

Spot copper concentrate TCs fall further in Q2, in line with SMM expectation

The China Smelters Purchase Team (CSPT) has set the Q2 floor price for the copper concentrate treatment charges (TCs) at \$78/mt, down 10.3% from the first quarter. While it marked the lowest level since 2014, the lower TCs also met SMM's earlier expectations. Chinese copper smelters had abundant inventory of copper concentrate in Q1 as a result of shipment arrivals under annual contracts. While their low buying interest supported Q1 spot TCs, smelters started to stock up concentrate for new capacities in the second quarter and TCs were therefore under pressure. Spot TC traded at \$73-75/mt last week, supporting copper prices in the short term.

SMM reiterates our bearish view on TCs and forecasts the benchmark TCs to be \$75/mt in 2019, an 8.8% drop year on year.

Chart 1. Spot TCs and YoY changes (2014-2018, \$/mt)

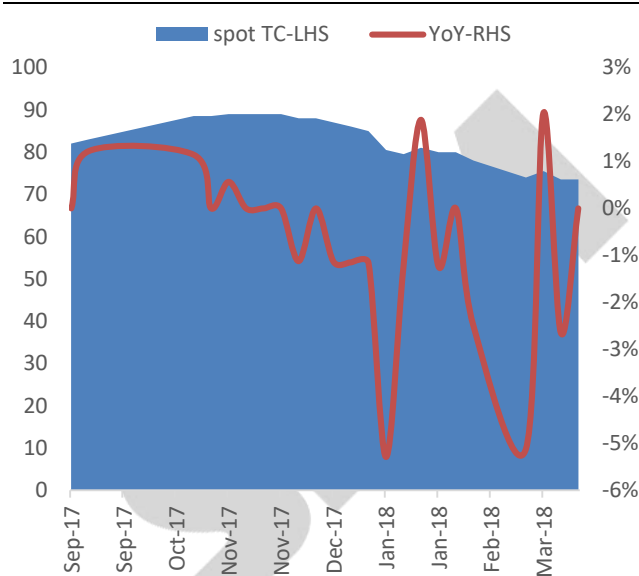
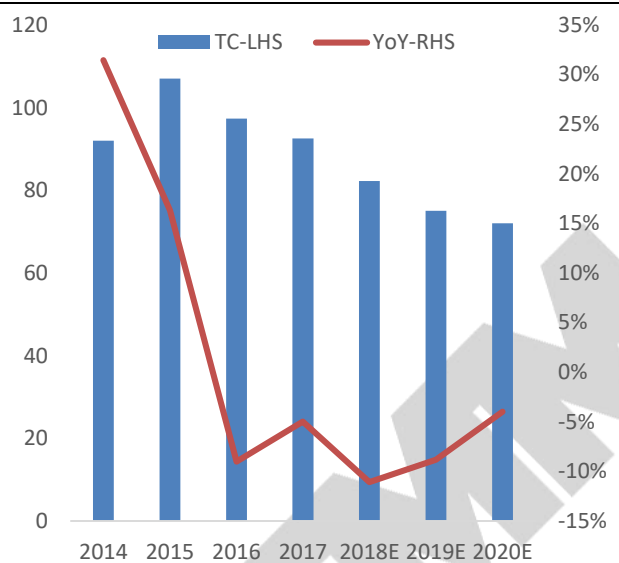


Chart 2. Annual TCs and YoY changes (2014-2020, \$/mt)



Source: SMM

Copper concentrate in short supply, SMM bullish on copper price

The short-term copper concentrate supply from overseas mines will be increasingly volatile due to the salary negotiations to be conducted in April. While the impact on supply will be smaller than last year, SMM believes supply deficit in the mid- to long-term still exists.

SMM expects global copper concentrate output to grow at a slower pace and unable to meet the demand from additional smelting capacities. This is due to falling ore grades and less expansions from miners' decreasing capital expenditures. SMM forecasts global copper concentrate output to increase by 650,000 mt in 2018 to 20.41 million mt, up 3.3% year on year.

China, on the other hand, will commission a large amount of smelting and refining capacity in the second half of the year. SMM forecasts China's smelting capacity to reach 8.4 million mt, up 13.5% year on year, and refining capacity to hit 12.55 million mt, up 11.1% year on year. The main projects include: 1) Chinalco Southeast's 400,000-mt smelting and refining capacity to be commissioned in Q4; 2) Jinchang's 200,000-mt smelting capacity and 100,000-mt refining capacity to be commissioned in late Q2; 3) Guangxi Nanguo's 200,000-mt smelting capacity and 300,000-mt refining capacity to be commissioned in Q4.

