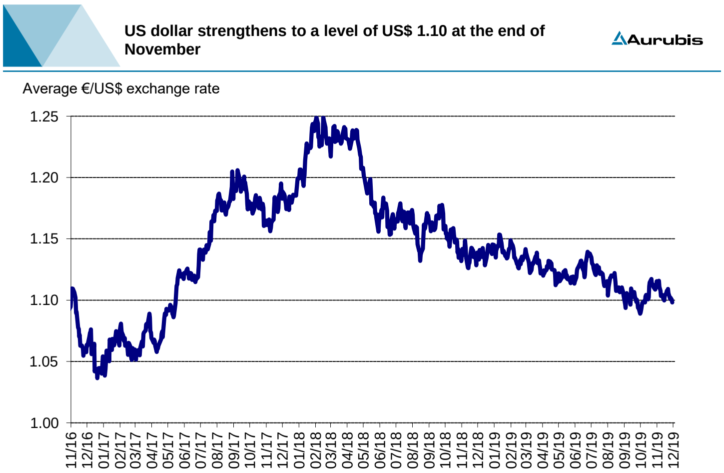
Copper Mail No. 178 – December 5, 2019

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

In focus



After the main representatives of the copper industry met in London in late October, Asia Copper Week in Shanghai was up next on the agenda at the end of November. The copper world waited with anticipation to see if there would be an initial benchmark between the mining and smelting industries, and at what level. Freeport McMoRan and three Chinese smelters ultimately came to an initial agreement for 2020.

Economic situation

There were no significant updates to the growth expectations for the global economy in November. Negotiations between the US and China continue, but there haven't been any notable breakthroughs yet.

The US dollar was quoted at about US$ 1.11 to the euro again at the end of November (end of October: US$ 1.11).

Copper essentials

Due to good overall output from mines on the one hand and an increase in smelter shutdowns and production cuts due to a low spot level on the other hand, the concentrate market is expected to close 2019 with a largely balanced situation. Nevertheless, Freeport-McMoRan and the three Chinese smelters Jiangxi Copper, Tongling Nonferrous Metals, and China Copper Corp agreed on treatment and refining charges of US$ 62/t and 6.2 cents/lb Cu for 2020 in separate agreements, as Reuters reported. The level is below the 2019 benchmark of US$ 80.8/t and 8.08 cents/lb Cu. The explanation given for the decline was the tightening concentrate market due primarily to rising processing capacities in China. According to the Chinese research company Antaike, Chinese smelters may have added up to 900,000 t of extra smelting capacity this year, and an estimated additional 350,000 t could follow in 2020. But it remains unclear how much smelting capacity left the market at the same time.

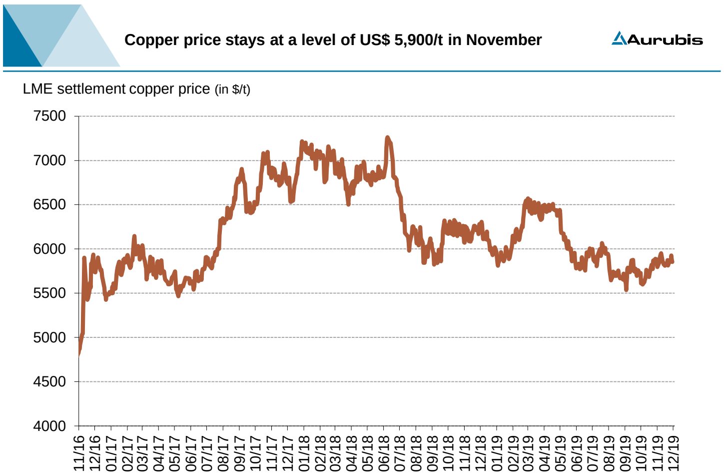
The agreement outlined above has left many scratching their heads, as Jiangxi Copper and the Daye Nonferrous Metals Group had emphasized in the run-up to Asia Week in Shanghai that they would need a TC level of at least US$ 75/t and US$ 72.50/t, respectively, to be able to cover their costs. In one report, Reuters quoted another Chinese smelter operator that expects additional production cuts on the smelter side in China at this level. Fastmarkets also published a statement from a Deutsche Bank analyst who believes that private smelters in particular will be under pressure due to this agreement. In the analyst's opinion, this leads to a risk of additional production cuts in 2020. Chinese and Chilean smelters especially are facing the challenge of making investments to fulfill stricter environmental regulations from the state, and, increasingly, of allocating the necessary financing. Without a corresponding level of TC/RCs, there is a risk that investments won't materialize and that this could lead to additional shutdowns on the smelter side. It thus remains to be seen how sustainable this agreement will be and what impact it will have on the refined copper supply and the copper price, should demand for refined copper rise substantially again.

