Copper: all eyes are on China

Copper has been weighed down by China's property sector woes and Covid-19 lockdowns while investors have turned away from commodities amid tightening central bank policies

China's zero-Covid exit plan in focus

Copper has lost all the gains it made this year as inflation has climbed higher, interest rates have risen, and energy costs keep surging.

Covid-19 lockdowns in an already slowing Chinese economy have continued to dampen the demand outlook for the red metal, while the strong US dollar has weighed heavily on the markets this year.

LME prices are now down around 30% from their peak in February following Russia's invasion of Ukraine when the three-month LME copper price reached $10,580/t.

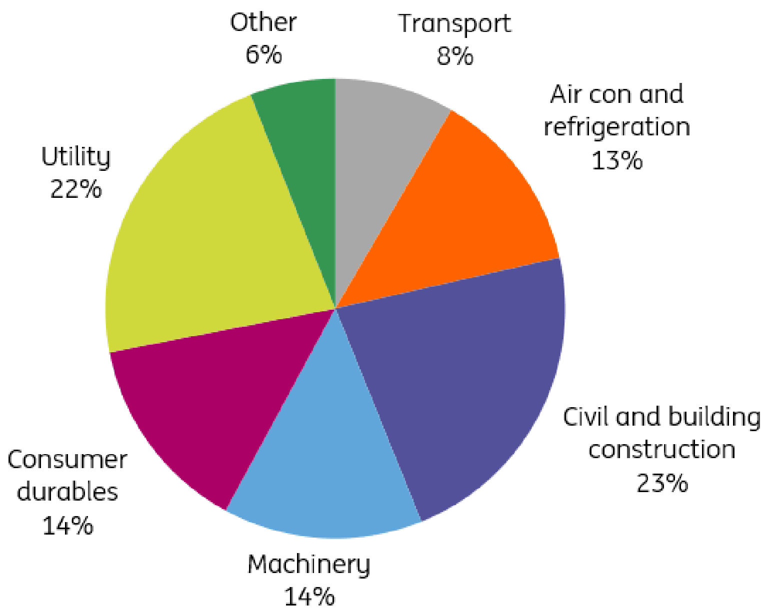
The short-term demand outlook remains weak amid recession fears and weakening global manufacturing activity.

The focus is now shifting to China's 20th National Congress in Beijing, which will start on 16 October, with markets looking for a possible change in the country's zero-Covid policy. There is speculation that the government may start to relax its strict approach to containing the virus.

China recently unveiled new measures aimed at reviving the country's real estate industry, which could potentially boost the usage of industrial metals, including copper. A slowdown in China's property market has weighed on the world's biggest metal consumer for more than a year.

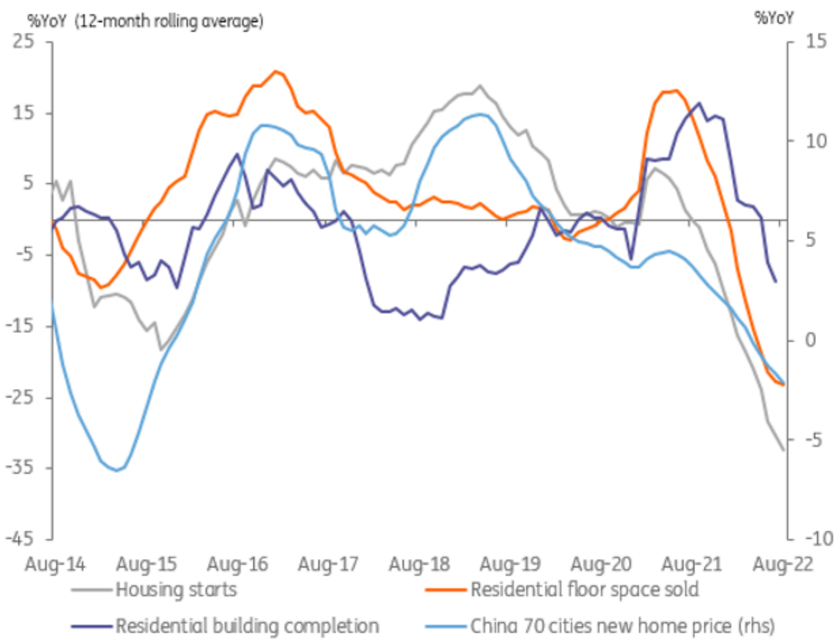
Around 23% of China's copper end-use comes from civil and building construction.

China copper end-use by sector



Source: ING

China's property market



Source: ING

China’s property support fails to buoy sentiment

China has been stepping up its efforts to boost its ailing housing and construction sectors with more Chinese cities announcing credit support and subsidies for home purchases. Last month, China’s Evergrande Group removed most of its construction project freezes as China enters its peak building season, which traditionally lasts until the end of October.

