Copper Mail No. 145 – March 3, 2017

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

In focus

While the increasingly unpredictable political situation in the US continues to raise eyebrows, the American Dow Jones stock index delivered the longest record streak since 1987 this February. The stock market closed at record highs 11 days in a row. Copper wasn't as lucky in February. While the metal price was supported by strikes in the mining industry, the price increase nevertheless stalled. The US$ 6,000/t (settlement) mark was only surpassed a few times.

Economic situation

Chinese exports are off to a good start in 2017. Influenced by seasonal factors, exports increased by 7.9 % in January 2017 compared to January 2016. However, since customers likely moved their overseas deliveries forward due to the Chinese New Year festivities, these good figures don't provide any indications for subsequent months. Possible trade conflicts with the US and the general trend towards de-globalization lead to further uncertainties. China's Caixin Purchasing Managers' Index for February was 51.7, following 51.0 in January. Business conditions have supposedly improved overall, with higher output and increased orders.

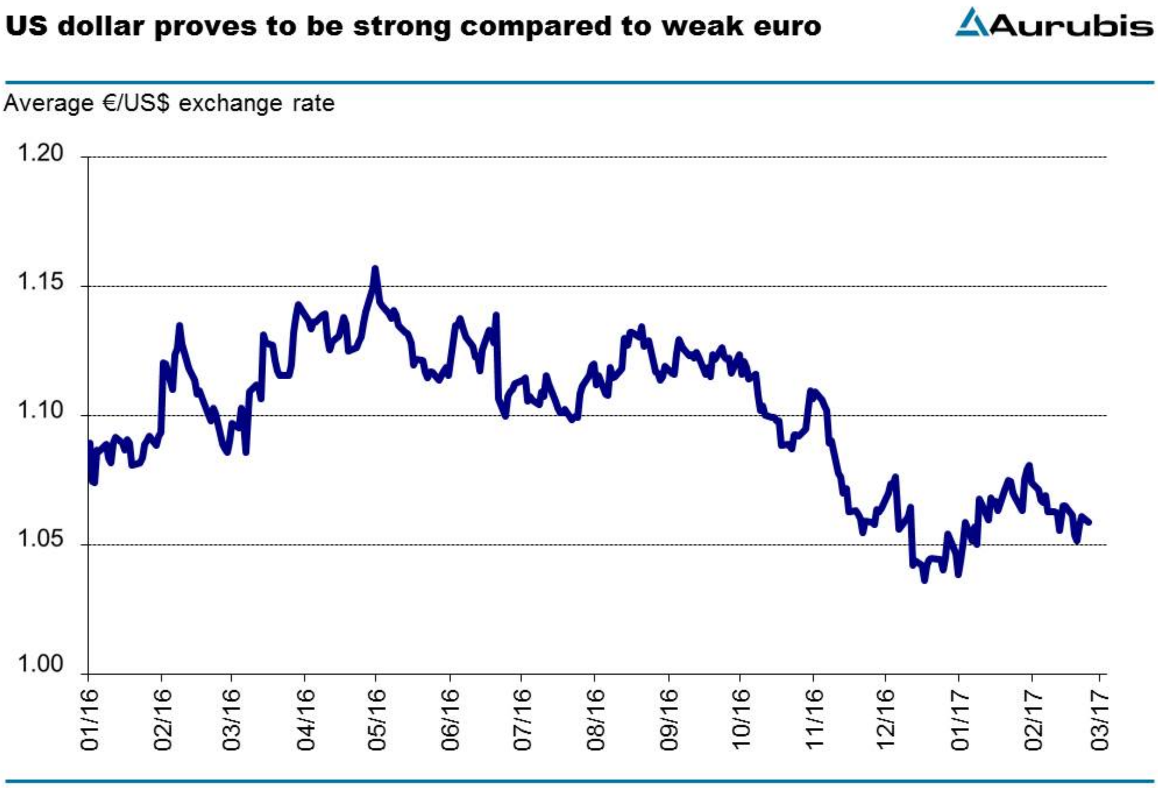
In the US, the Federal Reserve's Federal Open Market Committee meeting from January 31 to February 1 didn't lead to any new interest rate decisions. Nevertheless, the Fed could soon trigger possible growth momentum resulting from the new government's policies, especially since consumer trust has grown and house prices have risen significantly. Orders of durable goods increased by 1.8 % in January, especially in the transport sector. Without this sector, there would have been a decrease of 0.2 %.
Despite the existing uncertainties, the Eurozone economy will stay on a growth course, according to the European Commission's estimates. In the 2017 annual forecast released in mid-February, real growth was forecast at 1.6 %, after 1.7 % in the previous year. It could then increase by 1.8 % in 2018. At the same time, it is reported that this development will be accompanied by extraordinary risks from US politics, the elections of key EU countries and the Brexit proceedings.

