

Long Copper Futures

Thesis: Copper prices are especially vulnerable to supply shocks due to persisting low inventories and low open interest. Anticipated disruptions of Russian exports, paired with a tight supply picture and expected increases in Chinese demand, will push up copper futures prices.

Global supply, Russia and others

- Russian exports account for ~4.5% of global copper production and ~850k copper and copper wire exports over the past several years. Exports go to China, with Netherlands in close second. Exports to the Netherlands largely move into the LME. The copper is traded on the exchange and much of it ultimately ends up in China.
- The reason for the LME intermediary is that direct rail links between Russia and China have little spare capacity. Instead, a large part of exports flow indirectly through the Black Sea and Rotterdam. The conflict in Ukraine has jeopardised these flows to the LME and China. Costs of shipping in the Black Sea have spiked since the beginning of the conflict because of insurance and safety premiums. This has led to dramatically reduced regional flows. Logistics companies self-sanctioning has also threatened Russian shipping out of Rotterdam. Shipping difficulties will increasingly start to dislodge sea-borne Russian copper exports to the LME and China.
- Concerns over sufficient copper production in other parts of the globe support this picture. Chiefly, potential future mining regulations and increased industrial taxes by left-wing governments in Chile and Peru.
- Rising costs of the Russia-Europe-China route may eventually lead to disruptive readjustments in the copper supply chain. Nevertheless, both paths forward support higher copper prices and pose supply chain issues.

Global demand, China and others

- An unfavourable price differential between SHFE and LME copper has weighed down on imports and led to significant shortfalls in domestic inventory, while exports have continued to rise. Domestic inventories are 451,400 mt (248,500 mt less than the same period last year). Output posted small increases YoY last month, but this is expected to fall in March. Supply disruptions have been significant contributors to lower output.
- Over the past years, China has consumed about half of the world's copper. These imports go to processing facilities and ultimately feed its construction and real estate and industry sectors. These primary copper consumers have posted weaknesses since late last year. Weaker Chinese copper demand from low domestic consumption has kept LME prices flat. Weak current Chinese output of processed copper can be attributed to constrained consumption, supply chain disruptions, and the lack of raw copper inputs due to the SHFE/LME price ratio.
- This picture could improve as we head into April. Local-government-sponsored infrastructure projects starting next month and loosening lending constraints may prop up real estate markets. Copper-intensive investments in the Chinese power grid have been ramping up in past months and are expected to continue. Supplies will remain tight as demand rebounds leading to further decreases in inventories. VAT changes have prompted copper consumers to use domestic stocks rather than import more inventories, though imports will eventually have to pick up sharply.
- SHFE, LME, and CME stocks combined are 276,000 tonnes (121,000 tonnes less than this time last year). The vast majority of increasing stocks earlier this year were attributable to Chinese lunar new year preparations. In fact, LME stocks are down since the start of the year and equivalent to about one day of global consumption.
- While global supply is robust, demand from copper-intensive industries will more than keep up. Projections for supply/demand balances have been revised from a 50,000 tonnes surplus to a 100,000 tonnes deficit. Paired with low commodity open interest, markets may react sharply to any further supply-chain shocks.