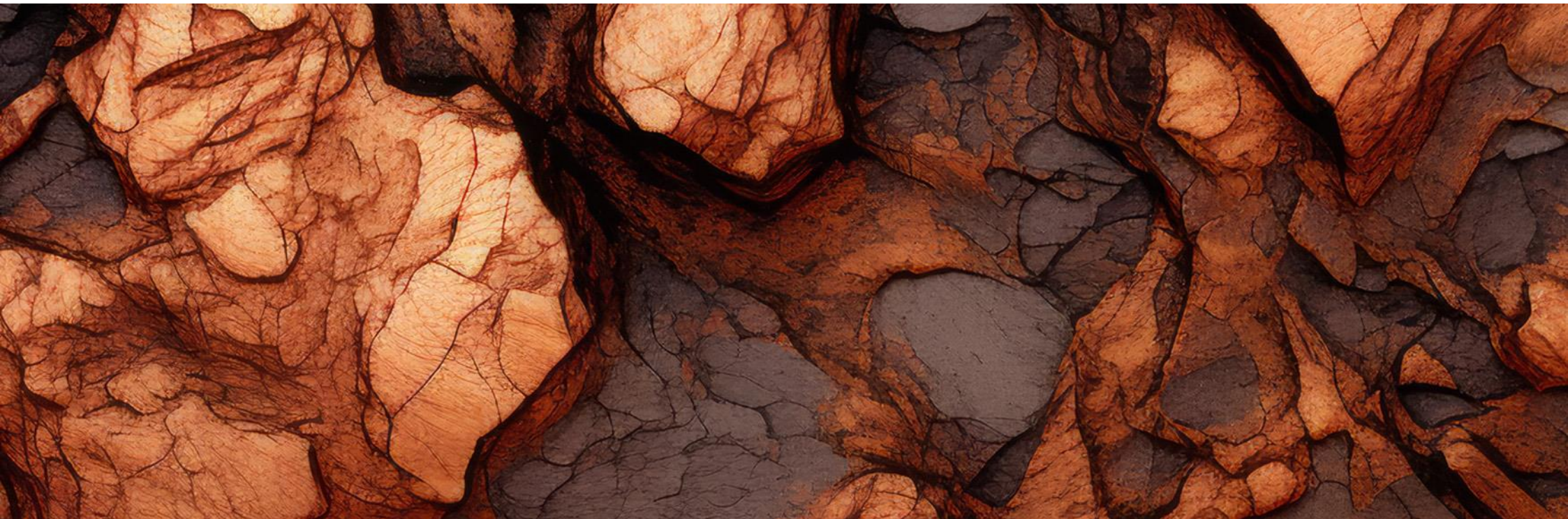


ICBCS Copper Market Outlook

Julia Du - Senior Commodities Strategist

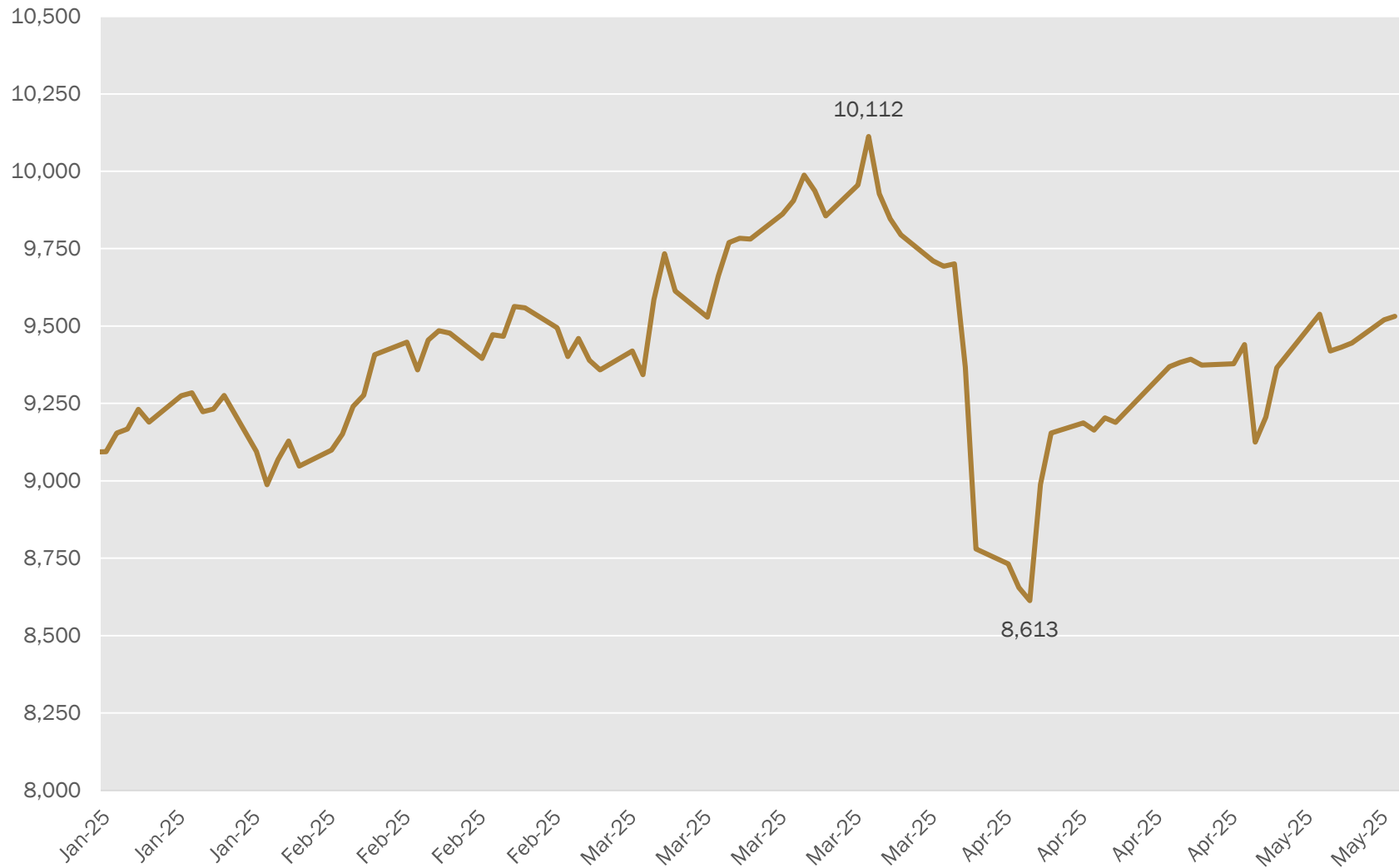
May 2025



