

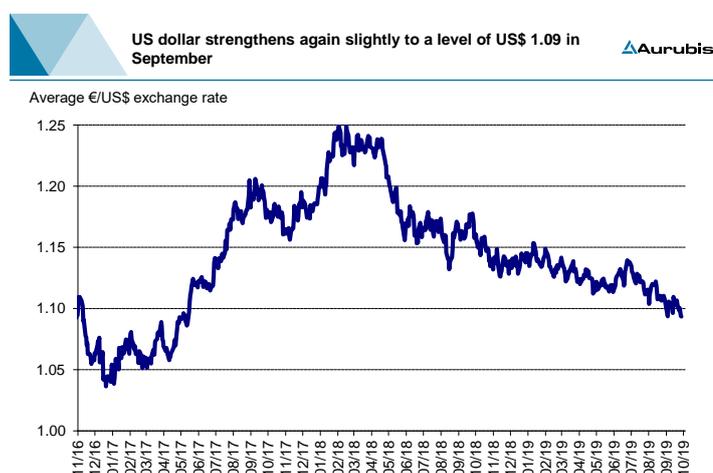
The Aurubis Copper Mail provides monthly information about current trends on the copper market.

In focus



Players in the recycling industry met in Chicago in September to discuss current topics, including China's growing environmental ambitions and their impacts on the industry. In this context, the People's Republic released the fourth round of import licenses for category 6 copper scrap during the month. The China Smelters Purchase Team is about to bring two new participants on board. Also in China, smelters with a total capacity of 1.5 million t halted production in September due to the challenging market conditions at the moment.

Economic situation



The Organization for Economic Cooperation and Development (OECD) released its latest global economic outlook in September, which predicted 2.9 % global economic growth in 2019. This is a significant downward correction compared to the spring forecast. The organization anticipates a 1.1 % increase in growth for the eurozone – Germany is supposed to contribute to this figure with its own growth rate of 0.5 %. The outlook for the US and China is also below the May forecasts, at 2.4 % and 6.1 %, respectively. Solid consumer demand in many parts of the world is overshadowed by weak development in the manufacturing sector and ongoing trade disputes.

As MBI NE-Metalle reported, the metal recycling sector wasn't satisfied with the resolution passed by the German climate cabinet in September. The president of the Association of German Metal Traders remarked that the climate compromise would be very sobering for companies in the circular economy. She went on to say that despite the positive contribution metal recycling makes to environmental and climate protection, the German federal government barely mentioned it. She pointed out that studies indicate that the production of one ton of secondary copper saves between 3.42 and 3.52 t of CO₂ compared to primary production.

The US dollar was quoted at US\$ 1.09 to the euro at the end of September (end of August: US\$ 1.11).

Copper essentials

In September, the International Copper Study Group (ICSG) released its estimates for the period from January to June 2019. According to these numbers, *mine output* in the first six months of the year was at 9,919,000 t and thus at the level of the same period of the previous year. Mine capacity utilization reached 80.2 % (previous year: 81.6 %).

Global output of *refined copper* from concentrates and recycling materials was also at prior-year level during the period, at 11,740,000 t. The utilization of global refining capacities declined from 86.6 % in 2018 to 83.2 % in 2019. While concentrate inputs decreased slightly, copper scrap inputs rose somewhat.

Visible global demand for *refined copper* declined during the period by about 1 % to 11,960,000 t (previous year: 12,047,000 t), mainly driven by slightly lower demand from China.

