

A delicate balance for copper

Copper prices could slip moderately in 2022 given the overall global macro picture. But given supply constraints and its appeal to investors as the key energy transition metal, the stage is set for above long-term average prices over the next few years



A copper miner in Chile

Record high prices riding macro tailwinds

After touching a record high in early May of US\$10,460/tonne, copper prices largely fluctuated above US\$9,000/tonne, with annual average prices set to be around US\$9,300/tonne in 2021, comfortably above its long-term average level. Macro tailwinds, micro positivity and investors' enthusiasm towards the key 'green' metal have contributed to the mantra of 'buying the dip' in the copper market.

Mine supply improve on a wave of projects

Despite many concerns over long-term copper supply due to a lack of investment over the last decade, this year's mine supply has surprised to the upside as planned projects come online. The previously anticipated high disruption rate has not caused meaningful production losses. This is on course to register a 3.3% year-on-year growth and should maintain a medium-to-high level over the next two years amid a wave of projects that are just beginning. However, there is a bigger issue in the logistics sector due to high freight rates and delays. While many expect the

situation to improve throughout 2022, the new Omicron variant makes the outlook murky.

Similarly, refined production grew strongly by 4.8% YoY this year, driven by restarts at major smelters. The power crunch has had a more limited impact on smelter production than other energy-intensive metals. Refined supply is set to remain high over the next few years, driven by the expansion of some Chinese players such as Daye and some new projects in Indonesia and India.

Non-refined copper supply plays an increasingly important role

The supply of scrap and other unrefined copper such as blister and anode are becoming increasingly important and often have big effects on the refined market balances on the regional market. Policy shifts compounded by supply chain disruptions constantly impact these markets. As China tightened its standards on imported scrap together with a firm concentrate market, imports of blister/anode remained above trend during 2020 and 2021, although total imports of blister/anode come to 920kt for the full-year 2021 on an annualised basis, compared to just above 1 million tonnes from the previous year. This is likely due to bottlenecks in the shipping market.

Regional policies could throw a curveball to scrap supply in certain markets

As for scrap, there has been a robust recovery so far this year after supply chains were hit by the pandemic in 2020. Higher prices have revitalised scrap flows amid recovering manufacturing activities post-pandemic. In the longer run, both scrap generation and recycling are set to grow from key regions following their respective green targets, which in theory would replace some demand for primary copper. Nevertheless, regional policies could throw a curveball to scrap supply in certain markets, most importantly to China.

It is estimated that the world scrap supply chain will continue to evolve and become more fragmented. This follows the rejig in Chinese scrap import policies in recent years. The European Union had proposed export restrictions on scrap. Following Beijing's move to tighten import scrap standards, Malaysia plans to lift its standards, thus quitting the role as a bridge in processing low-grade scrap and further exports to China. Other countries may take on the role, but such business is not deemed to be long-lasting due to both environmental and political concerns. Should these regional policies become enacted, they could potentially leave a supply gap.

'Green' demand contributes to the majority of the growth

On the demand side, the red metal is undergoing a shift in demand engines, with green demand contributing to more marginal growth in the overall usage. World primary copper use is poised to register strong growth of 6.5% YoY in 2021 on a lower base from last year. However, overall growth is expected to moderate slightly into 2022, whilst the green-related sectors such as electric vehicles and renewables would contribute almost half of the incremental usage next year.

However, the China property sector remains a big question mark as to whether there would be a soft landing following the Evergrande crisis and the indebtedness of some other property developers. For almost two decades, China's property sector growth and the nation's

urbanisation have been the perennial engine of growth for copper demand, representing almost a quarter of the nation's total demand. In the medium term, we expect copper to continue to benefit from late-stage construction along with a recovery in property completions.

Prices to moderate but remain above long-term average

Looking ahead, supply chain bottlenecks with their effects on copper supply to the China market may not go away easily in 2022, especially given the spread of the Omicron variant. This is partially mirrored in the rise in longer-term cathode premiums that major suppliers offered to Chinese buyers for next year. In such cases, regional market imbalances will prompt import arbitrage.

