ICBC Standard Bank

ICBCS Base Metal Market Outlook

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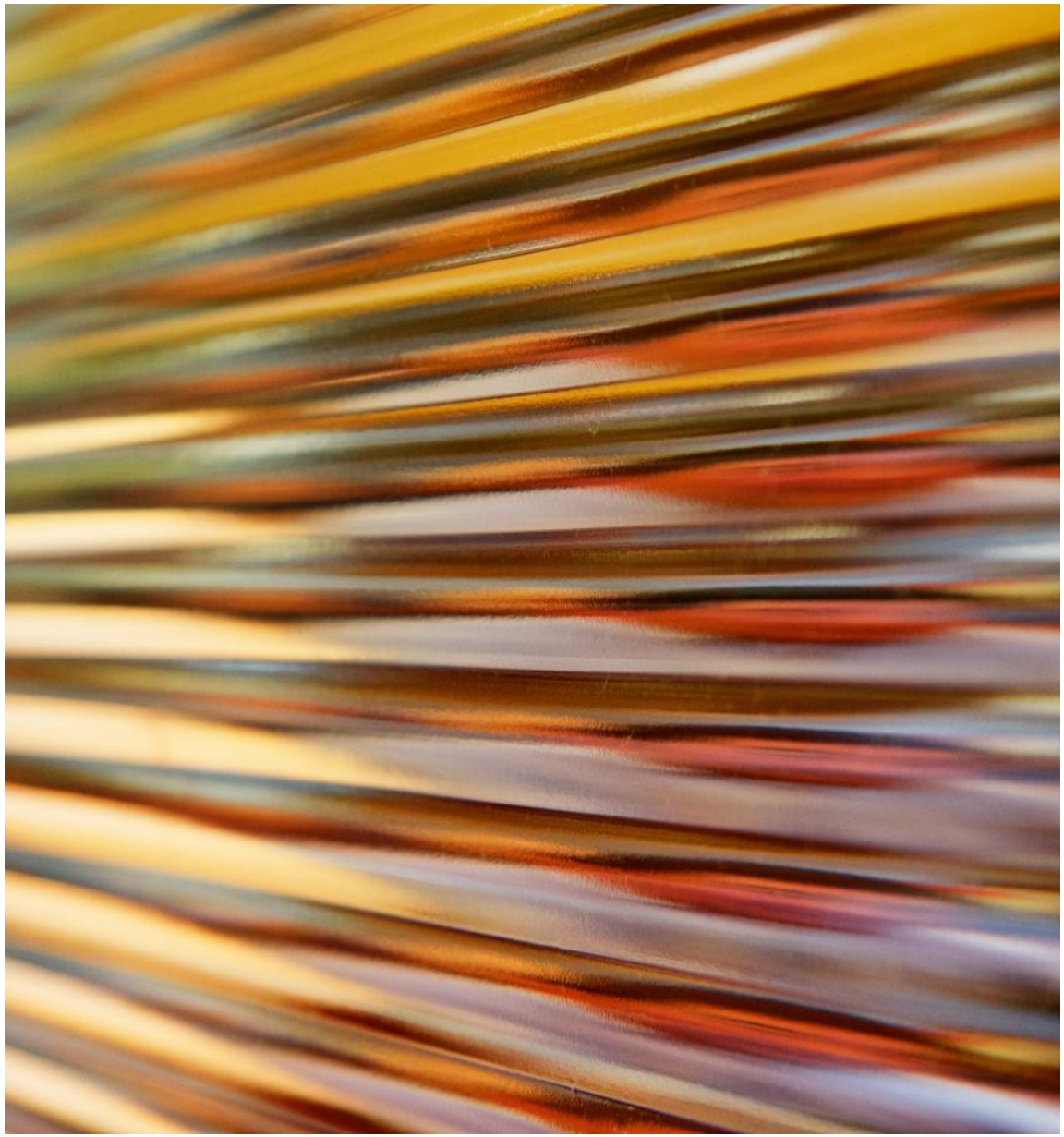
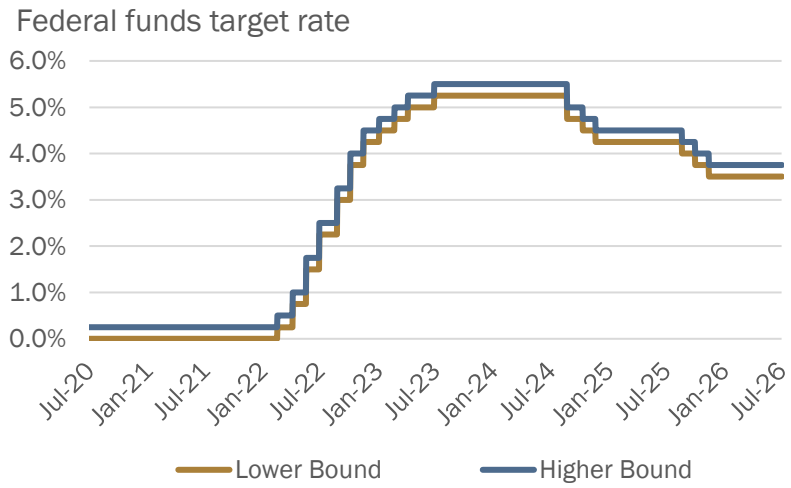


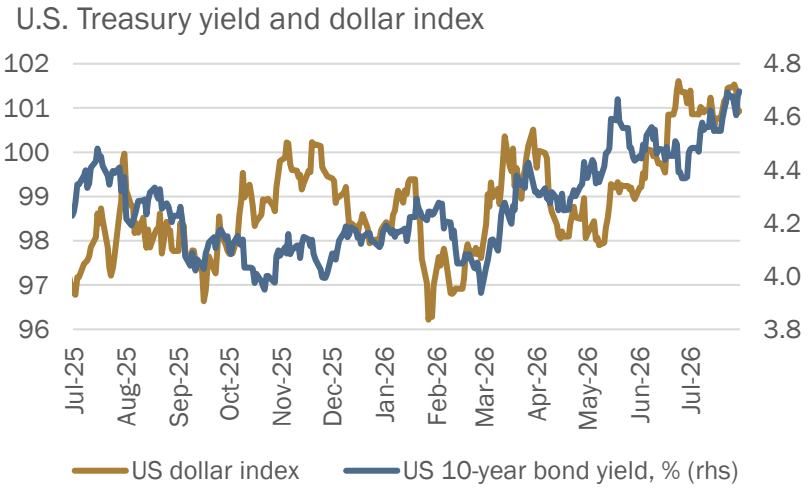
Global Economic Outlook

PUBLIC

Oil-Driven Inflation Pressures Keep September Fed Rate Hike in Play



Source: Federal Reserve



Source: Bloomberg

U.S. Interest Rate

- The Fed voted 9-3 to keep rates steady at 3.50%-3.75% at the July FOMC meeting, marking the fifth consecutive meeting without a policy change. While the decision was broadly in line with market expectations, it is worth noting that the odds of a rate hike had risen above recent historical norms amid mounting inflation concerns driven by elevated oil prices.
- Meanwhile, the brief pause in hostilities between the US and Iran proved short-lived as tensions escalated again following Iranian attacks on U.S. military facilities in Jordan and subsequent U.S. retaliation. The renewed conflict pushed oil prices sharply higher. As a result, investors increasingly expect September to deliver the first rate hike of 2026, with elevated oil prices remaining a key upside risk to the inflation outlook.

U.S. Treasury Yield and Dollar

- The US Dollar Index has remained broadly range-bound over the past month despite rising geopolitical tensions in the Middle East and growing concerns over energy-driven inflation. Normally, elevated oil prices and expectations of tighter monetary policy would provide support for the dollar, but broader concerns around fiscal sustainability and global capital flows have limited upside momentum.
- In contrast, US Treasury yields have continued to trend higher as investors price in persistent inflation risks linked to elevated oil prices and ongoing Middle East conflict. The rise in yields reflects growing expectations that the Fed may need to tighten policy later this year, with markets increasingly viewing September as a potential window for the first rate hike of 2026.

