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

In focus

The year 2017 started with considerable turbulence, kicking off with the new American president’s first official acts. Nevertheless, there were hardly any notable impacts on the metal markets, despite the initial euphoria in this sector. The copper price was firmer in January; however, this was due in large part to the fundamental market situation.

Economic situation

After the initial euphoria on the markets, the new president's official acts provoked uncertainty among analysts and investors. Opinions therefore diverge about the consequences for international trade policy, the US dollar and the growth outlook. The independent Congressional Budget Office anticipates a GDP of 2.3 % for 2017, but government officials are saying that 4 % growth could be achieved with the right measures. In the last quarter of 2016, the US economy only grew by 1.9 % (Q3: +3.5 %).
China's economic growth in Q4 2016 was a surprise. The country achieved 6.8 % growth compared to the prior-year quarter, instead of the expected 6.7 %. The annual growth rate for 2016 was 6.7 %, reaching the government's target of 6.5 % to 7 %.
The economic mood in the Eurozone has improved, reaching the highest level since spring 2011. The European Commission reports a 0.1-point increase in the Economic Sentiment Indicator in January, to 107.9 points. Production expectations rose in the processing industry, with a positive assessment of the order situation. While the mood in Spain, Italy and the Netherlands was positive, it weakened in Germany and France. In Germany, the Ifo Business Climate Index fell from 111 to 109.8 points in January.

