

## Copper's bull run is only just beginning

Copper rallied to its highest level in one year last week as major smelters in China pledged to control capacity after a collapse in treatment and refining charges. We believe copper's outlook is starting to look brighter despite lingering short-term demand concerns



We think copper's bull run should be set to surge on amid tightening supply and gradual demand-side improvements

## Copper surges to 1-year high



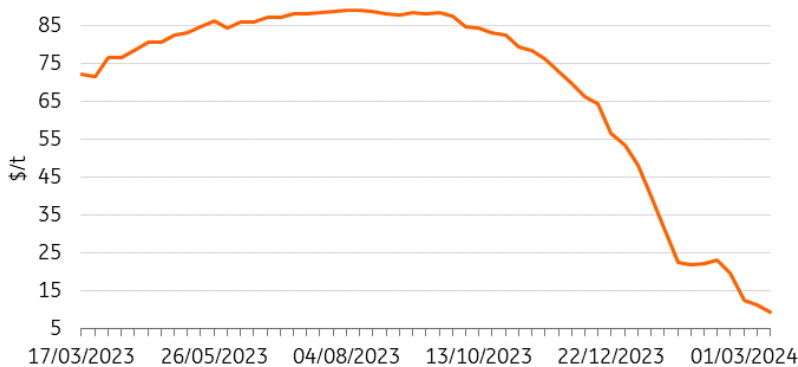
Source: LME, ING Research

## China curbs copper capacity

Copper climbed above \$9,000/t last week, surging to its highest level in one year after months of range-bound trading. The rally was triggered by news that major copper smelters in China have pledged to curb output in response to a tightening copper ore market.

This has come after a collapse in spot treatment and refining charges to record lows. Spot charges in China plunged to \$9.40/t last week, according to weekly data from Fastmarkets. They are now down more than 80% since the beginning of the year.

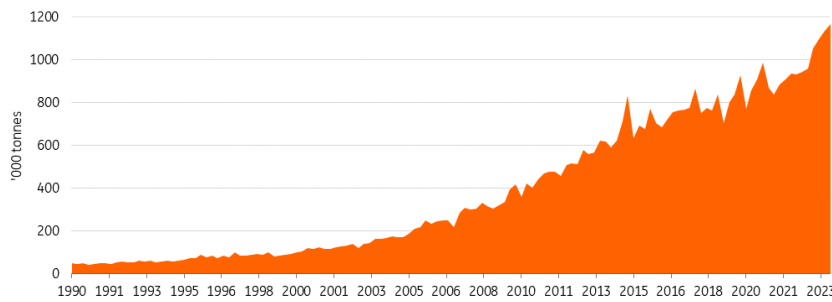
## Copper TCs plunge to record lows



Source: Fastmarkets, ING Research

Treatment and refining charges are the fees that smelters are paid to convert concentrate into metal. They are also a key sign for copper's future direction. Typically, a tighter supply of concentrates leads to a drop in these charges. The drop in treatment charges is not only a reflection of the tightening concentrates market, but also of a rapid expansion in copper smelter capacities in China. This expansion has been driven by China's strategic need for copper as demand from the green energy sector continues to grow. Last year, China's production of refined copper surged 13.5% year-on-year to 12.99 million tonnes, according to data from the National Bureau of Statistics (NBS).

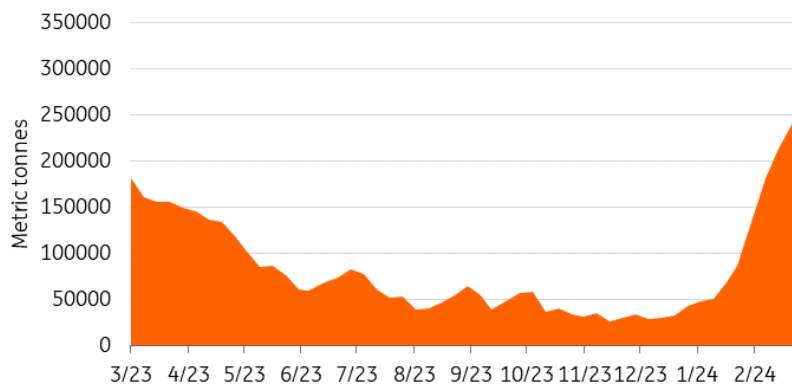
## China's refined copper output hits record highs



Source: NBS, ING Research

As a sign of still-muted demand in China while output continues to ramp up, Shanghai Futures Exchange (SHFE) copper inventories have recently hit their highest level since 2020. The pace of this inventory build-up will now be in focus to gauge the extent and effectiveness of the pledged smelter curbs by major Chinese smelters.

## Shanghai copper inventories surge to highest since 2020



Source: SHFE, ING Research

However, the impact of China's capacity controls on refined copper output will depend on the details of the production cuts. The group of 19 smelters stopped short of coordinated production cuts but vowed to re-arrange maintenance work, reduce runs and delay the startup of new projects.

## Global market is tightening

A copper concentrates market deficit is expected this year after supply setbacks at global mines. Most recently in Panama, Canada's First Quantum mine has ignited massive protests in the country and has been forced to shut down activity. Cobre Panama copper mine is one of the world's largest sources of copper, accounting for around 1.5% of global copper output. The mine accounted for 2.5% of China's copper concentrate imports last year.