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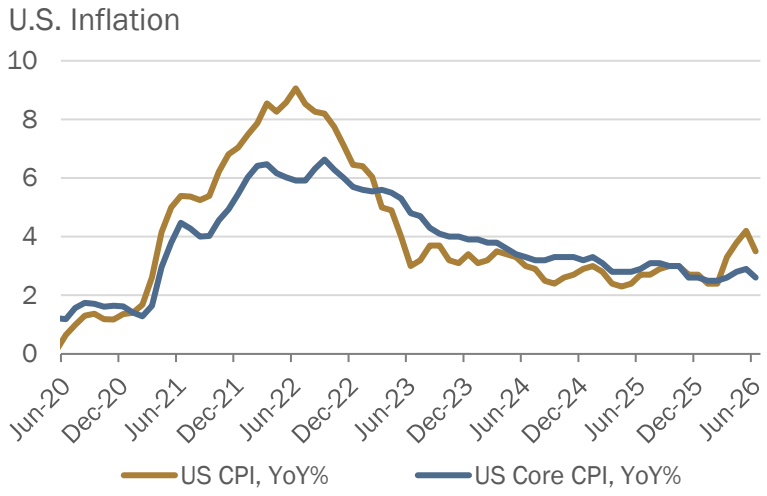
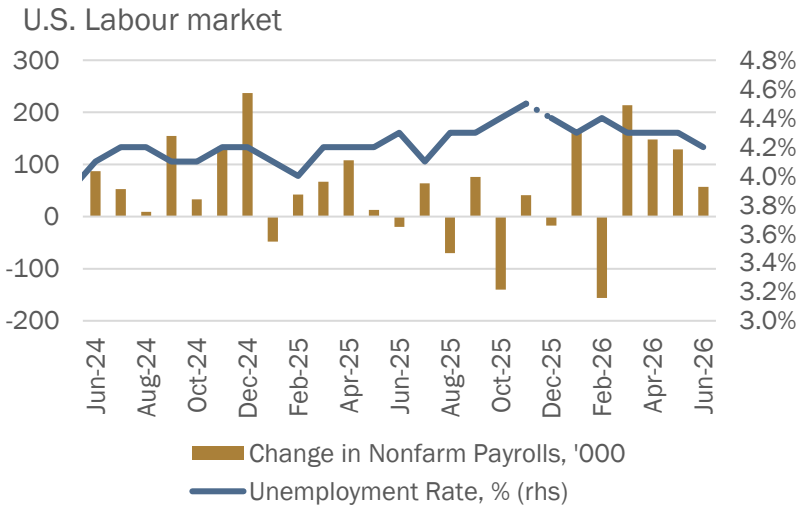
Softer CPI and NFP Reduce the Urgency for Fed Tightening in July



Source: Bureau of Labour Statistics



Source: Bureau of Labour Statistics

U.S. CPI and Core CPI

- U.S. inflation cooled more than expected in June as lower gasoline prices and softer goods inflation offset lingering price pressures. However, renewed US-Iran hostilities and higher oil prices could keep inflation risks elevated in the coming months.
  - U.S. CPI fell 0.4% m/m in June, below the -0.1% consensus and down from a 0.5% increase in May. Lower gasoline prices helped ease the energy-driven inflation pressures that had intensified during the Iran conflict.
  - Core CPI was unchanged at 0.0% m/m, below the 0.2% consensus and May's 0.2% reading. On an annual basis, core CPI slowed to 2.6% y/y from 2.9% previously and undershot expectations of 2.8%, supported by declines in apparel, used vehicle and motor insurance costs.

U.S. NFP and Unemployment Rate

- The June employment report suggests the US labour market is beginning to lose momentum after a stronger performance earlier in the quarter. The softer-than-expected data has led investors to scale back expectations for additional Federal Reserve rate hikes
  - The US added just 57,000 jobs in June, a sharp slowdown from 172,000 in May and well below market expectations of 113,000. The weak reading raises concerns that hiring demand is cooling and could signal a broader moderation in labour market conditions heading into H2.
  - The unemployment rate edged down to 4.2% in June from 4.3% in May. However, the improvement in the headline unemployment figure was largely overshadowed by the disappointing hiring data.

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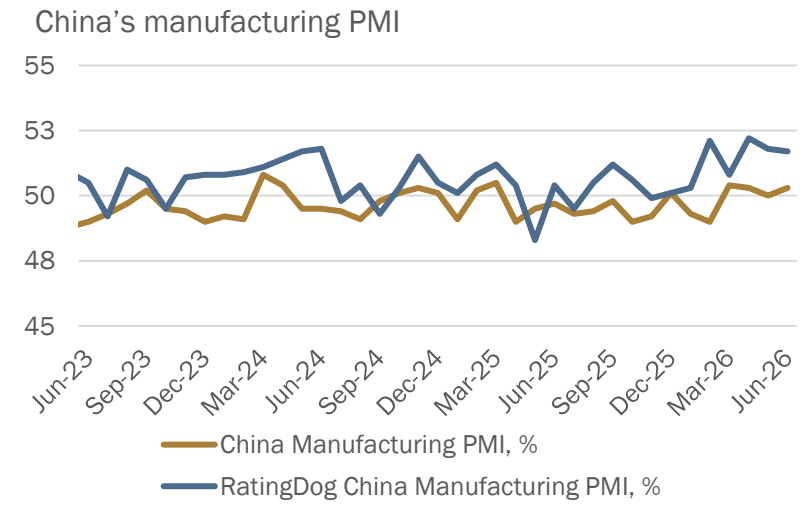
China's June Economic Data Point to Stabilising Growth Momentum

Source: National Bureau of Statistics of China



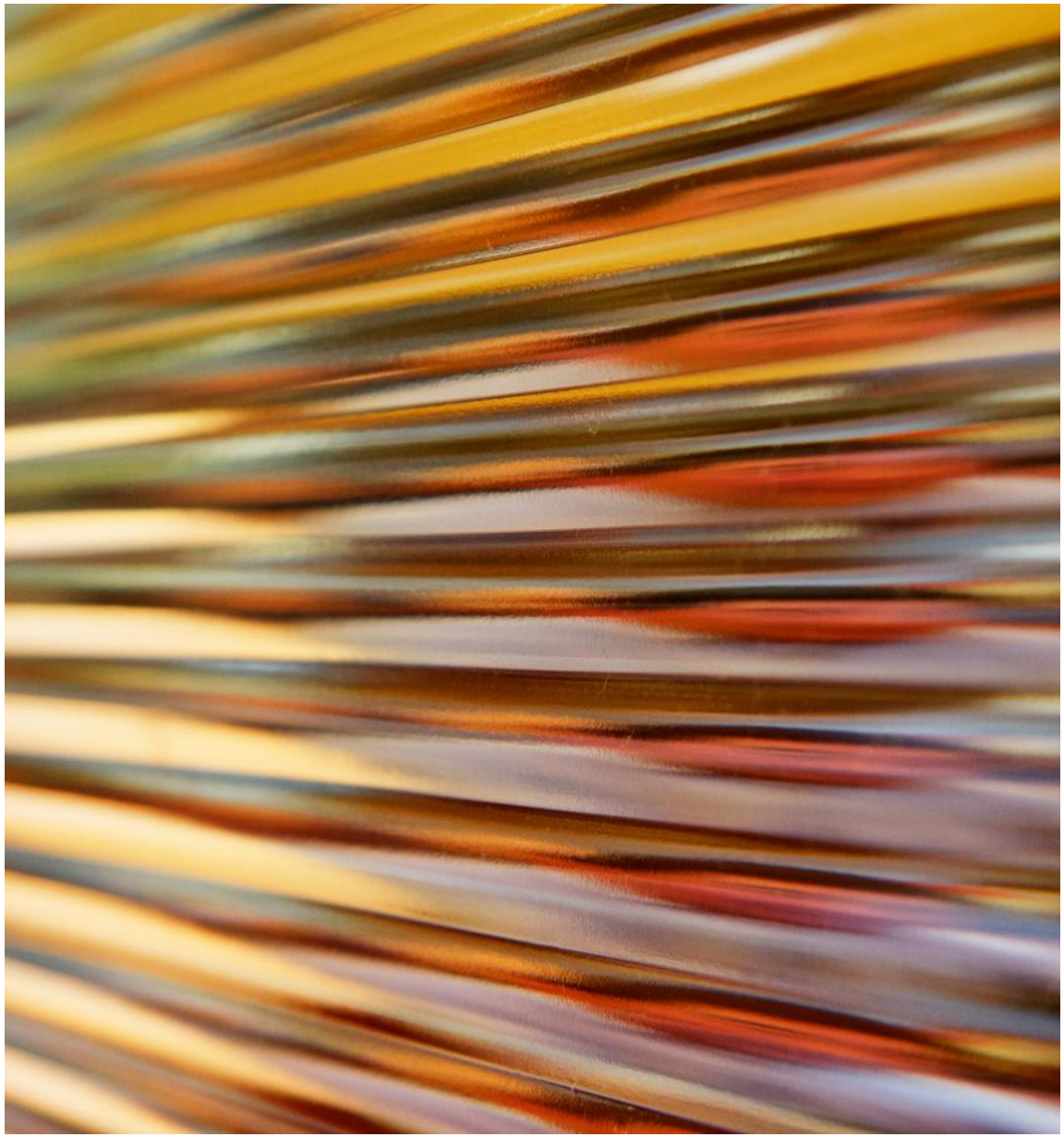
Source: China Federation of Logistics and Purchasing; S&P Global

