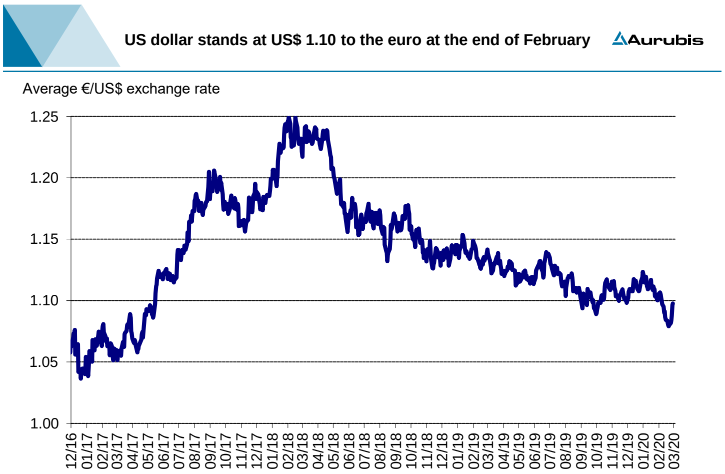
Copper Mail No. 181 – March 6, 2020

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

In focus

In February, the impacts of coronavirus, or Covid-19 – as the virus is officially called – had a firm grip on the copper market. In addition to capacity reductions in China and stricter import and travel regulations, the virus has now led to the cancellation of the CESCO conference in Chile at the end of March as well as wire 2020 and Tube 2020 in Düsseldorf in early April. In late February, industry experts still managed to meet at the International Copper Conference hosted by Fastmarkets in Amsterdam.

Economic situation



The effects of Covid-19 are causing concern among economists. The German newspaper Handelsblatt reported that the Organization for Economic Cooperation and Development (OECD) can no longer rule out the possibility that the global economy could even shrink if the situation doesn't improve soon. The OECD currently expects 2.4 % growth in the global economy for 2020 (previously 2.9 %). Annual growth is forecast at 5.7 % in China and 1.1 % in Europe. According to Bloomberg, the Bank of America has a slightly more optimistic view of global growth. The bank anticipates a 2.8 % rise in 2020.

Expectations for the US economy dampened recently, as Bloomberg reported. Growth in consumer spending, which accounts for about two-thirds of the country's economic performance, was revised downward to 1.7 % (previously 1.8 %). The positive effects of the interest rate cut the US Federal Reserve implemented in early March remain to be seen.

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

Copper essentials

Covid-19 continued to influence copper production in February – especially in China. According to S&P Global Platts, about 40 % of the copper processing industry in China is currently producing at 60 to 90 % of the normal level. Around 30 % of the industry has reportedly ramped down to 30 to 60 %. The Chinese state news agency Antaike estimates demand for refined copper at 11.4 million t for this year, or 1.2 % higher than last year.

In late February, industry experts met at the International Copper Conference hosted by Fastmarkets in Amsterdam. Among other topics, responsible sourcing and supply chains were a special focus of the discussions there. An industry expert from the consulting company Deloitte was quoted by American Metal Market saying that, in the meantime, many mining companies were spending significantly more time than they used to convincing local authorities and communities about mine projects on site. This, the expert said, prolonged the process of developing new deposits. In his opinion, Europe will take on a pioneering role in supporting "greener" mining projects. This fits with the Responsible Sourcing Initiative the London Metal Exchange released last year, which defines requirements related to raw material supply chains to which all LME members have to commit by 2023.

According to MBI NE-Metalle, the German federal government is currently revising the Raw Materials Strategy from 2010. Among other things, there's talk about establishing a state raw materials authority. An amendment of the strategy is expected in 2020 and should reflect the changes in conditions regarding raw material sourcing, especially the higher demand for metallic raw materials. Other topics include responsibility in the supply chain and recycling.

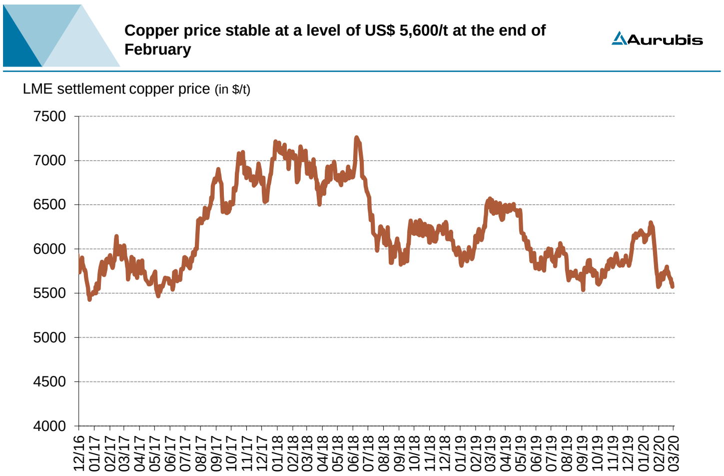
In December, the International Copper Study Group (ICSG) released its estimates for the period from January to November 2019. According to these numbers, *mine output* in the first eleven months of the year was at 18,642,000 t (copper content) and thus at the level of the same period of the previous year. Mine capacity utilization was 82.3 % (previous year: 83.1 %).

