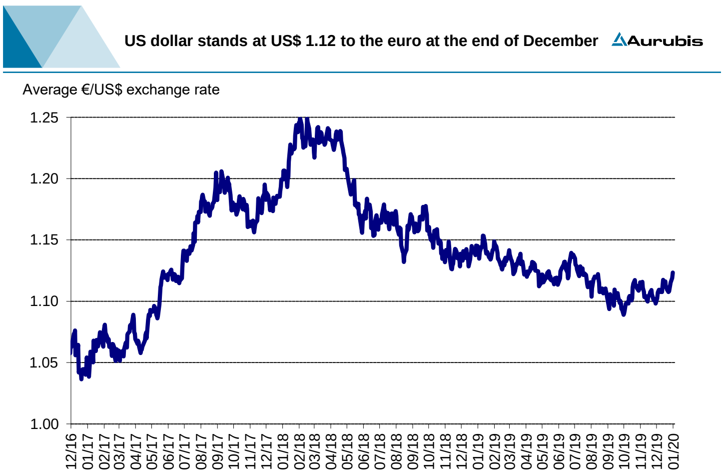
Copper Mail No. 179 – January 14, 2020

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

In focus

The news in December had high points and low points: the United States' announcement that it would agree to a Phase One trade deal and additional economic stimulus from the Chinese government led to optimism among market players. Moreover, the CSPT raised the buying floor for copper concentrate processing at its last meeting. They also discussed capacity reductions as a reaction to the low TC/RC level, which appears to be placing more and more pressure on Chinese smelters' liquidity and put one smelter in the Shandong province in the headlines.

Economic situation



There seemed to be a bit of momentum in the grid-locked trade talks between the US and China at the end of the year. According to Reuters, the US president announced that he would sign a Phase One trade deal on January 15, 2020. No additional information was released, but a Reuters commentary stated that the US-China tariffs might have therefore peaked for the time being. Furthermore, China's central bank has announced additional credit support for domestic banks with the goal of counteracting a possible economic downturn, as Reuters reported. For 2020, China has published a growth target of about 6 %.

The US dollar was quoted at about US$ 1.12 to the euro at the end of December (end of November: US$ 1.11).

Copper essentials

In mid-December, Metal Bulletin reported that the Chinese copper smelter Dongying Fangyuan in the Shandong province was dealing with liquidity bottlenecks. The smelter, which has a production capacity of about 748,000 t of refined copper cathodes, denied that it had to file for bankruptcy. According to Fastmarkets, Dongying Fangyuan suppliers have reported that they have had to redirect copper concentrate deliveries to the spot market because the smelter in Shandong isn't able to open letters of credit (LCs) at the moment. These reports continued at the end of December. American Metal Market indicated that concentrates were sold on the spot market at TC/RCs approaching US$ 80/t and 8 cents/lb.

In December, Reuters reported that the largest mines in Chile were able to boost their production in October despite local protests, which were violent in some cases. According to Chilean copper agency Cochilco, Codelco's output was 2.5 % above the previous month. BHP's copper mine Escondida increased its output by nearly 13 % in October as well, to around 108,100 t. Additionally, the copper mine Collahuasi raised its output by about 4 % to 50,900 t. Reuters reported that Chile's main transshipment ports are hardly impacted by the nationwide protests. The dock workers in key concentrate ports such as Puerto Angamos expressed solidarity with the demonstrators initially, but the situation normalized quickly.

In late December, the twelve representatives of the China Smelters Purchase Team (CSPT) met and set the so-called buying floor for Q1 2020 at a level of US$ 67/t and 6.7 cents/lb, as Reuters published. This is noticeably higher than the level of US$ 62/t and 6.2 cents/lb that Freeport McMoRan and the Chinese smelters agreed on in November for 2020. The new buying floor is 1.5 % higher than that of Q4 2019. Possible production cuts were also a topic of discussion during the meeting. At the center of the issue is the conflict caused by the fact that the structural capacity expansions in China have led to falling TC/RCs. As Reuters reported, two Chinese smelters from the CSPT group have already announced that they would be curbing production.

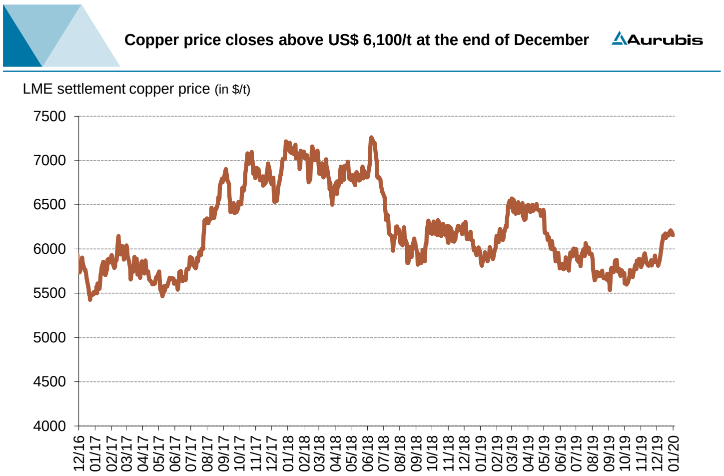
In December, the International Copper Study Group (ICSG) released its estimates for the period from January to September 2019. According to these numbers, *mine output* in the first nine months of the year was at 15,150,000 t (copper content) and thus at the level of the same period of the previous year. Mine capacity utilization was 81.9 % (previous year: 82.4 %).

