

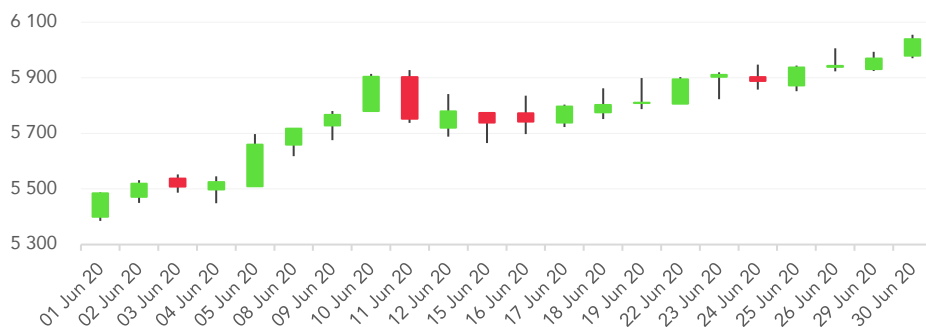
Monthly Outlook: Copper

7 July 2020

Better late than never

Technical analysis summary

Copper LME 3m Select Daily



Price Trend

Short term (1-3M): Medium term (3-6M): Long term (12M):

Resistances:

R1: \$5 600/t (Key Level) R2: \$5 668/t R3: \$ 6 310

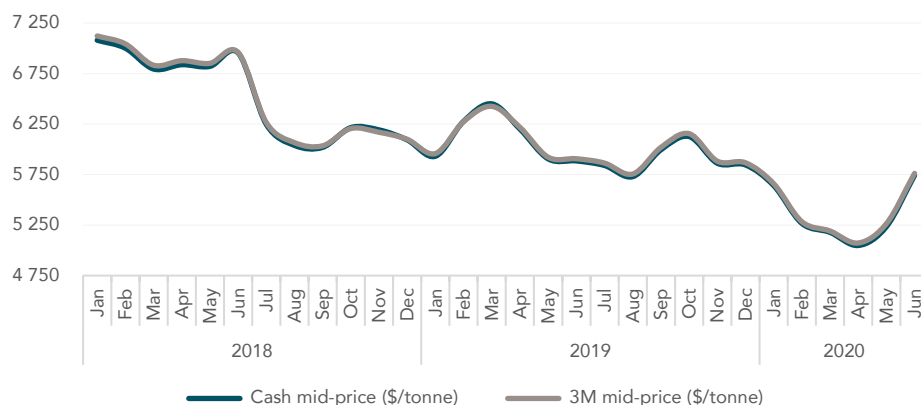
Support:

S1: \$5 913 (21 DMA & 76 FIB) S2: \$5 662 (200 DMA & 61 FIB) S3: N/A

Comments:

The general trend during June was the US dollar extending losses, Equity markets continuing gains, as the market regains confidence post COVID19 disruptions. We saw stronger than expected data coming from US and China during the month. This has helped boost copper price ~US\$700 during June, breaking \$6,000. Chinese demand, with consistent LME and SHFE metal withdrawals along with Chile mine disruptions help copper hold above \$6,000. Bearish bets seem to be dropping as inventories fall and banks turn bullish. Over concerns of supply shortages, China's top copper smelters have set their floor treatment and refining charges (TC/RCs) for the third quarter of 2020 at \$53/mt and 5.3 cents/lb.

Copper LME price trend: cash mid-price vs 3m mid-price from Jan '18 to Jun '20



Source: LME, FastMarkets, MAN Corp S.A

Monthly performance

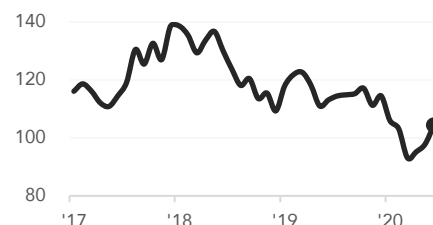
Base Metals*	Spot	m/m
Zinc		
cash settlement	2 056.5	4.3%
3-months	2 067.0	5.1%
Copper		
cash settlement	6 038.0	13.2%
3-months	6 043.5	12.8%
Nickel		
cash settlement	12 790.0	5.5%
3-months	12 837.0	5.3%
Aluminium		
cash settlement	1 602.0	5.7%
3-months	1 621.5	5.5%
Lead		
cash settlement	1 788.5	10.7%
3-months	1 801.5	10.2%
Tin		
cash settlement	16 847.0	8.0%
3-months	16 777.0	8.7%
Zinc TC MB Index	170.0	4.6%
Lead TC MB Index	140.0	-6.7%