In October, the International Copper Study Group (ICSG) released its estimates for the period from January to August 2019. According to these numbers, *mine output* in the first eight months of the year was at 13,435,000 t (copper content) and thus still at the level of the same period of the previous year. Mine capacity utilization was at 81.5 % (previous year: 82.0 %).
Global output of *refined copper* from concentrates and recycling materials was also at prior-year level during the period, at 15,924,000 t. The utilization of global refining capacities declined from 86.1 % in 2018 to 83.6 % in 2019. While concentrate inputs decreased by 0.3 %, copper scrap inputs rose by 1.8 %.

Visible global demand for *refined copper* increased marginally during the period, to 16,252,000 t (previous year: 16,184,000 t).

This results in a deficit of 330,000 t for January to August (previous year: deficit of 268,000 t) for the global refined copper balance.

» Price trend



In November, the copper price on the London Metal Exchange (LME cash settlement) moved sideways for the most part, closing the month at about US$ 5,850/t (end of October 2019: US$ 5,800/t). In November, the investment bank Goldman Sachs published a new estimate for the future copper price trend, with a three-month forecast of US$ 6,000/t, a six-month forecast of US$ 6,500/t, and a twelve-month forecast of US$ 7,000/t. J.P. Morgan anticipates higher copper prices for 2020 and forecasts a level of US$ 6,200/t in the first three months of 2020.

» Copper raw materials

In November, spot treatment and refining charges (TC/RCs) remained at a level of about US$ 60/t and 6.0 cents/lb Cu, as CRU reported. American Metal Market reported that Chinese smelters were currently very well supplied with copper concentrates, had built up inventories accordingly, and were therefore less present on the spot market.

Violent protests started in parts of Chile several weeks ago, and it was still unclear in November how long they would continue. According to a Reuters report, most Chilean copper mine workers continued their work as usual, apart from a few delays and sporadic unrest. Copper output in Chile, the world's largest producer of the red metal, therefore hasn't been significantly impacted so far. According to a union leader, even though unions like the one at the Collahuasi mine were open to protests outside of the mine, production supposedly hasn't been affected. This is supposedly true for the substantially larger Escondida mine as well. Anglo American, operator of the El Soldado and Los Bronces mines, likewise reported slight delays and access issues due to roadblocks but said production continued as normal. In contrast, Codelco stated in November that the company had even increased its copper output by 7.5 % in September, as Reuters reported. According to Bloomberg, the third quarter was also the strongest of the year, at about 440,000 t (copper in concentrate).

In November, China released the sixth tranche of import licenses for category 6 recycling materials, as Reuters reported. Overall, China Solid Waste and Chemicals Management has issued licenses for a volume of about 11,110 t of copper scrap imports. Import licenses have therefore been issued for a total of 553,000 t for the second half of 2019 thus far. American Metal Market quoted an analyst from Citibank who stated that, according to his calculations, the Chinese copper industry would lack about 100,000 t of copper content this year due to the stricter import regulations. He expects a similar volume for 2020.

Production

Following a slight increase, American Metal Market reported that spot copper premiums in the US in November were at 7 to 7.5 cents/lb. In contrast, spot copper premiums in China (CIF Shanghai) decreased in November to a range between US$ 62 and 73/t, as Fastmarkets published. According to the news service, inventories in Chinese bonded warehouses had increased slightly again recently, though they were at a record low of between 321,000 and 325,000 t in mid-November. The European market stayed calm in November; copper premiums rose somewhat to between US$ 45 and 55/t (Rotterdam CIF) and were stable at between US$ 80 and 90/t for copper grade A (delivered Germany), as Fastmarkets reported.

» Inventories

Visible copper inventories in global warehouses decrease again (MoM)

November 30, 2019	Europe	North America	Asia	Total*
LME	127,000 t	46,600 t	34,925 t	208,525 t
COMEX / SHFE	---	40,097 t	120,192 t	160,289 t
Total Cu inventories at metal exchanges	127,000 t	86,697 t	155,117 t	368,814 t

*Differences possible due to rounding

Inventories in the global warehouses declined again overall in November. They were at 385,000 t at the end of the month, about 55,000 t lower than at the end of October (approximately 440,000 t).

» Copper products

German industrial output decreased more strongly than expected in September, according to a Reuters report. The German Federal Ministry of Economics and Technology published that it declined by 0.6 % month-on-month. A Reuters survey had indicated an expected decrease of 0.4 %.

According to MBI NE-Metalle, the metals industry continued to be in a recession in Q3 2019. The news service referred to figures from the German Federal Statistical Office, which indicated that production in Q3 fell by 1.7 % compared to the previous quarter, meaning that the metals and electrical industry closed three consecutive quarters with a decline in production. The trend in the automotive industry, which strained the quarterly result with a decrease of 2.8 %, was cited as a key reason. Compared to the previous year, the automotive industry was hit by a 10.7 % downturn in the first nine months of 2019, followed by the electrical industry with -3.9 %, metal production with -2.8 %, and mechanical engineering with -1.8 %. In total, the metals and electrical industry faced a decrease of 4.8 % compared to the first nine months of 2018. At -5.6 %, incoming orders also reflected a negative trend, which impacted all of the key industries.