

China spiting itself by 'weaponising' copper

Mining Journal – November 8th, 2018

Copper > Research Comments

Jacqueline Holman

China's dumping of metals, including copper, in an effort to "discipline the US" is set to lower copper supply and boost prices which in turn will mostly impact the world's largest consumer of the red metal – China itself.

Hallgarten & Company analyst Christopher Ecclestone said in a note this week that China's "weaponisation" of copper by flooding the market with its stockpiled supply in retaliation for US trade tariffs was an unsustainable strategy.

He said the "ill-thought out" strategy would put an extended dampener on development and exploration by damaging or delaying the financing prospects of various developers, ultimately leading to higher prices which would hurt China.

The China-US trade war resulted in copper prices falling 20% from the US\$3.20 per pound level reached in the first half of 2018 to back below \$3/lb, although more upside was expected.

"The copper price has been clambering back towards the daylight. Damage has been done, though, with financing markets coming down with a case of severe parsimony which has choked off exploration and project advancement for the moment. This ultimately will feed into lower supply and higher prices," Ecclestone said.

The improvement seen since late 2016, as well as the view of copper as a traditional and a new-technology metal required for the electric vehicle revolution, has encouraged some investment into new projects. But Ecclestone pointed out that large mines and/or discoveries was "generally viewed to be a thing of the past".

"The metal has not been as underinvested in recent times as say, zinc, but the long period of quiescence in mining markets meant exploration was minimal and development to mining status was largely in the hands of the Chinese.

"While it is not said out loud in public Peak Copper, in Chile it is a real threat," he said.

Ecclestone pointed out there had not been sufficient copper development to replace shut mines or reduced production to meet even conservative forecasts of demand growth.

Demand is expected to exceed 27Mt by 2025, while supply is forecast to fall from about 23Mt in 2018 to just above 20Mt in 2025.

"Now that the uptime has arrived (came and went and is coming again) the small to medium projects that are dependent on gold credits (or vice versa) are having a tougher time gaining traction (or even attention as gold's prospects look so murky)," Ecclestone said.

"That leaves the larger projects to attempt to fill the gap in the pipeline caused by so many years of the copper price being in the dumpster."

Hallgarten & Co presented a list of 15 realistic additions to copper production to 2025, most of which were in the hands of major mining companies or were expected to require backing from majors to get off the ground.

The project with the largest resource was Kamo a in the Democratic Republic of Congo, a joint venture between Ivanhoe (48%), Zijin (47%) and the government (5%), with 24.2 million tonnes contained copper.

This was followed by PanAust (80%) and Highland Pacific's (20%) Frieda River project in Papua New Guinea with 13Mt, Anglo American (60%) and Mitsubishi's (40%) Quellaveco in Peru with 6.05Mt, and Southern Copper's Michiquillay in Peru with 4.6Mt.

The rest of the list were all below the 3Mt contained copper level.

"Much as we subscribe to the philosophy of 'small is beautiful', small, alas does not make a difference to the global copper supply balance, even if it may prove potentially more profitable than gargantuan mines," Ecclestone said.

He reiterated that the copper space was so large that only big mines would make a meaningful contribution and those types of mines, such as the Chilean super-pits that "moved the dial", were things of the past.

"Now megamines tend to only replace other megamines that are going terminal. The growth in copper demand is inexorable; the supply of new production is not."

Although prices are expected to rise, Ecclestone saw resistance from the Chinese at the \$4/lb level, as they did not want to be "at the mercy of Western miners again" in copper.

He warned that China's pushback shouldn't be underrated, as the country still had "considerable firepower".

"Lesson in all this? One thing is to weaponise a metal and another thing is to then strap on said weapon and blow oneself up," Ecclestone said.