

Copper: Bearish anticipation releases, Q3 price at \$6,200-6,600/mt

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Concentrate supply not as tight

At the beginning of this year, the market widely expected to see a relatively tight supply of copper concentrate. Treatment charges (TCs) for long-term contracts stood at \$82.25/mt in 2018, down 11.08% from 2017. However, the impact on concentrate supply from strikes at mines was less significant than expected. Data from WBMS shows that global copper concentrate output from Jan to April was 6.69 million mt, up 4.71% from the same period of last year.

Some smelting capacity at Vedanta, Pasar, Yuguang Gold & Lead, and Liaoning Yuandong were unexpectedly suspended, which is set to affect annualised capacity of blister copper by some 600,000 mt, accounting for 2.96% of the global volumes. Concentrate supply in the second and third quarter was therefore surprisingly sufficient.

As of July 12, SMM assessed spot TCs for copper concentrate at \$87/mt, flat to last week. SMM expects the spot TCs to remain at high levels in the third quarter.

Chart 1: Global copper concentrate output (monthly value)

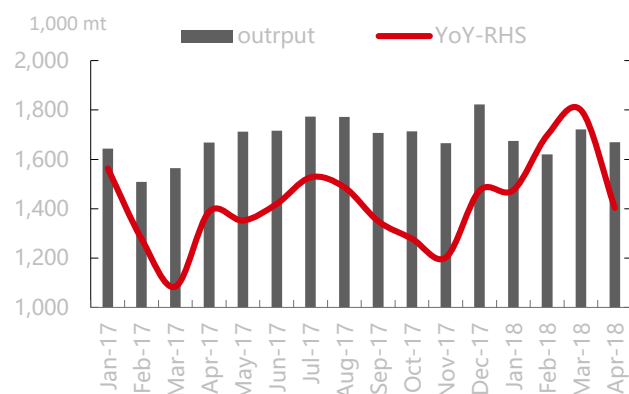
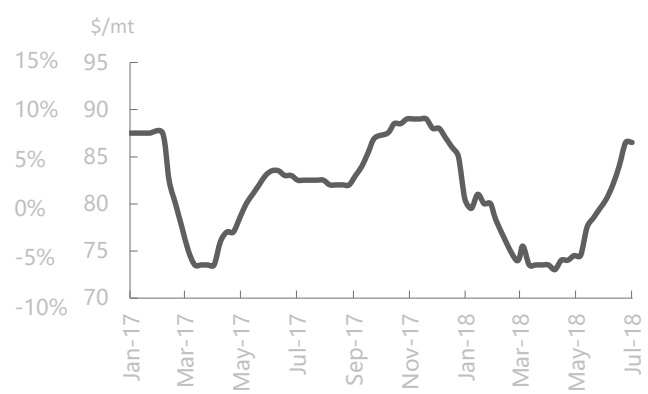


Chart 2: Spot TCs for copper concentrate



Copper supply addition more than expected

Scrap: China's restrictions on imported copper scrap have become stricter, especially against Category Seven. SMM estimated China imported 1.3 million mt of scrap in copper content in 2017. This accounted for 11.87% of China's copper supply. In the first half of this year, the decrease in copper content from scrap imports was not as big as expected. The country imported 554,000 mt of scrap in copper content in the first five months of this year, up 0.32% from July-May last year.

Chart 3: Scrap copper imports (monthly value)

