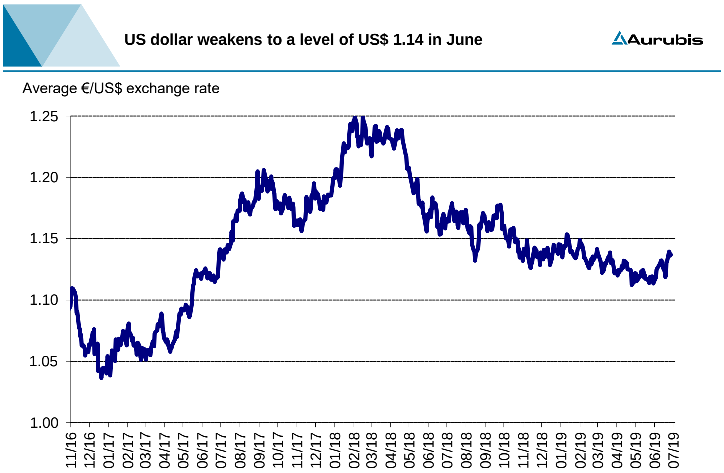
Copper Mail No. 173 – July 3, 2019

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

In focus

In June, the copper world turned its attention to the developments in China related to the introduction of import quotas for Category 6 copper scrap. At the end of June, China authorized a total of 240,429 t of copper scrap imports for Q3 2019. Metal Bulletin calculates an expected decline of just over 50 % in copper content compared to Q3 2018.

Economic situation



Up to the editorial deadline in late June, there were no breakthroughs in the ongoing trade dispute between the US and China. The market is waiting with bated breath for another meeting between the countries' presidents on the occasion of the G20 summit. According to calculations by S&P Global Platts and information from Chinese copper producer Jiangxi Copper Corp., the latest US import duties could cause Chinese demand for refined copper to shrink by 2.4 %, or 267,000 t. According to its own calculations, the company estimates the total impact on the GDP at 0.22 %. Meanwhile, in its June meeting, the US Federal Reserve left the Fed Rate at its previous corridor between 2.25 % and 2.5 %, referring to current uncertainties, and plans to wait and see how the situation develops. At the same time, US industrial production rose noticeably in May and was 0.4 % higher than the previous month.

The US dollar was quoted at US$ 1.14 to the euro at the end of June.

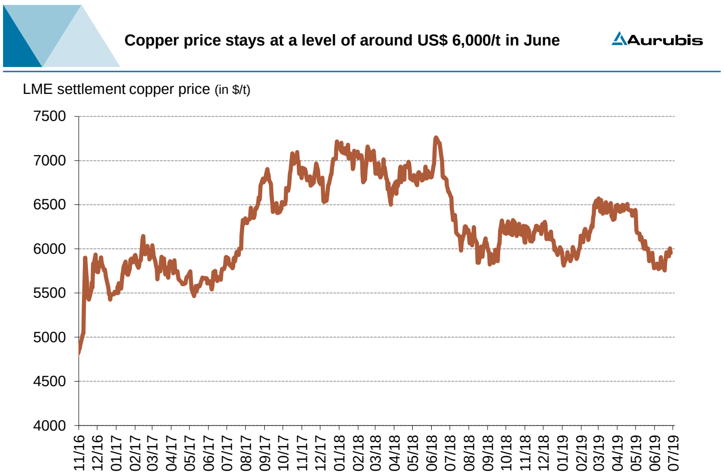
Copper essentials

In June, the International Copper Study Group (ICSG) released its estimates for the period from January to March 2019. According to these numbers, *mine output* in the first three months of the year was at 4,896,000 t and thus slightly below the level of the previous year. Mine capacity utilization reached 81.1 % (previous year: 81.8 %). The global output of *refined copper* from concentrates and recycling materials was also slightly below the prior-year level at 5,818,000 t (previous year: 5,884,000) t). This was due to various planned and unplanned smelter shutdowns in particular. The utilization of global refining capacities declined from 86.6 % in 2018 to 83.2 % in 2019. Visible global *consumption of refined copper* rose during the period by roughly 1 % to 5,850,000 t (previous year: 5,802,000 t), mainly driven by higher demand from China. This results in a slight deficit of 32,000 t for January to March (previous year: surplus of 81,000 t) for the global refined copper *balance*.

The International Copper Association Australia adjusted its long-term outlook to global copper demand. As the association stated at a conference in Adelaide, they currently expect a demand increase of about 26 million t for the year 2024, as S&P Global Platts reported. WoodMackenzie anticipates global demand of approximately 24 million t for 2019.

According to a report by MBI NE-Metalle, copper production in the Democratic Republic of the Congo is supposed to nearly double by 2028. Rating agency Fitch reported that the biggest drivers included ongoing investments, high-value ore reserves, and rising copper prices. Congo would thus continue expanding its position as the largest African copper producer. Production should reach a volume of 2.23 million t by 2028. As a comparison, a level of 1.35 million t was forecast for 2019.

» Price trend



In June, the copper price on the London Metal Exchange (LME cash settlement) initially decreased before rising again in the second half of the month. It closed the month around US$ 6,000/t again, about 4 % above the May level (US$ 5,781/t).

