Copper takes on brighter sheen ahead of industry summit

FT

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Supply squeezes in Chile and Peru combine with a rebound in Chinese manufacturing

When the world's top copper miners gather in Santiago on Monday for the annual Cesco Week jamboree it will be against an increasingly bullish backdrop.

Copper, often viewed as a bellwether for the global economy due to its wide range of uses in construction and industry, has gained more than 8 per cent this year to around $6,470 a tonne, supported by a thaw in US-China trade relations.

A rapid drop in inventories held at the London Metal Exchange provided support too, although this has partly reversed.

Now, supply disruptions in Chile, Peru and beyond, plus a surprise rebound in Chinese manufacturing activity, are providing further reasons for optimism. They could help tip the market into a larger deficit than forecast by many analysts, lifting prices and boosting margins at big producers such as Glencore, Freeport-McMoRan and BHP Group.

Chile, the world's biggest supplier of copper, has just reported its lowest production in two years because of heavy rains in February, while Codelco, the state-owned mining company, has warned output will fall unless the government approves a plan to modernise its sites, some of which have been in operation for more than a century.

In Peru, meanwhile, output at the 400,000-tonne Las Bambas mine has been disrupted by protesters who have blocked the roads needed to transport copper from the site and receive supplies. Las Bambas is a significant supplier to China of copper concentrate, the raw material used by smelters to produce refined metal.

The blockade has already affected so-called treatment charges in China — fees levied by smelters to process concentrate that are an important indicator of market tightness. They have fallen below $67 a tonne for only the second time in five years, according to Citigroup. If protests persist, China may be forced to buy more refined material from overseas, or draw down on stocks.

Supply problems are not restricted to South America. Glencore has announced plans to cut production at its Mutanda mine in the Democratic Republic of Congo in half, to 100,000 tonnes a year, as it decides whether to develop a new deposit, while ERG Resources has temporarily shut one of its mines in the country.

Taken together, it looks as if 2019 will see a succession of squeezes on supply which should prop up prices. And, while a number of new copper projects have been signed off in the past year, none will come on line immediately.

On the demand side of the equation, the latest manufacturing surveys suggest the stimulus measures introduced by Beijing to guard against headwinds from the trade dispute with Washington are working. That should help soften the blow from a slowing global economy.

All of which should give mining executives plenty to chew over when they assemble in Chile next week.