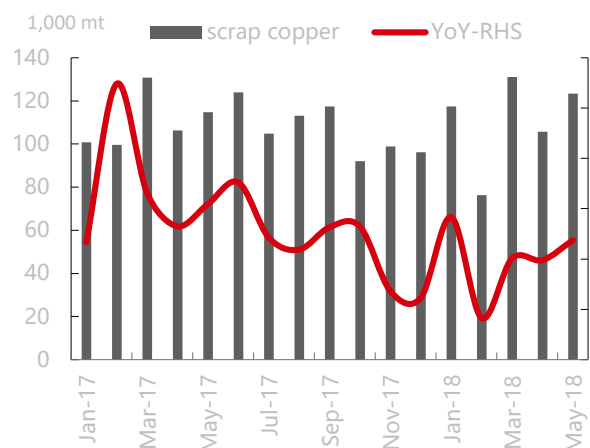
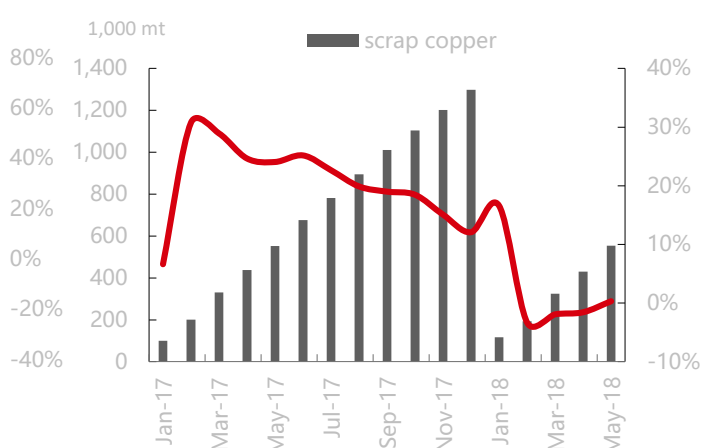
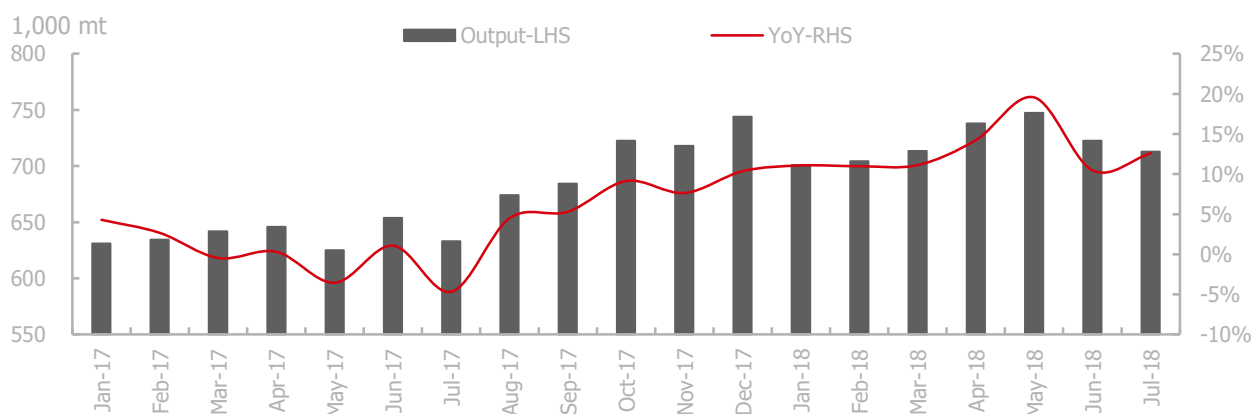


Chart 4: Scrap copper imports (cumulative value)



Refined copper: China produced 4.33 million mt of copper cathode in the first half of this year, according to SMM survey, up 12.88% from the same period last year. The commissioning of new capacities in the last six months has been delayed, but this does not affect our expectation on additional capacity this year. SMM forecast China to add 1.25 million mt of copper cathode capacity this year, with total capacity amounting to 12.55 million mt, up 11.06% from last year.

Chart 5: China's refined copper output (monthly value)



Both scrap imports and the addition of copper output exceeded expectation, making apparent consumption in the first half to exceed expectation as well. SMM calculated China's apparent copper consumption at XX mt during January-June, up XX% from the first six months of last year. While the market at the start of this year expected falling grade of copper ore would limit copper supply, its two-digit growth exceeded market expectation in the short term.

