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News

Copper May Have Shortage for Third Year on Demand

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Copper will remain in short supply for a third straight year in 2012 as China-led demand boosts prices, Japan's top producer said.

Demand will likely exceed supply by 495,000 metric tons in 2011, the biggest deficit since 2004, compared with 214,000 tons last year, said Akira Miura, executive officer of the marketing and raw-material department at Pan Pacific Copper Co., Japan's biggest producer. The shortage may shrink to 31,000 tons in 2012, he said.

Copper, used in wires and pipes, has climbed 18 percent in the past year, reaching a record \$10,190 a ton in February, as the global economy recovers from its worst recession since World War II. Higher prices benefit major producers such as BHP Billiton Ltd. (BHP) and Freeport-McMoRan Copper & Gold Inc. (FCX) The metal is favored by Goldman Sachs Group Inc. because of its "superb supply-demand fundamentals."

"Even though the market deficit will decline sharply, tightness will continue because of a lower stockpile-to-use ratio," Miura said in an interview on Sept. 1. The global- inventory ratio may decline to a 1.3-month level in 2012 from an estimated 1.4 this year and 2010's 1.8, he said.

Global output may increase 1.7 percent to 19.5 million tons in 2011 and 6.2 percent to 20.7 million tons in 2012 with new smelting capacity in China, Miura said. Demand may grow 3.1 percent to 20 million tons this year and 3.8 percent to 20.7 million tons in 2012, he said.

Supply Disruptions

"Copper-supply disruptions will amount to at least 8 percent of total production loss this year, compared to 4 percent to 5 percent we had expected earlier in the year," Goldman analysts Sal Tharani and Sandeep SM said in a report dated Aug. 31.

"Chinese warehouses have significantly depleted their copper stocks, and opening of positive arbitrage between the China and London Metal Exchange prices could mean increase in copper imports into China," the analysts wrote. Demand for industrial metals will remain "fairly healthy, driven by emerging markets," they said.

Demand in China, the biggest consumer, may increase 4.9 percent to 7.5 million tons this year and 6 percent to almost 8 million tons in 2012, Miura said. Output is likely to grow 7 percent to 4.9 million tons this year and 13 percent to 5.5 million tons in 2012, he said.

'10,000 A Ton'

Any supply disruption will push prices higher in coming months as Chinese demand picks up after reducing domestic stockpiles and the government may not further tighten its monetary policy, he said. Demand in Japan may increase moderately to rebuild after the March 11 earthquake, he said.

"We may see copper prices testing the \$10,000-a-ton level again this year," Miura said. Copper for three-month delivery in London rose as much as 0.4 percent to \$9,112.75 a ton before trading at \$9,070 at 11:34 a.m. in Tokyo.

China's demand in the first half was "stronger than it appeared," Macquarie Group Ltd. said. Real consumption counting scrap was up 7 percent in the first half, in contrast with the reported drop of about 7 percent in refined copper demand for the first seven months this year, Macquarie analyst Bonnie Liu wrote in a report dated today.

'Sustained Strength'

Liu cited "strong output of copper-containing finished goods like air conditioners and electric power cables, and sustained strength in Chinese construction activity." Real consumption this year will climb 6.3 percent, down from almost 11 percent last year, with stockpiles at reported and unreported warehouses falling by 270,000 tons after an increase in 135,000 tons in 2010, she wrote.

In Japan, production may drop 12.8 percent to 1.35 million tons this year before gaining 13.2 percent to 1.53 million tons in 2012, he said. Demand may decline 3.9 percent to 1.02 million tons in 2011 before growing 2.9 percent to 1.05 million tons next year, he said.

Japan's exports of copper may drop 12.4 percent to 430,000 tons in 2011, while its imports will likely more than double to 100,000 tons, the highest level since 2007, he said. The country's imports may plunge 60 percent to 40,000 tons in 2012, while its exports may rise 20.5 percent to 518,000 tons.

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