

Refined Copper Industry - February 2021 update

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Production of refined copper during 9MFY21 and Imports and export during 8MFY21

Table 1: Production, Imports and export of Refined copper (Unit: quantity in Thousand Tonnes)

	Period	Change (y-o-y)			
		2019-20	2020-21	2019-20	2020-21
Production	Apr-Dec	306.6	231.7	-8.9%	-24.4%
Imports	Apr-Nov	109.3	98.3	70.2%	-10.1%
Export	Apr-Nov	18.3	49.9	-34%	173%
Apparent consumption	Apr-Nov	356.2	257.9	9.1%	-27.6%

Source: CMIE

Refined copper production fell by a sharp 24.4% to 231.7 thousand tonnes during Apr-Dec FY21 compared with Apr-Dec FY20. Overall domestic refined copper production fell sharply by 39.5% y-o-y in Q1FY21 impacted by the lockdown which brought business activities to a sudden halt. However the de-growth was substantially lower at just 4.2% y-o-y in Q2FY21 as favourable monsoon helped lift rural demand and sale of copper wire and rods witnessed an improvement. Sale of copper by-products such as Diammonium phosphate (DAP) also witnessed spike due to robust fertiliser sales. In Q3FY21, production once again fell by a steep 30% yoy due to maintenance shutdown undertaken by Hindalco Industries Ltd.

Domestic copper industry is operating at almost half of its capacity since the last two financial years due to closure of Vedanta Ltd's 400 thousand tonnes copper smelter at Tuticorin. Therefore, in FY20, Hindalco alone accounted for 80% of the overall refined copper production and the balance was produced by Hindustan Copper and Vedanta's Silvassa unit.

During Apr-Dec FY21, the share of Hindalco in total production fell to 72% from 81% in the corresponding period of FY20 due to Covid-19 challenges in Q1 and temporary closure of its smelter for maintenance work in Q3FY21. Hindalco's refined copper production was lower by 33% y-o-y during Apr-Dec 2020 which pulled down the sectors overall output. Vedanta's refined copper production from its small scale Silvassa unit (400 thousand tonnes Tuticorin unit is still shut) grew by 27.3%. Hindustan copper that produced 5.2 thousand tonnes of refined copper (1.7% share in overall production) during April-December FY20 did not report any production in FY21.

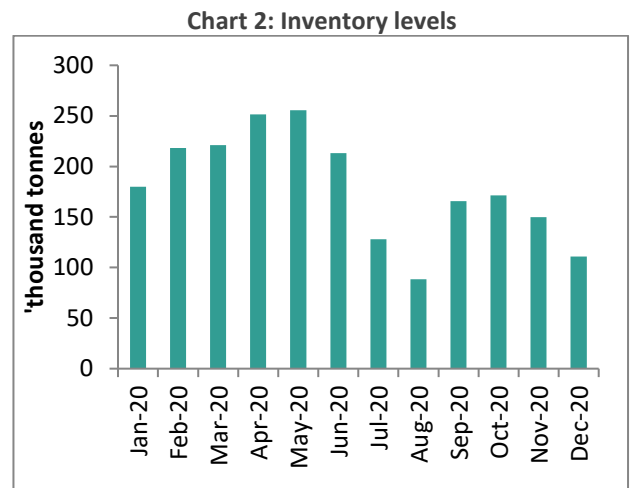
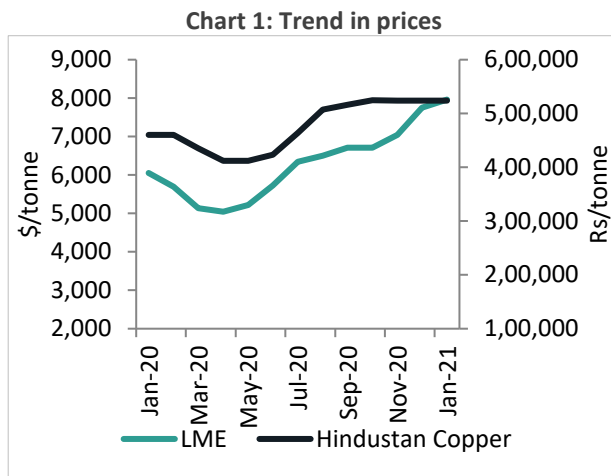
Exports jumped by a sharp 173% to 49.9 thousand tonnes during April to November 2020 as compared with the corresponding period of 2019. This was mainly due to a sharp jump in exports to China by 186%. Almost 99% of total refined copper exports were to China.

Trend in prices

LME copper prices touched nine years high in January 2021 to average \$ 7,961 per tonne. Prices have touched highest level since 2012 due to supply crunch of copper concentrates caused by disruptions in mining operations due to Covid-19 challenges amidst rising demand. Preliminary data released by the International Copper Study Group (ICSG) indicates that world copper mine production fell by around 0.5% in the first ten months of CY 2020. Copper concentrate supply was disrupted due to the covid-19 pandemic related disruptions combined with operational issues/adverse weather that affected a few major mines in Peru, Australia, Mexico and the United States. In Chile, the world's biggest copper mine producing country, output in the first 10 months of 2020 remained essentially unchanged.

World refined copper balance in the first ten months of 2020 indicates an apparent deficit of about 480 thousand tonnes due to a strong Chinese demand. Chinese apparent usage increased by 14% offsetting usage declines in other regions of the world.

Higher demand and supply crunch also led to a sharp fall in inventory levels which lent further support to prices. Refined copper stocks at the LME fell to 74 thousand tonnes in January 2021, down by 59% from January 2020.



Source: CMIE

Outlook for FY21

A strong rally in copper prices was witnessed in the second half of CY2020 and in January 2021 prices touched nine year high. This was due to optimism over global economic recovery as vaccine roll-out has begun in several developed economies, hopes of the additional stimulus package in the USA and fall in inventory at the LME which also indicate strong underlying demand for copper. Stocks at LME have fallen to multi-year low level of 74 thousand tonnes in December 2020.

The on-going concentrate supply issues and strong demand, particularly from China, is expected to keep copper prices elevated over the next quarter before the supply issues gets resolved in 2021. We expect refined copper prices to average USD 6,500-6,800 per tonne in FY21 vs USD 5,923 in FY20.

Supply tightness of copper concentrates and increased liquidity fuelled by global stimulus programmes may support global copper prices from falling.

India shall continue to be a net importer of copper in FY21, pending the resumption of Vedanta's 400 KTPA copper smelting facility. However, imports are likely to be lower in FY21 vs FY20 due to fall in domestic demand in the first half of FY21.

As per Ministry of mines, the share of Electrical and Telecommunication Industry in total consumption of copper is 56%, followed by Transport (8%), Consumer Durables (7%), Building & Construction (7%), General Engineering goods (6%) and other industries including Process Industries (16%).

Demand for copper from renewable sector is growing as new power generation capacity addition so far in 2020-21 has been led by renewable energy. 7 GW of renewable energy generation capacity has been added during Apr-Oct'20 versus the 2.2 GW of conventional energy. We expect demand for copper to remain robust in the coming Q4 FY21 driven by faster recovery in demand from renewable energy projects, transmission towers, government spending on low cost housing and rural infrastructure development projects

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