The tailwinds from the macro front could turn into some headwinds as we move into 2022, which could take some wind out of copper's sails. This would include a stronger dollar and higher real rate along the US Federal Reserve's tightening cycle. Nevertheless, the low visible inventories may shield it from sharp price correction. While we anticipate that prices will slip moderately in 2022 from highs this year, the supply constraints over the long term and its appeal to investors as a key green metal are setting the stage for above long-term average prices over the next few years.

Author

Olivia Grace

Editor

olivia.grace@ing.com**Julian Geib**

Junior Economist, Global Trade

julian.geib@ing.de**Zoltán Homolya**

Economic research trainee

zoltan.homolya@ing.com**Amrita Naik Nimbalkar**

Economist, Global Macro

amrita.naik.nimbalkar@ing.com**Mateusz Sutowicz**

Senior Economist, Poland

mateusz.sutowicz@ing.pl**Alissa Lefebre**

Economist

alissa.lefebvre@ing.com**Deepali Bhargava**

Regional Head of Research, Asia-Pacific

Deepali.Bhargava@ing.com

Ruben Dewitte

Economist

+32495364780

ruben.dewitte@ing.com

Kinga Havasi

Economic research trainee

kinga.havasi@ing.com

Marten van Garderen

Consumer Economist, Netherlands

marten.van.garderen@ing.com

David Havrlant

Chief Economist, Czech Republic

420 770 321 486

david.havrlant@ing.com

Sander Burgers

Senior Economist, Dutch Housing

sander.burgers@ing.com

Lynn Song

Chief Economist, Greater China

lynn.song@ing.com

Michiel Tukker

Senior UK & Eurozone Rates Strategist

michiel.tukker@ing.com

Michal Rubaszek

Senior Economist, Poland

michal.rubaszek@ing.pl

This is a test author

Stefan Posea

Economist, Romania

tiberiu-stefan.posea@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Jesse Norcross

Senior Sector Strategist, Real Estate

jesse.norcross@ing.com

Teise Stellema

Research Assistant, Energy Transition

teise.stellema@ing.com

Diederik Stadig

Senior Economist, Healthcare & Technology

diederik.stadig@ing.com

Diogo Gouveia

Sector Economist

diogo.duarte.vieira.de.gouveia@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Ewa Manthey

Commodities Strategist

ewa.manthey@ing.com

ING Analysts

James Wilson

EM Sovereign Strategist

James.wilson@ing.com

Sophie Smith

Digital Editor

sophie.smith@ing.com

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@ing.com

Adam Antoniak

Senior Economist, Poland

adam.antoniak@ing.pl

Min Joo Kang

Senior Economist, South Korea and Japan

min.joo.kang@ing.com

Coco Zhang

ESG Research

coco.zhang@ing.com

Jan Frederik Slijkerman

Senior Sector Strategist, TMT
jan.frederik.slijkerman@ing.com

Katinka Jongkind
Senior Economist, Services and Leisure
Katinka.Jongkind@ing.com

Marina Le Blanc
Sector Strategist, Financials
Marina.Le.Blanc@ing.com

Samuel Abettan
Junior Economist
samuel.abettan@ing.com

Franziska Biehl
Senior Economist, Germany
Franziska.Marie.Biehl@ing.de

Rebecca Byrne
Deputy Global Head of Editorial and Supervisory Analyst
rebecca.byrne@ing.com

Mirjam Bani
Sector Economist, Commercial Real Estate & Public Sector (Netherlands)
mirjam.bani@ing.com

Timothy Rahill
Credit Strategist
timothy.rahill@ing.com

Leszek Kasek
Senior Economist, Poland
leszek.kasek@ing.pl

Antoine Bouvet
Head of European Rates Strategy
antoine.bouvet@ing.com

Jeroen van den Broek
Global Head of Sector Research
jeroen.van.den.broek@ing.com

Edse Dantuma
Senior Sector Economist, Industry and Healthcare
edse.dantuma@ing.com