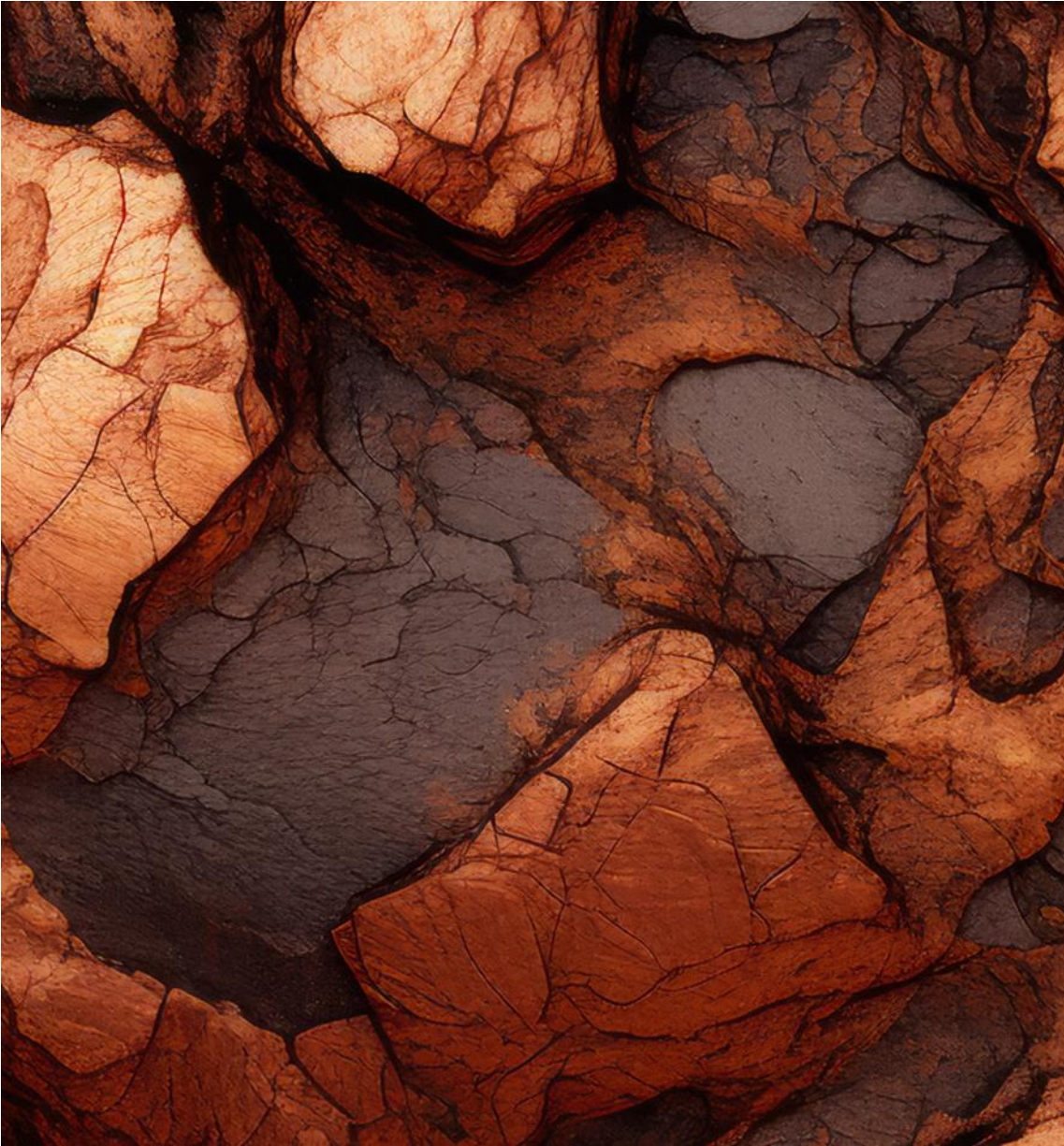
Trump's mixed tariff messages drive copper price volatility in April

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\$/t LME 3-month copper prices



