

Copper Industry Q1- FY19 update

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Domestic Production, Consumption, Exports and Imports of Copper during Q1-FY19

Contact:

Madan Sabnavis
Chief Economist
madan.sabnavis@careratings.com
91-022- 6754 3489

Urvisha H Jagasheth
Research Analyst
urvisha.jagasheth@careratings.com
91-22-6754 3492

Mradul Mishra (Media Contact)
mradul.mishra@careratings.com
+91-22-6754 3515

Domestic refined copper production has fallen by 47.1% during Q1-FY19. Fall in production is mainly attributable to the shutdown of the 400 KT, Tuticorin smelter which accounted for 40% of the country's copper smelting capacity. During the quarter, Hindustan Copper (HCL) and Hindalco output was also restrained due to the shutdown their smelters for maintenance purposes.

The drop in domestic production has led to the domino effect of a sharp increase in the country's imports and fall in the exports (India used to be the net exporter of refined copper). Exports have fallen by 91.6%, (in previous financial year's quarter exports had increased by 70.1%) whereas imports have increased by 221.6% (in previous financial year's quarter imports had fallen by 69.9%).

India imported refined copper from, Japan (66%), Congo (22%), Switzerland (5%), Tanzania (5%), South America (1%) & UAE (1%) and exported refined copper to China (58%), South Korea (30%), Bangladesh (6%) and Malaysia (6%) during Q1-FY19. Share of exports towards China has decreased, from it being 63% during Q1-FY18 to 58% during Q1-FY19 and share of imports from Japan has increased from it being 33% during Q1-FY18 to 66% during Q1-FY19.

Domestic consumption has been subdued, on account of copper being substituted by aluminium. Aluminium is a more economical alternative and can be used for wiring in the power cable and electrical equipment segments. Demand for the copper in the domestic market is largely dependent on the electrical (34%), building & construction (8%), automobiles (11%) and the consumer durables segments (8%).

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Table 1: Domestic Production, Imports, Exports and Consumption of Refined Copper (KT*)

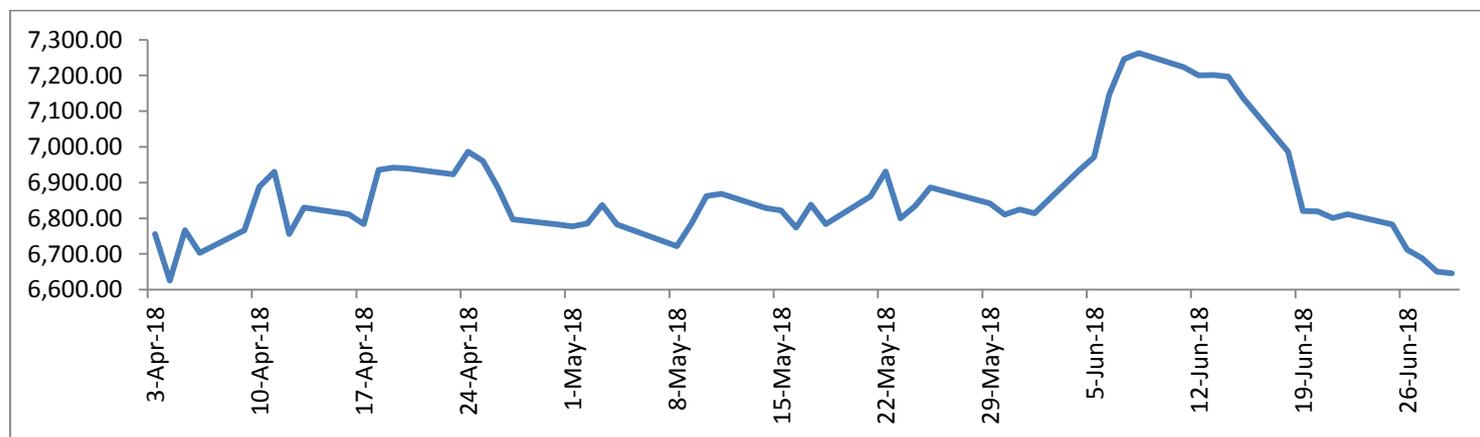
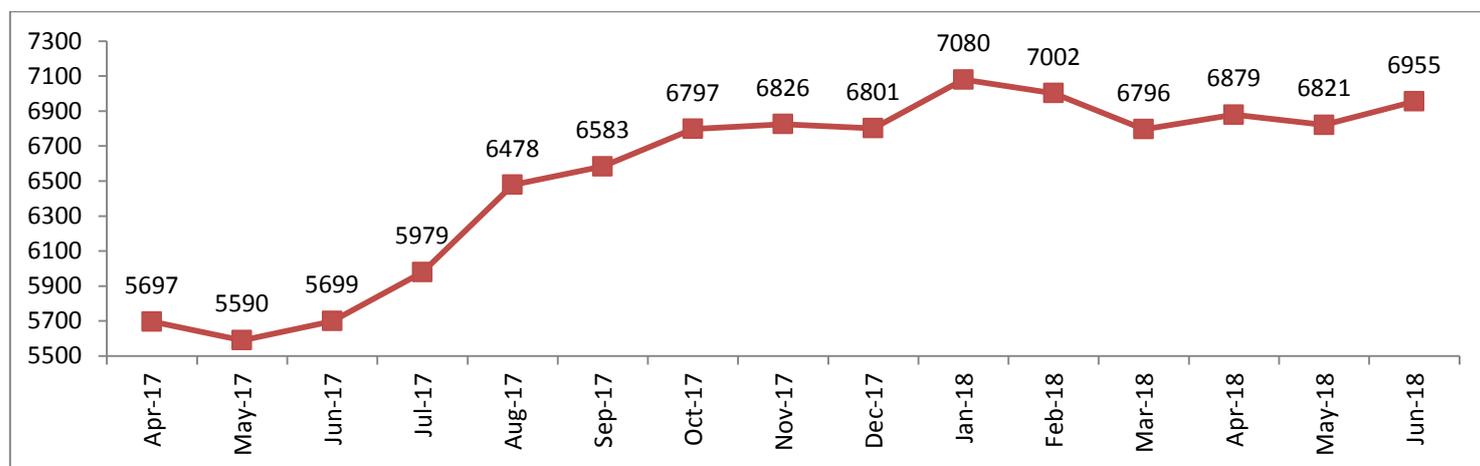
	Production	Change (%)	Consumption	Change (%)	Exports	Change (%)	Imports	Change (%)
Q1- FY17	168		126		50		8	
Q1- FY18	206	22.9%	123	-2.0%	86	70.1%	3	-64.9%
Q1- FY19	109	-47.1%	111	-9.6%	7	-91.6%	10	221.6%