China's Industrial Production and Retail Sales

- China's June activity data were broadly encouraging. Manufacturing momentum strengthened while consumer spending returned to positive growth, suggesting some stabilisation in economic activity.
  - China's industrial production grew 5.3% YoY in June, accelerating from 4.5% in May and exceeding market expectations. Retail sales increased 1.0% YoY in June, recovering from a 0.6% contraction in May,
  - Fixed-asset investment declined 5.7% YoY in H1 2026, driven by an 18.0% drop in real estate investment. Infrastructure and manufacturing investment also contracted

China's Manufacturing PMI

- China's manufacturing sector showed signs of renewed momentum in June, with factory activity improving faster than expected after two months of subdued growth. External demand and AI-related technology investment were the key drivers.
  - China's official Manufacturing PMI rose to 50.3 in June from 50.0 in May, exceeding market expectations and returning to expansion territory. Both production and new orders strengthened.
  - The RatingDog manufacturing PMI eased slightly to 51.7 in June from 51.8 in May, marking a three-month low but remaining well above its long-run average. The survey pointed to solid output growth and a thirteenth consecutive month of expanding new orders



Copper Market Analysis

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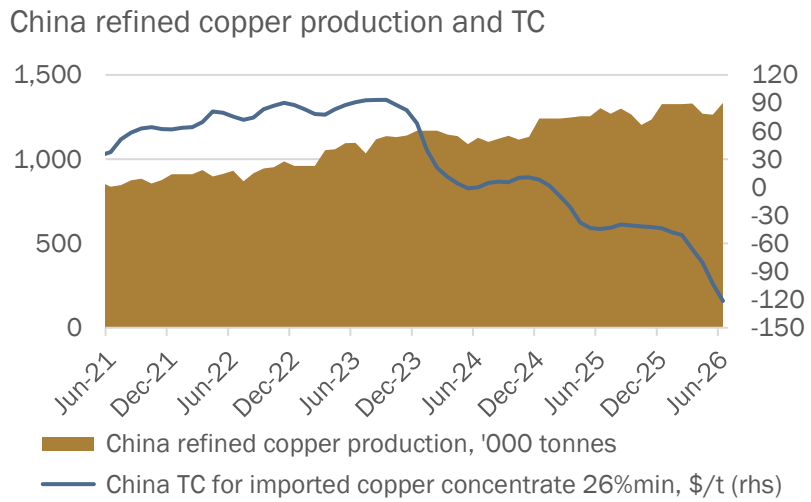
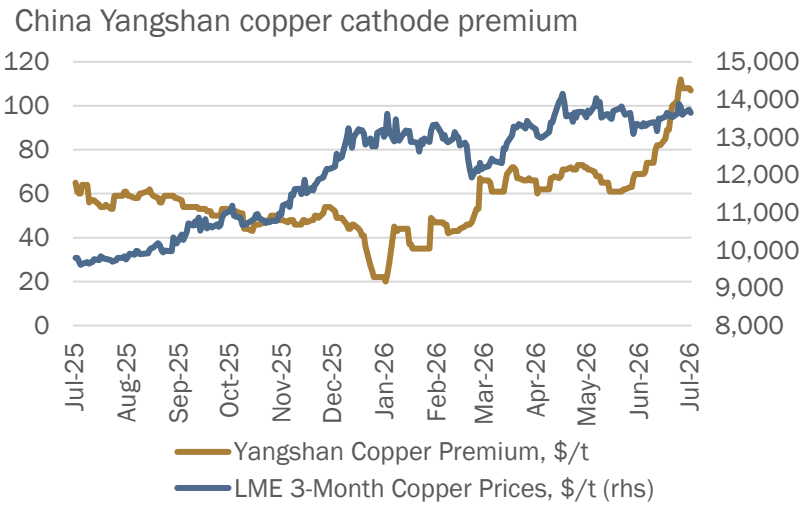
Chinese Smelters Ramp Up Output While Import Demand Strengthens



Source: National Bureau of Statistics



Source: SMM International

China Refined Copper Production Continues to Rise Despite Record-Low TC

- China's refined copper production rose further in June, increasing from 1,264 kt in May to 1,334 kt, even as spot TCRCs fell to a record low of -$121/t. The trend highlights a growing mismatch between constrained mine supply, affected by disruptions such as strikes and operational issues, and significant excess smelting capacity in China.
- Despite negative TCRCs, Chinese smelters have continued to increase output, supported by strong by-product revenues from sulfuric acid and gold, higher copper prices, and the backing of state-owned producers. Government policies have slowed new capacity additions but have not prevented existing smelters from maintaining high operating rates.

Yangshan Copper Premium Surges to The Highest Since May 2025

- The Yangshan copper premium rallied sharply during July, rising from $69/t at the start of the month to a peak of $112/t on July 22, before easing slightly. The move reflects a significant tightening in China's physical copper market, with the premium now at its highest level in more than a year.
- The primary driver has been a scrap supply shortage following China's tax crackdown, which reduced secondary copper availability and increased demand for imported refined metal. The rally has been further supported by declining domestic inventories and smelter maintenance outages. Meanwhile, falling LME inventories and a widening LME cash-to-three-month backwardation point to tightening global copper availability.

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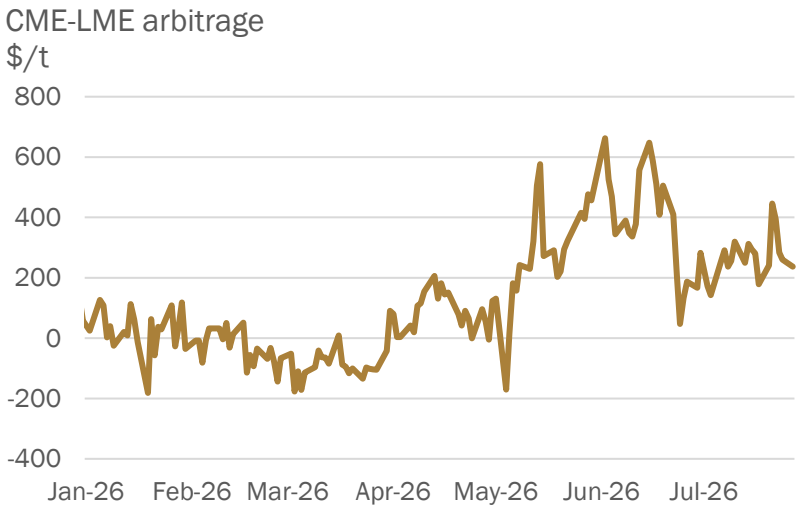
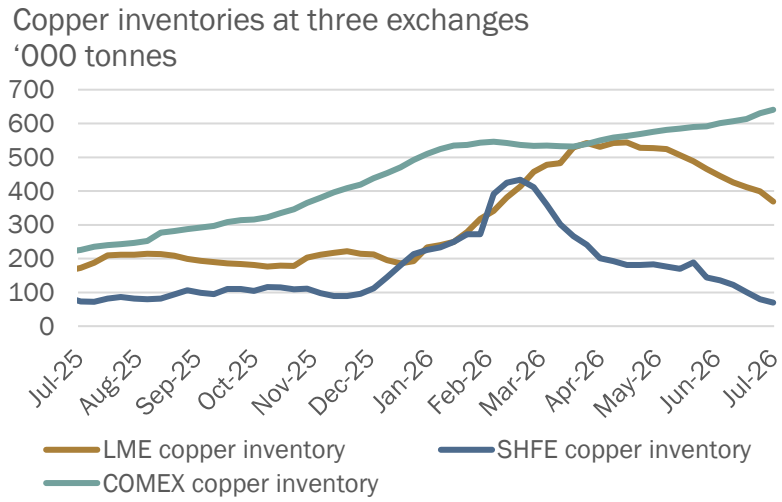
Copper Continues to Flow to the US While Inventories Elsewhere Decline



Source: Bloomberg



Source: Bloomberg

COMEX–LME Copper Arbitrage Remains Elevated on Tariff Uncertainty

- The COMEX–LME copper arbitrage widened significantly in 2026, moving from around flat levels in Q1 to a peak of more than US$660/t in early June before easing to around US$272/t currently. Despite the pullback, the spread remains well above historical norms, indicating that the US market continues to price a premium for copper relative to the rest of the world.
- The main driver has been expectations of potential US tariffs on refined copper imports. Concerns over future import duties encouraged traders to accelerate shipments into the US. Although the tariff decision remains pending, ongoing policy uncertainty and the US's reliance on imported copper have kept the arbitrage elevated even after the sharp pullback from June highs.