Earlier this week, China’s financial regulators told the nation’s biggest state-owned banks to extend at least 600bn yuan ($85bn) of net financing to the real estate sector to boost the country’s ailing property sector. The news, however, failed to buoy sentiment in the copper market this week with China’s stimulus efforts not enough as Covid-19 restrictions in the country continue to take their toll on demand for the red metal. Concerns over China’s economy will continue to put downward pressure on the red metal until the government eases the country’s Covid-19 restrictions.

Copper shrugs off supply disruptions

Supply disruptions in South America continue to be in the spotlight for copper. In Chile, workers at BHP’s Escondida mine, the world’s largest copper mine, planned a stoppage at the beginning of September over safety concerns. Later in the month, the supervisors’ union at Antofagasta’s Los Pelambres copper mine rejected the company’s latest offer and threatened to strike. Workers at Ventanas port in Chile’s Valparaiso region also went on strike last month, delaying shipments.

Meanwhile, Chile's copper production from state-owned giant Codelco fell 6.5% in July to reach 128,000 tonnes, government body Cochilco said last week.

Production at Collahuasi, a joint venture of Anglo American and Glencore, dropped 12.4% on a year-on-year basis to 47,300 tonnes.

Copper output from Escondida, which is majority-owned by Australian miner BHP Group, fell 1.8% to 81,400 tonnes, Cochilco said.

In Peru, a group of indigenous communities blocked the “mining corridor” highway in mid-September. The blockade affected mines including Glencore’s Antapaccay, MMG’s Las Bambas and Hudbay Minerals’ Constancia. Protestors asked for the state to engage in a formal consultation process over Glencore’s plans to develop a new copper project, Coroccohuayco.

Also last month in Peru, a group of residents blocked access to Sierra Metals’ Yauricocha zinc-copper-lead-silver mine, with production suspended for more than a week in late September.

Despite the ongoing supply disruptions, concerns over macro headwinds and recession fears are dominating copper’s sentiment and prices for now.

Global exchange stocks at record lows

Copper stockpiles held by the LME have continued to increase this week, with metal immediately available to withdraw rising for 20 straight days to the highest in a year this week.

While inventories have increased from the lows earlier in the year (below 70kt over February/March versus 139kt at the moment), they remain at record lows, representing just two days’ worth of global supply. The tight physical market is also reflected in the cash/3M spread having been in backwardation in excess of US$100/t recently.

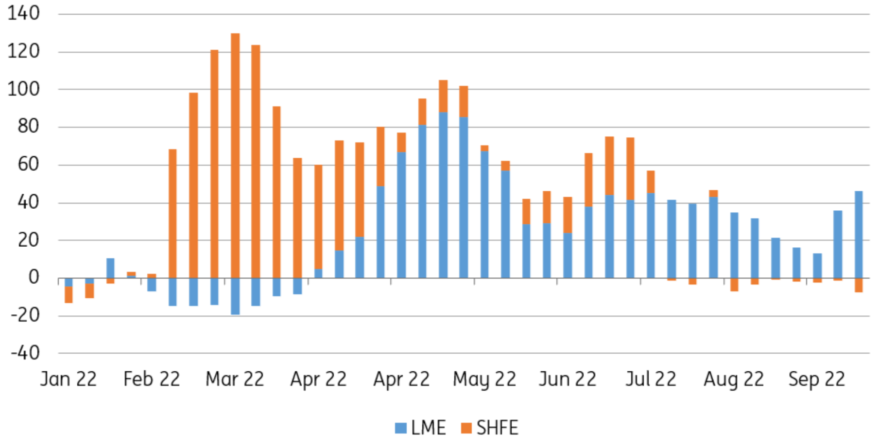
Global exchange stocks declined by 136,500 tonnes in September to just under 250,000 tonnes. Chinese bonded warehouse stocks have plummeted by two-thirds over the past month to just 37,000 tonnes at the end of September despite Chinese imports remaining robust at 332,000 tonnes in August and up 8% year-to-date.

Meanwhile, LME consultation on Russian metal has cast new uncertainty over supply. Last week the LME said it plans to launch a discussion paper considering a potential ban on new supplies of Russian material, including aluminium, copper, and nickel. The LME also announced this week that it will restrict new deliveries of copper and zinc from Russia’s Ural Mining & Metallurgical Co. and one of its subsidiaries after the UK sanctioned co-founder Iskandar Makhmudov. Starting immediately, metal from UMMC or Chelyabinsk Zinc unit can only be delivered to LME warehouses if the owner can prove to the exchange that it won’t constitute a breach of sanctions, including that it was sold before Makhmudov was sanctioned by the UK on 26 September, and that neither company has any economic interest in the metal.

The LME said that UMMC copper which is currently listed in the LME warehouse system is not subject to the sanctions, and there is no zinc produced by Chelyabinsk in LME warehouses.

Russia produced 920,000 tonnes of refined copper last year, about 3.5% of the world's total, according to USGS, out of which Nornickel produced 406,841 tonnes. Asia and Europe are the main export markets for Russian copper. Although Russian copper is not officially sanctioned, self-sanctioning could already be disrupting trade dynamics in the European market.

LME and SHFE inventory change YTD in kt



Source: LME, SHFE, ING

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