The German Bundesbank is optimistic for Germany. It views the economy as being in an upswing that will gain strength in the first quarter of 2017. Incoming orders, which have been strong recently, have been mentioned as the reason for the optimistic assessment.

Copper essentials

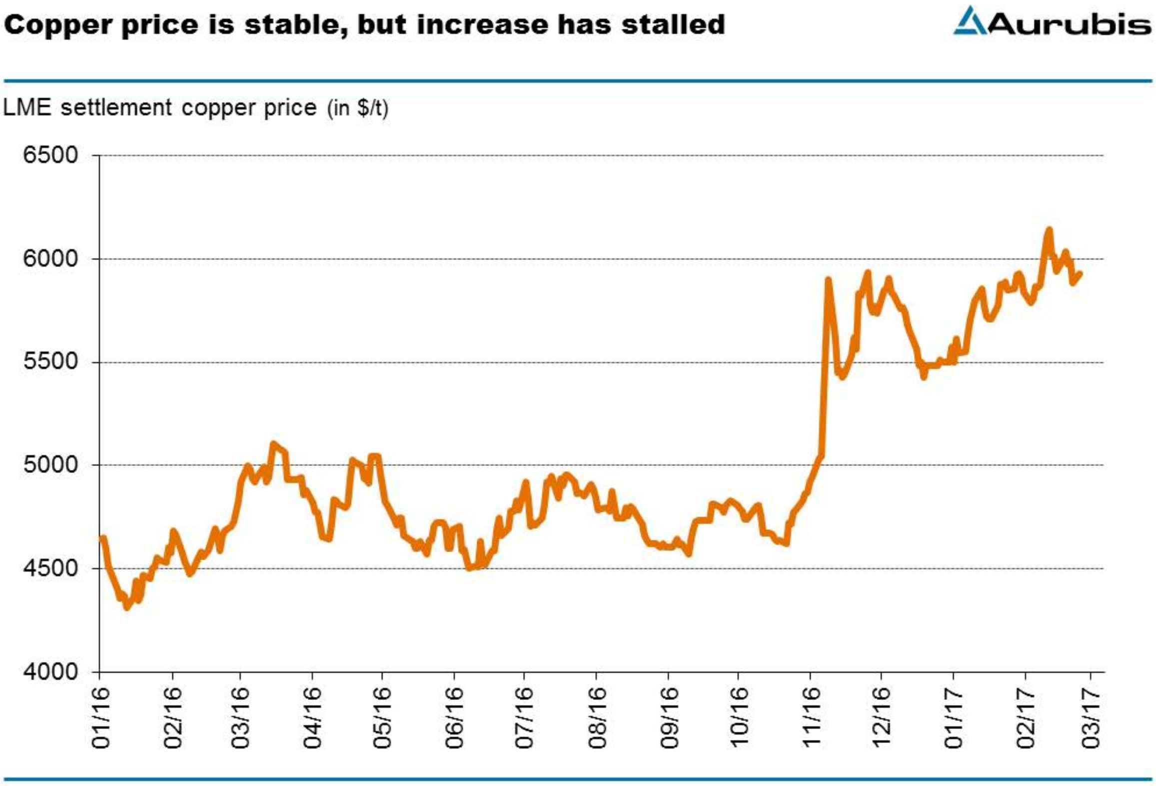
The copper market was influenced first and foremost by production disruptions in the mining sector, in particular the strike at the Escondida Mine in Chile, which has been underway since February 9. The second production stop took place at the Grasberg Mine in Indonesia on February 16. The owner, Freeport McMoRan, hasn't come to an agreement with the government yet. Only the government can permit the company to resume concentrate exports. At Escondida, the latest media reports indicate that the workers can finance a two-month strike. On the other side, BHP Billiton, the majority owner of the mine, has decided to forego the use of substitute workers. Even if there were a quick agreement, additional delays are possible: this depends on whether the maintenance of the operating facilities is secured or not. The influence of both disruptions on the physical market for refined copper has been limited so far, which nevertheless didn't prevent institutional investors from seeing a risk for this year's copper balance. A one-week strike at Escondida supposedly removes 20,000 to 25,000 t of copper from the market, while a month-long export stop in Indonesia leads to losses of nearly 32,000 t of copper, according to company information. In 2016, the global copper balance showed a production deficit of 92,000 t from January to November, according to the International Copper Study Group.

