

The outlook for copper markets

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The copper market turned in 2017, with prices surging on the back of solid demand, a weaker dollar, and concerns about supply disruptions. Where do we go from here?

Output from current operations and mines under construction will keep the market balanced for the next three years. We expect cathode inventories to remain steady, reflecting a return to positive mine supply growth, set against moderate demand growth.

Beyond the end of this decade, demand for mine output will exceed available base case supply. This shortfall will be satisfied in part by a reduction in inventories, accompanied by a sizeable reaction in price. This will also incentivise reactivation of closed mines, incremental expansions, mine life extensions, and the development of greenfield projects.

There is no shortage of identifiable new projects. However, the pipeline is not well developed and the industry is not well positioned to react to the looming supply gap. The current price recovery follows a five year period of decline during which producers experienced tight cash margins and balance sheet stress. Meanwhile, investors have craved profitability and returns, rather than volume growth. Given the long lead times required to bring new capacity into production, mining companies should be positioning themselves now for the recovery. Although we have seen a recent shift in focus toward project development and several players have now taken the plunge, will this be sufficient to close the looming gap?

The weight of uncertainty is nevertheless skewed to the demand side. The prospects within the electro-mobility sector, as well as the push for increased energy efficiency, are constantly evolving. These are promising growth stories for copper. However, there are significant challenges to the rapid growth in adoption of electric vehicles and the development of the associated infrastructure.

In addition to these challenges, there remains the risk of substitution to aluminium, particularly as this latter market shifts into a sizeable surplus by 2021. This coincides with a period of significant tightness in the refined copper market.