

Base metals

Copper: Supply meets demand concerns

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- Copper prices have steadily drifted higher, with limited volatility compared to other base metals such as nickel or aluminum.
- Ongoing supply chain constraints are likely to offset mounting demand concerns for copper due to higher energy prices and COVID-19 outbreaks in China.
- With markets likely to stay focused on supply issues, we suggest staying long copper or selling the price downside risks for yield.

Copper's price action suggests that ongoing supply chain constraints are still the dominant price driver. Indeed, smelter closures in China and unplanned production suspensions as well as logistical challenges affecting scrap supply are among factors that continue to point to a more constrained supply side. Adding to this are prospects of lower Russian copper exports and anemic copper production in South America (in Chile, mine production fell 7% y/y to 399kt in Feb). Consequently, our estimate of a 3.7% increase in copper supply for 2022 versus 2021 is at risk.

But it is not just supply that is being challenged. China's NBS manufacturing PMI slipped to 49.5 in March from 50.2 in February, reflecting the impact of extensive omicron-related lockdowns. Slower European copper demand due to an energy shock could have a more material impact on copper demand as well. This necessitates the need to track demand-related and macroeconomic news more closely in the months ahead. For now, we still target a rise in demand of 4.1% in 2022 versus 2021.

After accessing the supply and demand dynamics, we stick with our copper market deficit of 332kt (or 1.3% of demand) in 2022 and of around 240kt in 2023. As long as inventories are under downward pressure, we suggest being long copper by targeting a move to USD 12,500/mt. Alternatively, we like selling the price downside risks in copper for a 10% p.a. indicative yield over six months. We favor strike levels at USD 9,750/mt.

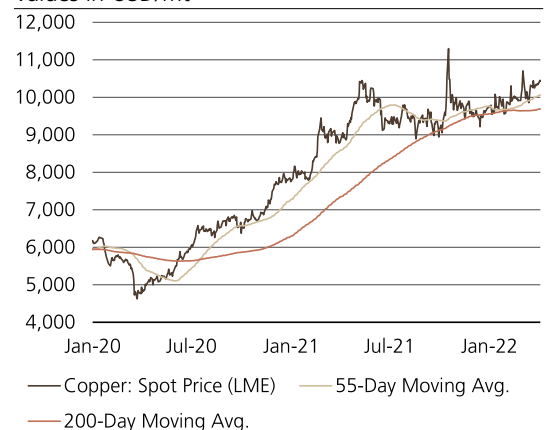
Market data and forecasts in USD/mt

	Forecasts	Spot/Futures
06 Apr 22	-----	10437
Jun 22	12,500	10331
Sep 22	12,500	10341
Dec 22	12,500	10334
Mar 23	12,500	10325

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

Steady move up in the copper price

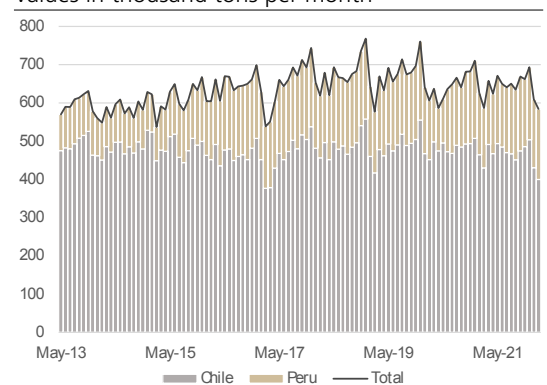
Values in USD/mt



Source: Bloomberg, UBS, as of 6 April 2022

Copper mine output from South America struggling to rise

Values in thousand tons per month



Source: Bloomberg, UBS, as of 6 April 2022

Historical performance

Underlying	Δ 1m	Δ 3m	Δ 12m	Δ ytd
Copper	-2.5	7.5	18.6	7.1
Industrial Metals Index*	0.5	19.4	37.0	19.4

Source: Bloomberg, UBS; Note: * Spot index

Copper

Appendix

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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Appendix

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