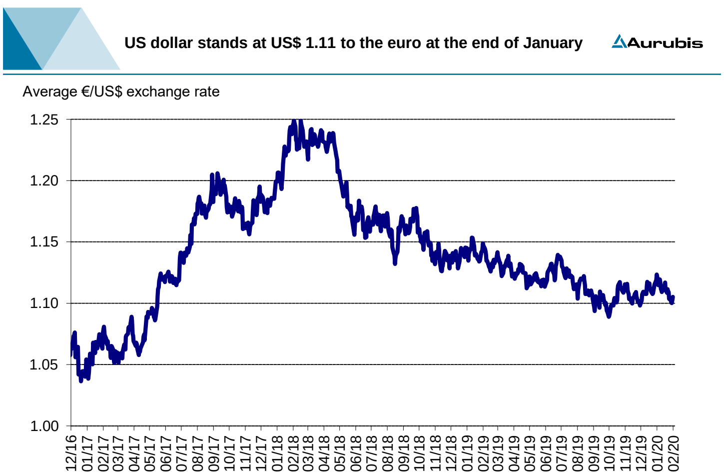
# Copper Mail No. 180 – February 13, 2020

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

## In focus

The month of January was affected by a few exceptional events. In the first half of the month, the Phase 1 trade deal between China and the US signed on January 15 was a focus of attention. During the second half of January, the market's discussions revolved around one topic: coronavirus and its possible impacts on the copper market. Both of these factors affected the copper price – in different directions.

## Economic situation




The happiness about the signing of the Phase 1 trade deal between the US and China in mid-January was short-lived. In the second half of January, it was replaced by rising economic worries about the effects of coronavirus. In early February, a number of companies reduced or ceased trade and personnel exchanges with China. The first of these companies were airlines like Lufthansa and British Airways, which suspended flights to China. It is currently unclear how strong the impacts of coronavirus will be on China's GDP. Reuters referenced a Morgan Stanley analysis stating that China's GDP could be up to one percentage point lower in the first quarter. However, the analysis expects that the spread of the virus will peak in February or March. The influence on global GDP is estimated at 0.15 to 0.3 percentage points.

According to Reuters, the mood in the European economy improved slightly in December, especially in Spain and Italy and driven by the service and construction sectors. The outlook in the industrial sector remained reserved.

The US dollar was quoted at about US$ 1.11 to the euro at the end of January (end of December: US$ 1.10).

## Copper essentials

After the swift spread of coronavirus in China in January, reports increased in late January and early February stating that Chinese copper concentrate customers had asked their suppliers in Chile to delay concentrate deliveries to some Chinese ports, as Bloomberg reported.

According to CRU and the Chinese news service Antaike, all Chinese copper smelters are supposed to reduce their production by 15 % in February compared to January. This is a reaction to falling demand in downstream industry, high sulfuric acid inventories that could lead to problems in production, and logistical difficulties. Copper processors in southern and eastern China have extended the New Year's break to mid-February to prevent personnel from being infected. The effects of the virus are also supposedly leading companies to restrict planned travel and causing a decline in supply security with respect to raw materials and operating supplies. According to Wood Mackenzie, the nationwide reduction of smelting capacities was at about 2.7 million t p.a. as of February 6. An additional 1.7 million t p.a. are supposedly at risk.

Concretely speaking, Tongling Nonferrous Metals, the second largest copper smelter in China, has started drawing down its refining capacities by approximately 20 %, as Bloomberg reported. The copper smelter has a processing capacity of about 1.4 million t p.a. Tongling, which is located in the eastern Chinese province of Anhui, intends to decrease stocks of sulfuric acid in particular, according to Bloomberg. Even though the province hit hardest by the virus, Hubei, isn't one of China's largest copper production regions according to Wood Mackenzie, it is still an important fertilizer producer and a consumer of around 20 % of China's sulfuric acid. The neighboring provinces of Jiangxi, Anhui, and Henan supply Hubei with sulfuric acid.

The effects of coronavirus are also causing delays in new smelter projects in China since construction activities have stopped for the time being.

