

Base metals

Copper: Staying elevated in 2021

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- We expect a pullback in copper prices in the short run, but market deficit conditions and falling exchange inventories globally point to another leg higher thereafter.
- Accelerating economic activity related to global de-carbonization efforts, particularly on the manufacturing side, will likely set the tone for strong copper demand in key end-use sectors.
- Any price pullback to USD 7,600/mt should be used to build longs. We expect copper prices to reach USD 9,500/mt by mid-2021, and then to level off gradually.

Sticking to our consolidation story in 1Q, but...

Better-than-expected global manufacturing data (solid industrial production numbers from China, the US, and Europe for November and December) is providing stronger top-down price support for copper than we initially anticipated. On the other hand, China's copper imports are leveling off, as expected. December imports of unwrought copper and copper products continued to be weak, declining to 512kt. As Chinese copper imports are set to slow further in 1Q21, and since second and third waves of the coronavirus pandemic should weigh on US, European, and Japanese copper demand in 1Q21, we do look for some price pullbacks to USD 7,600/mt before prices march higher again.

...prices are set to march higher thereafter

Although supply challenges, both mine- and scrap-related, likely triggered a 2.6% decline in refined supply in 2020, these concerns started easing in 2H20. In 2021, mine supplies from Indonesia and the Democratic Republic of Congo are likely to grow. So we forecast copper refined supply will increase by 2.9% in 2021. Meanwhile, we expect global refined copper consumption—driven by manufacturing, housing, and infrastructure—to grow by 4.6% in 2021 (versus -2.9% in 2020). This supply-demand profile leaves us with a market deficit of about 469,000 tons or 2% of annual demand in 2021. The renewed downward pressure on visible inventories could push up the price of copper to USD 9,500/mt by mid-2021, in our view.

Market data and forecasts in USD/mt

	Forecasts	Spot/Futures
18 Jan 21	-----	7,975
Mar 21	7,600	7,985
Jun 21	9,500	7,979
Sep 21	9,000	7,968
Dec 21	8,500	7,949

Source: Bloomberg, UBS; Note: Forecasts refer to end of period

After a pullback in 1Q, we expect copper prices to take another step higher

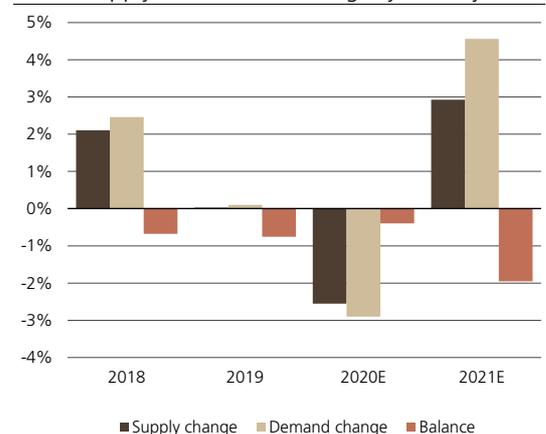
Values in USD/mt, weekly data



Source: Bloomberg, UBS

The copper market is likely to tighten up further in 2021

Global supply and demand changes year-on-year



Source: Wood Mackenzie, UBS

Historical performance

Underlying	Δ 1m	Δ 3m	Δ 12m	Δ ytd
Copper	2.3	17.8	26.9	2.4
Industrial Metals Index*	-1.4	13.1	19.2	2.0

Source: Bloomberg, UBS

* Spot index

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Terms and Abbreviations

Term / Abbreviation	Description / Definition	Term / Abbreviation	Description / Definition
Backwardation	When the spot price trades above the prices of futures	BCF	Billion cubic feet
BCM	Billion cubic meters	BCOM	Bloomberg Commodity Index
Bu	Bushel (1 ton = 36.7bu wheat/soybean; 39.37 bu corn)	CBOT	Chicago Board of Trade
CFTC	Commodity Futures Trading Commission	CIF	Cost, insurance and freight
CME	Chicago Mercantile Exchange	CMCI	UBS Bloomberg Constant Maturity Commodity Index
CNIA	China Non-Ferrous Metals Industry Association	COMEX	New York Commodities Exchange
CONAB	Companhia Nacional de Abastecimento (Brazilian government agency)	Contango	When the spot price trades below the prices of futures
COT	Commitment of Traders	CRB Index	Index Commodities Research Bureau Index
Crush margin	Difference between the value of the oil and meal produced from the soybeans	CTA	Commodity Trading adviser
DOE	U.S. Department of Energy	EIA	Energy Information Administration
ETC	Exchange Traded Commodity	ETF	Exchange Traded Fund
Excess Return (ER)	Excess return = spot return + roll yield return (rolling of futures contracts)	FAO	Food and Agriculture Organisation
FOB	Free on Board	HH Natural Gas	Henry Hub Natural Gas
IEA	International Energy Agency	IAI	International Aluminium Institute
ICCO	International Cocoa Organisation	ICE	Intercontinental Exchange
ICO	International Coffee Organisation	ICSG	International Copper Study Group
IIZSG	International Lead and Zinc Study Group	IMF	International Monetary Fund
INSG	International Nickel Study Group	JM	Johnson Matthey
JODI	Joint Oil Data Initiative	KCBT	Kansas City Board of Trade
LME	London Metal Exchange	LNG	Liquefied Natural Gas
mbpd	Million barrels per day	Mtoe	Million tons oil equivalent
NOAA	National Oceanic and Atmospheric Administration	NYBOT	New York Board of Trade
NYMEX	New York Mercantile Exchange	OECD	Organisation for Economic Co-operation & Development
OPEC	Organization of Petroleum Exporting Countries	PGM	Platinum Group Metals
RICI	Rogers International Commodity Index	S&P GSCI	Standard and Poor's-Goldman Sachs Commodity Index
SHFE	Shanghai Futures Exchange	SI	Silver Institute
TC/RC	Treatment/Refining Charges	TCF	Trillion cubic feet
Thomson Reuters GFMS	Research consultancy specializing in precious metals, base metals and steel market research	TOCOM	Tokyo Commodity Exchange
Total Return (TR)	Total return = excess return + return from the cash collateral	USDA	US Department of Agriculture
UNICA	Sugar and Alcohol Millers Association of São Paulo state	USD/bbl	USD per barrel
USD/bu	US Dollar /bushel	USD/gl	USD per gallon
USD/lb	USD per pound	USD/mmbtu	USD per 1 million British thermal unit
USD/mt	USD per metric ton	USD/oz	USD per oz, (1 oz = 31.10 grams)
USGS	U.S. Geological Survey	WBMS	World Bureau of Metal Statistics
WGC	World Gold Council	WPIC	World Platinum Investment Council
WTI Crude Oil	West Texas Intermediate Crude Oil	WTO	World Trade Organisation

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