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

Rico Luman

Senior Sector Economist, Transport and Logistics

Rico.Luman@ing.com

Jurjen Witteveen

Sector Economist

jurjen.witteveen@ing.com

Dmitry Dolgin

Chief Economist, CIS

dmitry.dolgin@ing.de

Nicholas Mapa

Senior Economist, Philippines

nicholas.antonio.mapa@asia.ing.com

Egor Fedorov

Senior Credit Analyst

egor.fedorov@ing.com

Sebastian Franke

Consumer Economist

sebastian.franke@ing.de

Gerben Hieminga

Senior Sector Economist, Energy

gerben.hieminga@ing.com

Nadège Tillier

Head of Corporate Sector Strategy

nadege.tillier@ing.com

Charlotte de Montpellier

Senior Economist, France and Switzerland

charlotte.de.montpellier@ing.com

Laura Straeter

Behavioural Scientist

+31(0)611172684

laura.Straeter@ing.com

Valentin Tataru

Chief Economist, Romania

valentin.tataru@ing.com

James Smith

Developed Markets Economist, UK

james.smith@ing.com

Suvi Platerink Kosonen

Senior Sector Strategist, Financials

suvi.platerink-kosonen@ing.com

Thijs Geijer

Senior Sector Economist, Food & Agri

thijs.geijer@ing.com

Maurice van Sante

Senior Economist Construction & Team Lead Sectors

maurice.van.sante@ing.com

Marcel Klok

Senior Economist, Netherlands

marcel.klok@ing.com

Paolo Pizzoli

Senior Economist, Italy, Greece

paolo.pizzoli@ing.com

Marieke Blom

Chief Economist and Global Head of Research

marieke.blom@ing.com

Raoul Leering

Senior Macro Economist

raoul.leering@ing.com

Maarten Leen

Head of Global IFRS9 ME Scenarios

maarten.leen@ing.com

Maureen Schuller

Head of Financials Sector Strategy

Maureen.Schuller@ing.com

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@ing.com

Rafal Benecki

Chief Economist, Poland

rafal.benecki@ing.pl

Philippe Ledent

Senior Economist, Belgium, Luxembourg

philippe.ledent@ing.com

Peter Virovacz

Chief Economist, Hungary

peter.virovacz@ing.com

Inga Fechner

Senior Economist, Global Trade

inga.fechner@ing.de

Dimitry Fleming

Senior Data Analyst, Netherlands

Dimitry.Fleming@ing.com

Ciprian Dascalu

Chief Economist, Romania

+40 31 406 8990

ciprian.dascalu@ing.com

Muhammet Mercan

Chief Economist, Turkey

muhammet.mercan@ingbank.com.tr

Iris Pang

Chief Economist, Greater China

iris.pang@asia.ing.com

Sophie Freeman

Writer, Group Research

+44 20 7767 6209

Sophie.Freeman@uk.ing.com

Padhraic Garvey, CFA

Regional Head of Research, Americas

padhraic.garvey@ing.com

James Knightley

Chief International Economist, US

james.knightley@ing.com

Tim Condon

Asia Chief Economist

+65 6232-6020

Martin van Vliet

Senior Interest Rate Strategist

+31 20 563 8801
martin.van.vliet@ing.com

Karol Pogorzelski
Senior Economist, Poland
Karol.Pogorzelski@ing.pl

Carsten Brzeski
Global Head of Macro
carsten.brzeski@ing.de

Viraj Patel
Foreign Exchange Strategist
+44 20 7767 6405
viraj.patel@ing.com

Owen Thomas
Global Head of Editorial Content
+44 (0) 207 767 5331
owen.thomas@ing.com

Bert Colijn
Chief Economist, Netherlands
bert.colijn@ing.com

Peter Vanden Houte
Chief Economist, Belgium, Luxembourg, Eurozone
peter.vandenhoute@ing.com

Benjamin Schroeder
Senior Rates Strategist
benjamin.schroeder@ing.com

Chris Turner
Global Head of Markets and Regional Head of Research for UK & CEE
chris.turner@ing.com

Gustavo Rangel
Chief Economist, LATAM
+1 646 424 6464
gustavo.rangel@ing.com

Carlo Cocuzzo
Economist, Digital Finance
+44 20 7767 5306
carlo.cocuzzo@ing.com