China Macro	Latest	Prev.
Caixin PMI (Jun '20)	50.5	50.7
NBS PMI (Jun '20)	50.9	50.6

USDX Close	97.38	-0.9%
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Source: Fast Markets | *LME mid-prices (\$/tonne)
Zinc and Lead TC prices as of 26 Jun 2020
Lead TC relates to High Silver
All prices correct COB 30 Jun 2020

Bloomberg Industrial Metals SubIndex



Source: Bloomberg, MAN Corp S.A

Research provided by:

MAN Corp S.A

Rue du Cendrier 15,
1201 Geneva, Switzerland

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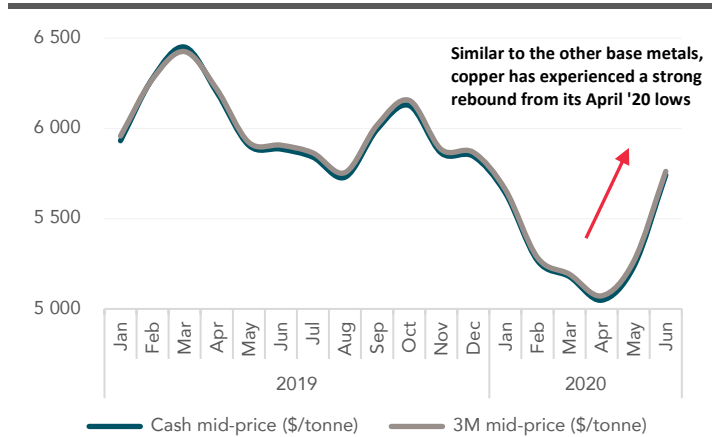
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Copper: catching up to the base metals complex

The copper price was experiencing a strong downward trend until late much, being the worst performer out of the base metals complex. **However, once the LME 3m contract hit its low point of \$4 627/tonne, the red metal began its recovery adding as much as 31% to the end of last month.** This rally was attributable to mined and scrap production disruptions coupled with Chinese restocking post their 7-week lockdown.

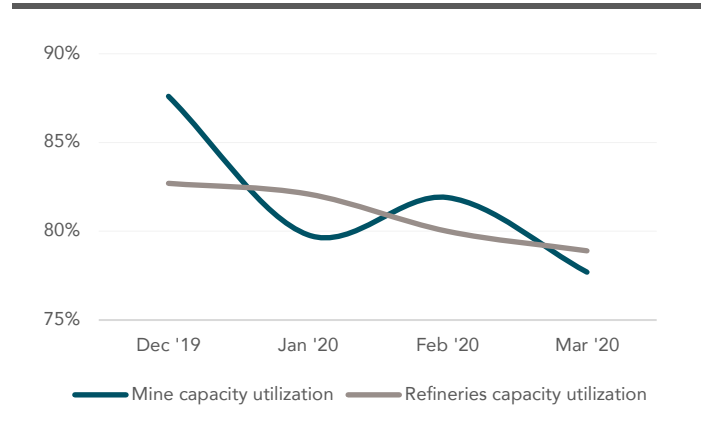
The significant increase in stimulus expenditure coupled with low copper prices led to elevated levels of restocking by the Chinese, supportive of copper prices. Additionally, data reveals that the copper CFTC commitment of traders (CoT) switched into a net long position at the beginning of June, indicating a relatively bullish sentiment.

