

Copper: Supply-side risks are subsiding

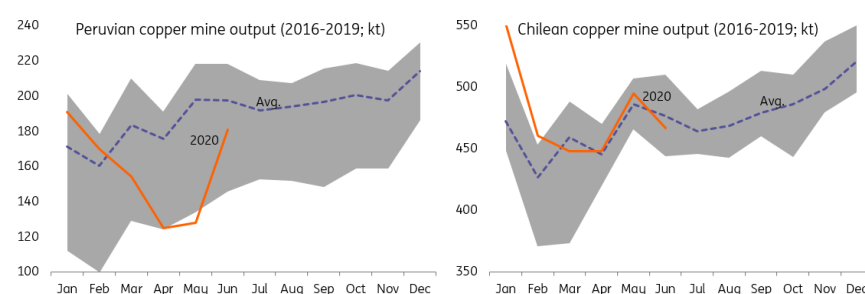
Peruvian mine production has been hit the hardest with copper production down by 20.4% year-on-year in 1H20, whereas the impact has been less on Chile. Meanwhile, Zambia production rose by 5.8% YoY in the first half of the year



Source: Shutterstock

Following the easing of labour tensions last week at Antofagasta, the latest statistics are suggesting a decent recovery from Peru. Meanwhile, the hit to Chilean production has been relatively moderate and Codelco has announced the restart of the Chuquicamata smelter at its Chuquicamata mine. All of this has led to rising expectations that copper supply-side risks are subsiding.

Fig. 1 Copper mine production from Chile and Peru



Source: Cochilco, Peru Mining Ministry, ING

Copper mine production during the pandemic: winners and losers

- **Peru's mine production has been hit the hardest, down by 20.4% YoY**

Copper production from Peru, the world's second-largest copper miner, has been hit the hardest so far this year due to Covid-19. However, the latest data from the Peruvian mining ministry shows that there was a decent recovery in June. It reported that copper production in June rose by 40.8% month-on-month to just above 180kt. However, the total production during 1H20 was still pointing to a 20.4% fall compared to 1H19.

- **Comparatively, Chilean production has been less affected**

Production from the world's largest copper miner Chile has been comparatively less affected so far, and production contracted moderately to 466.5kt in June, according to the state copper commission Cochilco.

Codelco, the country's largest state-owned mining company saw its overall copper production rise by 2.5% YoY to 131.9kt in June, despite being slightly down from May. Production at the mining giant's Escondida mine, the world's largest copper mine, climbed to 105.87kt, the highest since last October. The losses in Codelco's production in June could presumably come from its Teniente mine as it has taken measures to protect miners by employing a 14 day-on-and-14-day-off working schedule. In addition, with recent reports that the infection rate has seen a modest decline at Codelco, it announced earlier this week the restart of the Chuquicamata smelter at its Chuquicamata mine.

Meanwhile in Chile, the world's second-largest copper mine Collahuasi (co-owned by Glencore and Anglo America) saw production surge by 30% YoY in June, whereas Antofagasta has seen mine production from Los Pelambres fall by 11% YoY to 25.8kt. The other two mines from the miner (Zaldivar and Centinela) have both avoided strikes last week.

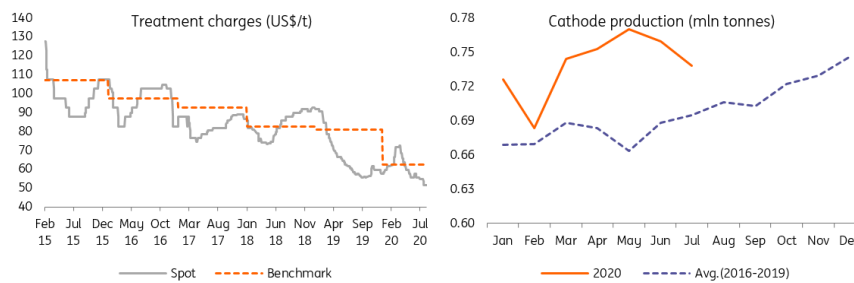
- **Zambia**

According to the latest reports, copper production from Zambia rose by 5.8% YoY in 1H20 to 397.4kt.

Falling spot TCs are primarily responsible for the falling cathode production

Mining disruptions earlier from South America has put tremendous pressure on spot treatment charges (TCs), which have fallen to a multi-year low in China. Faced with a margin squeeze, some smelters have been keeping the operating rate down over the last two months. This is reflected in the latest China production data assessed by Mymetal, showing that the cathode production in July has fallen by 4.3% MoM to 675.4kt. Meanwhile, total production during the first seven months of the year has seen a moderate decline by 0.4% YoY to 4.95 million tonnes. With mine supply continuing to recover, spot TCs may have bottomed. Looking ahead, we would expect cathode production to return to growth in China if TCs start to rise.

Fig. 2 China's copper cathode production growth slows along with falling spot treatment charges



Source: Bloomberg, ING