Source: LME

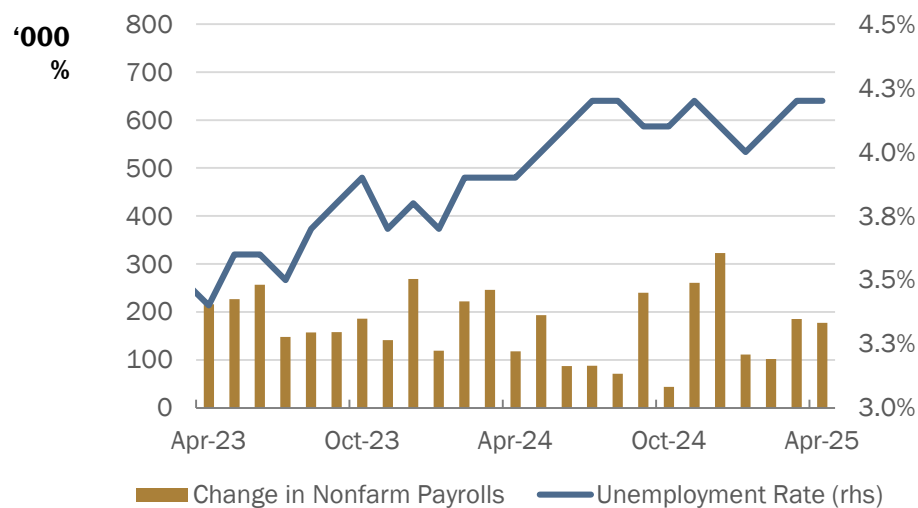


Global Economic Outlook

The US inflation cooled down further, tariff impact is yet to fully manifest



Source: Bureau of Labour Statistics



Source: Bureau of Labour Statistics

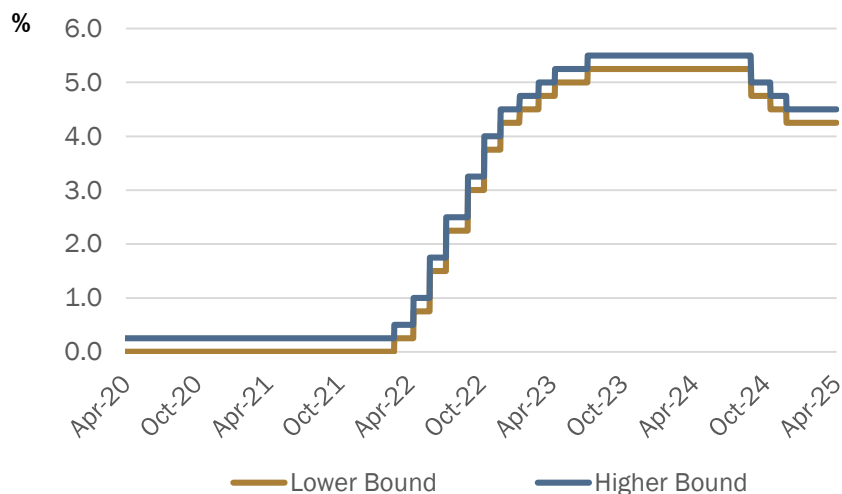
US CPI

- The US inflation continues to cool in April, indicating that the impact of Trump's tariffs has yet to fully manifest, and businesses may be digesting inventory.
 - The US April CPI increased by 2.3% year-on-year, lower than the expected and previous value of 2.4%. The US April CPI rose by 0.2% month-on-month, below expectations but higher than the previous value of -0.1%.
 - The US April core CPI increased by 2.8% year-on-year, matching the expected level and the previous value. The US core CPI rose by 0.2% month-on-month, lower than the expected 0.3% but higher than the previous value of 0.1%.

NFP and the Unemployment Rate

- In April, the US saw relatively strong job growth and a stable unemployment rate, indicating that the labour market remains robust and the uncertainty surrounding Trump's trade policies has not yet had a substantial impact on hiring.
 - The US added a better-than-expected 177,000 jobs in April, down slightly from a revised 185,000 in March and came in above economists' expectations for a modest 138,000. The unemployment rate held steady at 4.2%.
 - Average hourly earnings saw a year-over-year increase of 3.9%, while month-over-month growth was at 0.2%, which is lower than both the expected and previous value of 0.3%.

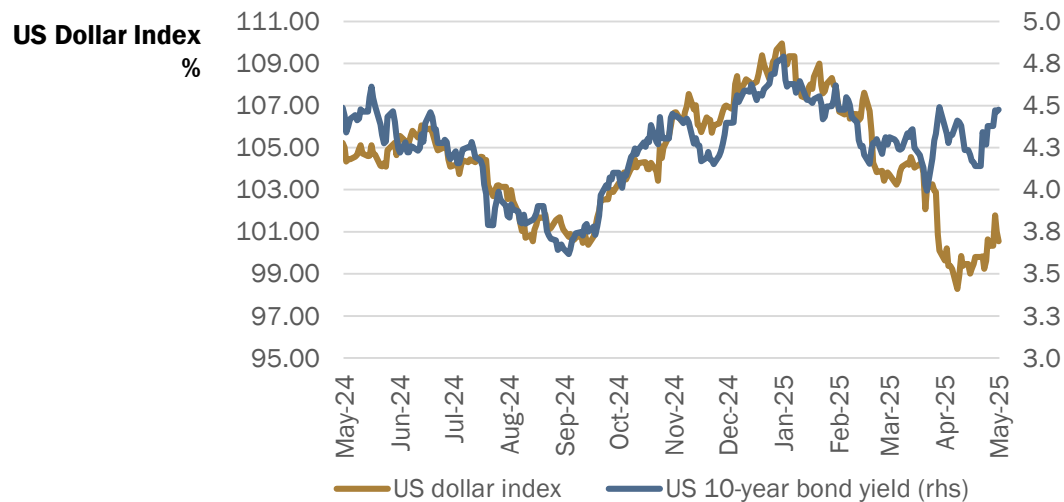
Trump's reciprocal tariffs led to US dollar index dropping to three-year low



Source: Federal Reserve

US Interest rate

- In early April, Trump indicated that he wanted to replace the Fed Chair for not cutting interest rates as quickly as he desired, which threatened the independence of the US central bank. However, a week later, Trump backed away from his criticism of Fed Chair Powell, stating that he had no intention of dismissing Powell.
- Currently, the US interest rate level is at 4.25-4.5%, unchanged since a 25 basis point cut in December last year. This stability in interest rates reflects the Fed's cautious approach in balancing economic growth with inflation control. According to the CME FedWatch Tool, the market expects the Fed to maintain rates in May. Expectations for keeping rates unchanged in June have also strengthened after the release of the US April jobs report.



