Copper rally may hit roadblock as China imports shrink

Copper's searing rally in November could hit a roadblock as China's imports of the metal shrink. The world's biggest consumer is making more copper domestically than ever before, using supplies of foreign ore concentrate, which is curbing demand for the refined metal.

Overseas purchases of refined copper plunged to the lowest level in more than three years in October, contracting 45% from a year earlier, customs data showed. Shipments in the past four months are a quarter below the same period last year. Domestic smelters, meanwhile, boosted output by 8% to a record in the first 10 months as purchases of foreign concentrate expanded 31%.

According to Zhu Yi, an analyst with Bloomberg Intelligence in Hong Kong, "Global mine supplies are ample and Chinese refiners are making good profits, so it makes sense for them to import more. The trend may continue for a while as long as margins stay favourable." Pan Pacific Copper Co, Japan's biggest producer, sees the threat of a steel-type glut for copper emerging in China as processing capacity expands, and says the key to mitigating that lies with how the government and existing smelters help newcomers understand the risks posed by rapid expansion to industry profitability.

The global market is adjusting to the change in trade patterns, which favours shippers of raw material to China over suppliers of metal. Future ore imports will depend on how much profit Chinese processors can reap from the treatment and refining fees they negotiate with suppliers.

While a surge in mine output earlier this year helped push up treatment fees to the highest since February 2015, the charges have since eased on signs that supply growth is slowing. Jiangxi Copper Co, China's top producer, had to agree to a 5% cut in fees for next year in a benchmark industry deal.

Indian aluminium and copper industries submit budget wish list

In a recent submission to the government, the domestic aluminium and copper industries have sought supportive measures in the next Union budget, including increase in basic customs duty on aluminium products from 7.5% to 15% to check rising imports and reduction of clean energy cess on coal to INR 50 per tonne. With a slowdown in the Chinese economy and devaluation of the Chinese Yuan, global metal prices have declined and threat of imports has increased.

The key requests made by the industry includes increase in customs duty on aluminium products from 7.5% to 15% and reducing clean energy cess on coal from INR 400 per tonne to INR 50 per tonne, said an executive from a manufacturer requesting not to be named. The executive added that duty drawback rate on aluminium should be increased to 3.7%.

The country's aluminium industry includes three leading producers including Vedanta Ltd, Hindalco Industries Ltd and National Aluminium Co. Ltd (Nalco) with a combined capacity of 4.1 million tonne (MT) and invested capital of INR 1.2 trillion. According to information made available by the industry, the total consumption of aluminium stands at 3 MT, out of which 50% is imported.

The executive quoted above as saying that "Clean energy cess on coal has increased over the last few years from INR 50 per tonne to INR 200 per tonne and was doubled to INR 400 per tonne in the last budget. Coal is a significant component of aluminium's cost of production and the increase translates to about INR 4,000 per tonne."

Other demand being raised by the industry includes increase in customs duty on aluminium and copper scrap to curb imports of scrap. Currently, import duty on automotive scrap is 2.5% and industry wants it to be increased to 10% in case of automotive scrap and 15% in case of non-automotive scrap.

Meanwhile, the copper industry has asked for restoration of export incentives on copper cathode and copper rods, and exempting copper concentrate from basic customs duty of 2.5%. Also, 5% customs duty on copper products has been asked to be increased to 7.5%.

The country's primary refined copper industry has a combined capacity of 1 MT of refined copper per annum. State-owned Hindustan Copper is the largest producer along with two other players including Hindalco and Vedanta. The private entities have set up copper smelters based on import of copper concentrate.

The government had earlier turned down the protectionist measures sought by domestic copper industry to counter cheap imports from Japan and the Association of Southeast Asian Nations as the government opined that producers are not facing operational losses.

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