Chart 6: China's refined copper capacity

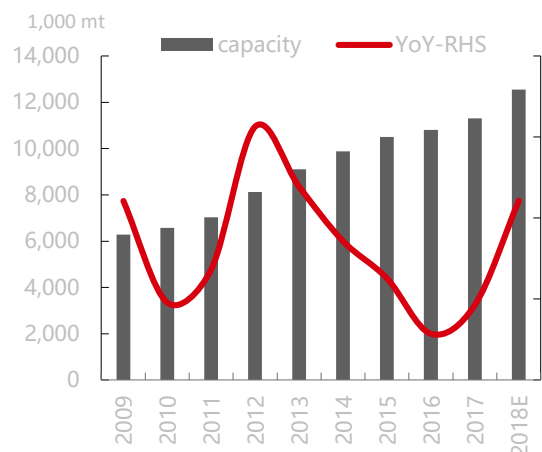
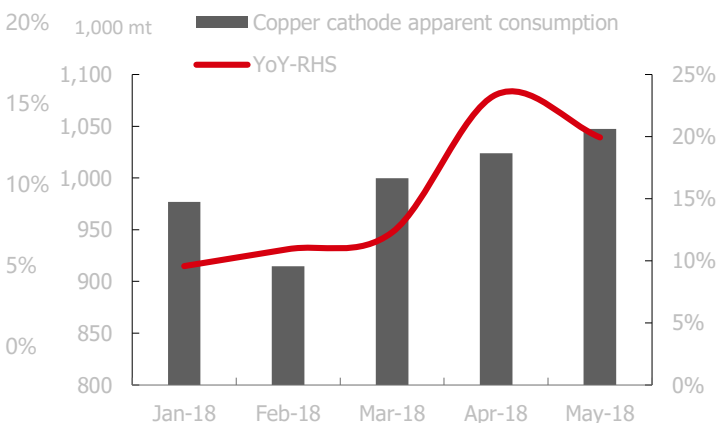


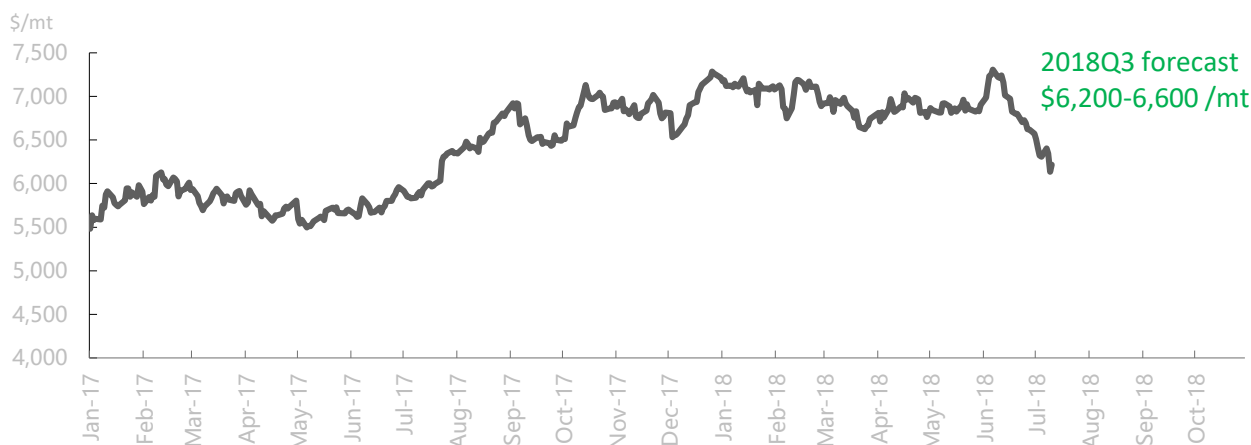
Chart 7: China's refined copper apparent consumption



Macro tilts towards bearish

The Federal Reserve Board is expected to increase interest rates for four times this year, leading to a global tightening of liquidity and an increase in domestic interest rates. Stronger US dollar index depresses commodity prices. The ongoing trade conflicts added to risk aversion sentiment, and preference over high-risk assets including commodities and stocks decreased. While copper still has the best long-term fundamentals of the major metals, in the near-term macro risks remain and supply remains plentiful. Against this backdrop, SMM forecast LME copper prices to trade at \$6,200-6,600/mt in the third quarter.

Chart 8: SMM copper price and forecast



Related Research

1. SMM Monthly Metal Macro Report (Issue 1, May 3, 2018)
2. SMM Monthly Base Metal Output Forecast (Issue 1, May 8, 2018)
3. Demand of Cobalt and Nickel to Benefit from China's EV Subsidy Policy in 2018
4. 2018 Annual Copper TC Set at US\$82.25/ton; SMM Bullish on 2018 Copper Prices
5. China's Supply-Side Reform Continues to Reduce Capacity
6. China's Elimination on Excess Capacity in Steel Continue to Act Positively
7. Spot Copper Concentrate TCs Fall Further in Q2, in Line with SMM Expectation
8. Base Metals Diverge on Rising Supply and Delayed Demand Pickup
9. Aluminium and Nickel Return to Fundamentals with Sanctions on Rusal in Flux



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