Source: Bloomberg

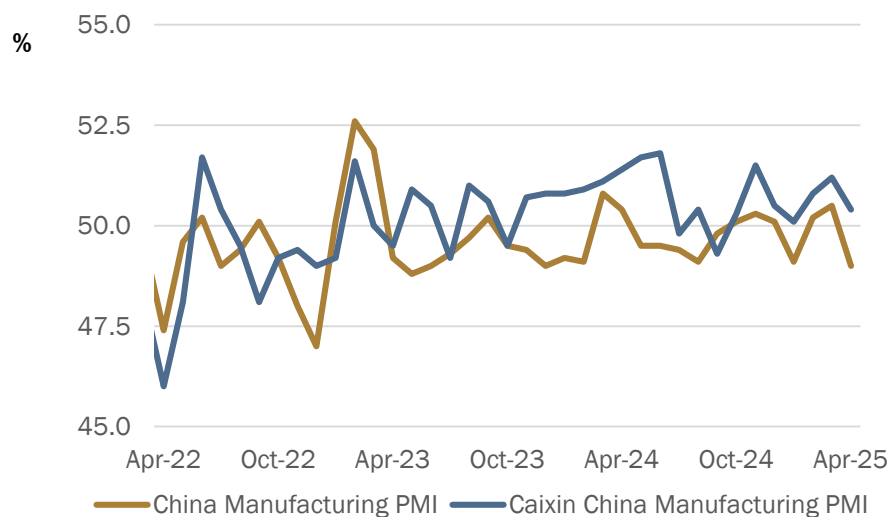
US Treasury yield and dollar

- On April 2, Trump ordered 10% global tariffs and higher reciprocal tariffs on certain countries, causing the US dollar to drop sharply. Investors feared that the tariffs would weaken US economic growth, increase inflation, and escalate global trade tensions, reducing the appeal of dollar assets. Later, the US postponed tariffs on countries other than China for 90 days and began negotiations, leading to a partial rebound in the dollar.
- Meanwhile, US 10-year bond yields remained relatively stable. Investors seek safe-haven assets amid trade tensions, which increased demand for Treasuries and lowered yields. Conversely, higher inflation from tariffs and expectations that the Fed would not rush to cut rates pushed yields higher. These opposing forces balanced each other, resulting in only minor yield fluctuations.

Tariffs lead to slowdown in China's manufacturing activity in April



Source: National Bureau of Statistics of China



Source: China Federation of Logistics and Purchasing

China's industrial production and retail sales

- Chinese industrial production grew much more than expected in March as continued economic support from Beijing helped local producers amid an escalating trade war with the US.
- China's industrial output in March rose 7.7% from a year earlier, quickening from 5.9% growth in the January-February period. Retail sales grew 5.9% in March, up from 4.0% growth in the first two months, surpassing the 4.3% expectations.
- Fixed asset investment expanded by 4.2%, compared with a 4.1% growth forecast. It grew 4.1% in the first two months of the year.

China's manufacturing PMI

- China's manufacturing PMI data for April shows the country's factory activity slipped into the worst contraction since December 2023 due to early damage from Trump's tariffs and prompting calls for further economic stimulus.
- The official manufacturing PMI fell more than expected to 49 from 50.5 a month ago. Non-manufacturing activity, including construction and services, also grew less than anticipated.
- China's Caixin Manufacturing PMI fell from 51.2 in March to 50.4 in April, beating an expected drop to 49.7. New orders rose only slightly; export orders dropped at the fastest pace since July 2023 due to US tariffs.

US-China tariff talks unlikely to achieve quick, mutually satisfactory deal

United States



VS

China



Tariff Situation

- On April 9, the US President announced a 90-day suspension of high reciprocal tariffs, imposing only a 10% base tariff, but increasing tariffs on Chinese exports to a maximum of 145%.

Negotiation Stance

- On April 22, the US President announced plans to reduce tariffs on Chinese goods, but not to zero. That week, the US repeatedly claimed to have engaged in tariff negotiations with China, which China denied.
- On April 30, the US Trade Representative stated that preliminary tariff agreements with some trade partners are expected within weeks, but no formal negotiations have been held with China.
- On May 7, US President Trump suggested China initiated the talk talks, adding his unwillingness to cut US tariffs on China.
- On May 12, The US and China issued a joint statement announcing a significant reduction in tariffs on both sides during a 90-day cooling-off period.