Copper LME price trend: cash mid-price vs 3m mid-price



Source: LME, FastMarkets, MAN Corp S.A

Copper utilization rates (%)



Source: ICSG, MAN Corp S.A

CRU expects global consumption of refined copper to decline by 5% in 2020E, attributing the decline in demand largely to Covid-19 related economic disruptions. We believe the biggest risk to this view is China's significant investment in manufacturing, real estate and infrastructure. Policy makers in Beijing have prioritised economic recovery over financial reform and environmental policies.

We previously mentioned how CRU research group expects the global refined copper market to remain in a surplus over the next five years. This comes alongside an expected decline in consumption by 5% for CY '20f, citing the Covid-19 pandemic disruptions as the cause. While we agree with CRU, we highlight the following as risks to this view:

- China's significant investment in construction and manufacturing to stimulate the economy,
- Infrastructure and real estate expenditure by both the state and privately owned institutions, and
- The prioritisation of economic recovery over financial reform and environmental policies.

Alongside the pick-up in automotive sales, positive for copper is the stated intention of the Trump administration is considering introducing an infrastructure bill valued at nearly \$1trn. This comes alongside other developed economies who have introduced various infrastructure programs of their own in order to stimulate the economy.

In our previous report, we indicated the following points of interest regarding copper

- Copper demand expected to decline by 5.5% this year, the strongest downturn since the 1970s,
- Supply side shocks due to the pandemic causing government imposed reductions,
- Increasing pressure on smelters as revenues diminish and TCs/RCs edge lower, and
- Declining scrap supply trend reducing availability of secondary units.

LME and SHFE inventories:

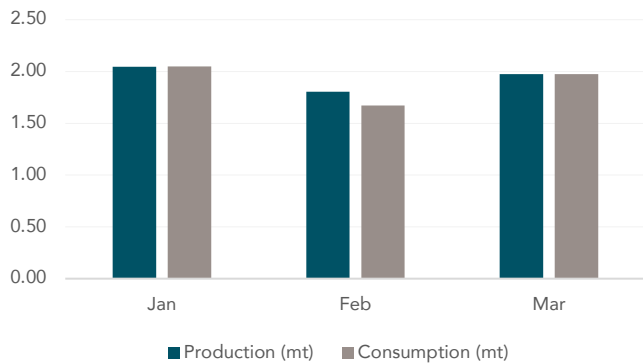
LME Copper stocks totalled 216 600 tonnes on 30 June '20, compared with 261 800 tonnes on 29 May following an increase in outflows. As of 30 June, 94% of stock was booked for removal compared to 41% on 29 May, this is an indication of rebounding demand. Shanghai Futures Exchange Copper stocks totalled 99 971 tonnes on 24 June, down from 144 988 on 29 May. In our view, this is reflective of an increase in economic activity.

Production and consumption outlook

The International Copper Study Group (ICSG) estimates that the global refined copper market was surplus of 130kt in Q1 '20 compare to a marginal deficit of 12kt for the same period last year. According to the Group, the market was in a deficit of 359kt for 2019 as a whole.

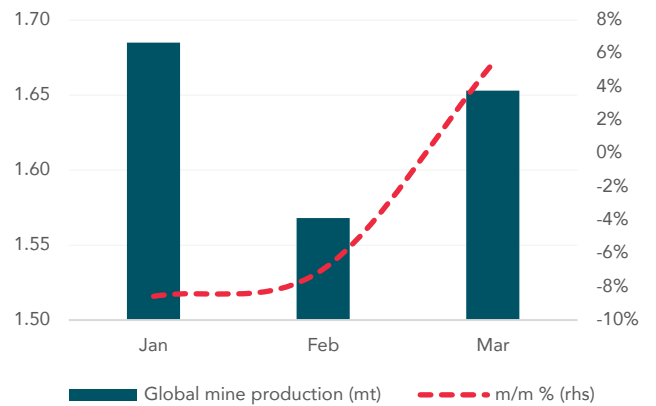
In our last report, we highlighted how total production for CY '20f is expected to decline by 3.2% to 22.5mt while consumption declines by 5.5% to 22mt. According to CRU, this should result in a market surplus of 498kt after adjusting for market-related cutbacks. More recently, refined copper production and consumption figures indicate that market was in balance during the month of march. Refined copper production was 1.974mt in March, representing a 9.5% m/m increase, while refined copper consumption was 1.973mt, 18% higher than the previous month.

