

Copper: supply scarcity keeps price high

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Strikes in Chile, a capital injection in China and improved economic sentiment: these are the ingredients fuelling the recent surge in the copper price. The main protagonist is Chile. Each year, strikes in the world's largest copper mine – the Escondida mine – cause considerable volatility in the copper price. Will the copper price remain high or is this only a temporary reaction?

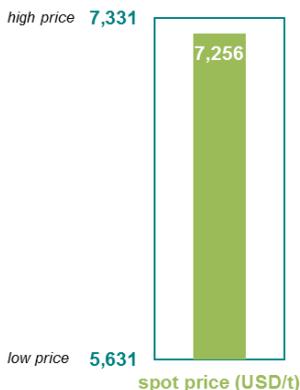
Figure: Copper price reached its 2018 peak level



Source: Thomson Reuters Datastream

Until March 2018 the copper price displayed a downward trend, losing over 7%. The situation then improved slowly but steadily. From 1 April to 31 May the price rose 2.5%, though remaining below the level of 1 January. That changed in June. In the past week, the price accelerated sharply by 6% to reach a year-high for 2018. The volatility increased from 4% to 6%. The reasons for this price spurt are diverse.

52 week price comparison:



Chile has a share of 27% in the global mining production of copper ore, while also accounting for 22% of all identified copper ore reserves in the world. With numbers like that, it is no surprise that investors immediately take up positions as soon as strikes hit the Escondida copper mine. Their main worry concerns the future supply of ore and, indirectly, the supply of refined copper. The developments in Chile have lit the fuse for a further increase in the copper price, so it would seem. But the question now is: how long will the strikes last? If the negotiating parties reach an agreement fast, the unrest among investors – and hence the price – will also decrease. However, if the strikes are prolonged, the price will continue to climb.

But the strikes in Chile were not the only factor propelling the copper price upwards. On 6 June the People's Bank of China (PBOC) injected 463 billion yuan into the financial

Trend in copper price:

	Spot price (12/06)	One week price trend (in %)	One month price trend (in %)	Three month price trend (in %)	One month price volatility	Price volatility 2018	Price volatility since 2000
Copper	USD 7.256/t	+4.0%	+5.1%	+4.6%	5.5%	5.7%	8.8%

Volatility is the difference in the highest price and the lowest price over the period mentioned

markets and left interest rates unchanged. The copper price is also benefiting from these liquidity-boosting actions which open the way for more financial deals in the copper market.

Finally, sentiment among investors in the copper market has recently shown a marked improvement. The LME inventories are shrinking again, pointing to an acceleration in global demand. Nevertheless, demand for copper is still relatively weak in China at the moment. Though the number of unsold properties is falling, construction activity has yet to stage a proper recovery. Investments in property and the electricity network also continue to disappoint. On the other hand, demand for copper from the transport sector continues to grow, driven by sustained business activity and car sales in China. Consumers in China remain confident in the economy as is reflected in the growth in private spending. Apart from cars, other consumer discretionary items are also showing increased sales.

Supply scarcity supports copper price

Copper went through a difficult first six months, being the only base metal to face price pressure up to the end of May. The tide turned in early June and the price has been rising ever since. The upturn, however, is mainly attributable to the strikes in Chile and these – as ever – are of a temporary nature. As soon as an agreement is reached, the price volatility will abate.

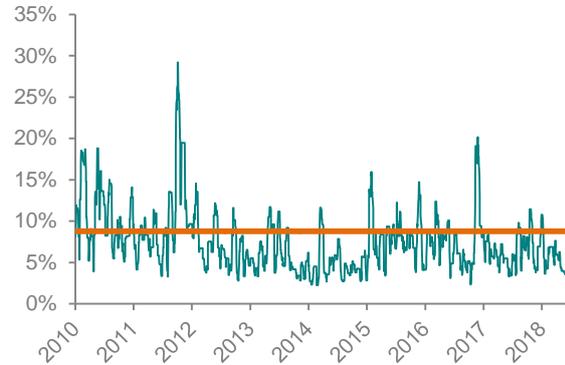
We see conditions in the copper market continuing to improve. A shortage of copper is expected in the second half of 2018. The shortfall will run up from 1.2% of consumption in the second quarter to 2.7% in the fourth quarter of this year. The further acceleration in global economic activity and the growth in world trade will also underpin the copper price. And though end demand in China remains lacklustre, we expect demand for copper to pick up further in China during the second half of 2018. In the light of these sustained market conditions and the relatively good sentiment in the market, ABN AMRO expects the copper price to continue rising from its current level in the third and fourth quarters, albeit at a moderate pace.

Graphical Insights

Copper price in 2018 (USD/t)



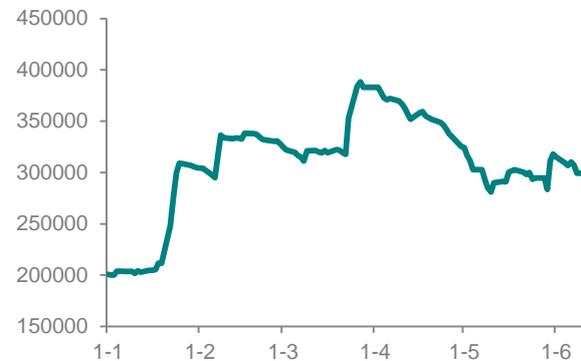
Price volatility copper since 2010 (in %)



Scrap price copper in 2018 (Berry, USD/t)



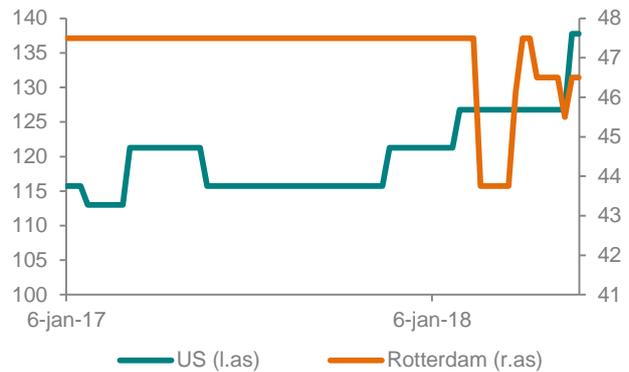
LME copper inventory in 2018 (in Mt)



Chinese imports copper ore (in % yoy)



Premiums for direct deliveries (USD/t)



Sources: Metal Bulletin, Thomson Reuters Datastream

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