» Copper raw materials

The copper concentrate supply continued to be satisfactory in June, as indicated by a Reuters report. According to Bloomberg, spot TCs for copper concentrates were around US$ 63/t in early June. The information service reported that this was the result of stronger demand from Chinese smelters, with production bottlenecks at certain mines at the same time. The lower level of spot TCs at the moment is increasingly difficult for such Chinese smelters, which are highly dependent on the spot market, as Fastmarkets reported. According to Blomberg, this has already led to some Chinese smelters having to cut their production.

There was more news about current and future mine projects in June.

According to Reuters, First Quantum Minerals Ltd. made the first concentrate deliveries from its Cobre Panama mine to customers in June. A volume of between 140,000 and 175,000 t of copper in concentrates is planned for 2019. In the next few years, production is then supposed to be expanded to over 300,000 t of copper annually.

As Reuters reported, there were walkouts at Codelco's Chuquicamata mine from mid- to late July. Nevertheless, the mine increased its output from 50 to 60 % in the days after the start of the strike, as S&P Global Platts reported based on company information. Codelco had made a new wage agreement with a large number of workers at the start of the year, who were able to maintain some parts of production. At the end of the month, all of the parties agreed on a new wage contract, according to Reuters.

When it came to recycling material, in June the copper world turned its attention to the developments in China related to the introduction of import quotas for Category 6 copper scrap. This comprises copper scrap No. 1 and No. 2 – which also includes Birch, Cliff, Candy, and Millberry. According to the industry association Bureau of International Recycling (BIR), at the end of June, China had authorized a total of 240,429 t of copper scrap imports for Q3 2019. Overall, 123 scrap metal importers were granted import licenses, as reported by the Chinese Solid Waste and Chemical Management Center. This import volume primarily applies to high-quality copper scrap. Up until July, China's Category 6 copper scrap imports weren't bound to any quotas. As a comparison: in 2018, China imported a total of 2.4 million t of copper scrap, so about 600,000 t per quarter on average. Metal Bulletin calculated an expected decline of just over 50 % in copper content compared to Q3 2018. One interesting aspect is that only larger importers from the Ningbo and Taizhou provinces supposedly got a chance at overseas imports, as Fastmarkets reported. It isn't clear right now whether there will be additional import licenses for Q3 2019 that consider importers from other regions.

» Production

As Goldman Sachs reported, Glencore halted operations in its Mufulira copper smelter at the Mopani copper mine in Zambia. Extensive maintenance activities will be carried out there until at least the end of the year. The smelter was closed completely for this maintenance. The smelter produced about 120,000 t of refined copper in 2018, as S&P Global Platts reported.

And the largest copper smelter in Zambia – Nchanga, operated by Konkola Copper Mines (KCM) – halted operations in June. The reason was supposedly a software problem, according to Fastmarkets. The smelter has a capacity of over 300,000 t per year and produces blister copper for the Asian market in particular. KCM's parent company, Vedanta Resources, is currently embroiled in a conflict with the Zambian government, which would like to change the ownership structure. Zambia now holds 20 % of KCM, while Vedanta holds the remaining 80 %.

American Metal Market reported that spot copper premiums in the US continued to move sideways in June and are between 7.5 and 8 cents/lb. Fastmarkets stated that there is currently little trade on the US market. This is also true of the European market, where the copper premiums remained between US$ 40 and 50/t in June (Rotterdam CIF).

In contrast, spot copper premiums in China rose again in May, according to Fastmarkets. They supposedly range between US$ 54 and 71/t right now.

» Inventories

Visible copper inventories in global warehouses increase slightly (MoM)

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June 28, 2019	Europe	North America	Asia	Total*
LME	97,775 t	38,726 t	104,675 t	241,176 t
COMEX / SHFE	---	134,747 t	32,770 t	134,747 t
Total Cu inventories at metal exchanges	97,775 t	173,473 t	137,445 t	408,693 t

*Differences possible due to rounding

Inventories in the global warehouses increased again overall in June. Storage jumped at the LME-operated warehouses in particular.

Overall, visible inventories in warehouses worldwide were at 409,000 t at the end of June, about 19,000 t higher than at the end of May (approximately 390,000 t).

» Copper products

The following developments were evident in selected European end markets:

Construction started Q2 2019 with good growth. According to the German Construction Association (ZDB), incoming orders in April increased by a total of 12.7 % (+6.3 % in real terms); in commercial construction, they rose by nearly 15 %. According to the German Federal Bureau of Statistics, revenues in the mainstream construction industry in companies with more than 20 employees rose by 15.7 % in April (by 9.3 % in real terms).

Following a decrease in new vehicle registrations in Q1 2019, the situation was mixed on the international automotive markets in May, according to the German Association of the Automotive Industry (VDA). While Europe and the US more or less reached the prior-year level, China and India recorded double-digit declines. In Europe (EU28 and EFTA), 1.4 million new cars were registered in May. Germany, with 9 % growth, showed the strongest dynamics in Europe, followed by France with 1 % more new registrations. In contrast, Italy just missed the prior-year level with a decrease of 1 %. The markets in the UK (-5 %) and Spain (-7 %) also recorded downturns. In the first five months of 2019, a total of 6.9 million new cars were registered in Europe, a 2 % decrease.