

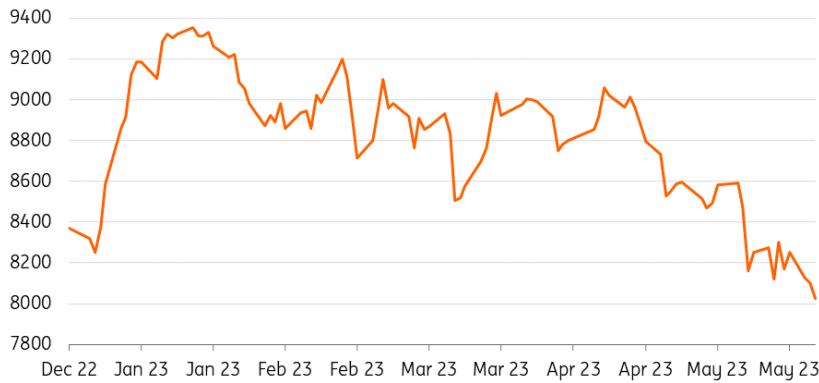
Copper's plunge indicates that China's rebound may be fading

Copper plummeted below the key \$8,000/t mark as hopes for higher demand in China are dimming. The red metal has now lost all of the gains it made this year. We believe there are more downside risks in the near term



Workers on a copper foil production line in Jiangxi Province

Copper price gives back 2023 gains



Source: LME, ING Research

Copper drops below key \$8,000/t level

The LME copper price has dropped by around 11% this quarter and is now trading near its lowest level since November. The red metal is now back to where it was before China ended Covid-19 restrictions.

Copper was one the biggest winners following China’s reopening amid expectations that China’s support for the property market will kickstart demand for industrial metals.

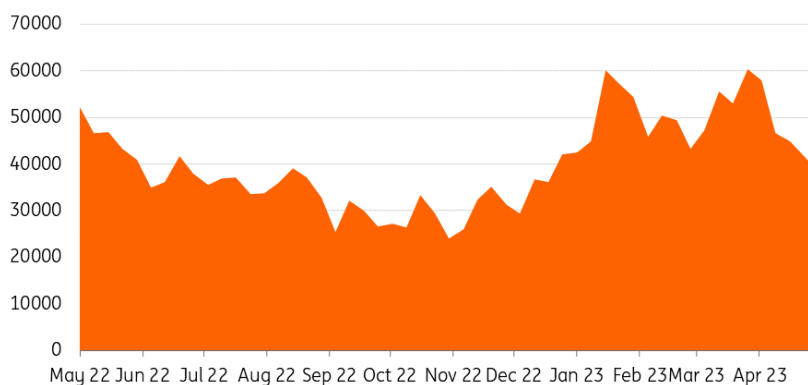
The red metal climbed to a seven-month high in January after the end of Covid lockdowns in China, but it has now given back all of its gains.

The LME copper price fell from year-to-date high of \$9,550.50/t in January to recently trade at a low of \$7,944/t on weaker-than-expected China demand, in what is normally a peak construction season, and subdued demand in the US and Europe, with interest rises weighing on economic growth.

Copper is also weighed down by a strengthening US dollar, which makes copper more expensive for Chinese buyers.

Meanwhile, speculators have been decreasing their bullish LME copper bets – the net-long position is now the least bullish in more than 19 weeks at 38,416, as weekly exchange data on futures and options show.

Net bullish LME bets are at a 19-week low



Source: LME, ING Research

China rebound hopes fade

Hope for higher demand from China has now faded with recent disappointing data showing a mixed picture for the world’s biggest consumer of copper.

Although China last month reported annual quarterly GDP growth of 4.5%, ahead of expectations – and much faster than the 2.9% for the fourth quarter of 2022 – there are concerns about whether the pace of growth can be sustained. The recovery in China has been mainly driven by consumer spending while the manufacturing sector has continued to lag.

Both National Bureau of Statistics (NBS) and Caixin PMIs dropped below 50 in April, with the total new order index falling to 48.8 from 53.6, according to NBS, and the corresponding export index

dropping to 47.6 from 50.4.

The weaker-than-expected rebound in the property sector, which contributes heavily to demand for copper, has also hit sentiment. China's home price growth slowed in April, adding to signs that the property recovery is weakening. New-home prices in 70 cities, excluding state-subsidised housing, rose 0.32% last month from March, when they grew 0.44%, NBS data showed.