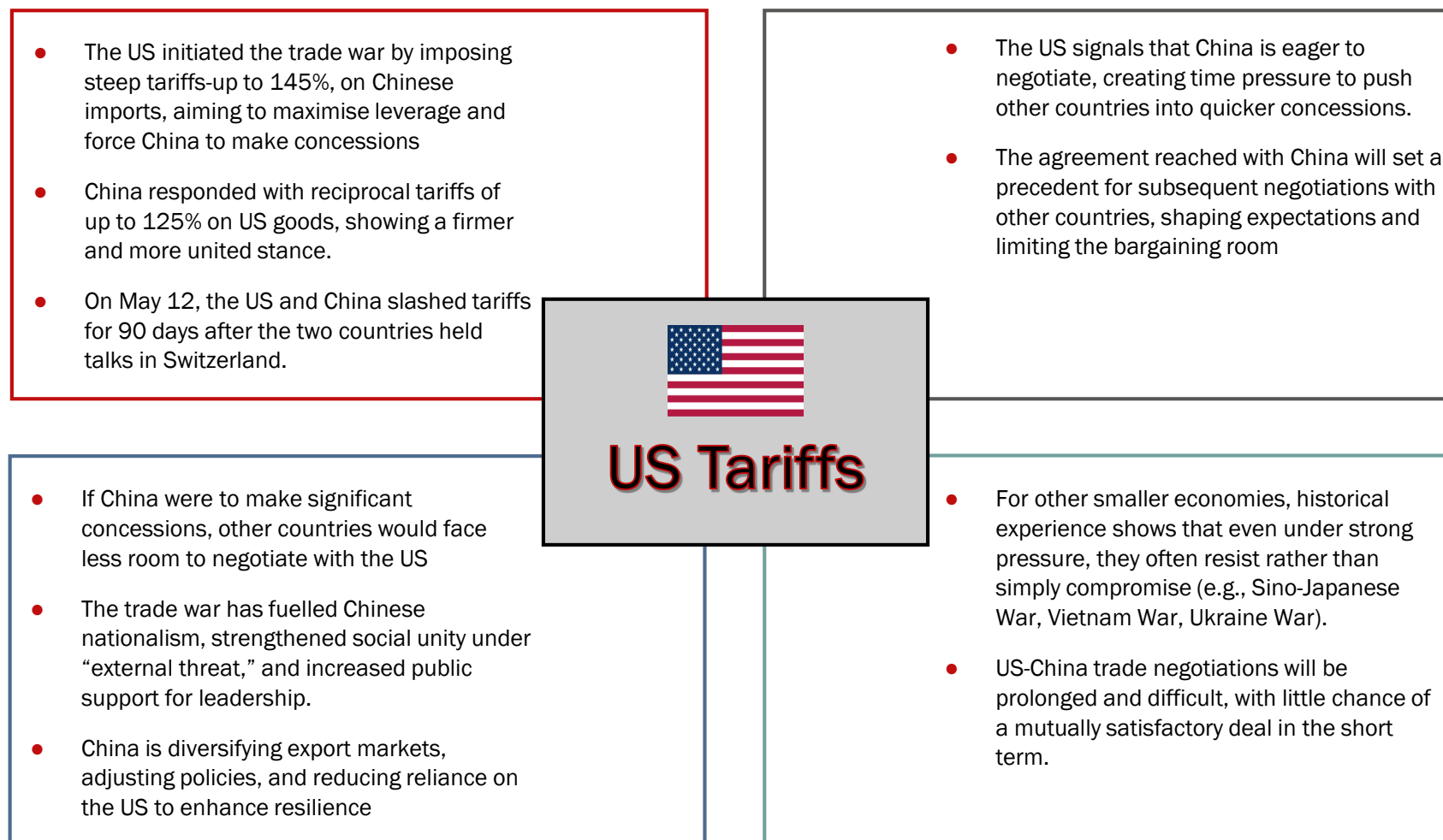
Tariff Situation

- On April 11, China's Ministry of Finance announced retaliatory measures, imposing a total tariff rate of 125% on US imports starting April 12.

Negotiation Stance

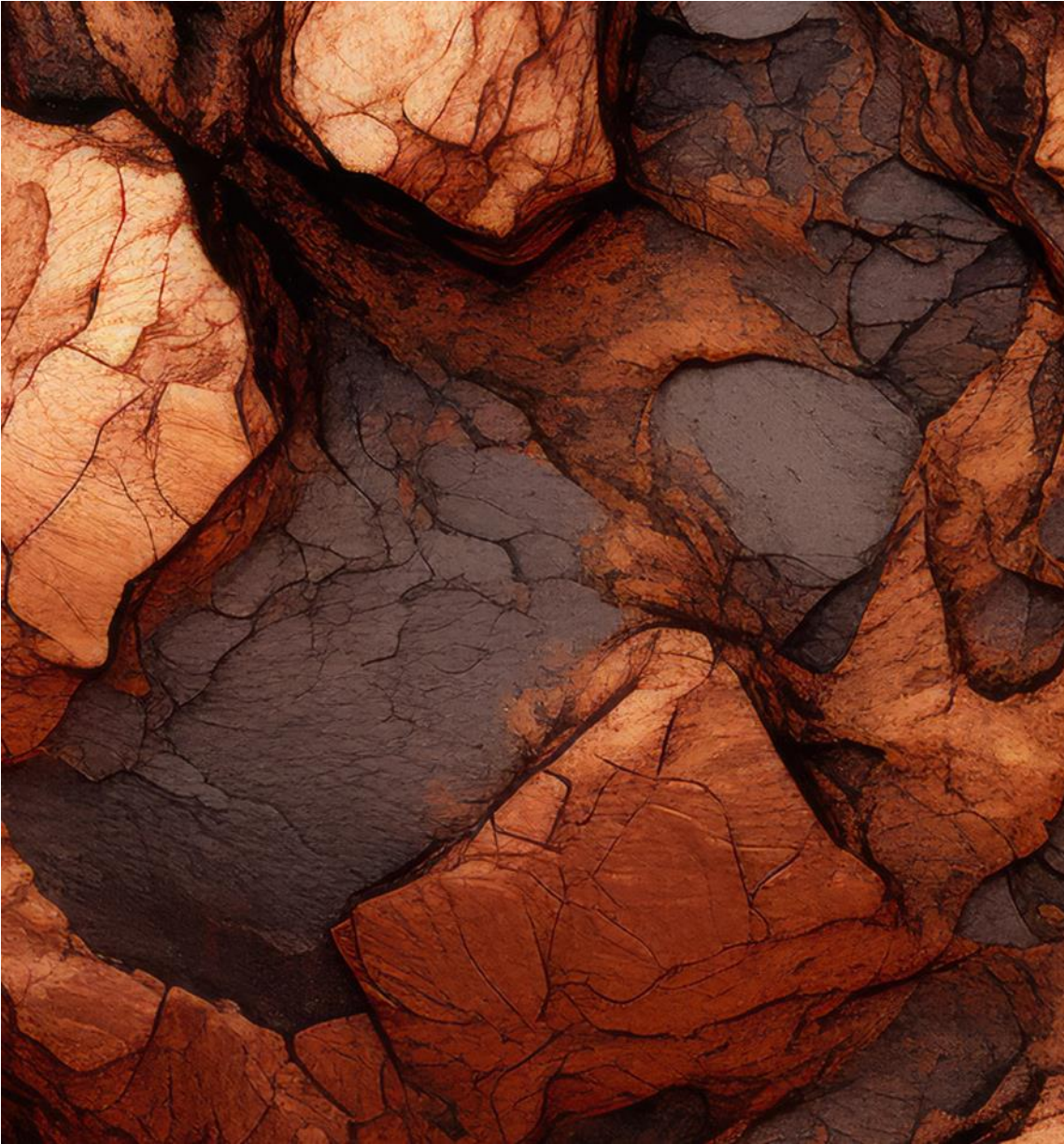
- On April 29, China's Ministry of Foreign Affairs released a video titled "Not Kneeling" on WeChat, indicating China would not compromise in the tariff dispute with the US
- On May 1, China stated that the US had reached out through multiple channels to discuss tariffs.
- On May 7, China's Ministry of Foreign Affairs announced upcoming talks with the US in Switzerland, initiated at the US's request. China reiterated its firm stance against the misuse of tariffs while expressing openness to negotiations.
- On May 12, the US and China issued a joint statement announcing a significant reduction in tariffs on both sides during a 90-day cooling-off period.