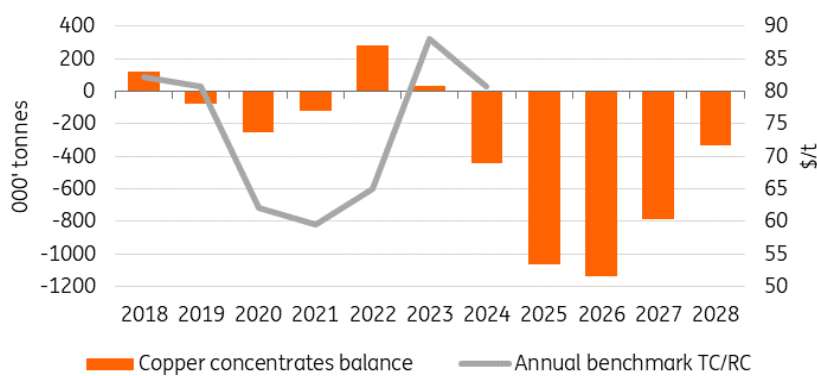
Meanwhile, copper mines currently in operation are nearing their peak due to declining ore grades and reserves exhaustion. For example, the world's largest copper mine, Escondida in Chile, has

already reached its peak. Its production in 2025 is expected to be at least 5% lower than it is today.

In Chile, Codelco – the world’s biggest supplier of copper – is struggling to return production to pre-pandemic levels of about 1.7 million tonnes a year by the end of the decade from around 1.3 million tonnes this year. This marks the lowest level in a quarter century amid ageing assets and declining ore grade. At the same time, there is a lack of high-quality large-scale projects in the pipeline that could push the copper market into deficit as demand from the green energy sector grows.

As a sign that the copper ore market is tightening as smelters expand, copper-concentrate supply contracts for 2024 that set processing charges have been set 9% lower for 2024. This marked the first fall in fees since 2021 after a six-year high in 2023.

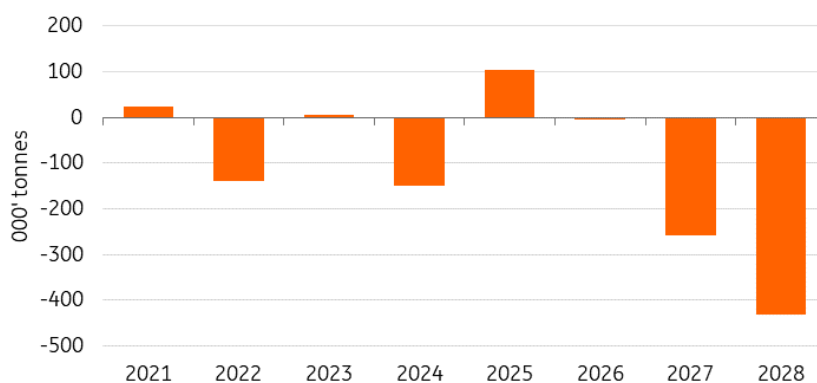
### Copper concentrates deficit continues to grow



Source: CRU, Fastmarkets, ING Research

Meanwhile, the global refined copper market was expected to be fairly balanced this year, but the shortfall in mine supply now means that the market is likely to be in a deficit – the extent of which will also be dependent on the scope of Chinese smelters production curbs, as well as how quickly Chinese copper demand will pick up in the second quarter (which is seasonally the strongest quarter for copper demand).

### Refined copper market heading towards deficit



Source: CRU, ING Research

## Fed loosening will support copper

Copper prices have also been lifted by the nearing end of the Federal Reserve's interest rate tightening cycle.

Elevated rates and a stronger dollar have been a drag on industrial metals over the past two years. Looking ahead, copper prices will be supported by a weaker US dollar on the back of Fed easing. We believe the Fed's interest rate path will continue to drive copper's short-term price outlook.

[Our US economist expects](#) the starting point for Fed rate cuts in the second quarter of 2024. Copper will benefit from looser monetary policy, which will alleviate the financial strain on manufacturers and construction companies by reducing borrowing costs. But if US rates stay higher for longer, this would lead to a stronger US dollar and weaker investor sentiment, which in turn would translate to lower copper prices.

## Demand uncertainties remain

At the same time, demand uncertainties remain. China is also the world's biggest consumer of copper and a slump in China's property market has been a major headwind to copper demand for the past year. A continued slowdown in the sector remains the main downside risk for the metal. However, while housing starts were down more than 20% last year, completions (which are the key source of copper consumption) have been rising. This could give additional support to copper prices looking forward.

At the recent National People's Congress in Beijing, China unveiled its economic targets for 2024, including a growth target of around 5%. However, on the property sector – the pillar of commodities demand – very few new measures were announced. The property sector will likely remain a prolonged drag on growth, [notes our China economist](#). We believe an improvement in the ailing property sector in China will be key in supporting copper's next move higher.

## Copper's future looks bright

In the short term, the upside to copper prices might be capped by macro drivers, including ongoing demand concerns in China and lingering uncertainty over US monetary policy.

However, micro dynamics are starting to look more constructive for copper amid a tightening supply outlook. The demand side is expected to slowly improve this year, especially from the green energy sector. Copper is used in everything from electric vehicles (EVs) to wind turbines and power grids. In EVs, copper is a key component used in electric motors, batteries and wiring, as well as charging stations. Copper has no substitute for its use in EVs, wind and solar energy, and its appeal to investors as a key green metal will support higher prices over the next few years. Last year, rising demand for renewables and EVs in China has already offset the slump from the more traditional sectors like the property market, and we expect this shift in demand drivers to continue this year.

We see copper prices rising in the second quarter, which is seasonally the strongest quarter for copper demand, to \$8,700/t from \$8,400/t in the first quarter. We see prices peaking in the fourth quarter at \$9,000/t. They will, however, remain volatile as the market continues to respond to macro drivers, including the path of US interest rates and Chinese policies.

## ING forecast

	1Q24	2Q24	3Q24	4Q24	FY24
LME Copper (US\$/t)	8,400	8,700	8,850	9,000	<b>8,738</b>

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