Chart 3. Global copper concentrate output (1,000 mt, %)

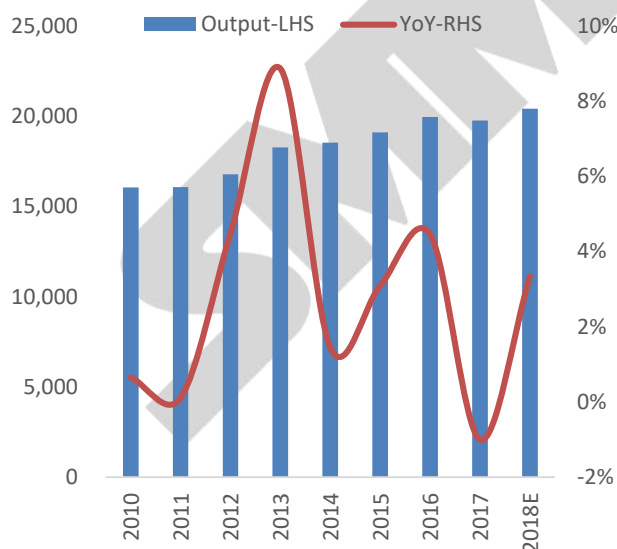
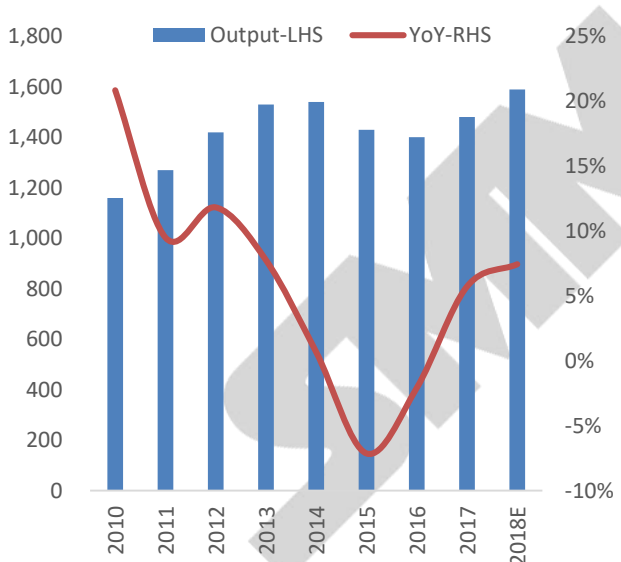


Chart 4. Domestic copper concentrate output (1,000 mt, %)



Source: SMM

Chart 5. China smelting capacity (1,000 mt, %)

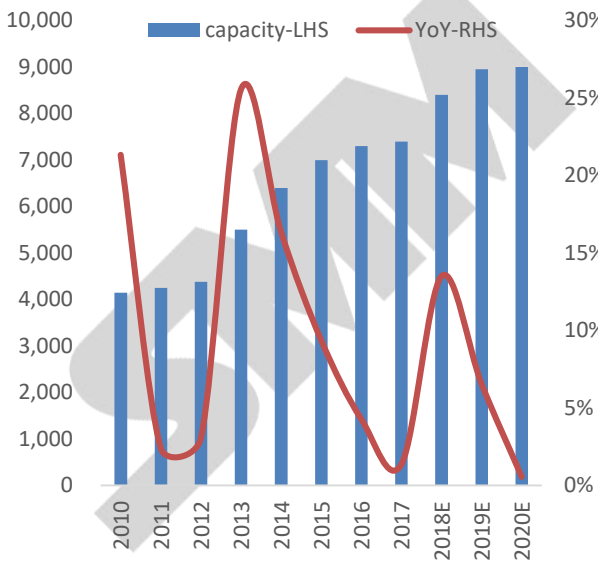
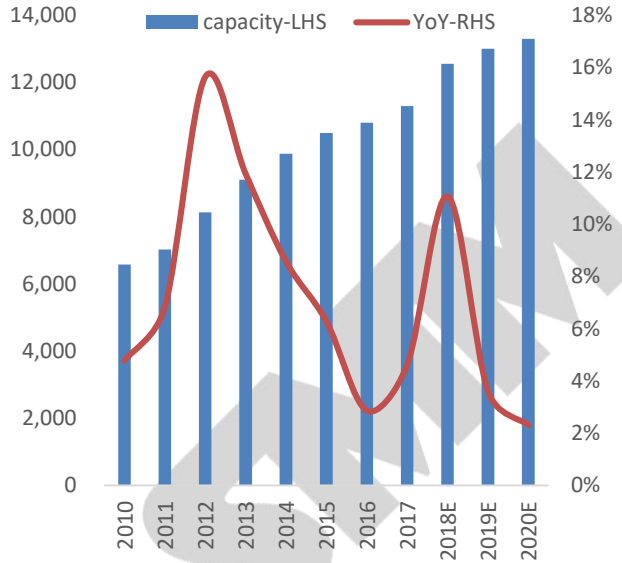


Chart 6. China refining capacity (1,000 mt, %)



Source: SMM

SMM is bullish on copper prices, and forecasts average SHFE price in 2018 to be 53,000 yuan/mt and average LME price to be \$7,000/mt, both up 7.8% year on year.

Chart 7. Refined copper price and forecast (yuan/mt)



Source: SMM

SMM has a comprehensive **China Cost Database** for nonferrous and ferrous metals, by conducting regular field trips and interviews with a majority of Chinese metal producers, from large-scaled to small-scaled, from SOEs to private-owned. We collect their detailed cost breakdown for individual plants/mines and for the whole production process, and update the database regularly as well as keep close track of any updates/changes.

We also have the **Cost Database** for Steel, Iron Ore, Aluminum, Copper, Copper Mine, Nickel, Nickel-Pig-Iron (NPI), Tin, Manganese, Lead and Lead Ore, etc.

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