# Only way is up for copper: CRU

"Copper is back!" Robert Perlman, chairman of CRU, told 635 delegates from over 30 countries as he inaugurated the 16th CRU World Copper Conference in copper capital Santiago, Chile on Tuesday. Consolidation of the rebound in copper prices—that began in November 2016—is expected to continue with the copper market forecast to experience a couple of years of balance before a supply deficit kicks in. By Paul Harris in Santiago

**MiningNews.Net** **04 Apr 2017 23:55 Feature**


"This is the first World Copper Conference in six years that the copper price has been higher than the previous years' event," Perlman said, adding key reasons for the change in copper's price fortunes were demand forecasts for China and mine closures "have essentially reversed."

Natasha Kaneva, executive director of global commodities at JP Morgan, said the bank stopped downgrading global economic growth in September 2016 and there was now a situation of inflation trade, "which should be long for metal commodities as an asset class".

With no new copper mine capacity due on stream in 2017, and only a handful of new mines due before the end of the decade, the copper market is starting to tighten, particularly copper concentrates. Kaneva forecasts a 3.5% decline in copper mine supply in 2017. "The last year that mine supply declined was 2002 when there was a recession, so this is a very rare situation," she said. However, global copper demand was forecast to grow 2.5% this year, said CRU's managing copper consultant Robert Edwards.

Vanessa Davidson, director of copper research and strategy at CRU, observed there were only eight projects through 2021 that would produce over 100,000tpa of copper and, “of those, two are replacement projects, not new production.” She said there were 75 projects that would produce less than 50,000tpa but, “there are not enough of these to make a difference”.

Arnaud Soirat, chief executive, copper and diamonds at Rio Tinto (LN:RIO), said a supply gap could start to emerge. “A limited number of projects are expected to come on line in the next five years. Grade is declining and there will be end-of-life closures so mine supply will potentially plateau before the end of the decade,” he said.

The bellwether for copper is the copper concentrate market and the TC/RCs (treatment and refining charges), and copper concentrate inventories would reduce by 400,000 tonnes this year, said Kaneva, due to recent strikes, with the Escondida mine in Chile taking six months to ramp up back to full production following a 43-day strike that ended in March.

Concentrate inventories are expected to tighten further going forward as China continues to add smelter capacity, with some 3.5Mt of capacity due to be added over the next four years, roughly the same amount as in the whole of the Americas today. Copper cathodes lag the action in the concentrates market and inventory levels are currently at their highest since June 2013 at around 300,000t.

The strikes at Escondida, Grasberg in Indonesia and Cerro Verde in Peru during the first quarter are estimated to have resulted in some 425,000t of lost copper production. CRU expects further production disruption later this year when more than 10 other mines in Chile are due to renegotiate their collective bargaining agreements. It forecasts potentially 1.3Mt of copper production disruption this year, some 6% of total production. “A structural deficit may arrive sooner than expected if strike action affects other mines,” cautioned Pearlman.

“Any short-term surplus is expected to give way to a structural deficit through the end of the decade, which could push the copper price towards US$7,500/t,” said Edwards.

Each analyst had a different view on the copper supply/demand balance for 2017. JP Morgan’s Kaneva and CRU’s Edwards forecast surpluses of 150,000t and 120,000t, respectively, while TD Securities’ Bart Melek and Goldman Sach’s Max Layton forecast deficits of 200,000t and 180,000t, respectively.

But Layton, MD of commodities research and global investment research at Goldman Sachs, disagreed on structural deficit forecasts a few years out and sees the market as remaining balanced on the grounds that demand growth will not be as strong as some think. In his model, “we put in half the trend demand for 2019-2020 and so we get a small surplus rather than a small deficit, which is a rounding error, but one that means a $5,000/t copper price rather than $7,500/t,” he said.

Explaining further, he said China’s debt had been running at 2.5-times GDP for a number of years, “which basically pulls demand forward,” and cautioned that, “countries that have rapidly built their debt are probably going to have a slowdown in growth on the investment side of the economy”.

One unknown was what direction US trade policy would take, said Melek, global head of commodity strategy at TD Securities. With the administration of US president Donald Trump looking to fix what it sees as a balance of trade problem via a proposed border adjustment tax, any protectionism could brake the copper market recovery.

“There is a relationship between the copper price and trade and if trade gets hit by bad policy my optimistic outlook would go out of the door very quickly,” he said.