There is hope that 2020 will be a better year for copper demand, but that largely depends on whether stimulus measures successfully boost the Chinese economy and whether there is a successful resolution to United States-China trade tensions, analysts told Fastmarkets.

This year’s copper market has been marked by weak sentiment and falling prices even though it has remained in a supply deficit.

“The copper market is a good indicator of global macroeconomic trends” that have recently favored the downside, head of research at Sucden Financial Geordie Wilkes said. A major driver of this weakness has been the US-China trade war, which, after intensifying in August has recently eased somewhat with the trade talks back on, he added.

“But the copper market has struggled to hold onto any upward momentum with investors’ skins hardening to all of the promises and headlines,” he noted. “Therefore is tricky for prices to gain any conviction on the upside until we see some progress in these negotiations.”

However, Carlos Risopatron, director of economics and environment for the International Copper Study Group (ICSG), points out that the evolution of the physical copper market this year has been quite different than it had been in previous years, with more supply side factors at play than demand side factors. These include a contraction of mine production, which he observes was only 9.92 million tonnes in the first half of this year, down 6.4% from 10.6 million tonnes in the first six months of 2018.

Further complicating things is that copper prices have been trading out of sync with market fundamentals. The copper market has been in a deficit since 2017 and that it continues to be in a deficit this year despite somewhat softer Chinese refined copper demand growth this year, Fastmarkets research analyst Boris Mikanikrezai said.

“The global copper market is largely overshadowed by China, which is the largest
copper consuming economy, and this year the Chinese copper market has been taking a pause after exceptionally strong apparent consumption growth in 2018,” Société Générale metals and mining analyst Sergey Donskoy said.

Chinese apparent copper demand is down about 3% in the year to August after rising about 10% last year, according to Donskoy.

“This doesn’t mean that there has been abysmal underlying demand,” Donskoy pointed out, given that apparent demand also considers inventory movements, which are probably being worked down after being built up last year.

Despite this pause, ICSG reports the market’s deficit moved up to 220,000 tonnes in the first half of this year, from 177,000 tonnes for the first six months of 2018. Mikanikrezai estimates that for the full year of 2019 the deficit will fallback to 142,000 tonnes before increasing again to 288,000 tonnes in 2020 on the assumption there could be a de-escalation of US-Chinese trade tensions and improved global economic activity next year, which would be supportive of copper demand.

“It is a strong case of sentiment versus fundamentals,” John Mothersole, director of research for IHS Markit’s pricing and purchasing service, said, noting that in a tight market you would expect prices to move up higher, which hasn’t been the case thus far this year. “That is because ‘Dr Copper’ is reflecting the uncertainty in the marketplace that, in particular, the US-China trade war is creating in the outlook, resulting in demand expectations to be steadily lower as the year progressed, which has weighed down prices.”

Mikanikrezai agreed, noting that copper is heavily traded by financial players and that speculative selling precipitated by negative macroeconomic sentiment has driven copper price weakness since 2018. “The question is how far this disconnect can go.”

Mikanikrezai said he believes the downside appears to be limited. “That doesn’t mean that we won’t see some new lows, but the fourth quarter tends to be a good quarter for copper prices, and we are already seeing some clear signs of the market tightening.”

**Stimulus measures could be supportive**

While global refined copper apparent demand appears to be in negative territory in the year to date, Donskoy said with some of the stimulus measures that have gone into effect in China and elsewhere in the world, it is possible apparent demand could move back into positive territory by the end of 2019.
ICSG’s Risopatron said that while global apparent refined copper usage had fallen 0.7% to 11.96 million tonnes in the first half of 2019 from 12.05 million tonnes in the first half of last year, much of that weakness should not be attributed to China.

According to Mothersole, copper consumption growth in China, while less than it had been in recent years, continues to be positive, while refined copper consumption elsewhere, including in Europe and the US, has been declining. Mikanikrezai attributed that to China having stronger GDP growth than other regions of the world. Wilkes, however, said Chinese refined copper demand growth has been moderating and might only grow by 1% in both 2019 and 2020. Meanwhile, China’s manufacturing purchasing managers index (PMI) has been “treading water” over the past several months, he added.