Source: Ministry of Mines, Ministry of Commerce, CARE Ratings

*KT kilotonnes

Global Copper Price Movements

Chart 1: Price movements of LME Copper (USD/tonne)



Source: LME

Global copper prices have risen by 21.6% y-o-y during Q1-FY19 as compared with the prices prevailing in the corresponding period in the previous year. LME prices of copper were volatile during Q1- FY19 due to trade tensions between China and USA. Prices of copper had risen during the first week of June’18 when the verdict of the permanent closure of the Vedanta smelter was announced.

CARE Ratings Views and Opinion: Outlook for Copper Industry for FY19

With the permanent closure of the Tuticorin smelter, we had predicted the production of domestic copper to fall by 40%, compared with the level of production achieved during FY18. India's refined copper production during FY18 was 843 KT.

- Production of refined copper is to be around 510 KT in FY19. Production from the other two players to pick up during Q3 and Q4.
- There might be a silver lining if the National Green Tribunal (NGT), Tamil Nadu Pollution Control Board and the federal environment ministry allow for the resumption of the operations of the Tuticorin plant. If Tuticorin is allowed to resume operations, production of refined copper could be around 710 KT by the end of FY19, 39% increase from the current slated levels but still below the production during FY18.

Demand for the domestic copper market is dependent largely on the electrical (34%), building & construction (8%), automobiles (11%) and the consumer durables segments (8%). We estimate domestic demand to pick up and to be around 530-535 KT during FY19.

- The SMART City development, impetus on increase of renewable energy, demand from the automobile segment and capex activities related in the railways and defense sector is likely to further support the domestic demand for the metal.
- Given that refined copper consumption is to increase in the given backdrop of robust infrastructure activities undertaken by the government, there will be a further increase in the imports of refined copper.

Global copper prices to hover around USD 6,200-6,400 per tonne during the short to medium term period on a monthly basis.

- LME Copper prices are to remain volatile till there is some settlement between the trade/tariff wars which are prevalent in the global economy.
- The negotiations between the workers in the Chilean mines have been settled hence there will not be a shortage in the concentrate markets.