

Copper may rise further on growing demand, Chinese production cut

TIGHTENING SUPPLY. Prices have been on a steady upward trend since the start of 2024

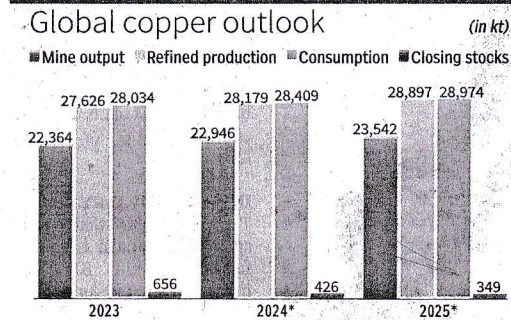
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Copper prices will likely gain further in 2024 on fears of production cuts in China and increasing demand, particularly for green energy transition, after having gained about 10 per cent since the beginning of 2024. They are currently ruling at highs not seen since June 2022.

The red metal prices have averaged \$8,558/tonne year-to-date as of April 2, 2024. Prices have been on a steady upward trend since the start of the year, surging to \$9,089/tonne on March 18 on the back of possible production cuts in China, said research agency BMI, a unit of Fitch Solutions.

MAIN CATALYST

In March 2024, major Chinese copper smelters agreed to limit capacity expansion by rearranging maintenance schedules and postponing the commencement of new projects, following a decline in treatment and refining charges, it said. ING Think, the financial and economic analysis wing of Dutch multinational



Source: Office of the Chief Economist, Australia. *forecast

financial services firm ING, seconded the view.

The main catalyst for copper's rally is the unexpected tightening in the global mine supply, most notably First Quantum's mine in Panama, which has removed around 4 million tonnes (mt) of the metal from the world's annual supply, said ING Think.

On Monday, the three-month copper contract on the London Metal Exchange ruled at \$9,446 a tonne. For cash, it was offered at \$9,400. In view of the red metal's current uptrend, BMI said it is raising its average annual price forecast to \$9,200 from \$8,800. ING Think projected copper prices rising in the

second quarter, traditionally its strongest season for demand, to \$9,050/t on average from an average of \$8,539/t in the first. It forecast prices peaking in the fourth quarter at \$9,100/t.

The Australian Office of the Chief Economist projected the average copper price in 2024 to remain relatively similar to 2023 levels (\$8,400 a tonne) in its "Resources and Energy Quarterly".

MARKET DOWNTURN

BMI said it was raising the forecast on the back of tighter supply outlook and a decline in the US dollar strength. Though a turnaround in Chinese demand is

likely with the recovery in the manufacturing sector, the downturn in the property market will be a major drag on prices, tilting the balance of risks to the downside, it said.

ING Think said the global refined copper market was expected to be fairly balanced this year, but the shortfall in mine supply now means that the market is likely to be in a deficit.

At the same time, demand uncertainties remain. China's property market has been a major headwind for copper demand, and a continued slowdown in the sector is the main downside risk, it said.

UPSIDE MAY BE CAPPED

The Australian Office of the Chief Economist said historically low levels of global inventories, however, pose an upside risk for copper prices. Stronger demand in coming quarters could be expected to draw inventories down further, putting upward pressure on prices.

BMI said reports point to smelters considering implementing joint production cuts, aiming to reduce output by 5-10 per cent in re-

sponse to the tightening concentrate market.

ING Think said in the short term, the upside to copper prices might be capped by macro drivers, including ongoing demand concerns in China and lingering uncertainty over US monetary policy. However, micro dynamics are starting to look more constructive for the metal amid a tightening supply outlook.

Prices will, however, remain volatile as the market continues to respond to macro drivers, including the path of US interest rates and Chinese policies, it said.

BMI and the Australian Office of the Chief Economist said they see copper prices gaining in the long-term on demand for green energy transition such as electric vehicles.

BMI forecast refined copper production to increase by 3.1 per cent year-on-year in 2024 supported by Chinese expansion capacity, though supply issues in Panama are likely to hamper copper concentrate growth, leaving a tight market balance. It forecast consumption to rise by 3.5 per cent year-on-year in 2024.