Why China & other countries might be unlikely to compromise with the US



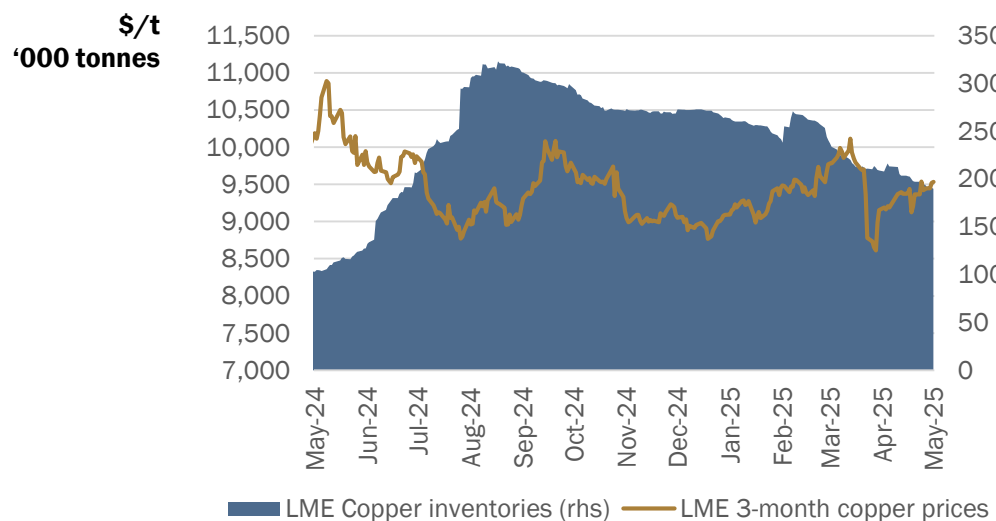
"If you want to fight, we will fight to the end; if you want to talk, our door is always open."

— China



Copper Market Analysis

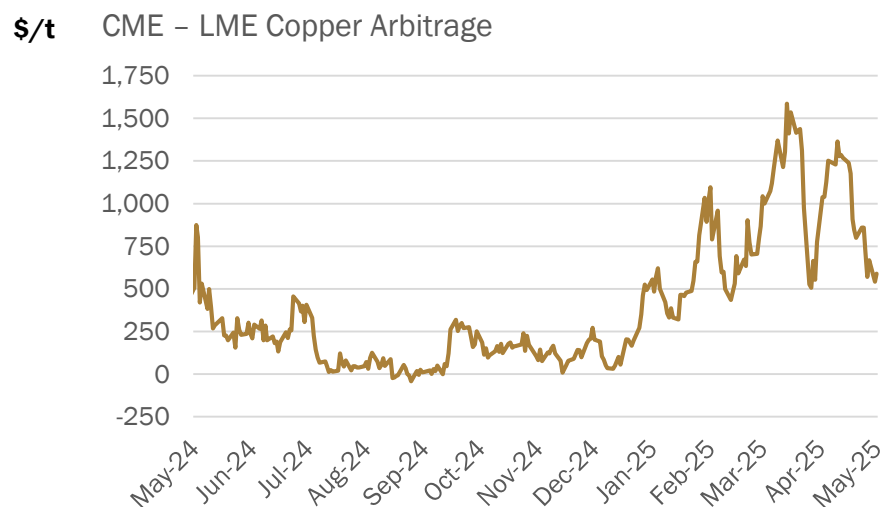
Copper prices fluctuate amid uncertainties about Trump's trade tariffs



Source: Bloomberg

Copper price and LME inventory

- In April, LME 3-month copper prices saw significant fluctuations. On April 2, Trump announced a 10% tariff on all imports and imposed individualised reciprocal higher tariffs on some countries, causing a sharp drop in copper prices. On April 9, Trump temporarily suspended the reciprocal tariffs on countries other than China for 90 days, leading to a rebound in copper prices.
- On May 12, the US and China announced a 90-day cooling-off period to reduce tariffs, providing some relief to the commodity market. However, the industrial metal has not yet fully recovered from the trade war impact. Copper demand and prices still face uncertainties and downside risks due to a lack of fundamental support and potential sudden policy changes by Trump.



