The copper market: current situation and unreported inventories in China

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ICSG Meeting
25th April 2013
Lisbon, Portugal
Preface

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Overview

• Current market situation

• Unreported inventories in China
Current market situation
Previously range-bound prices have dropped below the psychological $7,000/t mark in the last week.

LME 3-month copper prices, US$/tonne

Upside limited by macro-economic concerns and rising stocks

Downside limited by supply disruptions and project delays

Data: LME
Globally, even at the 9th decile cash costs are below recent and forecast copper prices

Net of by-product cash costs, 2012, $/t

Net of by-product cash costs 9th decile = $4,951/t
However, operating and capital costs have been rising quickly, particularly in countries such as Chile

Net of by-product cash costs, $/t

Data: CRU
CRU’s 100% coverage of Chinese costs, indicates that a quarter of mines are operating at or above current prices

Net of by-product cash costs, 2012, $/t
Meanwhile, copper stocks have been building, with a notable swing in direction back to the LME

‘000t refined copper stocks

* CRU estimates of bonded stocks

Data: LME, SHFE, COMEX, CRU
A high proportion of growth in LME stocks has occurred in 3 warehouses and much is stuck in queues.

LME stocks by region, ‘000t

- Antwerp, Johor and New Orleans
- Other LME

% Copper in LME warehouses of Antwerp, Johor and New Orleans

Other 26.5%
Antwerp, Johor, New Orleans 73.5%

Impact for Cu of queues, 18 Apr, ‘000t

Closing stock: Cu
Cancelled Warrants: Al, Ni, Zn, Pb

*Antwerp, Johor and New Orleans

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Unreported inventories in China
Chinese bonded stocks have begun falling, with further destocking seen as financing activities diminish

‘000t refined copper, Shanghai and Guangdong bonded stocks*

* CRU estimates of bonded stocks

Data: CRU
Examples of the copper financing business in China

Traditional import for financing

Chinese trader

- Pay back bank three month later
- Spend the cash on other investment

Buy from overseas trader with 90-day LCs

- Sell to domestic market for cash

Trading within a bonded warehouse

Trader A

- Buy cathode with LCs from trader B
- A earns interest rate/premium

A got the cathode and sell to trader C and receive LCs

- A pay B interest rate of between 2-4.5% plus premium

A pay back bank three month later
The overwhelming majority of bonded warehouse stocks are held in Shanghai

**Cathode stocks in Chinese bonded warehouses, 2011-2013**

Data: CRU
Chinese refined copper imports increased 20% year-on-year in 2012, but this does not tell the whole story

‘000t refined copper imports, China

Data: CRU
Imports classed as normal or for tolling business actually fell last year

‘000t refined copper imports, China

Data: CRU
The inclusion of unreported stocks reduced the estimate of Chinese real consumption by around 6% in 2012

‘000t refined copper, China, 2012

Data: CRU
In fact, real consumption has trailed behind adjusted apparent consumption for several years now.

‘000t refined copper, China

Data: CRU
In the context of the size of the global market the resulting differences are not significant in absolute terms

‘000t refined copper, Global

* Global Consumption plus the difference between Chinese Apparent Consumption – Adjusted for Reported Stocks and Chinese Real consumption

Data: CRU
However, the inclusion or not of changes in stocks can have an effect on the global market balance.

LME cash price and global supply/demand balance

* including estimated SRB and bonded warehouse stock change

Data: CRU
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