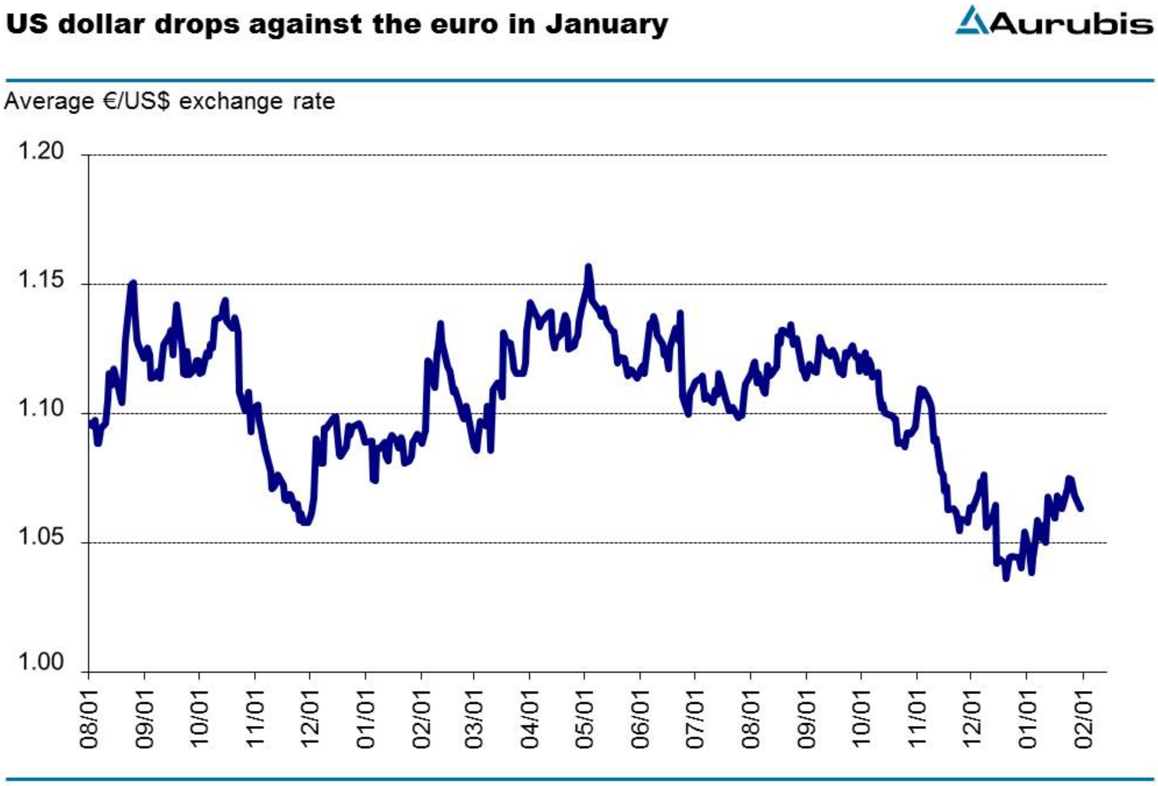
Copper essentials

On the copper market, the start to the new year was accompanied by three key events apart from political developments:

- China's activities on the international copper market have decreased visibly during the Chinese New Year's festivities. Apart from copper, this has impacted the entire commodity sector, in which China has become the leading consumer. Investors around the world have been reserved and the trading volume on the LME has declined. Arbitrage options haven't been possible due to China's temporary absence. A slow return to a more normalized situation is only expected after February 3, the day the SHFE reopens. The price trend on the LME will also likely move a bit more again at that time. Hedge funds and other investors have increased their long positions at the Comex in the last several days. This was also the case on the LME, where the net long position for copper on January 27 amounted to 68,796 lots (126,476 lots long; 57,680 lots short), or 1,719,900 t (1 lot = 25 t).
- In mid-December, the Chilean copper producer Codelco negotiated a wage agreement for 27 months and thus avoided strikes. This hasn't been successful at the Chilean Escondida Mine, which achieved an annual output of 1.15 million t of copper in 2015. The offer submitted on January 4 by the primary owner, BHP Billiton, was withdrawn. After the negotiations initially ended without any results, the union voted for a strike on February 1, which could start on February 6 if the company doesn't back down. A similar strike in 2006 lasted 25 days, with another strike in 2011 lasting 15 days. Regardless of the future resolution reached at Escondida – it will likely influence the further wage negotiations that are still expected this year. Similar negotiations will take place in fall 2017 at the Indonesian Grasberg Mine owned by Freeport-McMoRan and at the Chilean Collahuasi Mine owned by Anglo American and Glencore. Without any larger volume losses, the Chilean Copper Commission (Cochilco) anticipates a 4.3 % increase in Chile's copper output in 2017, to 5.79 million t.
- Attention is focused on Freeport-McMoRan at the moment due to the export license for copper concentrates from the Grasberg Mine, which still hasn't been finalized yet. There have been no exports since January 12. Reports from the company have indicated that storage capacities would only suffice until mid-February. Afterwards, the mine's production would have to be ramped down to 40 %, i.e. to the volume that can still be processed in the Gresik Smelter in Indonesia. The conflict is the result of the Indonesian government's

demand that a new export license be accepted, which is supposed to include stricter conditions such as higher taxes and divestment. According to the most recent information, there are currently talks about a temporary exemption from certain license rules, which would enable exports to resume.

To summarize, the copper market was shaped to a greater extent by the previously mentioned production risks and seasonal effects than by fantasies of a demand increase due to infrastructure investments in the US. In the case of the latter, the media is called on to return to more realistic expectations, especially with respect to the magnitude and the schedule. In this regard, Metal Bulletin quoted a study released by the law firm White & Case, which estimated the US share of base metal demand at less than 10 %. China, on the other hand, has a proportion of more than 50 %. It therefore makes sense to continue focusing on China first and foremost. The country's policies in 2017 are reportedly focused on stabilizing the economy by monitoring risks and avoiding bubbles.



• **Price trend**

After weakening at the turn of the year to settlement prices around US$ 5,500/t, the LME copper price was able to recover. Following a leap over the US$ 5,700/t hurdle on January 11, the price rose to US$ 5,890/t on January 26. The contango (spot price < forward price) averaged about US$ 23/t in January.