Source: LME, CME Group

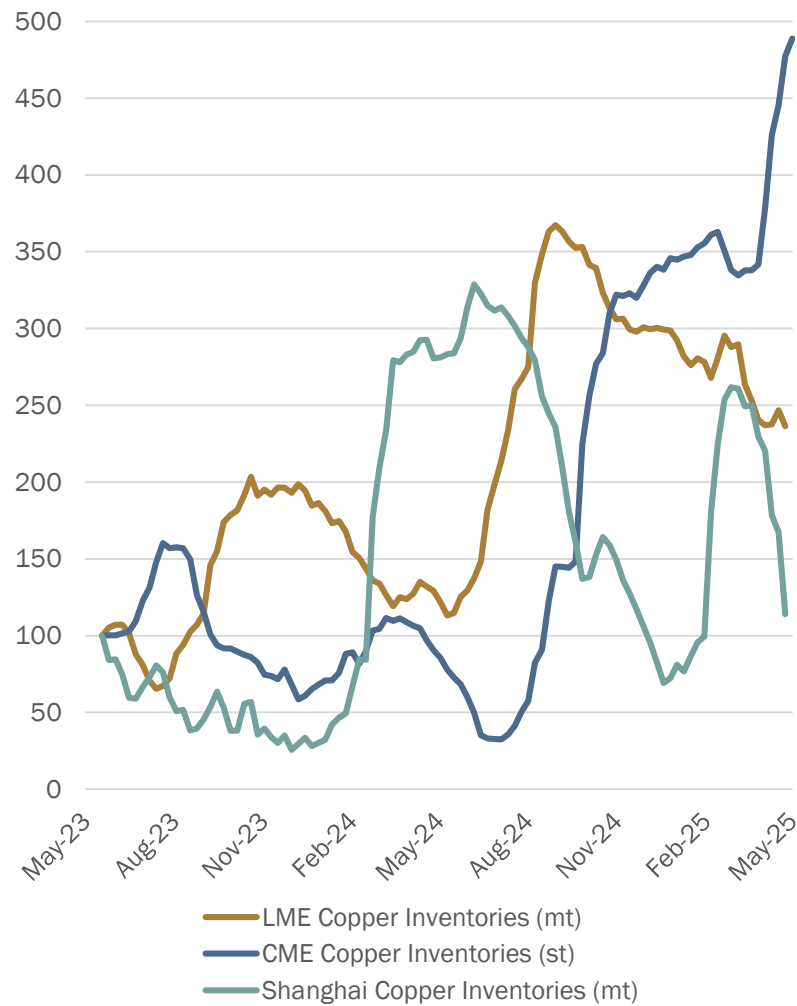
Copper price disconnect

- On February 25th, Trump ordered a national security investigation into US copper imports, seen as a precursor to potential tariffs. Concerns over these tariffs have triggered a surge in US copper imports, with traders rushing to buy large quantities before any tariffs are implemented, causing a sharp rally in Comex prices and widening the gap with LME prices.
- Although Trump's tariff uncertainties have caused recent fluctuations in CME-LME copper arbitrage, the price spread remains significant. CME copper inventories continue to rise. Earlier reports suggested Trump might announce copper tariffs within weeks, but no updates have been provided. The market is still preparing for a potential 25% copper tariff that could be implemented in the fourth quarter of this year.

Large US copper imports imbalance global copper inventory distribution

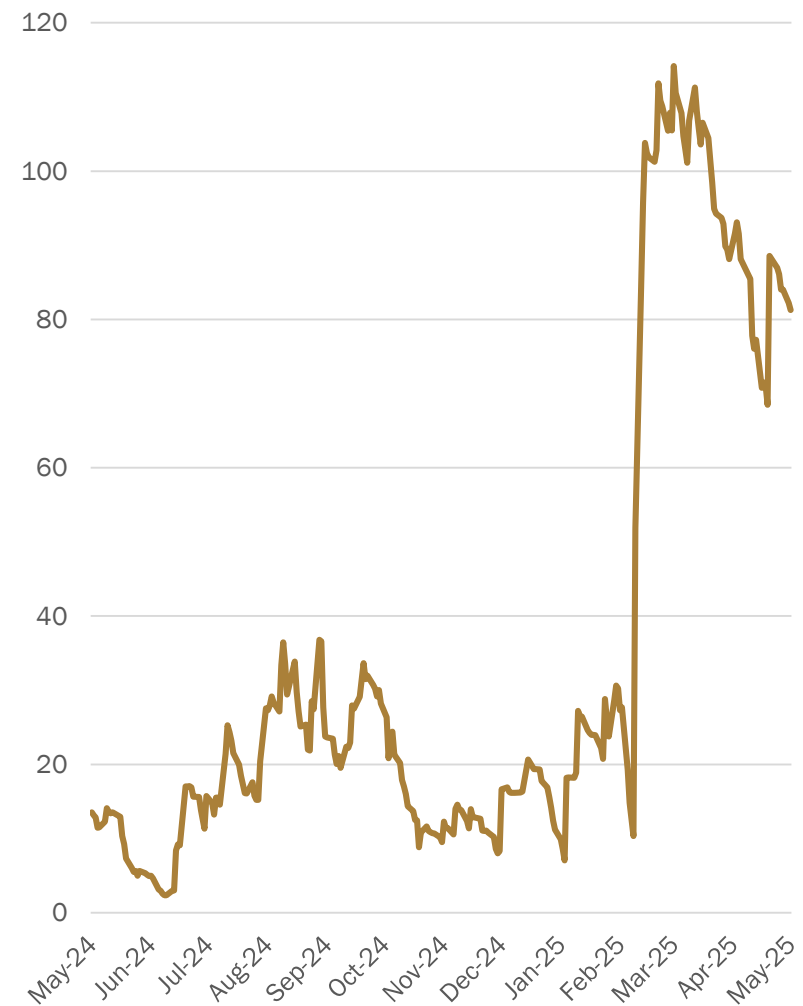
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Changes in copper inventory at three exchanges
104 WK, Normalized-Base 100