Chile wants to boost copper production by more than 20 %, to about 7.3 million t (copper content) by 2027, as Bloomberg reported. According to the Chilean copper agency Cochilco, the country is currently at approximately 6 million t. In the baseline scenario, Cochilco anticipates that the mining of copper will rise constantly in the next five years, a trend that will favor concentrate production over other processes. Growth is supposed to come from new copper projects in particular. Reuters reports that underground mining will be promoted especially. In the next ten years, about 50 % of the new projects will mine copper in this way – compared with 2018. Two important projects are Nuevo Nivel Mina El Teniente and Los Bronces.

The International Copper Study Group (ICSG) forecasts a surplus of about 280,000 t for the refined copper market for 2020, following a deficit of 320,000 t in 2019. In contrast, Reuters released its latest estimates for 2020 and 2021 in January and expects a deficit of 160,000 t this year and a deficit of 17,000 t next year.

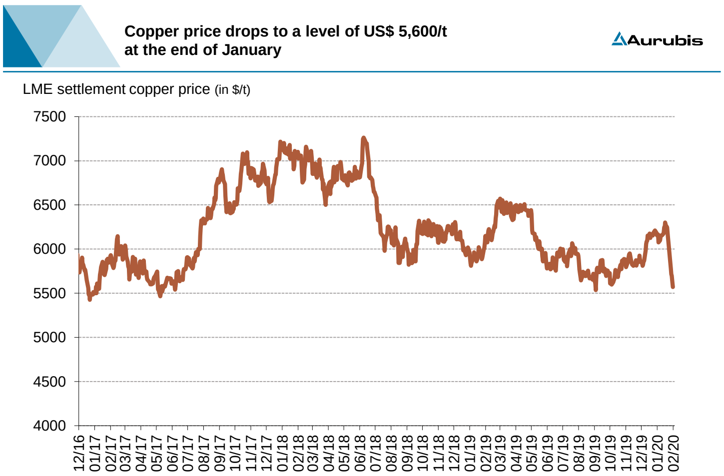
In December, the International Copper Study Group (ICSG) released its estimates for the period from January to October 2019. According to these numbers, *mine output* in the first ten months of the year was at 16,895,000 t (copper content) and thus at the level of the same period of the previous year. Mine capacity utilization was 81.9 % (previous year: 82.5 %).

Global *output of refined copper* from concentrates and recycling materials was also at prior-year level during the period, at 19,894,000 t. The utilization of global refining capacities declined from 86.2 % in 2018 to 83.2 % in 2019. While concentrate inputs decreased by 0.7 %, copper scrap inputs rose by 1.7 %.

Visible global *demand for refined copper* increased marginally during the period, to 20,333,000 t (previous year: 20,302,000 t).

This results in a *deficit* of about 439,000 t for January to October (previous year: deficit of 345,000 t) for the global refined copper balance.

## » Price trend




The copper price on the London Metal Exchange (LME cash settlement) fell continuously in January, primarily due to fears of the impacts of coronavirus on the global economy. The copper price closed the month at about US$ 5,621/t (end of December 2019: US$ 6,156/t).

In January, Chile's largest mine operator, Codelco, adjusted its medium-term copper price forecast. According to Reuters, the company now anticipates US$ 2.85/lb (approximately US$ 6,280/t).

Based on its latest poll, Reuters expects an average copper price of US$ 6,214/t in 2020 and US$ 6,393/t in 2021.

## » Copper raw materials

In January, spot treatment and refining charges (TC/RCs) remained at a level of US$ 60/t and 6.0 cents/lb Cu, as CRU reported. Due to the effects of coronavirus in China, TC/RCs rose in February and reached the highest level of the last eight months, as Reuters reported.

There were also updates from ongoing mine projects once again:

Ecuador exported the first 22,000 t of copper concentrates from the Mirador copper mine following its production ramp-up in July 2019, Reuters published.

According to S&P Global Platts, Codelco started production at its El Teniente mine about 15 months earlier than previously planned. The company stated that it was able push up the start of the US$ 759 million project by speeding up both the construction process and the mining rates in the neighboring sections of the mine, among other factors. The expansion will extend the mine life by 50 years starting in 2023, according to Codelco.