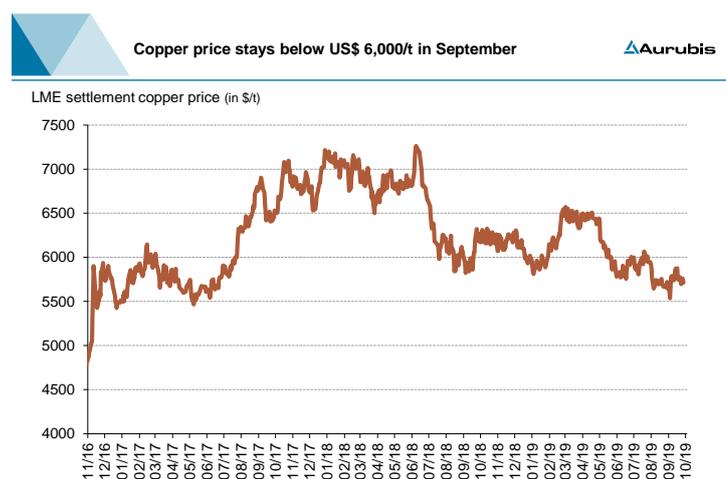
This results in a deficit of 220,000 t for January to June (previous year: deficit of 177,000 t) for the global refined copper balance.

In September, Wood Mackenzie released its latest forecast for the 2020 concentrate market. The market observer currently sees a largely balanced concentrate market for 2020, now assuming that the Indian smelter Tuticorin won't resume production next year. As an explanation, Wood Mackenzie highlighted that the case is currently being heard in the Madras High Court, but this is likely to be a long process. With the entire complex closed, and with no clear indication of when Tuticorin will return to production, Wood Mackenzie has removed the production capability from the base case in their forecast.

The roundtable of the Institute of Scrap Recycling Industries (ISRI) met in Chicago in September, as Reuters reported. The meeting focused on topics such as the possible reclassification of high-purity copper scrap in China to protect the materials from a possible import ban starting in late 2020, the most interesting growth markets for US scrap, the recycling of spent batteries from electric vehicles, and the potential consolidation of the US copper scrap market.

According to Metal Bulletin, the China Smelters Purchase Team (CSPT), an organization of the largest Chinese smelters, will expand by two members, Zhejiang Jiantong Fuye Heding and Huludao Zinc's Copper Subsidiary. Metal Bulletin states that the approval process could take several months, however, as the barriers to acceptance into the CSPT are high – the last member was admitted three years ago. The reason for the current member expansion, Metal Bulletin alleges, could be that the CSPT wants to strengthen its negotiating power vis-à-vis the mining industry. The influential group, in which ten of China's major copper smelters are organized, meets for consultations once per quarter on topics such as minimum prices for copper concentrate treatment and refining charges (TC/RCs).

» Price trend



In September, the copper price on the London Metal Exchange (LME cash settlement) once again moved sideways for the most part. It closed the month at about US\$ 5,700/t (end of August 2019: US\$ 5,680/t).

» Copper raw materials

Spot treatment and refining charges (TC/RCs) in September rose to a level of US\$ 60 / t / 6 cents/lb Cu due to an increased availability of Grasberg copper concentrates owing to higher than expected production, as well as the arrival of a temporarily delayed shipment of concentrates from the port of Matarani in Peru, as CRU announced. The reversed

trend shows that there is sufficient supply and the smelters are increasingly holding back from buying as stocks reach higher levels. In addition, the recent low levels of TC/RCs are apparently not sustainable for the smelters, which is reflected by the fact that several operations have already closed down production.

At the same time, it was announced in September that Freeport McMoRan is permitted to export three times the amount of copper concentrates from Indonesia compared to now, as Metal Bulletin reported. Until March 2020, the annual export licenses have been expanded to about 700,000 t/a, from previously about 200,000 t/a. The reason the Ministry of Energy and Mineral Resources gave for this move was that Freeport had successfully carried out optimizations in its copper-gold mine Grasberg. The concentrates from Grasberg are known for their high proportion of gold and thus aren't very interesting for many Chinese smelters, which in some cases don't have the ability to recover the gold.

In September, China released the fourth tranche of import licenses for category 6 recycling materials, as Reuters reported. Overall, China Solid Waste and Chemicals Management issued licenses for a volume of only about 32,000 t of copper scrap imports. Import licenses have therefore been issued for a total of 484,000 t for the second half of 2019 thus far. The metal content of the imports is supposedly about 390,000 t.

