Article | 1 June 2020

Copper growth: Still reliant on traditional sectors

Copper prices edged higher during May, and the recovery in Chinese demand has definitely played a part. But for 2020, copper demand growth is likely to rely on traditional sectors such as the transportation and construction sector

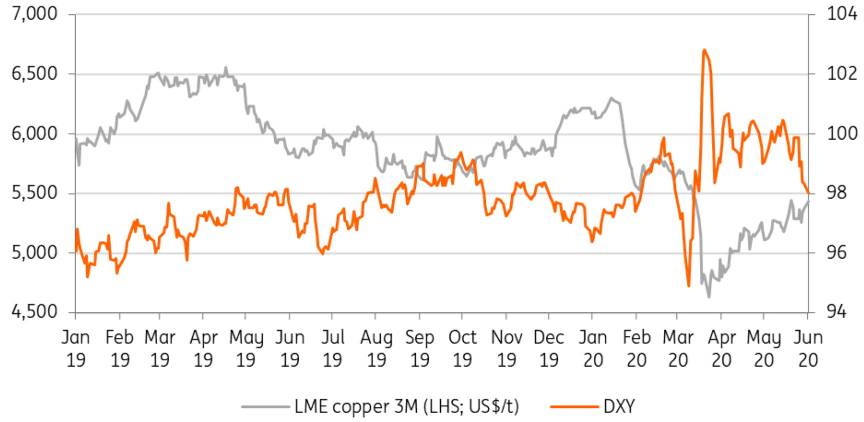
Long term, the outlook for copper remains bullish because of its key role in the energy transition. But for 2024, it will be the supply and demand balance that drives the price.

1 Prices grind higher in May

The market ended May on a positive note and the London Metal Exchange 3-month prices gained 3.6% intra-month compared to the 4.8% gains in April.

The key drivers for the gains are elevated risks from mining side disruptions, better-than-anticipated demand from China and a weakening US dollar. (see Fig.1).

Fig 1. LME copper prices and the dollar index

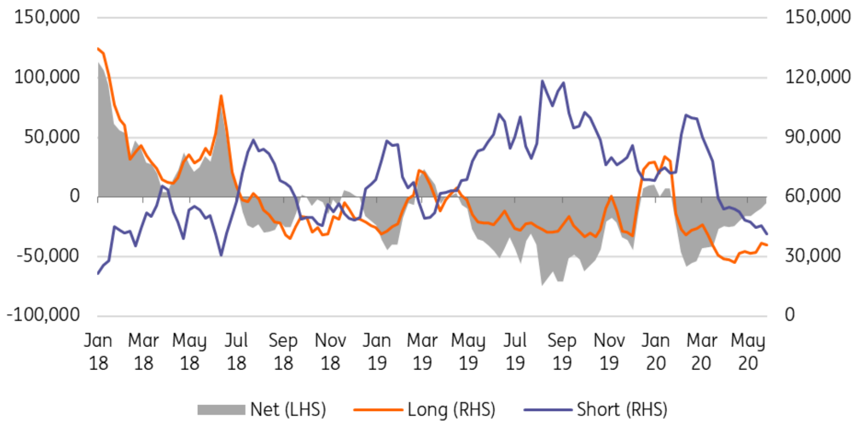


Source: Bloomberg, ING

Despite better risk appetite in other riskier assets and price gains in copper, there hasn't been much favour in buying copper from the funds' communities as the 'money managers' in the New York Commodity Exchange Market (COMEX) kept a net short of copper as of last week (see Fig.2).

Meanwhile, the total open interest of copper futures in the LME market remains at its lowest level since 2008.

Fig 2. Money managers remain in net short on copper in COMEX



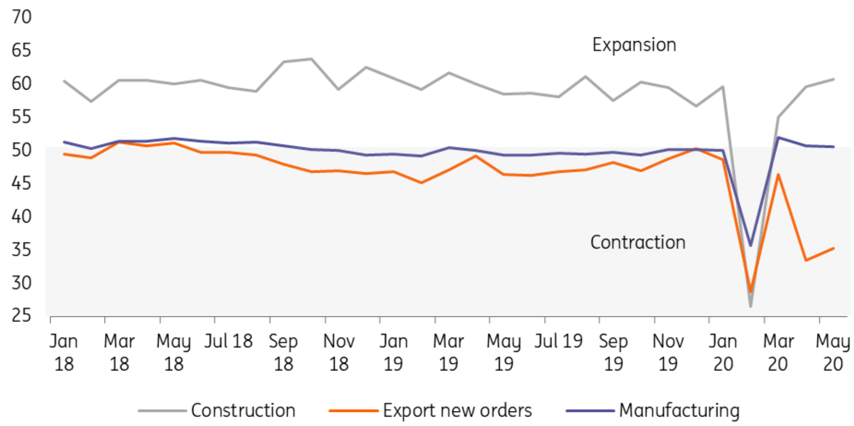
Source: Bloomberg, ING

Up until the end of May, some indictors from China were still suggesting that physical demand remains firm which may still ride stronger momentum post-Covid 19 lockdowns in various areas including construction. Also, it is worth noting that seasonality should also play a part in the background when compared to the momentum with other quarters of the year.
The official Chinese PMI index for May was released yesterday and one of the sub-indices has been a bright spot across all the sub-sectors.

