoRan just a little bit later, in mid-November, came as a surprise to the market. In spot business, it was reported that smaller smelters made purchases with similarly lower TC/RCs. The opinion of the China Smelters Purchase Team regarding the floor for concentrate purchases in Q1 2017 was released in late December in publications such as American Metal Market and pointed to an orientation towards the Jiangxi/Freeport contract. In light of the purchases carried out in December and the early Chinese New Year festivities coming up in late January/early February, the purchasing activities of Chinese smelters will likely be limited at first.

The European copper scrap market also indicated a good supply in December, though activity subsided gradually due to the copper price decline and the holidays. The good physical and contractual supply situation among scrap processors, who distanced themselves from deliveries at short notice in day-to-day business, contributed to this situation.

• **Production**

In December, the Chilean company Codelco reached an early wage deal for its Chuquicamata division that is valid for 27 months. This prevented difficult wage negotiations that could have led to strikes and thus decreased production.

Peru produced 2.154 million t of copper in the period from January to November 2016, according to reports from the country's mining ministry. This was a 42 % increase compared to the same period of the previous year.

Indonesia is forecasting a strong surge in its copper output in 2017. An increase from 242,000 t in 2016 to 710,000 t is expected, a 194 % boost.

**• Inventories**

Copper inventories rose notably in the LME warehouses in December. They increased from 237,000 t to 345,000 t until December 19, decreasing afterward to 322,000 t until the end of the year. According to the LME, a total of 80 to 90 % of the warehouse warrants were concentrated with one market participant on December 29. Canceled warrants amounted to 125,225 t at year-end. The SHFE also registered inventory increases after previous declines. The increases totaled about 15,000 t in the second half of December and brought the total warehoused copper volumes to 147,000 t. According to the CRU, roughly 500,000 t were stored in the Shanghai bonded warehouse prior to Christmas.

**Development of copper inventories influenced by year-end disposals**

| December 30, 2016 | Europe | North America | Asia | Total |
|---|---|---|---|---|
| |  |  |  | |
| LME | 21,100 t | 93,100 t | 208,025 t | 322,225 t |
| COMEX / SHFE | --- | 80,112 t | 146,598 t | 226,710 t |
| Total Cu inventories at metal exchanges | 21,100 t | 173,212 t | 354,623 t | 548,935 t |
| Shanghai bonded warehouse (late Dec. 2016; CRU) | | | ca. 500,000 t | ca. 500,000 t |

• **Product markets**

No fundamental changes were expected from the product markets in December due to seasonal factors, an expectation that was ultimately confirmed. The most recent statistical information in the industry reflected the situation in October.

According to the ZVEI (German Electrical and Electronic Manufacturers' Association), orders were 4.2 % below the prior-year level in the German electrical and electronics industry. Production also fell by 5.3 %. The production plans for the next three months were scaled down slightly in November. While 75 % of companies assume a stable level, 19 % expect an increase.

The signals from the German mechanical engineering sector were also subdued. Incoming orders in October fell by 10 % compared to the previous year, and foreign orders declined by 15 %. For all of 2016, the sector association VDMA (German Mechanical Engineering Industry Association) anticipates stagnating total production.