Refined copper production vs consumption (mt)



Source: ICSG, MAN Corp S.A

Mine production output (mt)

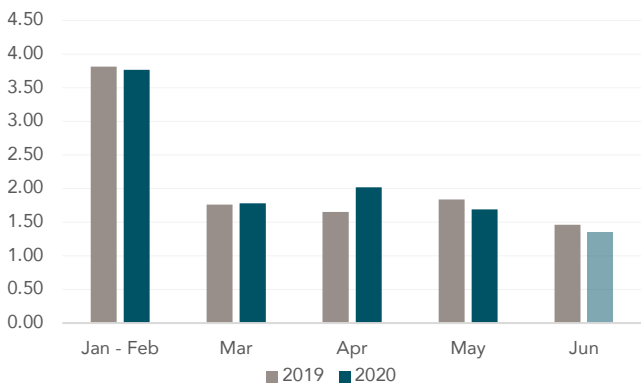


Source: ICSG, MAN Corp S.A

Mine supply update

According ICSG, global copper mine production increased by 5.4% in March to 1.65mt. Total production for Q1 '20 was 4.9mt at an average mine capacity utilization rate of 79.8%. Total world mine capacity has increased to 2.128mt in March from 1.915mt in Feb '20.

China copper ores and concentrates imports (mt)



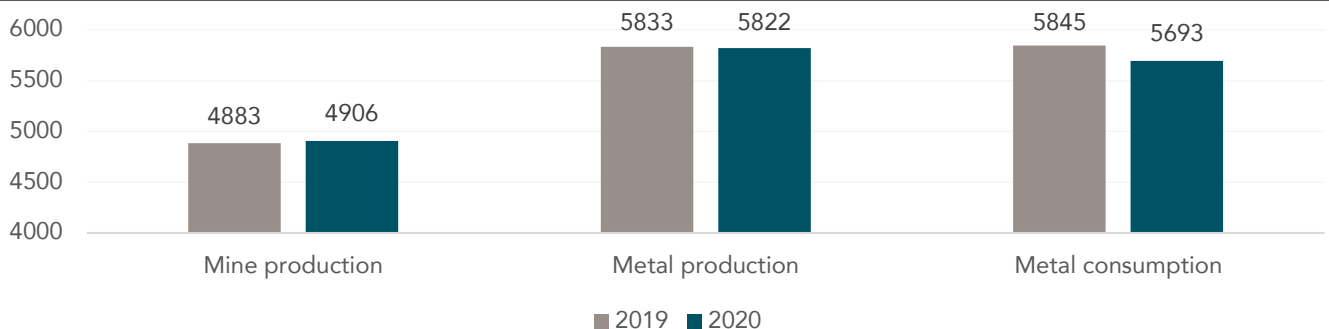
Source: China General Administration of Customs , MAN Corp S.A

China Copper Imports

According to the China General Administration of Customs, China imported c.1.69mt of copper ores and concentrates for the month of May, representing a c.16.2% m/m decline. Imports of copper ores and concentrates were c.8% lower than the same period last year.

Data indicates that Chinese copper ores and concentrate imports for the first five months of the year totalled c.9.3mt, which is c.2.2% higher than the same period last year.