Global output of *refined copper* from concentrates and recycling materials was also at prior-year level during the period, at 17,907,000 t. The utilization of global refining capacities declined from 86.2 % in 2018 to 83.5 % in 2019. While concentrate inputs decreased by 0.4 %, copper scrap inputs rose by 1.6 %.

Visible global demand for *refined copper* increased marginally during the period, to 18,301,000 t (previous year: 18,243,000 t).

This results in a *deficit* of about 394,000 t for January to September (previous year: deficit of 330,000 t) for the global refined copper balance.

» Price trend



The copper price on the London Metal Exchange (LME cash settlement) rose in December, closing the month at about US$ 6,156/t (end of November 2019: US$ 5,850/t). This was the highest level in about eight months.

In December, Chile's largest mine operator, Codelco, adjusted its medium-term copper price forecast. According to Reuters, the company now anticipates between US$ 2.6 and 2.8/lb (approximately US$ 5,730 to 6,170/t).

» Copper raw materials

In December, spot treatment and refining charges (TC/RCs) were at a level close to US$ 60/t and 6.0 cents/lb Cu, as CRU reported. Most smelters worldwide were well supplied with copper concentrates at the end of the year.

There were also updates from ongoing mine projects once again:

Reuters reported that the mining company Nevada Copper has shipped its first copper concentrate deliveries from the Pumpkin Hollow project. Pumpkin Hollow is the first US copper project that has started production in the last ten years. After the initial phase, the underground mine is supposed to have a daily throughput of 5,000 t of copper ore with the potential to increase it to 7,000 t of ore per day. Following the start-up in mid-December, the company plans to fully ramp up production in the first half of 2020.

According to Reuters, the Chilean mining company Antofagasta is currently working on an environmental permit for its US$ 1.7 billion project Twin Metals Minnesota (TMM) in the US. Antofagasta announced that it had submitted a formal Mine Plan of Operation (MPO) to the US state and federal permitting authorities.

The mine operator First Quantum is currently reviewing plans to expand its Zambian copper mine Kansanshi to the tune of about US$ 1 billion. The investment would extend the mine life by around ten years and boost production over time from currently 235,000 t per year to 300,000 t per year, as Bloomberg reported.

According to CRU, Rio Tinto is planning investments of US$ 1.5 billion in its Kennecott mine in Utah. The project to expand the existing assets should extend the life of the open-pit mine until 2032.

In December, China released the first tranche of import licenses for category 6 recycling materials for 2020, as Reuters reported. Overall, China Solid Waste and Chemicals Management has issued licenses for a volume of

270,885 t of copper scrap imports. Copper scrap is still classified as solid waste and its import is supposed to be prohibited at the end of 2020. According to Reuters, however, this classification is supposed to change for high-purity copper scrap in Q2 2020.

As reported by S&P Global Platts based on information from the Chinese Ministry of Industry and Information Technology, China is planning to double it copper scrap processing capacities in the city of Yingtan in the eastern Jiangxi province to 400,000 t per year by 2021. About 120 copper processors are currently active in Yingtan, including Jiangxi Copper with a smelting capacity of 1.3 million t per year. The region plans to establish an industrial park for large copper processors such as cable, wire, and household appliance manufacturers, as the China Nonferrous Metals Industry Association reported. The increase in copper scrap capacity would also align with the central government's efforts to boost the production of refined copper from resources recycled within the country.

Production

American Metal Market reported that spot copper premiums in the US in mid-December were at 7.25 to 7.5 cents/lb, at a level similar to that of November. In contrast, spot copper premiums in Shanghai supposedly came under pressure and were in a range between US$ 54 and 65/t, the lowest level in six months. According to the news service, inventories in Chinese bonded warehouses were between 258,000 and 262,000 t in mid-December and therefore still at a comparatively low level. The European market didn't move much in December; copper premiums were between US$ 40 and 50/t (Rotterdam CIF) and 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)

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December 31, 2019	Europe	North America	Asia	Total*
LME	87,950 t	34,950 t	21,775 t	144,675 t
COMEX / SHFE	---	37,550 t	141,317 t	178,867 t
Total Cu inventories at metal exchanges	87,950 t	72,500 t	163,092 t	323,542 t

*Differences possible due to rounding

Inventories in the global warehouses continued to decline overall in December. They were at 323,000 t at the end of the month, about 62,000 t lower than at the end of November (approximately 385,000 t).

» Copper products

According to MBI NE-Metalle in reference to a study by consulting firm EY, new vehicle registrations on the German automotive market could decline by up to 5 % in 2020. EY attributes this to the new CO_2 regulations, among other factors, saying that the high demand for SUVs and off-road vehicles won't continue because high sales of heavy vehicles with internal-combustion engines could lead to a risk of fines for the manufacturers. In contrast, EY anticipates rising sales figures for electric vehicles.

The German political party Alliance 90/The Greens is calling for a deposit system for smartphones and tablets, as newsmagazine *Der Spiegel* reported. The party recently presented a concept for consumers to pay a € 25 deposit on these types of devices that they would then recoup when recycling the devices. The reason for this concept is supposedly the fact that Germany missed the EU collection rate of 65 % for e-scrap by 20 percentage points in 2019. Every person in Germany produces an average of over 20 kg of electrical and electronic scrap each year. The party's goal is to conserve valuable raw materials. More than 24 million smartphones are sold in Germany annually, for a calculated total of 720 kg of gold, 7.3 t of silver, and 396 t of copper. According to a party spokesperson, specialized companies can already recycle 98 % of all cellphone components, but they lack the necessary quantities.