Tariff-Driven Copper Flows Lift COMEX Stocks to Record Highs

- Since April this year, LME and SHFE copper inventories have trended lower, while COMEX inventories have continued to climb sharply. Notably, COMEX inventories are now larger than the combined inventories of both LME and SHFE
- The divergence has been driven primarily by US tariff-related arbitrage flows. Expectations of potential tariffs on refined copper imports have encouraged traders to move copper into the US ahead of any policy changes, boosting COMEX stocks. Meanwhile, inventories in both LME and SHFE warehouses have been drawn down as copper is redirected toward the US market, while China's scrap shortage, seasonal demand and smelter maintenance have further tightened domestic availability.

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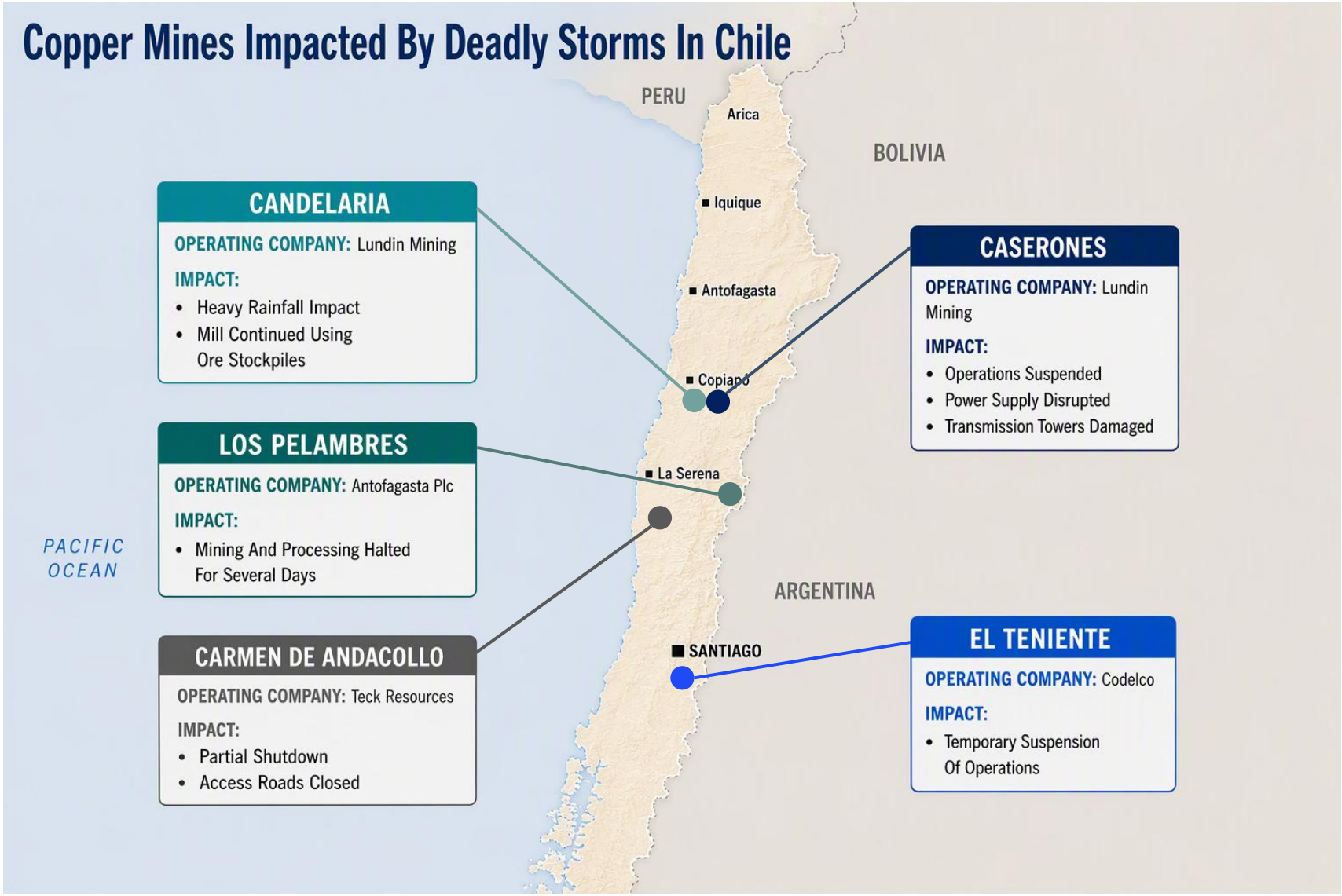
Extreme Winter Storms In Chile Add To Global Copper Supply Tightness



Source: ICBCS; Various sources

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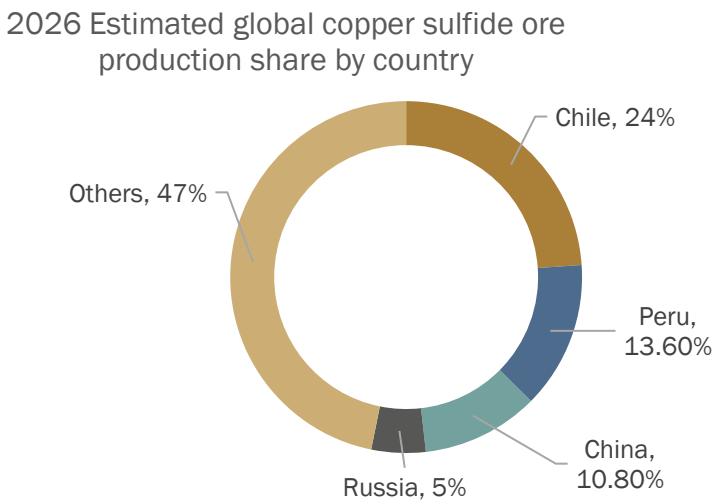
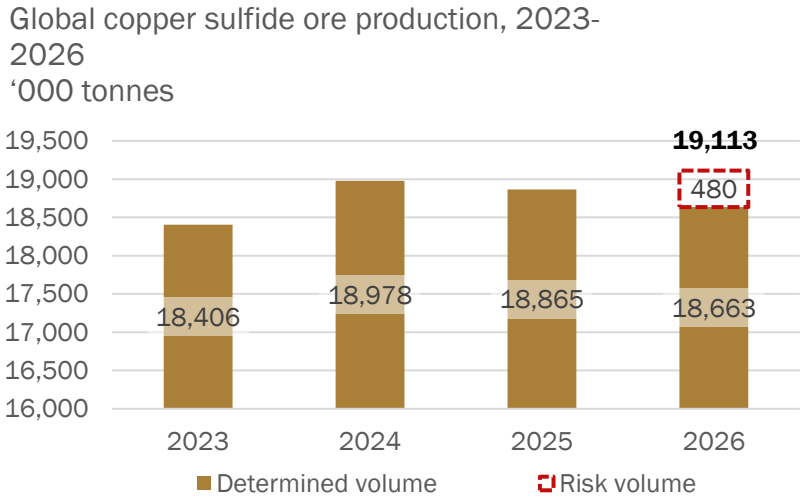
Various Mine Disruptions Pose Risks to Growth in Global Copper Ore Output





Source: SMM International

Continent	Country	Project name	Disruption reason	Estimated impact within the year, '000 tonnes
South America	Chile	Mantoverde	Workers strike over pay conditions	10
North America	US	Kennecott	Mine area accident resulting in casualties	20
Southeast Asia	Indonesia	Grasberg	Production resumption falling short of expectations	90
Africa	DRC	Kamoa-Kakula	Impact from the 2025 mine earthquake continuing, production ramp-up slowing down	90
South America	Chile	El Teniente	Underground operations suspended due to a collapse; output to remain depressed for the next five years	60
South America	Chile	Escondida	Ore grade degradation and commissioning of infrastructure expansion and upgrades	15