Not much has happened in China after February 3, the resumption of trade on the SHFE. Demand activities were restrained in February. Imports of refined copper were at 278,240 t in January, before the New Year celebration, and were thus about 30 % lower than in the previous month. The decline was 14 % compared to January 2016. Independently of consumption-driven demand, copper imports could increase in the near future since warehouse companies in Singapore have withdrawn their storage incentives.



• Price trend

The LME copper prices fluctuated only slightly in February. After increasing to US$ 5,931/t, the price weakened due in large part to the Chinese New Year, resulting in the month's low of US$ 5,786/t on February 6. In the second half of February, the price level was established at about US$ 6,000/t. The contango (spot price < forward price) was roughly US$ 13/t on average.



• Copper raw materials

The spot market for copper concentrates is currently influenced by the longer-than-expected production disruptions and export restrictions at mines, and is looking for orientation. Because force majeure was declared at both Grasberg and Escondida, traders are supposedly on the search for replacement volumes to fulfill existing contracts. The TC/RC level therefore fell beneath the benchmark for 2017 annual contracts. Apart from trading business carried out at short notice, this only affects smelters that hadn't covered their needs for the longer term already. It is noticeable that the TC/RCs in the announced contracts vary considerably. If the relevant volume losses at mines hadn't happened, there would have likely been a much higher TC/RC level in light of the upcoming maintenance shutdowns at Chinese and South Korean copper smelters (see Production).

The fundamental view of the European copper scrap market hasn't changed compared to the previous month. There is still a very good supply that is nevertheless met with scrap processors whose current capacities to accept material are exhausted. Buying interest is still almost exclusively for later delivery dates. Refining charges for delivery dates in the near future thus continue to move upward.

• Production

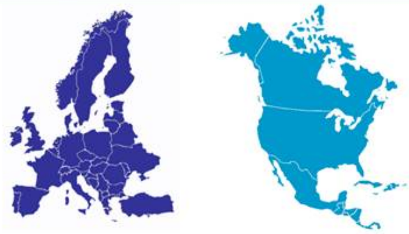
Chile produced 452,000 t of copper in January 2017, an output 2.6 % below January 2016. The strong storms in the middle and the north of the country in late February didn't have any noticeable effects on the mines there.

From now to May, smelter output in China and South Korea will be impacted by maintenance shutdowns that are mainly between 30 and 40 days and won't allow for any copper production during these periods. These shutdowns are mainly taking place in companies whose normal annual output is over 300,000 t each, such as Tongling (China), Onsan (Korea) and Yanggu Xiangguang (China).

• Inventories

The development of copper inventories at the metal exchanges varied in February. At the LME, there was a roughly 56,000 t decrease to 203,100 t on February 28. The warehouses in Asia especially, with Busan (South Korea) the most notable example (-26,700 t), have experienced strong volume outflows. The LME inventories in New Orleans were also reduced by around 12,500 t, and inventory at the Comex was also trending significantly downwards. In contrast, an additional inventory build-up took place at the SHFE, from about 202,000 t to 295,700 t. Only at the end of February was there a slight reduction to 290,000 t. The copper volumes in Chinese bonded warehouses supposedly increased in February. The last indications of the inventory level in Shanghai were dated mid-February and were around 540,000 t (CRU).

Development of copper inventories varies among exchanges



February 28, 2017	Europe	North America	Asia	Total
LME	17,450 t	78,650 t	107,000 t	203,100 t
COMEX / SHFE	---	112,557 t	289,899 t	402,456 t
Total Cu inventories at metal exchanges	17,450 t	191,207 t	396,899 t	605,556 t
Shanghai bonded warehouse (Mid-Feb. 2017; CRU)			rd 540,000 t	rd 540,000 t

- **Product markets**

The situation in two of the key end sectors for copper demand was as follows:
The large automotive markets started the year 2017 differently. As the VDA reports, the Western European car market grew, with a more than 9 % increase in car registrations compared to the previous year. Except for the UK (plus 3 %), the four other main European markets recorded 10 to 11 % growth. The Chinese car market was at prior-year level with about 2.1 million new cars, while the volume for cars and light utility vehicles in the US declined by 2 %.
The companies of the German electrical industry scaled up their production plans slightly in January 2017, according to the German Electrical and Electronic Manufacturers' Association. A total of 22 % of the companies surveyed will expand their production in the next three months, while only 8 % expected to reduce it.