

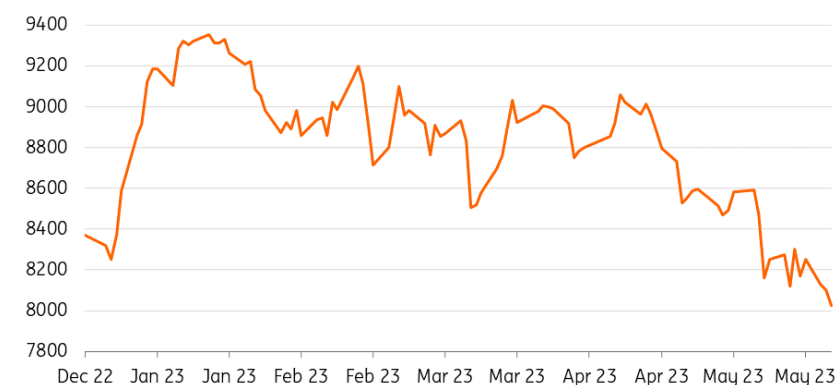
Copper's plunge indicates that China's rebound may be fading

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.

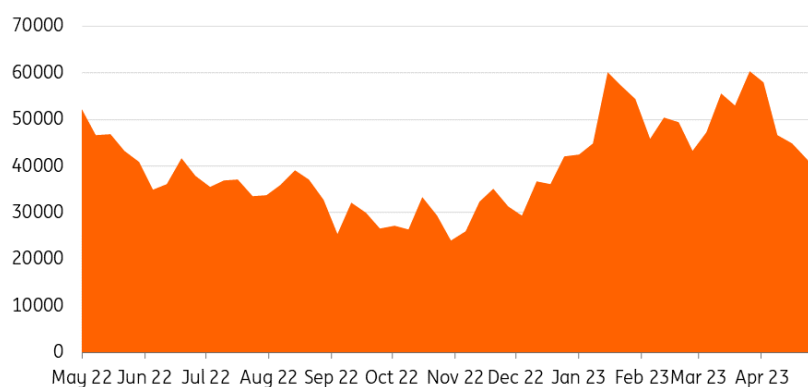
The red metal climbed to a seven-month high in January after the end of Covid lockdowns in China, but it has now given back all of its gains.

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.

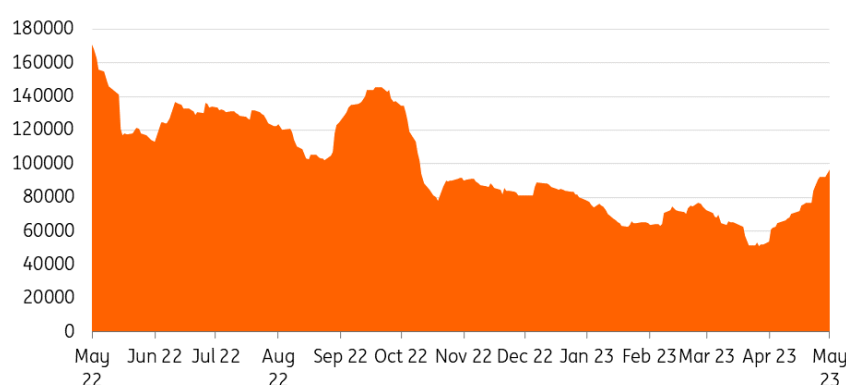
LME stocks continue to rise

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.

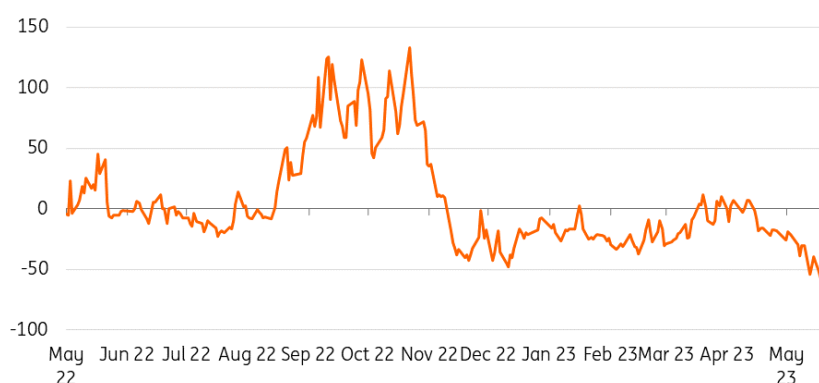
We remain cautious on the first half of the year outlook for copper, with sluggish demand from China pointing to lower prices.

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

Author

Ewa Manthey

Commodities Strategist

ewa.manthey@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss

arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.