Source: SMM International

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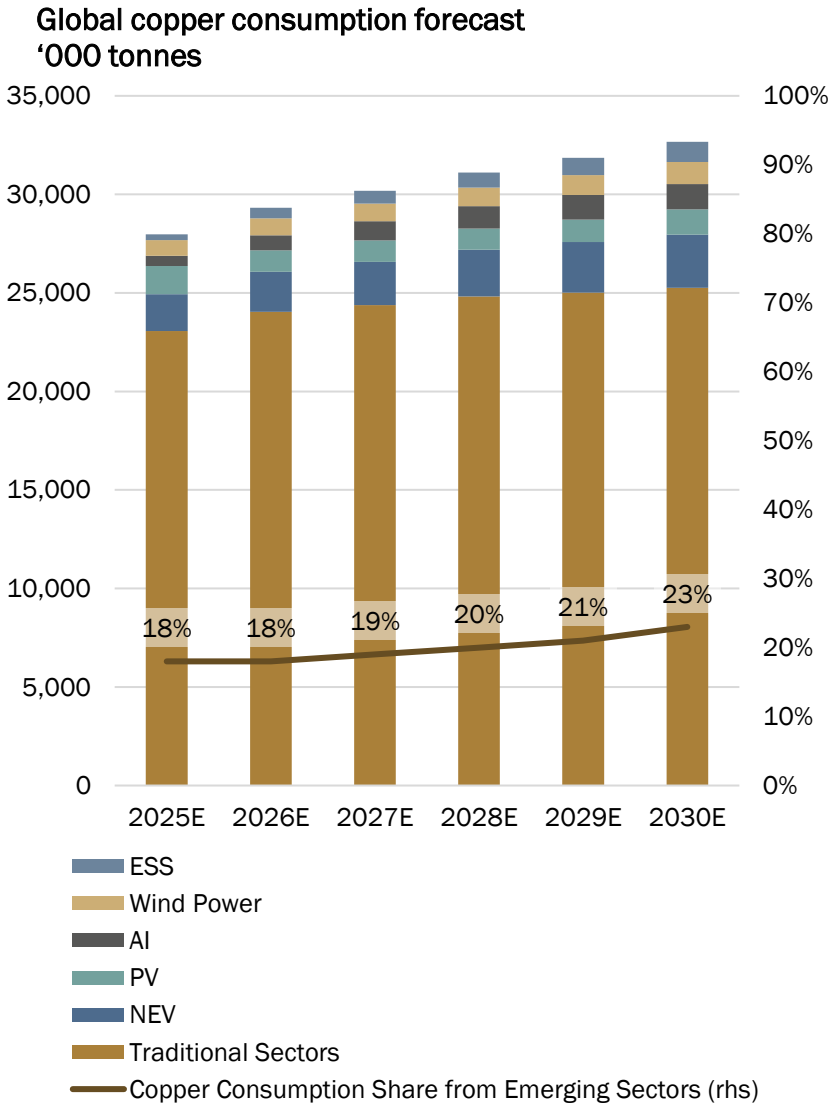
Emerging Sectors Continue to Gain Share in Global Copper Demand

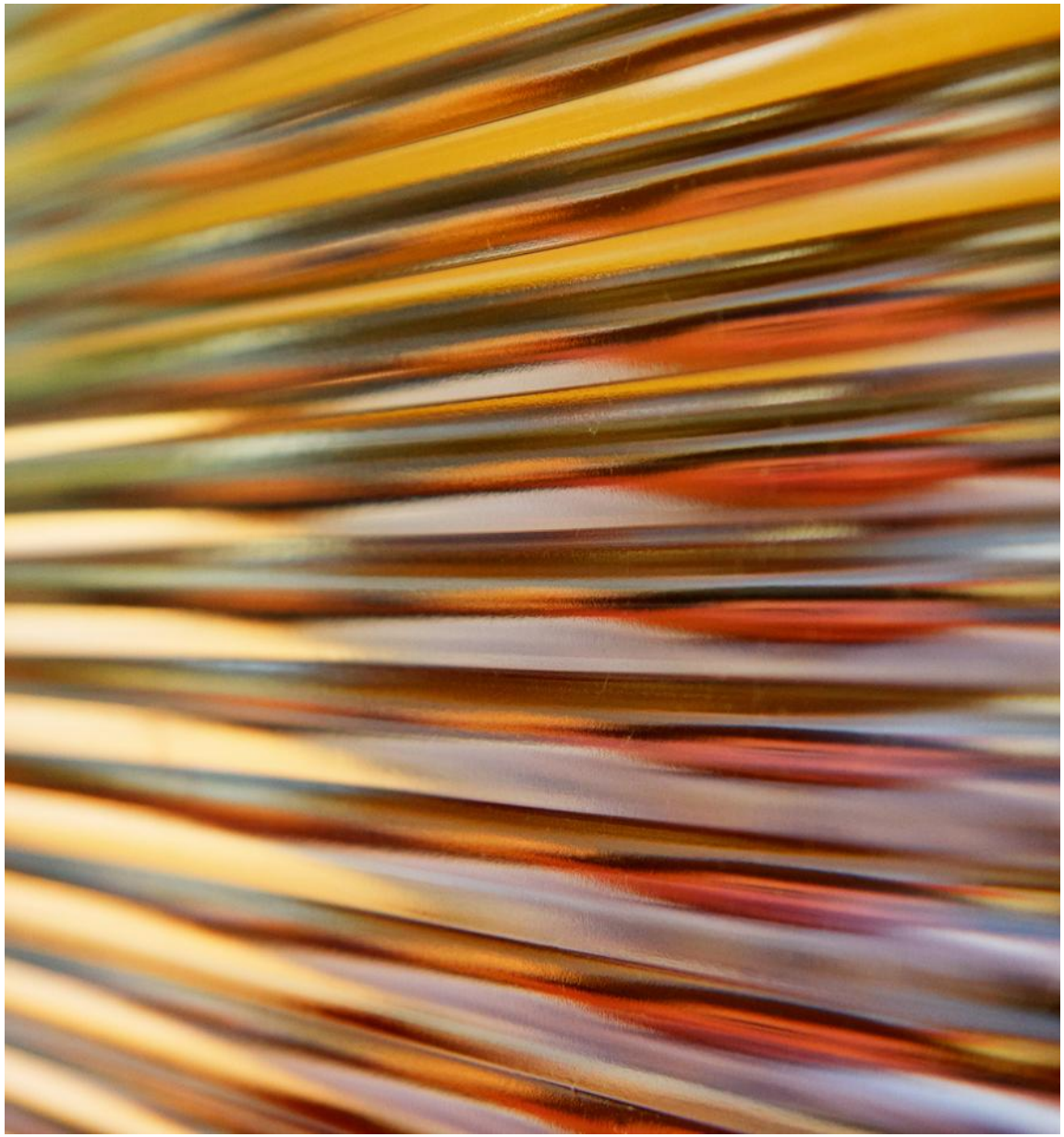


Source: SMM International

Emerging Sector Use	
PV	Inverters, cables, transformers, grid connection
Wind Power	Generators, power cables, transformers, offshore export cables
NEV	Motors, batteries, wiring harnesses, charging infrastructure
ESS	Battery connections, busbars, inverters, power management systems
AI / Data Centers	Power cables, servers, cooling systems, transformers & switchgear

VS

Traditional Sector Use	
Construction	Building wiring, plumbing, HVAC systems
Power Grid	Transmission lines, transformers, substations
Consumer Appliances	Motors, compressors, wiring, heat exchangers
Industrial Machinery	Motors, generators, automation equipment
Electronics & Telecom	Circuit boards, connectors, telecom cables
Conventional Transport	Wiring, radiators, alternators, braking systems
Rail & Infrastructure	Rail electrification systems, signaling equipment, traction motors
Marine & Aerospace	Cables, motors, generators, navigation & communication systems



