Vanessa Davidson, Director of Copper Research and Strategy

Vanessa Davidson has more than twenty-five years experience in the metals and mining industry. She is manager of CRU's Copper Team covering all aspects of demand, supply and market developments. Previously, she was manager of CRU's Special Steels and Alloys team, with specialist knowledge of the nickel and ferrochrome markets.

CRU's 16th World Copper Conference 2017: Judging the mood of the market

Positive outlook for 2017

CRU's World Copper Conference represents the first major gathering of copper market participants this year and, as such, will be an early opportunity for the industry to exchange views on the market and get a sense of what to expect in the year ahead. In the last two years, sentiment at this event has been downbeat, with the mood particularly bleak in 2015. This year, however, is different. As we head towards CRU's 16th World Copper Conference in Santiago, there are a number of developments which are fuelling more positive market sentiment.

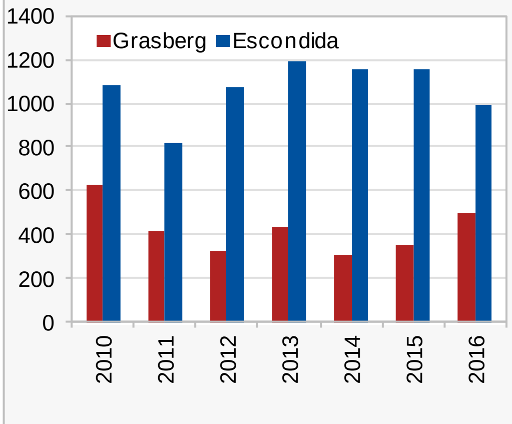
Supply disruptions take centre stage

Disruptions to supply at Escondida, Grasberg and Cerro Verde, the world's three largest mines, are dominating the news at present. With respect to Grasberg, Freeport-McMoRan has formally notified the Indonesian government that it believes there has been a breach of its Contract of Work and begun a 120-day mediation window, which could be followed by international arbitration if no settlement is agreed. The company estimates its Q1 sales from Grasberg, as a result of the stoppage, will be reduced by 77,000t of copper and by a further 32,000t in each additional month.

Meanwhile at BHP Billiton's Escondida mine, there is still no sign of a resolution to the strike which has lasted for 32 days at the time of writing. The two sides currently remain far apart on key issues such as salary and the size of the end-of-conflict bonus. BHP Billiton offered to resume negotiations with the union on 10th March and is considering restarting certain operations at the mine using contract workers. The union, however, continues to threaten a lengthy strike if their demands are not met. Each month of strikes at Escondida results in the loss of 80,000-90,000t of copper. At Cerro Verde, workers began a strike on 10th March over profit sharing issues and safety concerns. Freeport-McMoran is hopeful of an early settlement.

Escondida and Grasberg account for 7.5% of world copper mine output

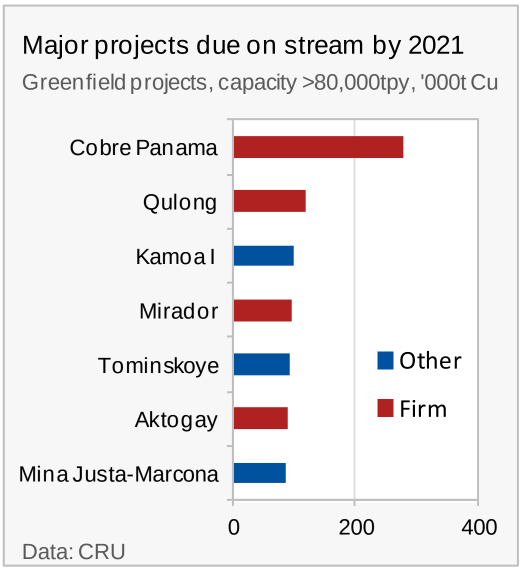
Mine output at Escondida and Grasberg, '000t Cu



Data: CRU, company reports

Lack of new projects will also restrict supply

While short term disruptions are capturing the headlines, the industry is also acutely aware of the very thin pipeline of greenfield projects due on-stream in the years to 2021. Indeed, there are less than one million tonnes of "firm" greenfield projects due to be commissioned between now and 2021. The lack of projects is indicative of the postponement, downsizing and suspension of new mines brought about by low copper prices in recent years. The result is that global mine production is forecast to grow by less than 1% p.a. in the years 2016-21.

