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Copper Spotlight

August 30, 2024. Boris Mikanikrezai, metals analyst

Outlook: Copper prices are expected to stabilize and gradually rise as we move into the latter part of the year. While ultra-short-term momentum remains positive, weekly and monthly cycles suggest a cautious approach, particularly given the lower trading volumes associated with the recent price recovery. Importantly, this rebound in copper prices has occurred even as speculators cut their net long exposure, aligning with our view that underlying fundamentals have strengthened. Improving indicators such as calendar spreads, visible inventory flows, and physical premiums reinforce this perspective. Our macro outlook for base metals, including copper, remains optimistic, driven by a surge in global central bank liquidity, particularly in the US and China. This liquidity could trigger renewed speculative buying later in the year, especially as the fourth quarter has historically been a strong period for copper prices.

Copper prices rebound in August

- The official cash price of copper on the London Metal Exchange (LME) rebounded by roughly 1% in August, following two consecutive months of decline. Copper was the weakest performer among base metals in August, however, this being only the second time in 2024 that it has underperformed (the first being in May). Notably, copper did not underperform in any month during 2023 or 2022.
- The recovery in copper prices was supported by a significant weakening of the US Dollar Index, which led to a strengthening of the Chinese yuan, along with an expansion of global central bank liquidity, particularly in the US and China.

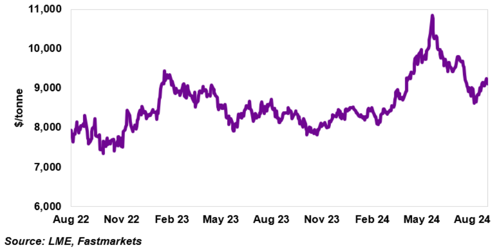
Mild recovery in the Chinese physical market

- The Chinese copper physical market recovered in August, with the Copper grade A cathode premium, cif Shanghai, rebounding well, averaging $57 per tonne, up from an average of just $10 per tonne in July and after being negative in May-June. This was mainly the result of expectations for improving import arbitrage conditions after the decline in LME copper prices. But traders have been disappointed by import arb conditions, with LME prices rebounding throughout August. In this regard, we estimate that the SHFE-LME import arbitrage window was negative at $66 per tonne at the end of August, down flat at the end of July.

LME copper price forecasts

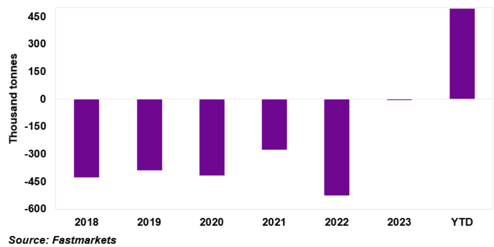
Short term (3 months)	Medium term (6 months)	Long term (12 months)
↗	↗	↗

LME copper price (official cash basis)



Source: LME, Fastmarkets

Refined copper market balance



Source: Fastmarkets

European copper demand remains weak amid economic challenges

- In August, the European copper market continued to struggle, with demand particularly weak in Germany, the region's largest consumer. The copper grade A cathode premium in Germany remained at $180-200 per tonne, reflecting sluggishness across key sectors such as manufacturing, automotive and construction. Despite some demand from green energy projects, overall market conditions are bearish. Ample stock levels, even with issues at the Rönnskär smelter, highlight the lack of material tightness. In Rotterdam, the premium held steady at $120-135 per tonne, unchanged since April, with low import demand due to sufficient regional production.

US copper market stable but quiet during summer lull

- The US copper market remained stable in August, with the copper grade 1 cathode premium in the Midwest holding at $0.11-0.13 per lb. Market activity was subdued, with little new business reported. Although some expected a rise in premiums, most market participants agree the market remains flat. The brief strike at BHP's Escondida mine in Chile had minimal effect on US premiums due to its quick resolution. Market activity is expected to remain quiet until October, with long-term optimism based on a potential supply imbalance.

Specs out, fundamentals in

- After reaching over 80% of their historical maximum net long position in CME copper in May, speculators have since reduced their bullish exposure, currently standing at just 11% of their historical net long position. In August, they slightly reduced their net long exposure to CME copper, even as prices rebounded. This suggests that the rally in copper prices was driven by improving fundamentals. The narrowing contango in LME calendar spreads, the slowing pace of inflows into LME warehouses, the firming Chinese physical market, and the resilience of the physical market outside China despite the summer lull, all support this interpretation. If speculative investors re-engage on the long side of the copper market in the final quarter of 2024, driven by a more supportive macro environment and the positive seasonality typically observed in the fourth quarter, this could amplify the rally in copper prices.