Copper Price Outlook

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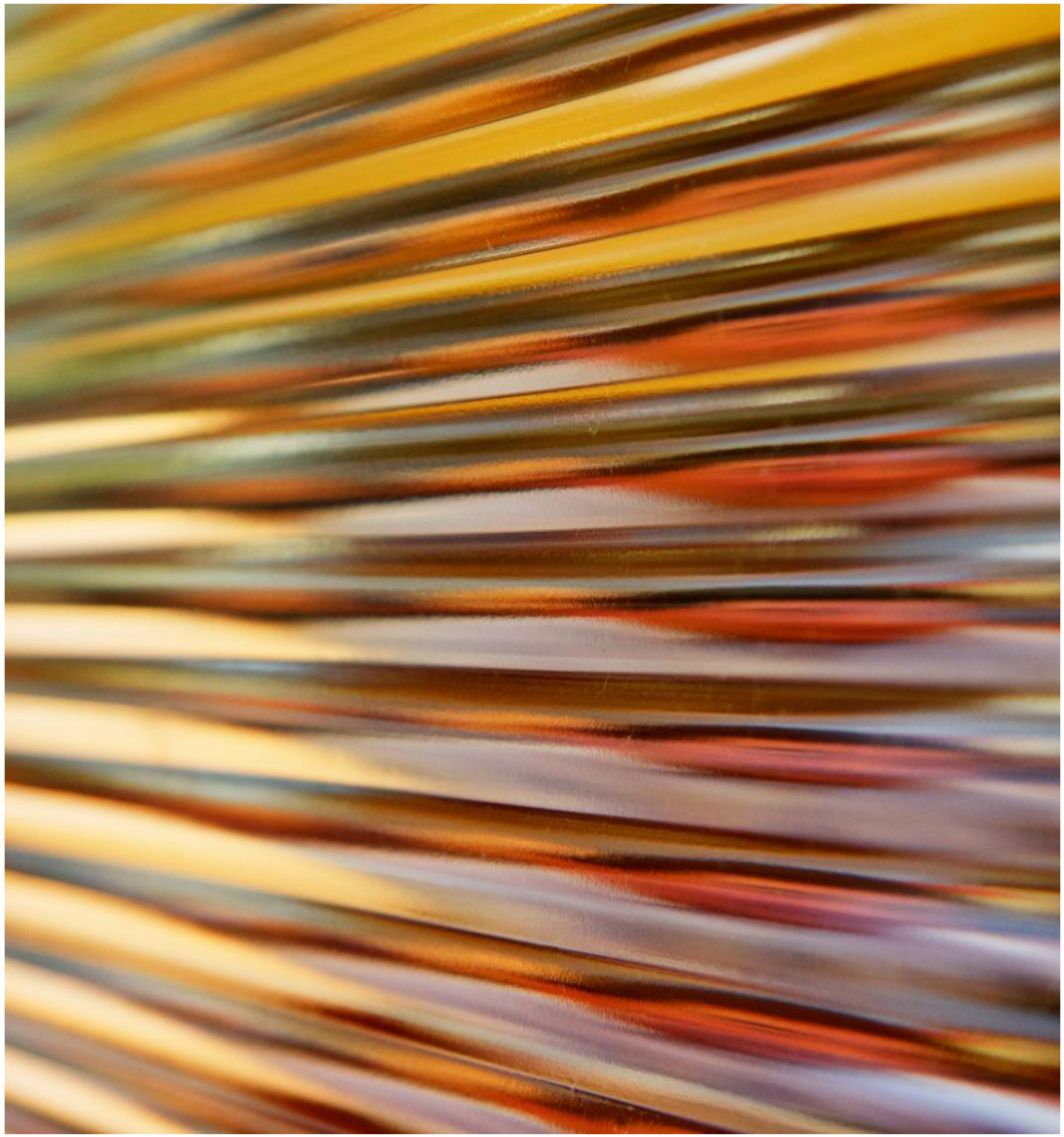
Copper price outlook

Copper price outlook – Short term (1-3 Month)	
🟢🟢🟢🟢🟢	• Potential U.S. copper tariffs have triggered large copper inflows into the U.S., draining LME and SHFE inventories to multi-year lows and reinforcing backwardation across the copper market.
🟢🟢🟢🟢	• The Yangshan copper premium has risen to its highest level since May 2025, highlighting robust Chinese appetite for imported copper and improving spot demand conditions.
🟢🟢🟢🟢	• Various mine disruptions and extreme storms in South America have threatened already constrained copper mine supply.
🔴🔴🔴🔴	• Growing expectations of a September Fed rate hike could strengthen the U.S. dollar and keep interest rates higher for longer, weighing on industrial metals demand, investment flows and copper prices.
🔴🔴🔴🔴	• If U.S. tariff measures prove less aggressive than expected, accumulated copper inventories in the U.S. could be released back into the market, pressuring prices.
🔴🔴🔴	• Continued weakness in China's property sector remains a drag on traditional copper consumption.
Copper price outlook – Medium to long term (6 Months – 2 Years +)	
🟢🟢🟢🟢🟢	• The global copper market is moving toward a structural deficit as declining ore grades, permitting delays and long mine development timelines make it increasingly difficult for supply to respond to higher demand
🟢🟢🟢🟢🟢	• AI infrastructure, data centres, electrification and the global energy transition are expected to drive strong structural growth in copper demand.
🟢🟢🟢🟢	• A potential Super El Niño could significantly disrupt copper mine operations across South America through increased flooding and extreme weather events, further tightening the supply outlook.
🔴🔴🔴🔴	• Persistent Middle East disruptions and elevated oil prices could keep inflation higher for longer, increasing the risk of prolonged monetary tightening and weaker copper demand growth.
🔴🔴🔴	• Higher capital costs may delay AI, energy transition and infrastructure projects, slowing the pace of future copper demand growth.
🔴🔴🔴	• Growing availability of secondary (recycled) copper could partially alleviate supply shortages, reducing reliance on primary mine production.

Note: Green dots = bullish impact; red dots = bearish impact. Dot count indicates the relative strength of each factor (1 = weakest, 5 = strongest).
Source: ICBCS



Aluminium Market Analysis

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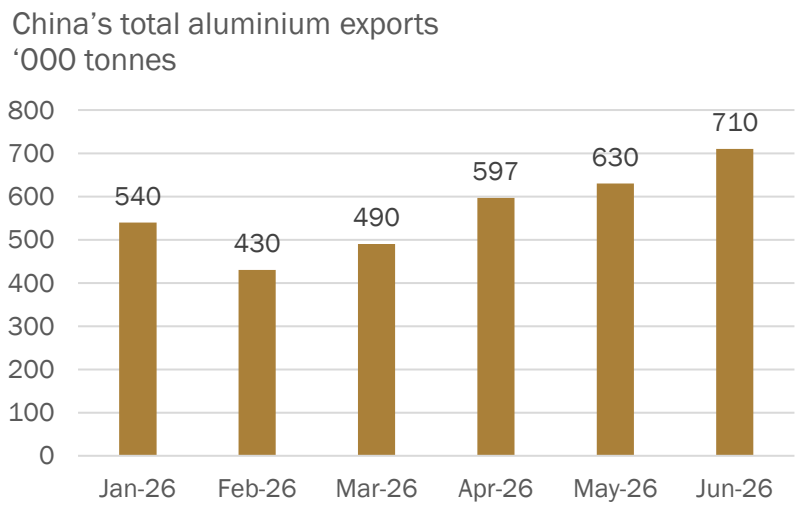
Middle East Aluminium Supply Disrupted by the Iran Conflict

Company	Country	Facility	Annual Capacity	Iran Conflict-Driven Disruption, Output Impact & Status
Emirates Global Aluminium (EGA)	UAE	Al Taweelah Smelter & Alumina Refinery, Abu Dhabi	**1.6 mt/yr** of cast aluminium	Iranian strike on 28 March 2026 forced a full smelter shutdown. 7% of pots were back online by 2 July; full restoration is expected by end-2026.
Aluminium Bahrain (Alba)	Bahrain	Askar Smelter	**1.62 mt/yr**	Hormuz disruptions led to a 19% capacity cut (~308,000 t/yr). A subsequent Iranian attack caused further damage; full restoration remains unconfirmed.
QatarEnergy / Qatar Aluminium	Qatar	Qatalum Smelter	**~585,000 t/yr**	An Iranian strike disrupted LNG-linked power and feedstock supplies. Aluminium production was halted on 3 March 2026, with no confirmed full restart.

Source: : ICBCS; Various sources



Source: China Customs

China's Stranded Wire Exports Help Ease Global Aluminium Tightness

- China's total aluminium exports reached a record 710,000 tonnes in June, according to customs data. Among them, exports of stranded aluminium wire surged to more than 96,000 tonnes, nearly doubling from May levels as overseas buyers sought additional supply amid disruptions caused by the Iran conflict.
- The trade has attracted market attention because stranded wire is widely believed to be remelted overseas into primary aluminium ingots. Supported by favourable tax treatment and a 13% VAT rebate, continued flows of stranded wire into international markets have helped alleviate global supply tightness created by the Iran conflict, preventing a sharper rise in international aluminum prices.

