

# Copper price resilient

Author: Charlie Durant

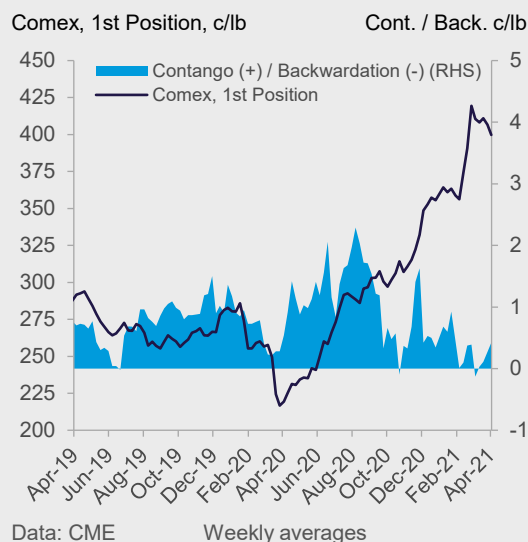
## Copper finds new trading range

After falling back at the end of February, the copper price has been range-bound. A period of relative calm after the dramatic decline and rally seen over the last year.

The copper price has remained resilient despite some macro pressures and slowing purchasing in China. CRU believes that Chinese consumers will return to the market shortly, and that Q2 2021 will continue to see elevated prices in the copper market.

Our recent calls to financial market participants indicate that there are still more bulls than bears, although fewer than at the start of the year when the mood was almost universally positive. Copper prices have held firm despite the stronger US dollar and a resurgence of Covid-19 cases in some markets. Global exchange and Chinese bonded warehouse inventories have been rising, but this is consistent with normal seasonal patterns and absolute levels (~870,000 t) remain low. The prospect of higher inflation is a positive for real assets.

Copper prices range bound



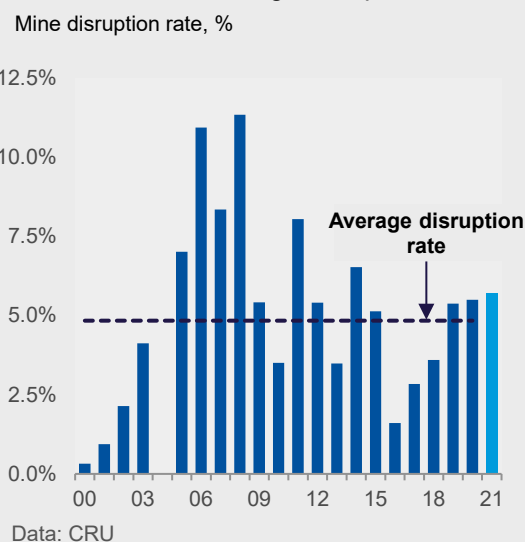
## Further mine disruptions could tighten market further

The supply side of the copper market remains fragile. We are forecasting that this year will see mine disruptions rates of 5.7%. There are risks to this, higher disruption rates could deepen market deficits, supporting prices and premiums further. There have been recent mine disruptions at Norilsk (flooding), Boliden, Ok Tedi and Oyu Tolgoi (Covid-19) and Antapaccay (blockade).

A potential strike at Los Pelambres was averted this month. Lower than forecast rates are also a distinct possibility and could take the copper market into surplus for 2021.

The funds who are calling for higher prices are finding that copper is still an easy narrative to sell. Copper's wider green story, the need for significant capital to build new supply, and the expected impact of government stimulus are providing a strong backdrop. The strong underlying demand, solid macro and PMI data, potential supply disruptions at mine level, the risk of extended maintenance at smelters as they deal with low TC/RCs, and low exchange stocks are all being used to help push this positive narrative.

2021 could still see high disruption rates



### Are Chinese funds waiting to move?

We have heard mixed reports about the interest in copper from Chinese funds. Some are saying that Chinese funds are still holding significant financial firepower, which they could commit soon to commodity markets. These funds are reportedly predicting that the current period of price stabilisation will pass before prices jump higher. However, our feedback is that many are not yet confident enough in this assertion to commit more capital.

The Chinese physical market is also mixed. For copper wirerod as well as wire and cable manufacturers, the peak demand period should be about to start. Feedback from producers indicates copper consumption is weaker than expected. Some believe this year will miss out on peak volumes, while others think that these orders will be more spread through the year than usual. Order volumes are stronger for tube, foil, plate and winding wire, although even combined these are much smaller markets than wirerod.

Indicators of economic activity for the first two months of the year were robust. CRU is forecasting that Chinese total copper demand in 2021 will increase by over 5%. However, increased scrap availability will mean refined demand growth will be less than this at 4%. The Chinese market cannot adopt a wait and see strategy indefinitely. Consumers will need to pick up volumes and this may help some undecided speculators move back into copper. We remain positive about the prospect for copper in China this year.

### North American underlying demand is still strong

We have heard that both wirerod and flat rolled markets are performing very well in the US. Munitions grade coil markets are still firm. Elsewhere in the brass sector, uptake remains good. In general, building wire is doing well across the US due to the strong housing sector. As with the European market, copper product sales to the automotive market are still firm, despite the supply chain difficulties this sector is facing. At brass and wirerod mills there remains limited visibility for H2 ordering and some are worried that demand could ease, particularly if restocking slows. There is still a good level of scrap availability in the US currently. This is across barebright, No. 1 and No. 2 grades.

Despite positive demand fundamentals and tight freight, US cathode markets have loosened. We hear anecdotally that many of the delayed cathode shipments from Chile arrived at a similar time, ensuring good availability. We have also seen softer purchasing because of the lingering effects of cold weather conditions in Texas during February. As one trader put it "the boats and the storm have come together to give the market a chance to catch its breath". Our latest assessment for US Midwest premiums is unchanged at 7.5-8.0 c/lb.

### Outlook: Copper price will hold for a while longer

The recovery could combine with low inventories as we enter the seasonally strongest quarter. With the recovery seemingly well set in Europe and North America, it will be the path of the Chinese market which will drive prices over the coming quarter. We believe that copper prices could trend slightly higher in the rest of Q2, before trending lower later this year.

If you would like more information about copper please email [metals@cmegroup.com](mailto:metals@cmegroup.com)

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