

Snap | 1 July 2019

Seasonal demand lull starts to push Chinese copper stocks higher

The trade war truce from the G20 meeting has improved sentiment for copper with LME prices bouncing back over US\$6,000/t. In China, a seasonal demand lull sees inventory on the rise. We see a divergence in short term relative strength between LME and ShFE, and this may encourage cross-market arbitrage



Source: Shutterstock

Restriction on category 6 copper scrap imports by China go into effect from today (1 July) ☒ category 6 scrap imports now subject to import quota approval

- The recent scrap copper import quota approved including category 6 scrap copper was reported at 240kt → but the approval took longer than the market anticipated;
- A tighter scrap availability has helped to narrow the spread between cathode and scrap and knocked down the cost advantage by using scrap that used to be much cheaper ☒ less substitution to cathode and in favour of cathode demand.

Inventory movements diverge between China and ex-China market: Shanghai Futures

Exchange(ShFE)+non-ShFE warehouse vs London Metal Exchange (LME)

- A reversal in inventory movement from China in sight entering into Q3 ☒ seasonal demand lull puts a cap on ShFE prices
1. Recent ShFE on warrant stocks on the rise, though moderately;
 2. A surge in total social stocks from Guangdong warehouses. They are reported at 41,900t (+8,000t from last week) due to import arrivals and slowed inventory loading out; ☒ sparking worries over domestic demand;
 3. The average operating rate from semis manufacturers in June was measured at 80.76% (-1.64% year on year) according to Shanghai Metals Market data;
- However, recent LME inventory steadily declining;
 - LME cash-3-month spread remained in contango but is narrowing

Trade war truce has eased tensions and pushed LME copper through US\$6,000/t;

- According to the latest CFTC data, the speculative net short in COMEX copper declined by 10,077 lots over the reporting week, as short-sellers covered 13,303 lots, while the longs liquidated 3,226 lots;

A divergence in short term underlying market dynamics (LME vs ShFE) may encourage cross-market arbitrage

Things to watch

- Spot TC (treatment charges) for Chinese smelters continued to decline and have broken US\$60/t; ☒ further squeezing smelters' margins, but supply response yet to be seen;
- Weak macro data release today including June PMIs from China and UK; More evidence is needed to keep the sentiment. In China, the market waits for more stimulus measures.

ShFE Stocks On Warrant