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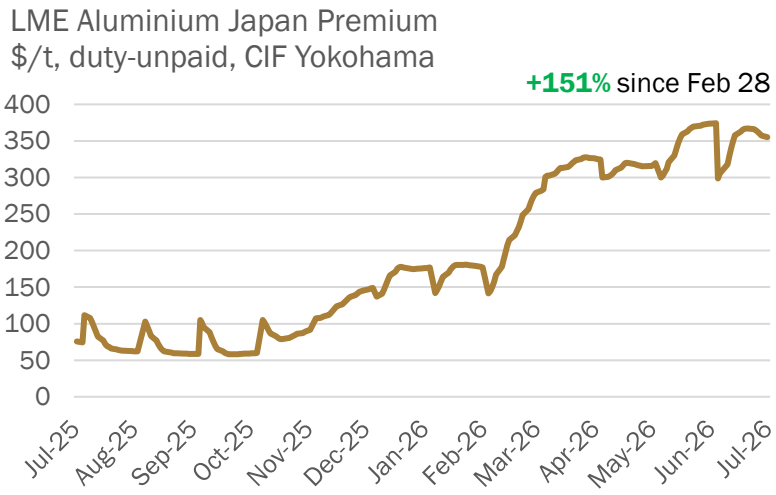
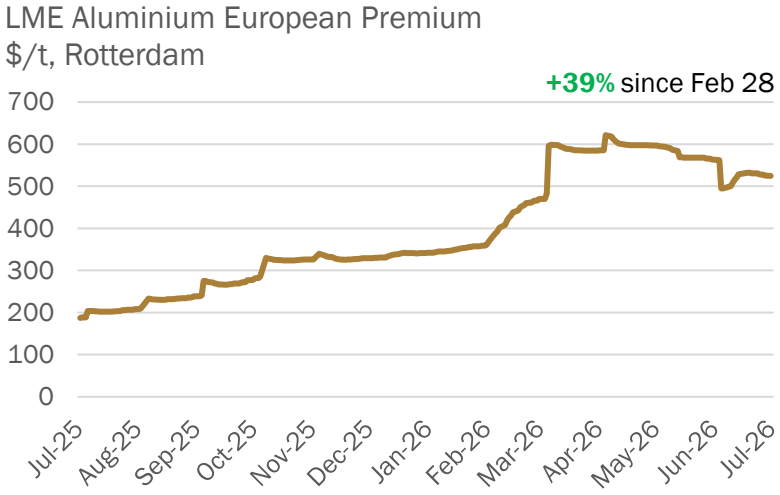
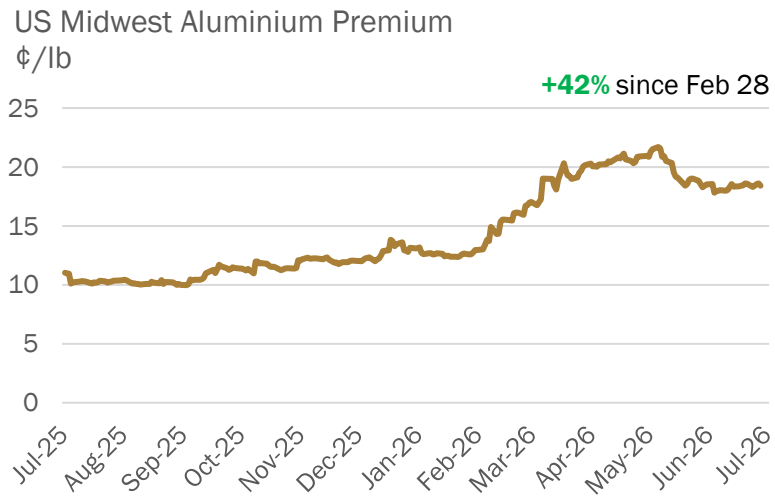
Physical Aluminium Markets Tighten Following Hormuz Disruptions



Source: LME



Source: LME



Source: Platts

Aluminium Premiums Surge on Middle East Supply Disruptions

- Aluminium premiums in Japan, Europe and the US Midwest rose sharply following the outbreak of the Iran war, as disruptions to the Strait of Hormuz tightened global aluminium supply. Premiums surged through March and April, reached highs in May and June, and remain elevated despite some volatility following ceasefire negotiations and temporary easing in regional tensions.
- The main driver was the disruption of Middle Eastern aluminium supply and alumina feedstock flows through the Strait of Hormuz, which led to smelter outages and lower regional production. At the same time, higher freight rates, war-risk insurance costs and vessel rerouting increased the cost of delivering physical metal. Rising energy prices further supported premiums, as aluminium production is highly energy-intensive.

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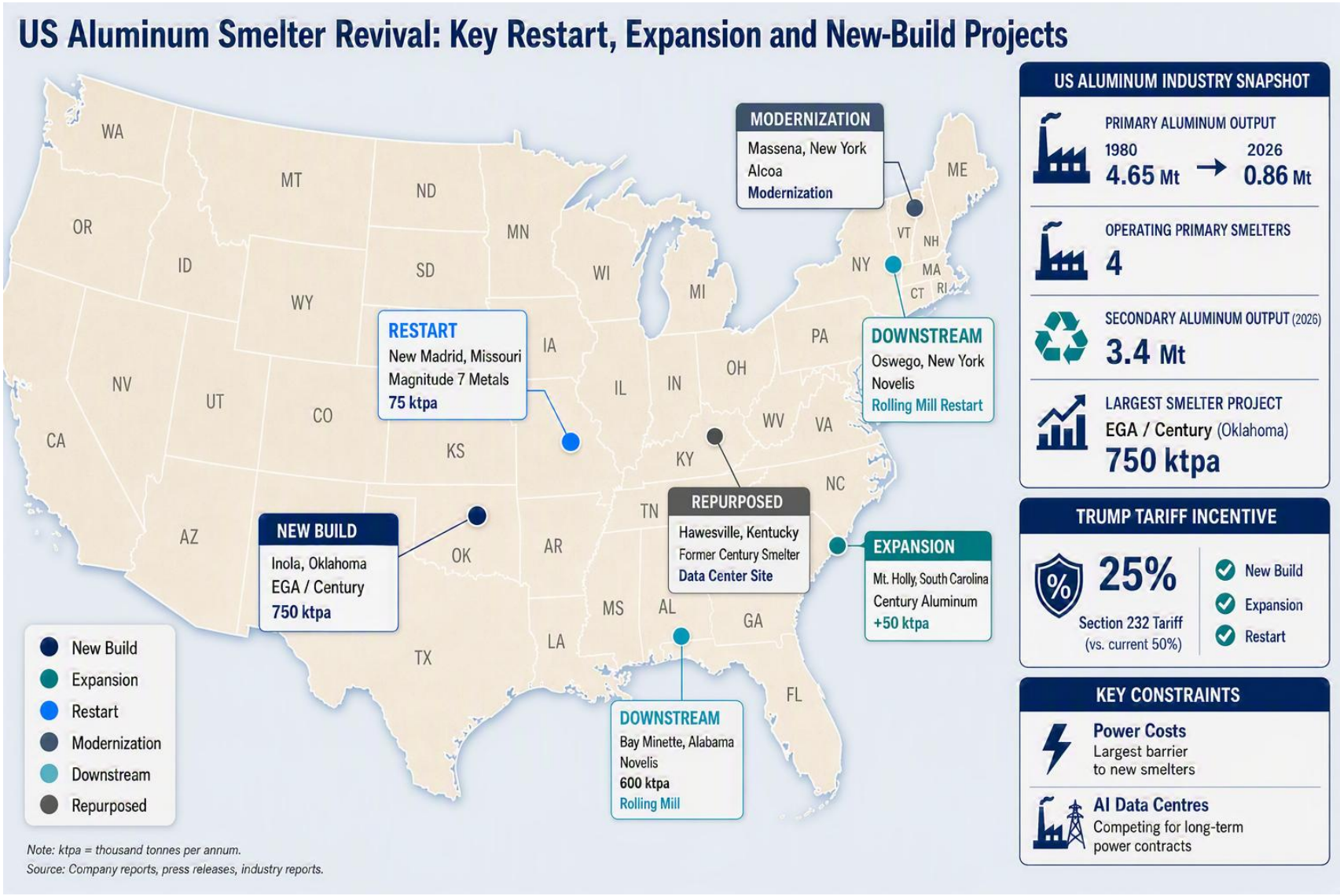
New Aluminium Projects Aim to Boost US Domestic Capacity



