Mixed signals

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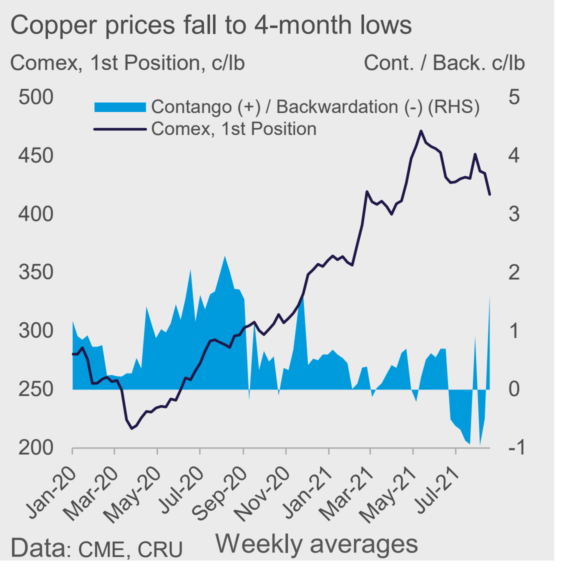
Sharp sell-off takes copper prices temporarily lower

Up until mid-August, the copper price had been relatively range bound at between $4.20-4.40 /lb. However, a sharp sell-off during the week of 16 August saw copper prices plunge to 4-month lows of below $4.05 /lb, before rebounding on 23 August. There was no single trigger for the downward correction. A combination of factors contributed including concerns of Fed stimulus withdrawal before year-end; conflict risks in Afghanistan; continued high Covid-19 cases; and reduced supply risks following the labour contract agreement at Escondida - the world's largest copper mine (1.2 M t/y).



Although the risks of supply disruption have lessened, they have not been eliminated. In Chile, workers at JX Nippon's Caserones mine and Codelco's Andina operation commenced strikes in August. Additionally, negotiations are underway at BHP's Cerro Colorado mine and Codelco's El Teniente facility. In Peru, protestors once again temporarily blockaded the road leading to MMG's 400,000 t/y Las Bambas mine, although a truce has been reached with residents agreeing to a roundtable meeting with the Prime Minister on 28 August.

Fed stance seen as less supportive of copper prices

While a number of factors have contributed to copper's price volatility, a key driver has been the question of whether inflation is on an excessive path. In recent months the Federal Reserve and other central banks remained largely committed to accommodative policies, viewing the recent pick-up in inflation as transitory and reflecting base effects. However, the minutes from the July Fed meeting, released on 18 August, have indicated a willingness to begin tapering asset purchases before the end of this year. While Fed officials have stressed this is not a precursor to an imminent rate hike, it has been viewed as less supportive of copper prices.

Chinese buying improves but apparent demand still weak

In 2020, growth in Chinese apparent consumption of refined copper (production plus imports minus exports and adjusted for stock changes) was around 10%, far exceeding end user requirements. In the early months of 2021, the growth rate remained elevated, but it decelerated in March and turned negative in April (-6.2% y/y). In the latest three-month period for which data is available (May-July), Chinese apparent demand declined by 14% y/y.

There are, however, signs of renewed Chinese buying activity. The dollar cathode market has become more active and spot premiums are moving up rapidly. Currently there is a wide spread for ER cathode of between $65-125 /t with quotes for SXEW material anywhere from $58-90 /t. Despite the improvement in premiums, and expectations of stronger demand to come in Q4, CRU is nevertheless forecasting a relatively modest increase in Chinese real refined copper consumption for 2021 of 2.5%.

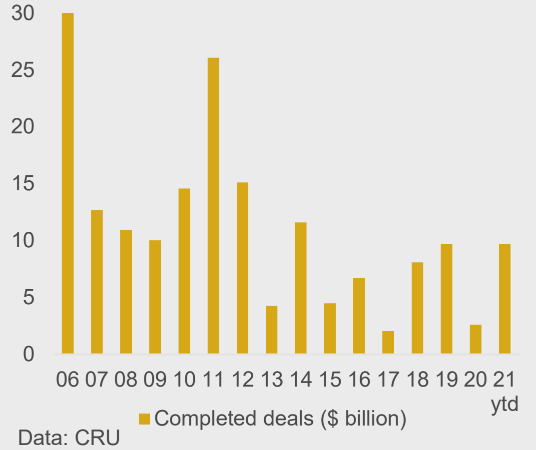
Stocks close to multi-year lows

Global visible copper inventories (exchange plus Chinese bonded stocks) fell 5% or just over 46,000 t in July, with much of the decline stemming from China. A similar trend has persisted in August to date, with continued falls in Chinese stocks (-80,000 t) offsetting increases elsewhere. We estimate that global visible inventories remain extremely low at < 2 weeks of consumption, suggesting that prices will continue to be highly volatile in the near-term.

Copper deal activity on track for 10-year highs

Global copper mergers & acquisitions (M&A) activity has been relatively strong in 2021. Almost $10 billion dollars of transactions have been completed in the first half, across 33 deals. On an annualised basis, this suggests 2021 could be on track for $20 bn of transactions, which would represent the highest level since 2011. We see this recovery as important in helping to provide the funding required to progress the projects needed to meet global copper demand in the medium term. Key transactions include Glencore's $1.5 bn divestment of its Mopani operation to the Zambian government in January 2021 and the conclusion of a $5.5 bn privatisation of KAZ Minerals in April.

Almost $10 billion of copper M&A deals completed in H1 2021



Data: CRU

The high copper price has been a significant boost to smaller deals, involving exploration and early-stage projects. However, there have been limited sizeable deals involving projects nearing investment and financing decisions. These projects are still needed from 2024 when CRU's forecast mine supply growth falls below 2%, due to a lack of committed projects. This is particularly relevant given the past 18 months has only seen a handful of Tier 1 or 2 projects approved, including Kamoa-Kakula Phase 3 and Carrapateena Block Cave 1.

Outlook: Price volatility to persist near term

Following the sharp decline, copper prices subsequently recovered lost ground. The bounce-back was not unexpected, as prices had overshot to the downside, but the upturn was also fuelled by recent news flow. Reports that four out of five unions at El Teniente rejected an early contract offer from Codelco, and the announcement that China had no new Covid cases on 23 August for the first time since July were important factors driving prices higher.

Whether or not the rally will be maintained is unclear. Despite the contract rejection at El Teniente, a strike is not on the immediate horizon, as negotiations are ongoing. In addition, the impact of the latest developments in Afghanistan are uncertain and could temper risk appetite in the near-term. Nevertheless, copper's fundamentals remain relatively positive, with an effectively balanced global market, renewed Chinese buying activity and continued low visible inventories all providing support. Our Q3 copper price forecast remains unchanged at close to $4.30 /lb.

If you would like more information about copper, please email metals@cmegroup.com

Find out more about CRU's Copper analysis service here.