

# Copper heads south on stronger \$, Iran war

**PRICE RETREAT.** The red metal has dropped below \$13,000 a tonne after soaring to \$14,500 in January

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Copper prices have come under pressure on a stronger dollar, rising energy prices and the US-Israel war against Iran, according to analysts.

"Copper prices have come under pressure in recent weeks as macro headwinds combine with softer physical demand signals," said ING Think, the economic and financial analysis wing of multinational financial services firm ING.

Besides the macro issues, rising inventories on exchanges, increasing refined output in China and weaker Chinese import demand suggest that the tight market which supported prices in recent months may be starting to unwind, it said.

## SHOR-TERM PRESSURE

According to the Shanghai Metals Market (SMM), the macro transmission implies short-term downside pressure on copper prices.

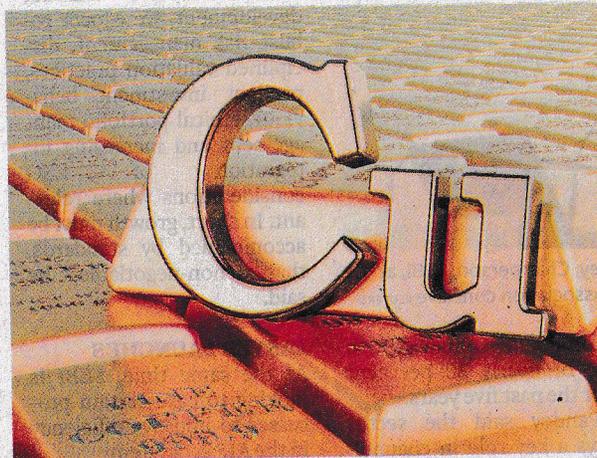
"As the conflict drives oil prices higher, concerns about inflation and tighter monetary policy have increased, risk appetite has declined, and some speculative long positions have begun to unwind, putting pressure on copper prices," it said.

Over the longer term, however, the copper market continues to face structural supply constraints, meaning that the current macro shock is more likely to manifest as sentiment-driven volatility rather than a fundamental reversal of the supply-demand trend, it said.

## RECORD HIGH STOCKS

All these are indicators of copper heading south. The red metal, used widely in construction, wiring, transport, industry and electric vehicles, dropped below \$13,000 a tonne to \$12,997 on the London Metal Exchange (LME). In January, it soared to \$14,500 a tonne (\$6.61 a pound on the COMEX, where the metal is down to \$5.81).

ING Think said copper in-



**BULL RUN FADES.** Rising inventories, higher Chinese refined output and weaker import demand suggest that the market tightness, which is supporting prices, is easing

ventories on the Shanghai Futures Exchange recently hit a record high as physical demand softened in China. LME inventories are near a 17-month high.

"The inventory build also reflects strong inflows into LME warehouses, driven by shifting regional pricing incentives. As the COMEX-LME spread narrows, the in-

centive to redirect metal to the US is fading," it said.

As pricing signals normalise, the metal is being redirected back into LME warehouses and other exchange stocks, ING Think said, adding that the direction of SHFE stocks will be important to watch.

A decline in inventories would suggest Chinese de-

mand is holding up at current price levels. Stocks across the main exchanges have risen by over 5,00,000 tonnes since the start of this year. This points to improving physical availability.

## EASING SUPPLIES

"The scale of the inventory build suggests supply tightness is easing after a period of historically low visible stocks that helped underpin prices in recent months.

If the pace of builds continues, it would reinforce the view that copper market tightness is beginning to unwind," said ING Think.

SMM said developments in the Middle East may affect the copper market through another supply-chain channel — the indirect impact on the hydrometallurgical copper production system in Congo.

"A significant portion of DRC refined copper production relies on hydrometallurgical processes, which depend heavily on sulphuric acid supply," it said.

The future trajectory of

copper prices will depend on the duration of the conflict in the Persian Gulf, movements in oil prices and changes in global financial conditions, while potential disruptions to African supply chains may emerge as another key variable for the market to watch, it said.

## RECORD OUTPUT?

ING Think said Chinese smelters had continued to increase production despite tight concentrate markets and the collapse in treatment charges.

Refined copper output is expected to rise to almost 1.2 million tonnes this month (March), according to a poll of producers by Shanghai Metals Markets, it said. "That would be a 4.6 per cent increase from February and a record high for the survey," the ING arm said.

ING Think said it was maintaining its price forecast of a floor price of \$10,000 a tonne for copper, though near-term headwinds are building.