

Copper: LME prices extend rally over US\$7,000/tonne

LME copper rallied to the highest since June 2018 with the 3M contract price being traded above US\$7,170 this morning, after positive macro data from China



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LME copper jumped over US\$7,170/tonne this morning, the highest since June 2018, after Chinese official data reinforced the view that demand from the world's largest consumer is continuing to recover. As we had expected, house completions continue to point to a marginal improvement each month. Meanwhile, the recovery in the automotive sector and white goods looks better than expected. Another bright spot has been robust growth in renewable energy investment from China, particularly in wind power installations, which have grown by over 138% year-on-year over the first nine months. We estimate that already installed new capacity so far this year has brought additional copper consumption to approximately 85kt. Together with other new energy sectors (new energy vehicles and charging infrastructure), total copper consumption in the new energy sector is relatively low compared to the entire demand base from China. Still, we expect more vigorous growth from next year.

Looking outside of China, the near-term outlook is concerning given the surging Covid cases in

Europe and the substantial damage to the service industry in particular, while construction and manufacturing are relatively better off, as they are still allowed to remain open even during lockdown. Investors are also considering what measures President-elect Joe Biden may have in mind when he takes office in January. The vaccine (Pfizer and BioNTech) news last week, and the Oxford vaccine (set to be ready by the end of 2020 at a cheaper cost) will be the major milestones during this post-pandemic recovery. For metals demand, an effective vaccine in the pipeline could mean that the downside to demand is limited. Absolute volume may take longer to return to pre-pandemic levels, but the growth rate could reach a decade high. We are currently expecting 7.4% growth in copper demand (ex-China) next year.

One of the key questions left pertains to the scale and composition of the US stimulus package. This will become clearer after the Georgia Senate runoff in early January, which will determine whether Republicans retain control of the upper chamber. Another critical question surrounds inflation. Currently, we suspect inflation could surprise on the upside, especially in the second half of next year. Financial investors may be prompted to add commodities to their portfolios given the historical long-term positive correlation between commodities and the US CPI. Meanwhile, as the world is pivoting towards a 'green recovery' post-Covid-19, there is increasing investment into renewable energy and NEVs. Based on existing government plans, we expect green investment-induced copper demand to register double-digit growth in the next five years.

Global reportable copper inventories (exchanges and China bonded) have fallen by 25% from the start of this year, and have remained low on a historic basis, and the refined copper market is seen to be relatively balanced in 2021, with a negligible surplus. Given that the disruption rate for mine supply next year is still expected to be above the long-term average, and expectations for a synchronised recovery in global demand remain in place, the outlook for copper prices remains constructive.