Copper primer – finding the new normal

We draw attention to the copper market, where the base metal is currently holding around the $2.15/lb mark. Important levels to look out for now come in around $2.1/lb and the $2/lb marks, which may come into closer focus in the coming months.

It is important to note that recent data from China showed that imports by the world's biggest consumer shrank in July to the lowest level for 11 months amid low seasonal demand and swelling domestic stockpiles. According to custom's statistics, inbound shipments of unwrought copper and copper products fell to 360,000 tonnes, down from 420,000 tonnes in June.

These stats come as no surprise given the Chinese government's attempts to shift the economy away from a production led environment to a more consumptive based economy. From a demand perspective, copper producers will not be looking forward to further indications such as these given the importance of the Chinese economy in global copper demand.

It is perhaps also worth taking heed of research by Goldman Sachs, which tracks the top 20 copper mining companies that account for roughly 60% of global output. The research showed that these miners increased output 5% i.e. in the first half of 2016, and are expected to up production as much as 15% in the coming quarters.

However, commodity downturns aren't completely bad for producers. One upside – lulls in the market often bring operating and capital costs down, as competition for labour, supplies and services abates.

A report released last week on the 9th of August by the Chilean Copper Commission (Cochilco) revealed that copper production costs are falling in the country. With Chile's largest miners seeing a notable reduction in cash costs during the first quarter of 2016.

The Cochilco cost survey analysed the largest 19 copper mines across Chile, which represent almost 90% of Chile's total production the findings revealed that the cash costs over the first quarter of 2016 fell by around 13% from the same period in 2015.

These cost-saving measures could help producers to buoy profitability even during the current market downturn. This is an important warning sign for the global copper market in general and shows that lower prices may not necessarily bring about the reduction in supply necessary to buoy prices in the coming months.

If big producers are indeed successful in reducing costs on a sustained basis, copper may instead settle into a new normal of lower pricing, which is a situation that could prevail for the foreseeable future.

It is worth noting that the numbers above are somewhat delayed and more recent figures from individual Chilean miners have shown further cost reductions during 2Q16.

If this trend continues, it will represent a critical data point for the coming direction of global copper pricing. The combination of the above mentioned factors points to the possibility of copper output potentially remaining in a position where it does not decrease sufficiently to bring the market back into balance with demand dynamics.