Cochilco and RBC Capital Markets increased their price forecasts for copper and now anticipate an annual average of US$ 2.40/lb and about US$ 5,290/t for 2017. Triland Metals Ltd. and the World Bank (Cu: US$ 5,400/t) also expect higher metal prices in 2017.

Copper price continues to recover in January

• **Copper raw materials**

On the international copper concentrate market, Chinese and Japanese smelters seem to have concluded their inventory build-up. This build-up had led to higher demand and falling TC/RCs before Christmas. Buying interest decreased on the spot market in January and more concentrates were available again. Various reports hinted that the conditions improved afterward. Metal Bulletin reported individual contracts around US$ 92.5/t and 9.25 cents/lb, which is viewed as the benchmark for 2017. However, even TC/RCs of around US$ 100/t and 10 cents/lb seem to be within reach in the meantime. Nevertheless, for the ongoing trend, a great deal now depends on three factors: Will there be a wage agreement at Escondida without larger strikes? What buying patterns will the Chinese concentrate smelters adopt after the end of the New Year's festivities? Is a special arrangement for copper concentrate exports from Indonesia possible that would lift the current export ban?

Business on the European copper scrap market was slow to start up again after the turn of the year. While one of the key conditions – higher copper prices – is still in place, processors nevertheless point to their good inventory situation, which is the result of purchases in Q4 2016. They were fairly reserved in spot business during January. Any buying interest tended to be for late delivery dates. The harsh winter weather in Europe has led to storage and logistics difficulties, but this hasn't significantly impacted the supply.

• **Production**

A Reuters report stated that three Chinese copper smelters, Jinguan (Tongling Nonferrous), Yuguang and Minmetals, are planning maintenance shutdowns in February/March 2017. All together, they are reported to have produced 460,000 t of copper in 2016. The planned production break will take between 30 and 45 days and will likely further ease the concentrate market temporarily.

Since January 19, 2017, there has been a strike at the Indonesian copper smelter Gresik (capacity: 300,000 t), in which Mitsubishi Materials Corp holds 60.5 % ownership and Freeport-McMoRan 25 %. There hasn't been any information about concrete impacts on production so far. If concentrate processing is affected, this will likely increase pressure on the speedy attainment of an export license since the storage capacities are limited (see above).

• **Inventories**

The copper inventories in the LME warehouses fell continuously in January. After 311,825 t at the start of the month, only 261,325 t were registered in late January following a decline of roughly 50,000 t. Most recently, one dominant market participant held 50 to 80 % of the warehouse warrants. Canceled warrants were at 98,425 t at the end of the month. At the SHFE, on the other hand, there was an inventory increase of about 66,300 t to 213,000 t, which was likely related to the New Year’s festivities in China. Metal Bulletin reported an estimated 480,000 t of copper in the Shanghai bonded warehouse.

Decline in LME copper inventories in Asian warehouses stands in contrast to an increase in SHFE inventories

January 31, 2017	Europe	North America	Asia	Total
LME	22,125 t	90,250 t	148,950 t	261,325 t
COMEX / SHFE	---	93,232 t	212,925 t	306,157 t
Total Cu inventories at metal exchanges	22,125 t	183,482 t	361,875 t	567,482 t
Shanghai bonded warehouse (late Jan. 2017; Metal Bulletin)			ca. 480,000 t	ca. 480,000 t

• **Product markets**

In the German electrical industry, the production plans for the next three months remained unchanged in December 2016, according to the industry association ZVEI. Overall, 22 % of companies surveyed wanted to increase their output, while 69 % wanted to keep their output at the current level. A total of 74 % of the companies expect business activities to stay the same in the next six months, and 17 % anticipate increasing business.

According to the German Institute for Economic Research (DIW), the order books in the German construction industry are full. In 2016, investments were 2.5 % higher than in 2015. The institute estimates that the increase could be 1.6 % in 2017, while construction investments are expected to rise by 2.4 % in 2018.