Global *output of refined copper* from concentrates and recycling materials was also at prior-year level during the period, at 21,898,000 t. The utilization of global refining capacities declined from 86.0 % in 2018 to 83.0 % in 2019. While concentrate inputs decreased by 0.9 %, copper scrap inputs rose by 1.6 %.

Visible global *demand for refined copper* was at 22,282,000 t during the period (previous year: 22,406,000 t).

This results in a *deficit* of about 384,000 t for January to November (previous year: deficit of 408,000 t) for the global refined copper balance.

» Price trend



The copper price on the London Metal Exchange (LME cash settlement) was in a range between US$ 5,600 and US$ 5,800/t in February. News about the impacts of coronavirus continued to strain the price trend. The copper price closed the month at about US$ 5,573/t (end of January 2020: US$ 5,621/t).

According to Bloomberg, the Chilean mining minister maintains his copper price forecast of US$ 3/lb (about US$ 6,600/t) for 2020 despite the impending effects of coronavirus.

» Copper raw materials

Spot treatment and refining charges (TC/RCs) rose considerably in February. According to Wood Mackenzie, they averaged US$ 71/t and 7.1 cents/lb Cu. However, Wood Mackenzie and CRU reported that there were also more higher-level spot transactions around US$ 80/t and 8.0 cents/lb Cu.

There were updates on mine expansions in February as well.

According to Reuters, the state-owned Chilean company Codelco received the environmental permit for its US$ 1 billion project Rajo Inca, which should extend the duration of activities in the Salvador mine. Output will rise from currently 60,000 t to more than 90,000 t of refined copper from the mine per year.

According to MBI NE-Metalle, France is introducing a new label for the “repairability” of electrical and electronic devices and appliances such as washing machines, TVs, and cell phones. The upper and lower houses of the French parliament recently voted to draft a law on the matter. The government wants to prevent devices and appliances from landing in the garbage, as 60 % currently do.

Production

Tongling Nonferrous Metals Group carried out maintenance work on one of its smelters (capacity: 200,000 t per year) sooner than originally planned in order to further reduce its capacities, as Bloomberg reported. The company is faced with the challenge of finding customers for its sulfuric acid output.

Reuters reported that the copper smelter Guangxi Nanguo in southwest China declared force majeure on deliveries of copper concentrate. The smelter has a production capacity of about 300,000 t per year and is the first smelter in China to officially declare force majeure due to the coronavirus epidemic. The situation was similar in early March at Qinghai Copper, a smelter that belongs to the Chinese company Western Mining, as Reuters reported.

American Metal Market reported that spot copper premiums in the US in early March were at 7 to 8 cents/lb, lower than in January. In contrast, spot copper premiums in Shanghai (Grade A) remained under pressure and were supposedly in a range between US$ 42 and 60/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 spot cathode premium for delivery to Germany was between US$ 80 and 90/t.

» Inventories

Visible copper inventories in global warehouses increase significantly (MoM)

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February 29, 2020	Europe	North America	Asia	Total*
LME	112,325 t	36,651 t	67,975 t	216,951 t
COMEX / SHFE	---	28,617 t	310,760 t	339,377 t
Total Cu inventories at metal exchanges	112,325 t	65,268 t	378,735 t	556,328 t

*Differences possible due to rounding

Inventories in the global warehouses made a significant leap in February. They were at 551,000 t at the end of the month, about 184,000 t higher than at the end of January (approximately 367,000 t).

» Copper products

Wood Mackenzie reports that the German construction industry will continue to grow significantly. The Purchasing Managers' Index from January shows the highest level since early 2019 due in particular to the mild winter, which should boost construction activities and lead to additional demand for copper wire rod, for instance.

The German Mechanical Engineering Industry Association (VDMA) expects another decline in exports for 2020 due to weak industrial production worldwide and growing protectionism in some industrialized countries. Furthermore, a VDMA spokesperson referred to the current incoming orders of mechanical engineering companies, which will likely lead to another drop in exports for the entire year 2020. Last year's exports totaled € 179.8 billion and were thus 1.5 % below the prior-year level in real terms.

According to MBI NE-Metalle, the German Association of the Automotive Industry (VDA) reduced its outlook for 2020 due to the coronavirus epidemic. The main reasons cited for this were the weak market trend in China and low momentum from Europe and the US. The VDA thus forecasts sales of 78.2 million cars worldwide for the current year, which would be a roughly 3 % decline compared to last year. Until recently, the VDA had anticipated a decrease of about 1 %, to 78.9 million cars.

As reported in various media sources, the German federal government announced in January that it would increase spending on rail transport in the medium term. Approximately € 86 billion will be invested in modernizing the country's rail network in the next ten years. The program comprises the overhaul of about 2,000 km of tracks each year, as well as the modernization of signal boxes, train stations, energy supply systems, and around 2,000 bridges.