Copper year-to-date snapshot: mine production (kt), metal production (kt), and metal consumption (kt) for January to March

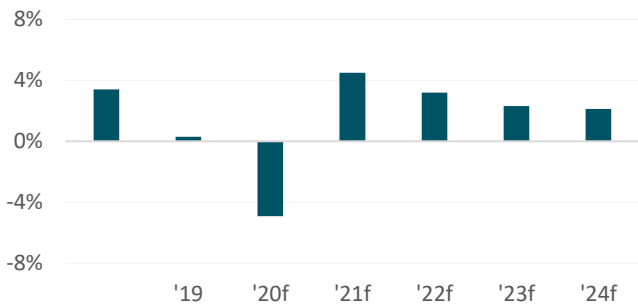


Source: ICSG, MAN Corp S.A

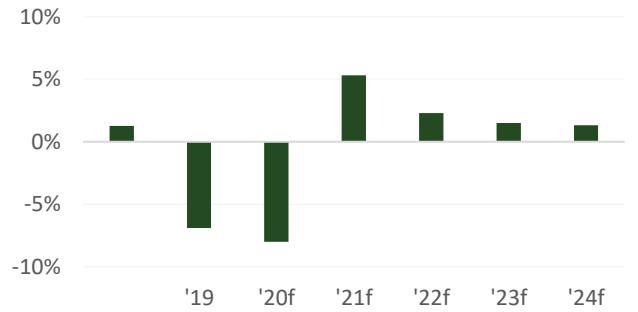
Global demand growth: this section is unchanged from our previous report

We expect all major consuming regions to experience a downturn in copper consumption for CY '20f. The following charts highlight regional expectations for refined copper consumption.

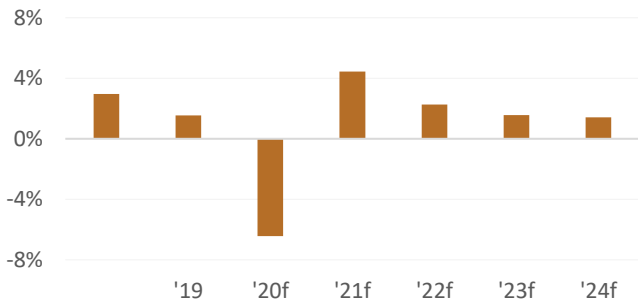
Asia refined copper consumption (% change)



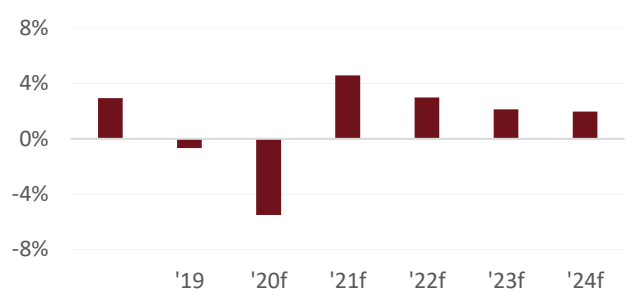
Europe refined copper consumption (% change)



North America refined copper consumption (% change)



Global refined copper consumption (% change)



Source: CRU, MAN Corp S.A

Source: CRU, MAN Corp S.A

- The largest regional decline is in Europe (-8.0% y/y) followed by North America (-6.4% y/y) and Asia (-4.9% y/y).
- Global refined copper consumption is expected to decline 5.5% for CY '20f, and subsequently increase by 4.6% for CY '21f.

Copper concentrates:

While we expect a market surplus in copper cathodes/refined metal, the charts below highlights that over the near term, we expect a deficit in the global copper concentrate market. This reinforces our expected downward pressure on TCs/RCs as there will be decreasing availability of raw materials.

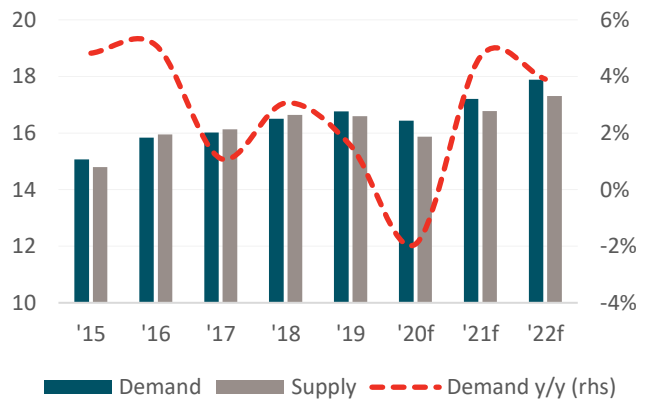
Global copper concentrates supply/demand (mt)

