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.

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.

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

Wenyu Yao
Senior Commodities Strategist
+44 (0)20 7767 6909
wenyu.yao@ing.com
Disclaimer

"THINK Outside" is a collection of specially commissioned content from third-party sources, such as economic think-tanks and academic institutions, that ING deems reliable and from non-research departments within ING. ING Bank N.V. ("ING") uses these sources to expand the range of opinions you can find on the THINK website. Some of these sources are not the property of or managed by ING, and therefore ING cannot always guarantee the correctness, completeness, actuality and quality of such sources, nor the availability at any given time of the data and information provided, and ING cannot accept any liability in this respect, insofar as this is permissible pursuant to the applicable laws and regulations. This publication does not necessarily reflect the ING house view. This publication has been prepared solely for information purposes without regard to any particular user’s investment objectives, financial situation, or means. 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).