
Copper production is due to increase in 2020; however fears of global economic slowdown to keep a lid on prices

COPPER PRODUCTION IS DUE TO INCREASE IN 2020; HOWEVER FEARS OF GLOBAL ECONOMIC SLOWDOWN TO KEEP A LID ON PRICES

- ▲ Copper prices have been rallying lately due to recent production outages and a widening deficit for the first seven months of 2019. The supply situation is expected to improve in 2020, and slower demand growth could keep prices under pressure.
- ▲ The world mine production of Copper declined by about 1.3% in the first seven months of 2019, and refined production remains unchanged according to International Copper Study Group (ICSG). Moderate growth of 0.5% was seen for refined copper usage till July 2019. In the first seven months of 2019, refined copper balance is indicating a deficit of 325000 tonnes against a deficit of 237000 tonnes in same period last year. ICSG expects world mine production and refined production to increase in 2020 and deficit situation could turn to surplus in the absence of any significant improvement in demand. A deficit of 325000 tonnes in 2019 is forecast to be a surplus of 280000 tonnes in 2020.

Mine Production

- ▲ A drop in world mine production of 1.3% in first seven months of 2019 was mainly due to a 55% decline in Indonesian production. The Grasberg and Batu Hijau mines in Indonesia were transitioning between ore bodies. Along with Indonesian production shortage, weather disruption in Chile, strikes in Peru, and lower output in the African Copper belt also lead to an increase in the deficit.
- ▲ In the latest report, ICSG is expecting 2020 world mine production to increase by 2%. Additional supply is expected to come from Indonesia and Africa. World mine production could increase to 21.572 million tonnes in 2020 from 20.504 million tonnes in 2019 and 20.575 million tonnes in 2018. In 2021, growth may be above 2% if new proposed projects start on schedule.
- ▲ According to private estimates, Global mining companies have taken up capacity enhancement projects, and world copper mining capacity is estimated to reach 25.9 million tonnes in 2021, with 20 per cent being from the solvent extraction process.

Refined Production

- ▲ Problem in smelting units around the world, led to a drop in production of refined copper. World refined production dropped by 0.5% in the first seven months of 2019. Technical problems at Chilean smelting units, continued suspension of the Tuticorin smelter in India and power interruptions plus a new tax on imported raw materials in Zambia are some of the key reasons behind the drop in refined copper production.
- ▲ ICSG expects world refined production to increase by 4.2% to 25.281 million tonnes in 2020 from 24.250 million tonnes in 2019 and 24.098 million tonnes in 2018. A rise in world refined production in 2020 based on capacity expansion in China, improvements in Africa and a return to a full capacity of numerous smelters/refineries affected by operational issues this year.

Warehouse Inventory

- LME warehouse stock now stand at 2,61,025 tonnes from 1,30,025 tonnes in Dec'18 which have doubled in last 10 months. SHFE warehouse stock now stand at 1,43,010 tonnes from 118,686 tonnes in Dec'18, which a 20% increase in ten months. Comex warehouse stock now stand at 34,713 tonnes from 1,10,480 tonnes Dec'18 levels with a 68% drop in last ten months. China invisible inventory reported by SMM now stand at 16,61,161 tonnes from 16,91,578 tonnes with a drop of 1.8% in last ten months. Total visible and invisible copper inventory at major warehouses have increased by 2.4% from Dec'18 level. It is indicative of a significant drop in industrial demand amid a broad slowdown.

Demand

- Global economic data are indicating a slowdown in all major economies. According to the latest IMF report, Global growth is forecast at 3.0 per cent for 2019, its lowest level since 2008–09 and a 0.3 percentage point downgrade from the April 2019 Outlook. Growth is projected to pick up to 3.4 per cent in 2020 (a 0.2 percentage point downward revision compared with April.) Uncertainty in the Middle East, Brexit issue, the trade war between US-China and US-EU are the key reason behind current slowdown. A timely solution to this issue could support demand in 2020.
- A slowdown in world economic growth is expected to hurt world refined copper usage growth in 2019 and 2020. However, Infrastructure development in major countries such as China and India and the global trend towards cleaner energy will continue to support copper demand. According to ICSG estimates, global apparent refined usage is expected to increase by around 0.3% in 2019 and about 1.7% in 2020. Global apparent refined use was 24.502 million tonnes in 2018, which could grow to 24.570 million tonnes in 2019 and 25 million tonnes in 2020.

Outlook

- We expect Copper to trade in a range for short term due to the drop in production levels in 2019. Optimism over US-China trade talk is also lending support. Long term outlook remains negative following production levels in 2020 and slowdown in the world economy to dent copper demand in coming quarters.

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