Concentrate demand set to exceed supply next year

Year	Demand	Supply	Balance*
2015	15.1	14.8	-0.28
2016	15.8	15.9	0.11
2017	16.0	16.1	0.12
2018	16.5	16.6	0.14
2019	16.8	16.6	-0.17
2020f	16.4	15.9	-0.42

Source: CRU, MAN Corp S.A | *Adjusted for smelter processing losses and secondary production

Global copper concentrates supply/demand (mt)



Source: CRU, MAN Corp S.A

LME and SHFE warehouse trends

LME Copper closing warehouse stocks (kt) to 30 Jun '20



Source: Fast Markets, MAN Corp S.A

SHFE Copper warehouse stocks (kt) to 30 Jun '20



Source: Fast Markets, MAN Corp S.A

LME Data

29 May '20	Tonnes	% Change*
Closing stocks	216 600	
one week ago	228 450	-5.2%
one month ago	261 800	-17.3%
On Warrant	111 650	
one week ago	121 125	-7.8%
one month ago	186 075	-40.0%
Cancelled Warrant	104 950	-2.2%

Source: Fast Markets, MAN Corp S.A *w/w for Cancelled Warrant

SHFE Data

29 May '20	Tonnes	% Change
Deliverable stocks	99 971	
one week ago	109 969	-9.1%
one month ago	144 988	-31.0%
On Warrant	38 541	
one week ago	48 576	-20.7%
one month ago	54 324	-29.1%

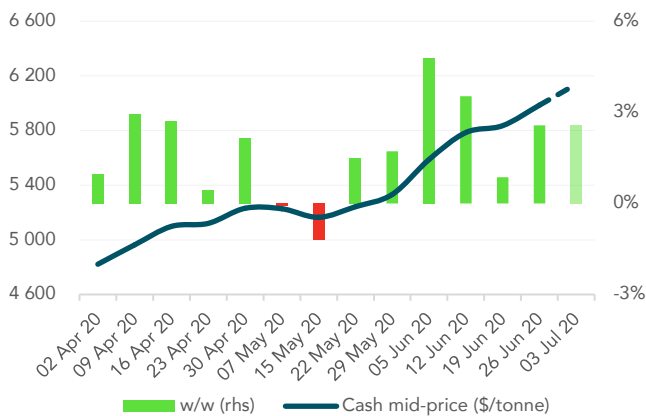
Source: Fast Markets, MAN Corp S.A

Copper refined metal market outlook: the traders corner

Our view on copper prices is based on technical analysis coupled with the short-term supply and demand balance.

Copper LME cash (\$/tonne) short-term price trend

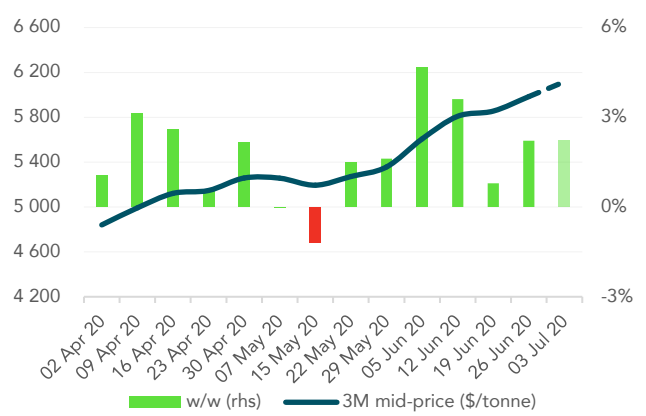
02 Apr '20 to 03 Jul '20f



Source: Fast Markets, MAN Corp S.A

Copper LME 3M (\$/tonne) short-term price trend

02 Apr '20 to 03 Jul '20f



Source: Fast Markets, MAN Corp S.A

Over the short term, the technical remain supportive of copper prices while the supply/demand balance in the long term calls for downward pressure on prices. From a technical perspective, performed well with strong positive momentum.

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