Chinese construction PMI surged to 60.8 in May versus 59.7 in April (see Fig.3). In stark contrast is the new export order sector which continues to struggle in the contraction zone at 35.3, and this is in line with observations in some copper-bearing products exports market such as the air conditioner market which has seen exports decline by 0.8% YoY in April and a dip by 7% YoY in the months between January to April.

[More on Chinese PMIs]

Fig 3. China PMIs - construction sector is outperforming



Source: China National Bureau of Statistics, ING

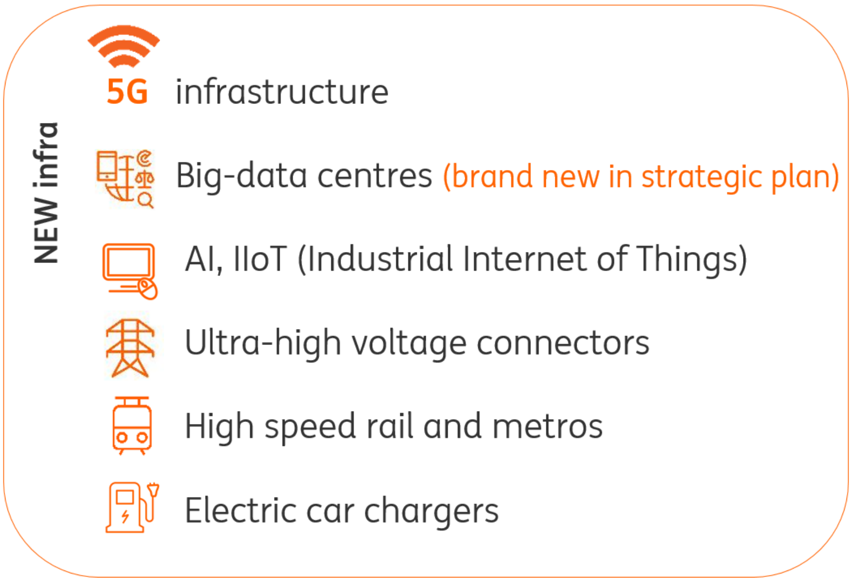
2 Not much excitement for demand out of China's 'Two Sessions'

The outcome from last week's China 'Two Session' brought little excitement in terms of additional stimulus to copper demand growth over the medium term. Therefore, we have kept our China copper demand forecast unchanged at -1.3% YoY for 2020 (-2.9% global).

One of the widely discussed topics in the market has been the 'New Infrastructure' scheme that Beijing put forward earlier this year i.e. a repackaging and speeding up of existing infrastructure plans (see Fig.4). In fact, these are mixtures of old and relatively new plans if we compare this new scheme to the post-2018 GFC style or old infrastructure scheme.

Some areas from the new scheme are relative new growth areas and these include the fast-expanding electric vehicle sector and its charging infrastructures as well as 5G stations.

Fig 4. China 'New Infrastructure' scheme



Source: ING

Based on existing investment, we estimate additional copper demand from the aforementioned new areas plus ultra-high-voltage projects could contribute around 1.2% of Chinese total annual demand currently forecasted at 12.2 million tonnes.

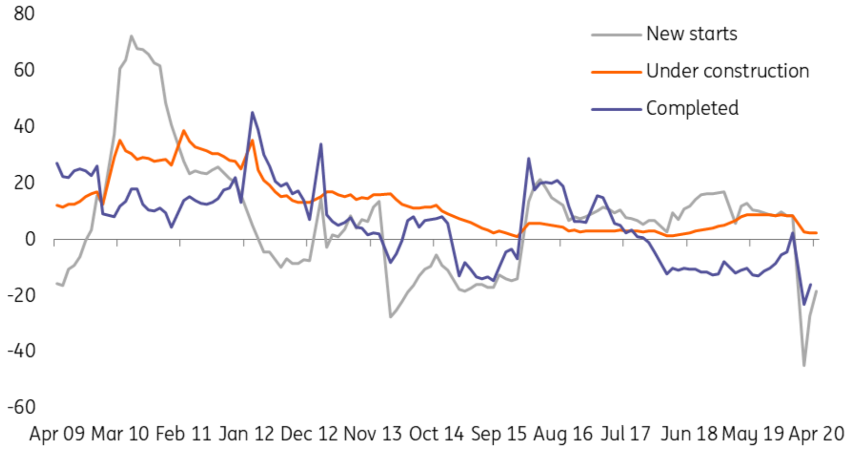
That said, due to their small weightings in the overall demand, the contributions from new areas are not going to be a big help this year let alone rescue other areas struggling with contractions.

3 A lot still relies on traditional sectors

For 2020, the focus is still on the traditional industry that drives copper demand for more growth so that it can offset contractions in other areas.

- **High-speed rail and metros:** This is not new but has been emphasised in the 'New Infrastructure' scheme. We expect copper continues to benefit through the electrification adoptions and additional cable/wiring from the power grid that powers the train lines.
- **Construction sector:** Expecting growth return in house completions (see Fig.5) to drive demand for copper in the late-stage of the construction cycle, as well as other areas of construction, which overall accounts for 20% of total demand. While this is largely through a restore from the previous construction cycle that a large amount of already started constructions in the pipeline should convert into completion.

Fig 5. House completions should still point to a recovery (in floor space YTD%)



Source: China National Bureau of Statistics, ING

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