» Production

As reported in the last issue of the Copper Mail, the current market conditions seem to be forcing private Chinese smelters in particular to curb or completely halt production. This is due to a combination of low spot TC/RCs, lower

demand for copper products, and higher environmental requirements, as Fastmarkets commented. Concretely, the research company mentions five Chinese smelters with a total smelting capacity of about 1.5 million t of concentrates. The companies concerned include Top-Eastern Copper in Liaoning, Jinshui Copper and Kaitong Group in Yunnan, Laizhou Fangtai in Shandong, and Zhongqi Copper in Xinjiang.

Furthermore, Fastmarkets quoted an analyst from BMO Capital Markets who views the production shutdowns – especially at smaller smelters – as the start of a longer-term trend. The current market prices particularly impact smelters that are producing less efficiently, according to the analyst. At the same time, China's increasingly strict environmental policies are creating higher barriers for the smelter industry. The BMO analyst pointed out the example of the Chinese smelter Kaitong, which was charged a fine by the regional government of Yunnan in May 2019 after it failed to properly treat metal-bearing dust and dirty water.

In the development emerging at the moment, Fastmarkets sees the first signs for consolidation of the smelter industry in China.

Bloomberg reported that in September, information circulated about the level of adjustments Codelco would be making to the 2020 premiums for European and US customers for copper cathodes. The timing – over a month before LME Week in London – comes as a surprise to the market. According to current information, Codelco will raise the premium, which the company collects in addition to the copper price, by 20 to 25 % for its US customers in 2020. This can be taken as a sign that the world's largest producer of refined copper expects high copper demand in the US. The premium for European customers is supposed to remain at the 2019 level (US\$ 98/t), according to Bloomberg. Despite weaker economic expectations recently, Codelco seems to anticipate constant copper demand in Europe. There hasn't been any information about the premium for Codelco's Asian customers thus far.

American Metal Market reported that spot copper premiums in the US remained stable at between 7 and 8 cents/lb in September, despite slightly higher demand. Like in August, spot copper premiums in China rose slightly in September as well, in a range between US\$ 65 and 80/t, as Fastmarkets published. According to the news service, inventories in Chinese bonded warehouses continued to fall at the same time and were between 334,000 and 337,000 t – the lowest level since 2016. As in August, the European market hardly recorded any activity in September; copper premiums stayed between US\$ 40 and 50/t (Rotterdam CIF), as Fastmarkets reported.

» Inventories



September 27, 2019	Europe	North America	Asia	Total*
				
LME	101,025 t	45,475 t	119,725 t	266,225 t
COMEX / SHFE	---	39,997 t	117,455 t	157,452 t
Total Cu inventories at metal exchanges	101,025t	85,472 t	237,180 t	423,677 t

*Differences possible due to rounding

Inventories in the global warehouses declined again overall in September. They were at 424,000 t at the end of the month, about 113,000 t lower than at the end of August (approximately 537,000 t).

» Copper products

According to MBI NE-Metalle, sales of alternative fuel vehicles rose distinctly in the EU in Q2. The European Automobile Manufacturers' Association (ACEA) reported a 28.5 % increase in new registrations of alternative fuel vehicles. All of the five largest automotive markets developed positively. Germany achieved a 60.7 % increase. The market share of alternative fuel vehicles was

9.2 %. Purely electric vehicles held a share of 2.4 % in Q2. According to the ACEA, in the first eight months of 2019, registration figures for cars of all fuel types were 3.2 % below those of the first eight months of 2018, at 10.5 million vehicles. Germany registered slight growth of 0.9 % during this period.

The German Electrical and Electronic Manufacturers' Association (ZVEI) reported declining figures in September, which showed incoming orders in July falling 1.9 % below July of the previous year. Domestic orders were 1.0 % lower and international orders were 2.5 % lower. For the cumulative period from January to July 2019, the ZVEI forecasts a 1.5 % decrease in orders compared to the previous year. Incoming orders from the eurozone fell by 4.1 %; in contrast, those from third countries only went down by 0.6 %. The reported business climate in the German electrical engineering industry also continued to dampen in August. According to the ZVEI, the current assessment of the situation has declined more than general business expectations.