In January, China released the second tranche of import licenses for category 6 recycling materials for 2020, as Reuters reported. Overall, China Solid Waste and Chemicals Management issued licenses for a volume of 26,566 t of copper scrap imports, a significantly lower level than in the previous month.

There was also news in January about the reclassification of copper scrap. China's market authorities released new standards for high-purity copper and aluminum scrap, according to Reuters. These standards will go into effect on July 1. Beijing has set the target of reducing imports of solid waste to zero by the end of 2020. Copper scrap that fulfills the new standards will be classed as a resource ("copper renewable materials") and not waste. The new standards establish minimum copper contents of 94 to 99.9 % for different types of copper scrap. In all likelihood, the existing quota system will probably remain in place until the end of 2020, as American Metal Market reported. According to Reuters, it remains to be seen to what extent the Chinese customs authorities implement these new regulations.

**Production**

According to American Metal Market, China's fourth largest copper producer – Dongying Fangyuan – remained a focus of interest. It's still unclear whether the company accepted larger quantities of concentrates in January or not. Reuters reported that Codelco declined to prolong an expiring supply contract with the Chinese smelter for 2020 due to financial bottlenecks there. The news agency stated that concentrate deliveries between 20,000 and 40,000 t were affected.

American Metal Market reported that spot copper premiums in the US in late January were at 7.5 to 8.5 cents/lb, slightly higher than in December. In contrast, spot copper premiums in Shanghai (Grade A) remained under pressure and were supposedly in a range between US$ 37 and 52/t at the end of January. The European market wasn't very dynamic in January; copper premiums were between US$ 40 and 50/t (Rotterdam CIF), as Fastmarkets reported.

The future of Glencore's Mount Isa copper smelter in Queensland is up in the air. According to PR Newswire, the smelter could be closed down in 2022. It is currently the largest copper smelter in Australia. This would also affect Glencore's copper refinery in Townsville, which has an annual capacity of 300,000 t (Cu in concentrate). The reason for these considerations is the higher energy costs together with the low TC/RCs at the moment.

According to MBI NE-Metalle, the Zambian copper smelter Chambishi Metals will cease production owing to a lack of copper and cobalt concentrate deliveries. As stated by the operator Eurasia Resources Group, this is due in part to the 5 % tax on raw materials imports to Zambia, which hinders the flow of concentrates from mines in the neighboring Democratic Republic of the Congo. The company is now supposedly looking for other sources to resume operation. The Chambishi Metals refinery has an annual capacity of 6,800 t of cobalt and 55,000 t of copper.

## » Inventories

**Visible copper inventories in global warehouses increase slightly (MoM)**

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| January 31, 2020 | Europe | North America | Asia | Total* |
|---|---|---|---|---|
| LME | 123,325 t | 19,275 t | 37,200 t | 179,800 t |
| COMEX / SHFE | --- | 31,415 t | 155,839 t | 187,254 t |
| Total Cu inventories at metal exchanges | 123,325 t | 50,690 t | 193,039 t | 367,054 t |

*Differences possible due to rounding

Inventories in the global warehouses rose again overall in January. They were at 367,000 t at the end of the month, about 44,000 t higher than at the end of December (approximately 323,000 t).

## » Copper products

Information from MBI NE-Metalle and the European Automobile Manufacturers' Association (ACEA) indicates that the commercial vehicle market grew again in December and closed the past year with significant sales growth. In 2019 overall, commercial vehicle sales rose by 2.5 %, to 2.64 million units.

According to MBI NE-Metalle and the German Institute for Economic Research (DIW), the German construction industry will grow nominally by more than 6 % in 2020 and 2021. Nominal growth in 2019 was 8.7 %.

Business activity in the eurozone's processing industry waned in the last month of 2019, as MBI NE-Metalle reported. The corresponding Purchasing Managers' Index (PMI) decreased slightly to 46.3 points, according to IHS Markit. An economic barometer under 50 points signals a decline in growth. The indicator has now been below this mark for eleven consecutive months.

A PwC study indicates that the mood in the German mechanical engineering sector remains reserved. The auditing and consulting company doesn't anticipate any improvement in 2020. According to the study, German businesses have a more pessimistic view of German economic development than they do of global growth. The survey participants expected an approximately 4 % drop in sales for mechanical and plant engineering on the whole.