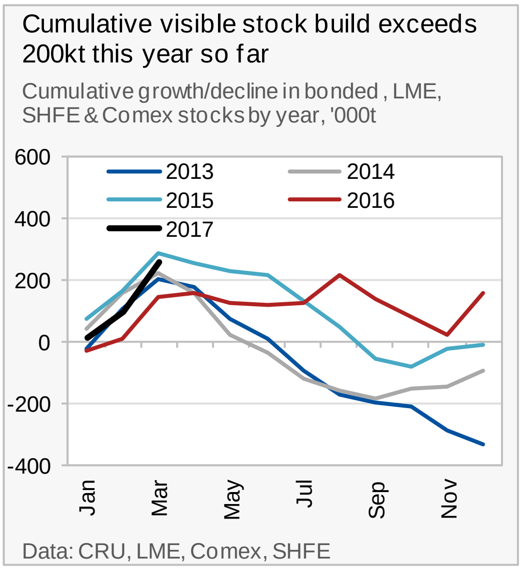


Waiting for a pick-up in Chinese demand

There is also optimism that Chinese copper demand, the key driver of global demand, will remain robust again this year. As yet, it is too early to assess exactly how demand will shape up, as activity has been subdued this quarter due to the New Year holidays. Indications, however, have not been particularly positive. Fabricators report weaker levels of demand compared with H2 2016, which has led to the domestic cathode market trading at a sizeable discount, downward pressure on import premiums and heavy stock accumulation on SHFE and in the bonded zones. That said, Chinese demand does follow a strong seasonal pattern so the industry will be watching closely for a pick-up in Q2. For the year as a whole, we are forecasting growth in Chinese copper demand of 3%. Our expectation is that government infrastructure projects, including the power grid, will provide support to growth, especially given that 2017 is a Party Congress year.

Stocks are rising, but that is normal in Q1

Global visible stocks of copper cathode have been rising since the start of the year and stood at 1.3Mt in early March. Much of the increase has occurred in China, where bonded stocks and SHFE non-bonded inventories have increased by 90kt and 167kt respectively. There has also been a sharp rise in LME stocks from the low-point in February. While the increase in visible stocks, to the highest level in almost four years, may appear to be a concern, it should be remembered that the upturn is seasonally driven, at least in part. Once Chinese buying activity improves, the upward trend should reverse and stocks should be drawn down during the course of Q2 and Q3.



Market deficits on the horizon

The copper market is expected to tighten significantly in the medium term, driven predominantly by the lack of investment in new mine capacity. Indeed the consensus view in the industry is that deficits will emerge; the only question is the timing.

Recent conversations with funds and investors suggest a growing confidence that prices will move higher in the coming months. Much of the positive tone reflects the loss of production at Grasberg and Escondida. Spot TC/RC's have already moved sharply lower and if the downward trend continues, it could create pressure for a third consecutive reduction in the annual benchmark. With Chinese demand also set to pick-up in April, stocks could be drawn down quickly, bringing forward the date at which the refined metal market tips into structural deficit.

Join CRU's Copper Team analysts - Vanessa Davidson, Robert Edwards, Erik Heimlich and Chunlan Li - at CRU's forthcoming **16th World Copper Conference** in Santiago, Chile (3rd – 5th April 2017) to discuss the topics discussed in this Insight and many others.

CRU offers further analysis of all of these issues in the **Copper Monitor, Copper Market Outlook, Copper Raw Materials Monitor and Copper Concentrates Market Outlook.**

For more information please visit our **website** or contact vanessa.davidson@ crugroup.com

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