Chinese imports slump as output hits records

China's copper imports slumped in April – China imported 407,294 tonnes of unwrought copper and copper products in April, the lowest since October. The premium paid for refined metal at the port of Yangshan, which acts a measure of import demand, has been on a downtrend too. It recently stood at \$30/t, down from its record highs of \$152.50/t in October last year.

Imports of copper ore and concentrate in April came to 2.103 million tonnes, up 11.7% on a year ago, driven by higher record domestic production of refined metal. In April, China copper output rose 14.1% year-on-year to 1.059 million tonnes.

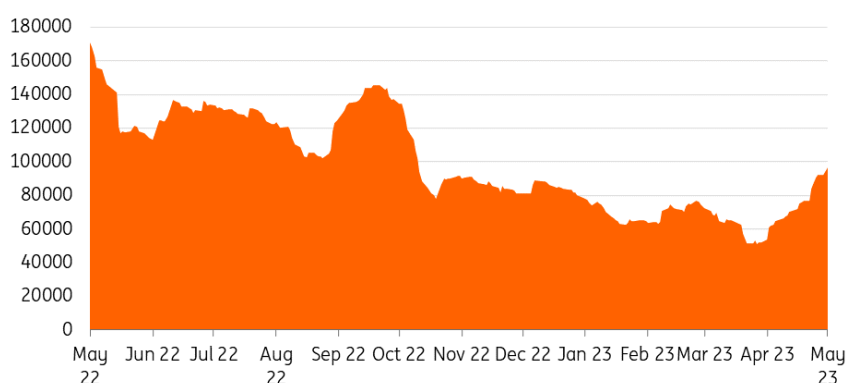
LME stocks continue to rise

LME warehouse inventories of copper have almost doubled in the past month, a sign that supplies are outstripping demand from end users, pressuring the price lower.

Stocks of copper in LME warehouses have risen by more than 85% since the middle of April to 96,675 tonnes. Copper stocks have been steadily increasing in LME warehouses for the past few weeks and they now stand at the highest level since October last year.

China has now also overtaken Russia as the largest source of copper stored in the LME warehouses. Chinese-origin copper rose to 26,675 tonnes in April, from 15,575 tonnes in March, according to data from the exchange. China is usually a net importer of copper. Rising Chinese origin copper stockpiles suggest Chinese smelters have been selling more metal outside China as domestic demand in the country remains weak.

LME stocks nearly double since mid-April



Source: LME, ING Research

Copper sinks lower into contango

Rising copper stocks created a discount for the cash over the three-month contract of \$66/t.

The spread is in its widest contango in data going back to 1994. Contango, a bearish market structure, is pointing out to healthy spot supply and could indicate prices have a bit further to go on their way down.

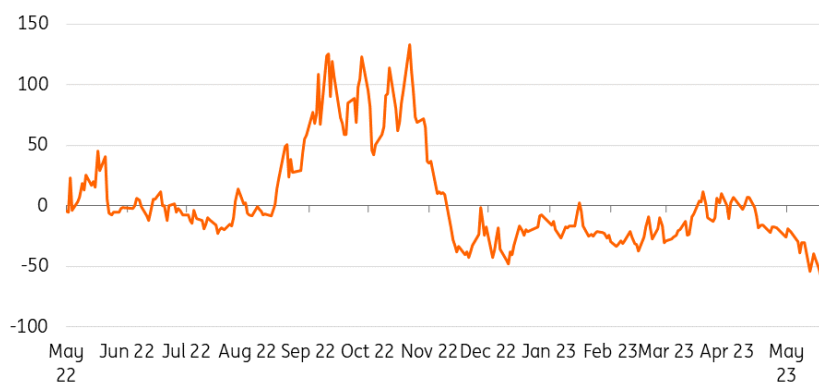
We remain cautious on the first half of the year outlook for copper, with sluggish demand from China pointing to lower prices.

In the near term, copper prices are likely to continue to be dictated by the pace of China's economic recovery as well as the Fed's interest rate hiking path.

We expect copper prices to remain volatile as the market will continue to react to any policy change from China. We expect prices to average \$8,970/t in 2023.

In the longer term, copper's fundamentals as an EV and green energy metal will support higher prices over the next few years, but for now, the market will remain focused on the disappointing demand picture from China.

Copper is in widest contango since the early 1990s



Source: LME, ING Research

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