Source: ICBCS; Various sources

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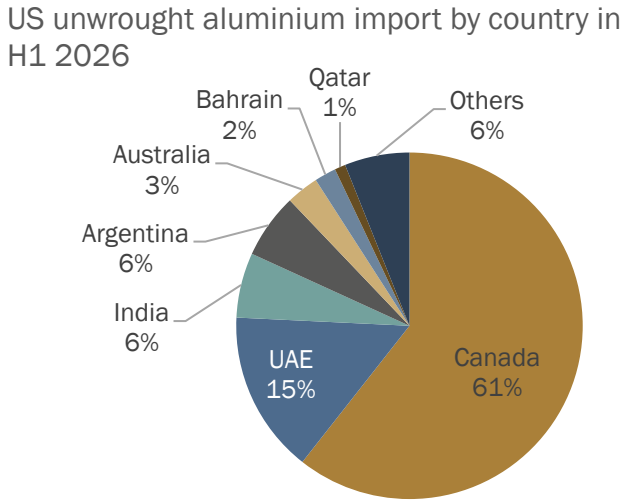
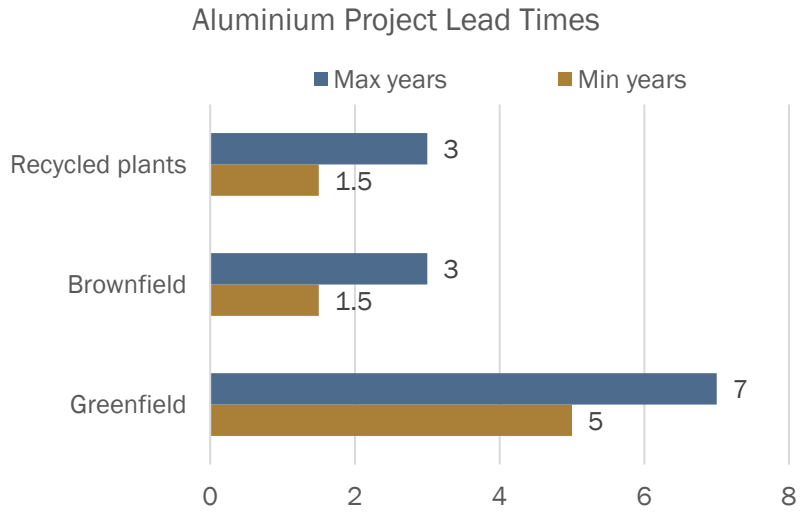
Long Project Lead Times Will Keep the US Heavily Reliant on Imports



Source: US Customs; Bloomberg Intelligence



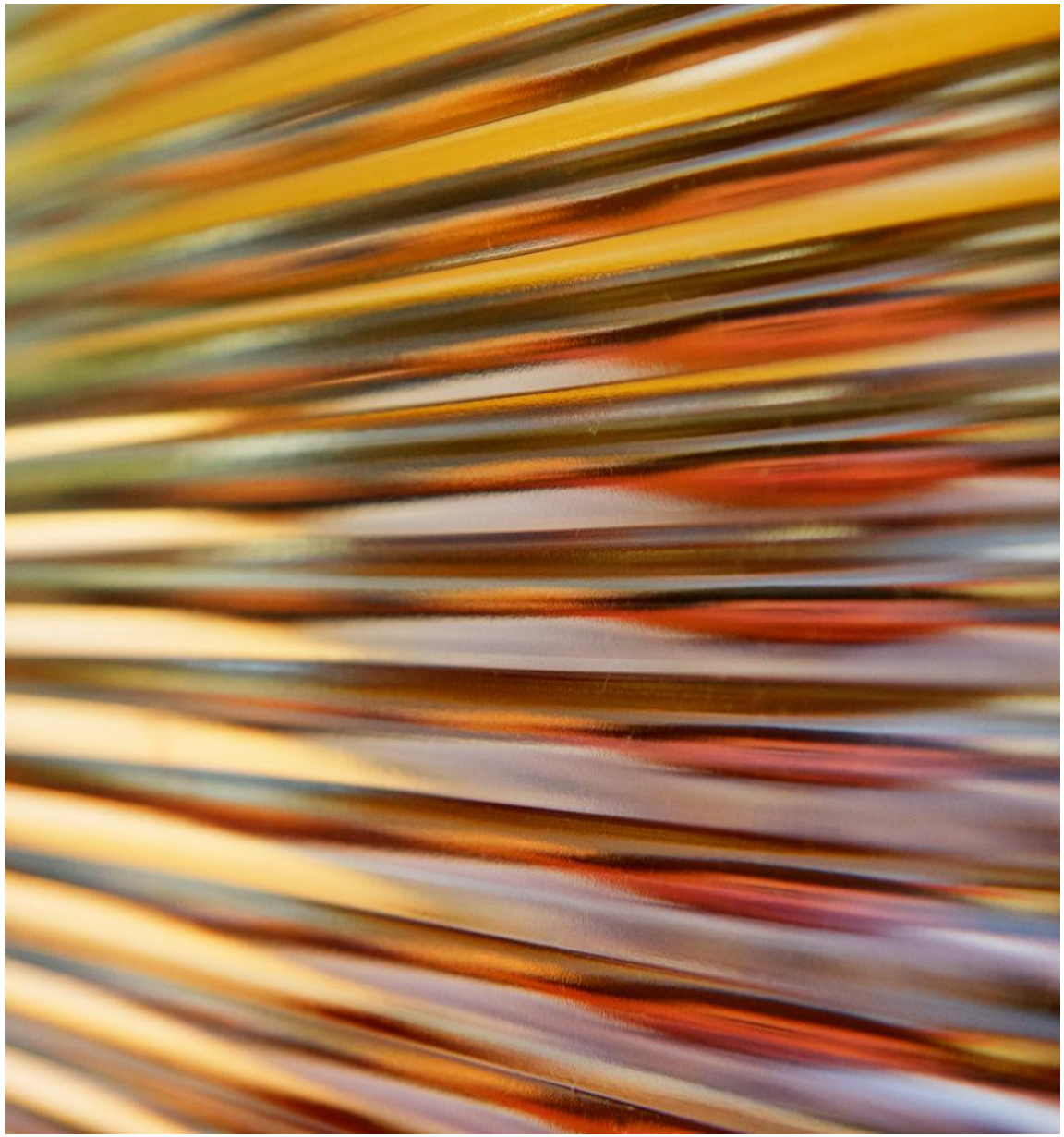
Source: Bloomberg Intelligence

US Aluminium Tariffs Have Yet to Revive Domestic Smelting Capacity

- In June 2025, the US raised Section 232 tariffs on steel and aluminium imports from 25% to 50% for all trading partners except the UK. The measure was intended to encourage investment and expand domestic production, but its impact has so far been limited. Only four aluminium smelters currently operate in the US, compared with 23 in 2000.
- US primary aluminium capacity remains insufficient to meet demand, leaving the country heavily dependent on imports. In the first half of 2026, Canada accounted for 61% of US unwrought aluminium imports, while the UAE supplied a further 15%. High electricity costs remain one of the main barriers to expanding US smelting capacity.

Long Development Cycles Limit Near-Term Growth in US Supply

- Approved US aluminium projects must begin construction by January 20. 2029 to qualify for reduced tariff import allowances. Given the long development cycle of a greenfield primary aluminium smelter, any meaningful increase in domestic supply is unlikely to materialise in the near term. The flagship Oklahoma smelter could add 750,000 tonnes of annual capacity, although production is not expected before around 2030.
- Brownfield restarts and modernization projects are therefore the more practical path to incremental capacity growth. Yet viable brownfield opportunities for restart and expansions are scarce. As a result, the pool of projects that qualify for the program is limited.



Aluminium Price Outlook

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Aluminium price outlook

Aluminium price outlook – Short term (1-3 Month)	
🟢🟢🟢🟢🟢	• Middle East smelter disruptions and rising regional premiums point to tightening global aluminium supply.
🟢🟢🟢🟢	• Global exchange aluminium inventories remain near multi-year lows, providing limited buffers against additional supply disruptions.
🔴🔴🔴🔴	• Growing expectations of a September Fed rate hike could strengthen the U.S. dollar and keep interest rates higher for longer, weighing on aluminium demand and prices.
🔴🔴🔴🔴	• Chinese exports of aluminium products, particularly standard wire rod and semi-fabricated products, are helping alleviate supply tightness in overseas markets.
Aluminium price outlook – Medium to long term (6 Months – 2 Years +)	
🟢🟢🟢🟢🟢	• The aluminium market is moving toward a structural deficit as demand growth increasingly outpaces available low-cost supply.
🟢🟢🟢🟢🟢	• EVs, renewable energy projects, power grid expansion, AI infrastructure and data centres are expected to drive strong long-term growth in aluminium demand.
🟢🟢🟢🟢	• China's capacity cap and limited room for new smelter construction significantly constrain future global supply growth.
🟢🟢🟢🟢	• The US is likely to remain heavily reliant on aluminium imports as new smelting projects face long development timelines and growing competition for power from AI data centres.
🟢🟢🟢	• Aluminium continues to gain market share in power transmission and transportation applications as consumers seek cheaper alternatives to copper.
🔴🔴🔴🔴	• Persistent Middle East disruptions and elevated oil prices could keep inflation higher for longer, increasing the risk of prolonged monetary tightening and weaker aluminium demand growth.
🔴🔴🔴	• New aluminium capacity additions in regions such as Indonesia, India and Southeast Asia could gradually improve supply availability over the next several years.
🔴🔴🔴	• A sharper-than-expected slowdown in global economic growth, particularly in construction, transportation and manufacturing, would weigh on aluminium demand.

Note: Green dots = bullish impact; red dots = bearish impact. Dot count indicates the relative strength of each factor (1 = weakest, 5 = strongest).
Source: ICBCS

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