Copper consolidates

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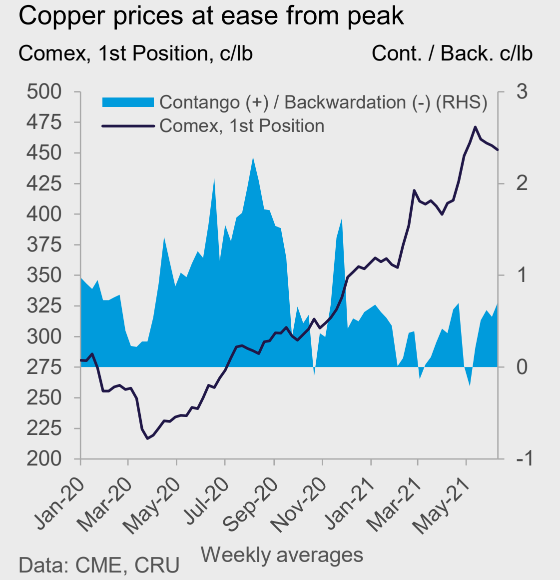
Copper eases after reaching record high

Copper blasted to $4.75 /lb in the early part May, reaching record highs. Since then the market eased to $4.5 /lb, before slipping to $4.35 /lb in mid-June. The last six weeks have seen a range of competing news and data releases. These, depending on your interpretation, can either support the case for further price gains or could be used as evidence that a correction is coming.



Data: CME, CRU

Chinese micro indicators have worsened with Chinese copper cathode premiums falling sharply and demand has softened. It must be remembered that Chinese refined copper demand accounts for 53% of the global total. At the same time, the market remains focused on the potential political upheaval in Chile and Peru, along with the ever expanding library of green energy commitments and forecasts.

Dollar cathode premiums drop below US 20 /t.

Many Chinese semi-fabricators remain under financial pressure. Wire and cable producers are keeping raw materials stocks low, due to tight cash flows and the high copper price.

Data: CRU

Numerous wirerod producers are finding that processing fees are not covering their costs. Tube manufactures are better placed and have seen stable production levels through early June.

The last fortnight has seen further decreases in dollar cathode premiums. Our contacts have repeatedly stated it is a buyer's market. Since then, there have also been announcements about the release of stocks in China.

US and Europe leading rest of world demand

US copper demand remains strong, checked only by shortages of raw materials and intermediate products in some end-using sectors such as residential construction (lumber) and automotive (semi-conductor chips) – polymers and plastic packaging availability is becoming a concern for the metallic wire and cable industry as well. In the US, buyers are taking long term contract volumes in full but the need for supplementary spot cathode purchases is being limited by continued strong availability of scrap.

US domestic refined copper production is expected to increase by close to 20% this year and imports were up nearly 30% y/y in 2021 Q1. While demand is strong, ample supply could act as a cap on premiums, especially during the third quarter when several US wirerod mills are expected to undertake maintenance.

European demand remains extremely robust, especially in southern Europe, with CRU's contacts at fabricators stating they are running at very high utilisation rates. Auto-related semis orders have eased because of chip shortages but are still at a good level.

Given the extended lead times and full orderbooks at fabricators, firm demand is likely to run through until at least the end 2021 Q3 and potentially beyond. However, refined copper demand in all of Europe and North America combined is still under half the size of the Chinese market.

Green dreams?

Some investors consider copper demand to be an effective indicator of the broader economy in terms of picking turning points and its overall health. Around 45% of copper is used in infrastructure (construction and utility sector), just over 25% in identifiable consumer goods (air conditioners, autos, and consumer durables), and 30% in machinery and other. However, this does not tell the full story and, arguably, the link between copper demand growth and GDP decoupled in the 80s and 90s.

The emergence of China, and its vast copper demand has driven the market over the last two decades. Demand in the rest of the world has stagnated, even accounting for the export of copper containing goods from China. There is an expectation that electric vehicles (EVs) and renewables, along with broader physical infrastructure commitments by governments around the world, will push copper demand higher. However, demand growth in China could slow, as the country turns away from investment led growth and heavy industry.

Green energy accounted for less than 5% of global copper demand in 2020. The shift to EVs and renewables is coming, but there are threats, and the pace and the way these markets evolve over time is by no means certain. Justifying today's price, using the promise of tomorrows demand is not without risk.

Outlook: which copper market?

There are two versions of the refined copper market – bear and bull. Many bears are focused on this year's fundamentals. They see the threats of slower Chinese demand, despite growth elsewhere, and limited mine disruptions driving the market into surplus. Bulls are pointing to the changing political situations in Chile and Peru, which account for around 40% of global mine supply, and the long term positive green energy narrative for copper.

CRU's price view sits between these two extremes. A price correction is expected during 2021 H2, as demand growth moderates and new mine projects ramp up production. However, downside to the price is limited given investors' continuing enthusiasm for copper especially when exchange inventories remain so low.

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

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