China has taken some moves to stimulate its economy, Wilkes said, but those measures are aimed at increasing infrastructure investments such as for high speed trains, as opposed to the property sector, which is already highly leveraged. While such investments would lift Chinese copper wire and cable demand, they have been limited this year with the Chinese ministry of finance suggesting the local government debt balance stood at 21.4 trillion yuan ($3 trillion) at the end of August, approaching its 24 trillion yuan annual debt ceiling set in 2018.

“We would love to see stronger Chinese infrastructure investment, especially in the power grid,” Donskoy said. “But that has not yet materialized.”

According to Mikanikrezai, the power sector tends to account for about 50% of Chinese copper consumption. While China is expected to step up its investments in its power grid and 5G internet next year, Wilkes says that its power grid investment was down 15% in the year to August. That, however, could be starting to rebound. Mikanikrezai says power sector demand increased 11% year on year in July.

Much like in many global regions, Mikanikrezai says China’s auto sector, which accounts for about 8% of Chinese copper consumption, has been contracting. And while there has been an electric vehicle push, Donskoy says vehicle electrification is not yet a dominant driver of copper demand, although it could begin to be so within the next five years or so.

Risopatron says that European apparent copper consumption declined to 1.35 million tonnes in the first six months of 2019, from 1.5 million tonnes in the first half of 2018 and...
that apparent consumption in the US fell to 815,000 tonnes from over 900,000 tonnes in the same comparison.

While the European Central Bank has introduced a stimulus package, European economic indicators continue to soften with both industrial production and the manufacturing PMI down in the European Union. This does not surprise Wilkes who pointed to the trade war between its two major trading partners – the US and China – as well as the uncertainty related to the Brexit deal and weakness in both its construction and automotive sectors. If the US imposes Section 232 tariffs on imported autos and auto parts that would be detrimental to the German auto industry, he added.

“There really needs to be more physical spending for there to be a rebound in the EU manufacturing sector,” Mikanikrezai said, adding that all the doubt surrounding Brexit has affected the EU economy, and therefore, EU copper demand.

Meanwhile, while the US has been fairly resilient to date, Mikanikrezai said it has been facing downward risk from the trade war which is having an impact upon manufacturing business confidence and investment. This has been reflected in its recent declining manufacturing PMIs, although he is hopeful the manufacturing sector will rebound next year. Wilkes concurred, saying the US housing sector has been more resilient in the past few months and that if the Federal Reserve continues to lower interest rates, this could provide further support to the US housing and automotive sectors.

‘Near-zero’ mine growth

Mikanikrezai forecasts the LME copper price, which was about $5,700 per tonne in early October, to average $6,133 per tonne in 2019, down from an average of $6,526 per tonne last year.

But copper prices could have weakened even more if there had not been near-zero growth in mined copper production, Donskoy said.

Due to various issues on the supply side, Donskoy added it is conceivable global copper mine production will be down 0.3–0.5% year on year in 2019. Freeport-McMoRan continues to have issues with its Grasberg Mine in Indonesia, which is expected to ramp up in the next year or two, and several producers, including Glencore, are having issues in the Democratic Republic of Congo (DRC). Also, there are expectations Zambian production may fall by as much as 100,000 tonnes next year, Mothersole said.

But there have been some counterbalances, Mikanikrezai observes. Chilean state-owned copper producer Codelco has begun increasing production at its Chuquicamata mine. Also, there was strong growth at Southern Copper due to the expansion at its Toquepala mine and China saw an 8.1% increase in its mine output in the year to June. He predicts mine production could increase by 1% in 2020.

Mikanikrezai also expects global refined copper production to increase by 2.4% this year, despite the 1.1% year-on-year decline during the first half, and predicts an easing in the concentrate market in the fourth quarter due to a sudden surge of Grasberg concentrates in the fourth quarter after Freeport-McMoRan received extra export licenses from the Indonesian government.

While down from the beginning of the year, Donskoy said copper prices remain above breakeven levels even for less efficient mines and they are likely to continue to be rangebound between $5,400 and $6,000 per tonne this year. Based on the assumption that this is just a temporary soft patch that is at least partially due to destocking, Donskoy sees prices recovering slightly in 2020.

“It will be a struggle for prices to rise above $6,500 per tonne next year unless there is improved trade deal rhetoric, although that will also depend upon the amount of Chinese stimulus and what happens with the US presidential election,” Wilkes said. Mikanikrezai is more optimistic, predicting copper prices increasing to about $7,000 per tonne in 2020.