Forecast - Copper

- Metalworld Research Team

Copper which is regarded as an indicator of economic growth is also called as the leader of the base metals pack. Its performance during the year has been very volatile, as on one hand it tested an all-time high of $10,190/tonne, supported by supply-side worries; and on the other hand the red metal slipped to a low of $6635/tonne on account of global economic concerns and its impact on consumption growth of industrial metals.

Estimates by the EIU indicate that world copper consumption growth slowed to 2.8 percent in 2011 as a result of weak demand in the EU and the US coupled with the impact of monetary policy tightening in China, the country that accounts for 47 percent of world copper consumption. High borrowing costs in China led to slowdown in manufacturing and construction activities. Lack of access to credit had a major impact on copper fabricators as they struggled to finance working inventories. Since the start of the third-quarter this year, there has been an improvement in Chinese demand, but this does not indicates real consumption as it is backed by restocking at lower price levels.

Fabricators in China continue to rely on hand-to-mouth strategies in the current market scenario as borrowing costs have become a big concern. EIU expects a bounce back in world copper consumption growth by 3.2 percent in 2012 on account of expected loose monetary policy in China and the restocking cycle. In 2010, it has been seen that Chinese copper buyers did not venture into restocking activity despite a decline in inventories as manufacturers adopted hand-to-mouth strategies. On the back of this, imports which usually rise in the second-quarter (April to June) witnessed slow growth. But increase in copper imports has been seen in the second-half of this year in China as it touched 275,499 tonnes in September, marking the highest level in 16 months.

After a sharp fall in copper prices in August and September, copper prices on the London Metal Exchange (LME) slipped more than that on the Shanghai Futures Exchange (SHFE). This resulted in price differential, thus making copper imports more viable into China. But this increase in imports cannot be regarded as a rise in direct consumption as the current rise in Chinese copper imports is more of bargain hunting, where Chinese merchants basically exploit price decline and arbitrage opportunities.

Apparent demand for refined copper in China stood at 5.82m tonnes in January'11 to September'11. The EIU expects Chinese refined copper consumption to increase 6 percent in 2012 and around 8 percent in 2013. In the coming year, China is expected to loosen its monetary policy, thus leading to a return of credit to fabricators. Although demand in the Euro Area is expected to witness slowdown, China may not necessarily get impacted from the same as a major part of China's copper demand is mainly driven by the domestic economy.

Although economic growth in Japan is expected to contract this year, data on the copper front has been on the positive side. The country accounts for 7 percent share in total world consumption and copper-specific data shows indications of a swift recovery post the devastating earthquake and tsunami. Many copper fabricators in Japan would return to full production by the end of March. World Bureau of Metal Statistics (WBMS) data suggests that in the first eight months of the year, consumption growth was down 1.7 percent year-on-year. EIU estimates copper consumption growth in Japan at 1.2 percent in 2011 and expects it to accelerate in 2012-13 by an average 2.5 percent, backed by reconstruction spending. The Euro Area accounts for 22 percent of world copper consumption but

YEARLY PERFORMANCE-COPPER					
	Open	High	Low	MRV	Change (%)
LME Copper ($/tonne)	9685	10190	6635	7363	-24
	9685	10190	6635	7363	-24

demand growth in copper has witnessed a slowdown in this year due to escalating economic concerns. WBMS data indicates that copper consumption growth in the EU rose at 1.4 percent in the first eight months of 2011. The month of August alone saw an increase in demand growth by 2.7 percent. But for the whole of 2011, EIU expects refined copper consumption growth of just 0.8 percent as confidence across the Euro region falls and as reports indicate that since September consumers have postponed orders of cathode from refineries.

On the supply front, world production of refined copper increased 3.1 percent in 2010, but issues such as tightness in the global concentrate market due to lower ore grades and ageing mines capped production increases. Production growth is expected to be slower than rise in consumption on account of rise in labor disputes in the world's largest copper mines in Chile, Indonesia and Peru. For 2011, EIU expects world copper supply to increase 2.3 percent. Since risks associated with supply of concentrates has increased, smelters and refineries have now increased their dependence on scrap as the raw material.

China is not only a major consumer of copper but also accounts for a whopping 33 percent in world copper production. Data by the China Nonferrous Metals Industry Association (CNIA) for September showed that the country's output for refined copper remained at a high of 457,595 tonnes, but lower than its record high achieved in August. For 2011, the EIU expects Chinese copper production to grow by 10.4 percent, down from growth of almost 13 percent seen in 2010. For 2012-13, EIU forecasts a further slowdown in growth to 8 percent.

It has been noted that the global production of copper scrap has increased sharply and secondary refined copper production is growing at a faster pace that primary production. Data from the International Copper Study Group (ICSG) indicates that global secondary production rose by 18.3 percent year-on-year in 2010.

For the first six months of the year, secondary copper smelters witnessed growth in output by 8.1 percent to 1.76m tonnes, while primary smelters recorded growth of just 1.3 percent to 7.36m tonnes. Copper production from secondary sources accounts for around 19 percent of total copper production, which is up from 17.6 percent in 2010. ❍❍❍

BUYER-SELLER MEET