

2023 copper prices volatility

Copper is generally seen as a key barometer of global economic health because of its wide-ranging use in construction and manufacturing. In the first three quarters of 2023, demand for copper was on a downward trend, which made prices quite volatile. The reasons are multiple. First, the dollar index increased by more than three percent from the beginning of 2023 to early October 2023, making commodities pricier for importers. Second, the increased borrowing costs caused a reduction in capital-intensive investments and made maintaining metal stocks more expensive. Consequently, manufacturers decreased their inventories. Lastly, during that same year, the Chinese economy failed to rebound strongly from the Covid-19 lockdowns and the manufacturing sector in Western economies was still slow. This led to a low demand for copper and thus to lower prices.

Copper's future

Copper demand could double by 2035. The main drivers are the revival in demand from Chinese manufacturers, the rebound of the global economy and the boom in investments in green technologies (e.g. renewables and electrical vehicles) and in AI technologies.

Supply is expected to grow but not as fast as demand. This is primarily due to two factors: the time required for new mine construction and the ageing of already existing mines.

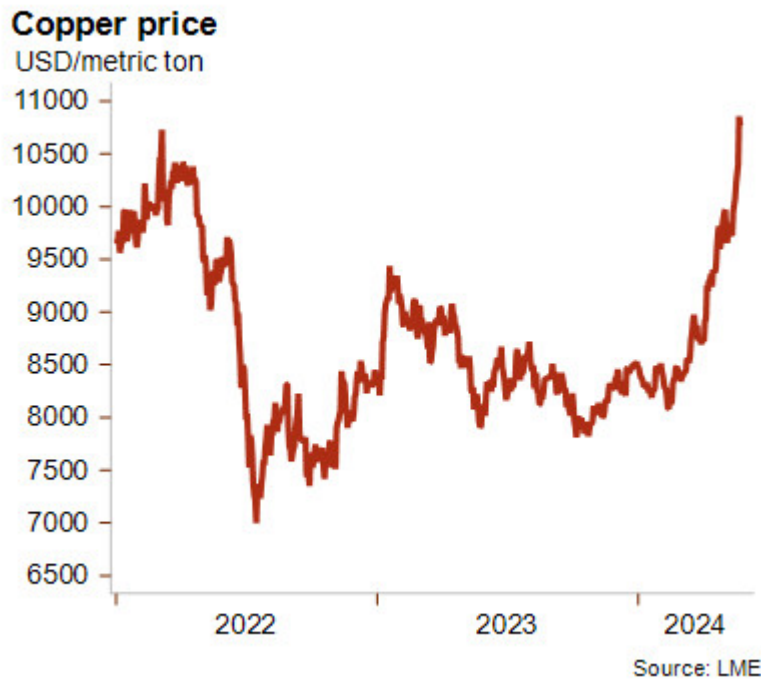
First of all, constructing new mines is capital-intensive and getting a return on the investment takes time. It takes more than ten years to develop a source of copper into a producing mine. This is mainly due to logistic and legal factors because the permitting process for mines can be very long. Global investment in essential minerals is falling short, with copper experiencing the most significant deficit, necessitating the development of 80 new mines. Nevertheless, several new projects and expansions are coming online (Panama, Indonesia and the United States). Furthermore, in the Democratic Republic of the Congo (DRC), copper mining production is expected to grow strongly in 2024. In the DRC, the Kamo-a-Kakula Copper Complex is expanding. This is the world's fastest-growing, highest-grade and lowest carbon-emitting major copper mine. The third phase of the expansion is expected to be completed by the end of 2024. Barrick, a leading mining company that produces gold and copper, strategically aims to boost copper production and is developing the mining project Reko Diq in Pakistan. Reko Diq stands as one of the world's largest undeveloped copper-gold projects. It could potentially become one of the largest global providers of metal essential for the energy transition. Saudi Arabia is also contemplating a substantial minority investment in this mining project. Barrick is looking to expand the Lumwana mine in Zambia as well. The goal is to boost production to 240 kilo tonnes per annum over a mine life of 36 years. This represents approximately 1% of global production recorded in 2023, which stood at 22,104.5 kilo tonnes. This initiative is part of a broader strategy to prolong the mine's lifespan until 2060. Barrick intends to finalise the comprehensive feasibility study by the end of 2024, with the aim of advancing increased production to 2028.

Secondly, copper mines in the most important copper producing countries (Chile

secondary, copper mines in the most important copper producing countries (Chile, Australia and Peru) are ageing. In Chile (the biggest copper producer in the world), copper production is slowing because of operational challenges, declining ore grades, the ageing of the mines and a decreased water supply. Despite these problems, copper production in Chile is still expected to grow in the long term. The country has already succeeded in drawing significant mining investments in the past few years. These investments are expected to yield returns in the near future as new projects are scheduled to commence operations. However, in the coming years, Chile will have to attract even more investment to offset the diminishing returns caused by the ageing mines. The country is expected to remain the dominant producer on the copper market. In Peru (the second-biggest producer in the world), production is still expected to grow but the country might have some trouble to attract new investors for its ageing mines due to its politically uncertain situation.

Copper's two-year high

Copper prices have been on an upward trend since the end of 2023. They have surged over 20% since mid-February 2024, reaching a two-year peak of nearly USD 10,000 per tonne due to copper ore shortages.



The main reasons for this hike in prices are the clean energy industrial policies in the USA and Europe that rely on electrification while stockpiles are low. Fear of supply shortages is currently the main driver of the price surge: many copper smelters, which transform the raw material into metal, have become loss-making as there are too many facilities fighting over a tight supply of raw material. Some will have to slow or halt production, which will tighten supply of refined metal and translate into higher prices in coming months.

On 12 April, the USA and the UK imposed a new set of sanctions against Russia in response to its

invasion of Ukraine. These sanctions specifically target the exportation of aluminium, copper and nickel produced in Russia and prohibit the delivery of metals produced from 13 April to the London

Metal Exchange and the Chicago Mercantile Exchange (CME). Following the announcement, a rise in metal prices was observed. However, in the long term, these sanctions are unlikely to have a significant impact on metal supply or prices due to the limited size of Russian production in the global output. The impact of these sanctions on prices is expected to be short-lived and can lead to volatile prices. However, changes can be expected in the flows of exports, as Russia is increasingly exporting to China, India and Turkey. The USA, the UK and other Western countries on the other hand, are shifting towards non-Russian suppliers. These sanctions are anticipated to benefit non-Russian metals producers.

In May 2024, the copper market in the USA was especially tight. As a result, copper futures traded in New York skyrocketed to an unprecedented premium over the London global benchmark. The market was driven by speculative funds influx and traders compelled to offset short positions on the world's most important industrial metal. The US price exceeding USD 11,000 per tonne, the price differential between US copper prices and the London global benchmark reached an unprecedented amount of over USD 1,000. This surge reflects a constrained copper supply in the USA, due to logistical hurdles arising from limited Panama Canal capacity and the aftermath of the Baltimore bridge collapse in March. Additionally, a significant portion of China's surplus copper is ineligible for CME delivery and the remaining market available material is Russian, which is now prohibited in the USA.

Outlook

Currently, there is an anticipated growth in demand on the copper market. Copper prices are expected to rise in the short and medium term because demand is likely to continue growing at a higher pace than supply. Supply shortages are possible as a result. However, it is essential to recognise that adverse developments, such as a hypothetical slowdown in the Chinese manufacturing sector, could swiftly alter price trends.

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