Source: LME, CME, SHFE

LME Cancelled warrant
'000 tonnes

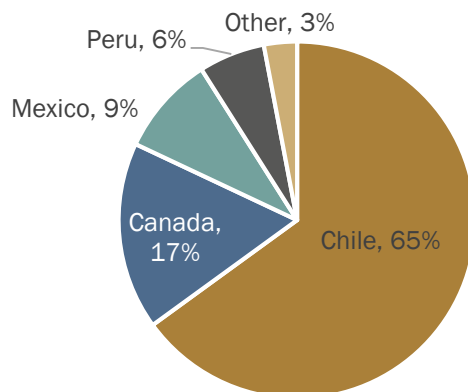


Source: LME

US considers tariffs on copper imports, potential implementation by Q4

% of total

US refined copper imports by country

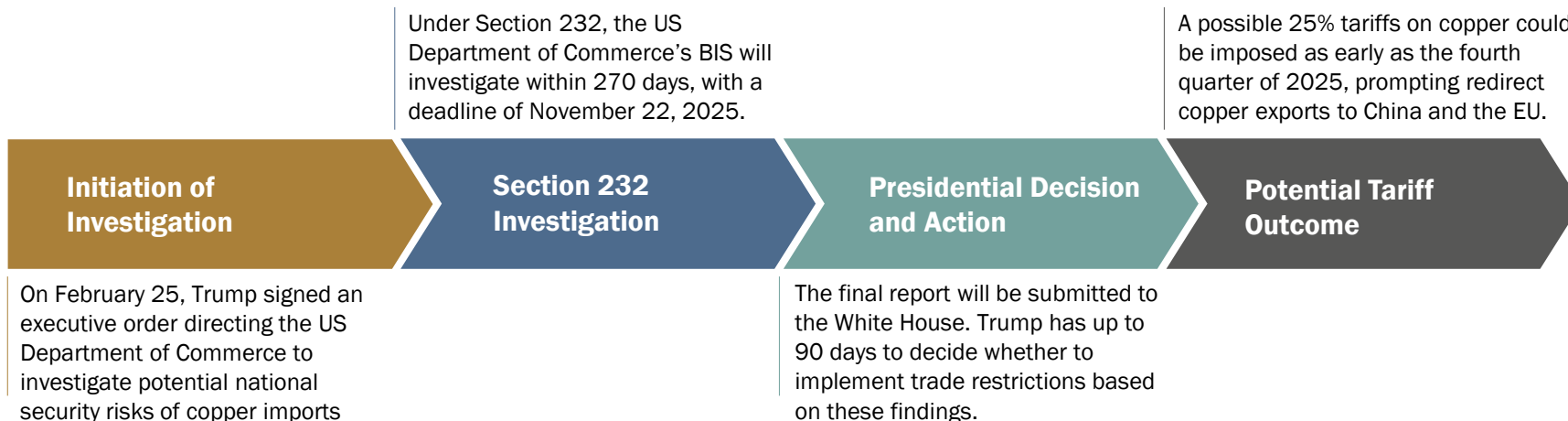


Source: USGS

US heavily relies on imported refined copper

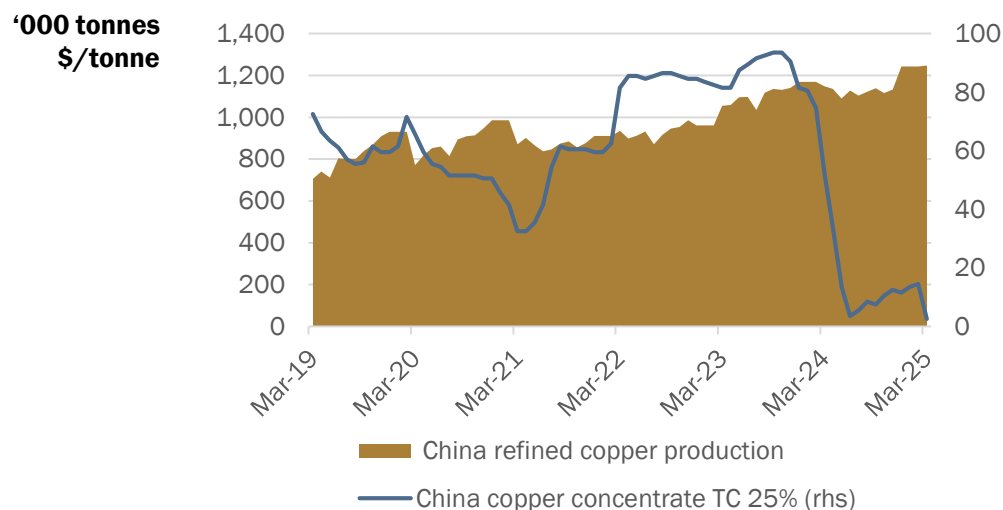
- The US consumed about 1.6 million tonnes of refined copper in 2024, while its domestic primary copper production was about 850,000 metric tons. Around 45% of US copper consumption relied on imports.
- Chile is the largest source of refined copper imports for the US, accounting for 65% of the total import volume. Canada and Mexico are the second and third largest suppliers, contributing 17% and 9%, respectively, while Peru accounts for about 6% of US copper imports.
- The US's significant reliance on copper imports has heightened risks to supply chain security. While domestic production capacity is expected to restart, the growth remains limited and constrained by the lengthy development cycles required.

The process by which Trump may impose tariffs on copper imports



Source: ICBCS

China import copper premium rises to the highest since November 2022



Source: China General Administration of China Customs

Chinese copper smelters cut output amid low processing fees

- Due to the continuous expansion of China's copper smelting capacity over the past few years, China's refined copper production has reached historical highs. Copper smelters in China are under increasing pressure to upgrade their facilities as intense competition among smelters and a shortage of copper concentrates have led to a continuous decline in processing fees. Some copper smelters are paying to process feedstock into refined copper, resulting in losses.
- Additionally, tighter supplies of scrap, potentially due to a halt in imports of second-hand US copper, have added to the challenges. Fees may continue to decline, exacerbated by more mine disruptions and lower estimates for global mine supplies.

\$/t Yangshan copper premium



Source: SMM International

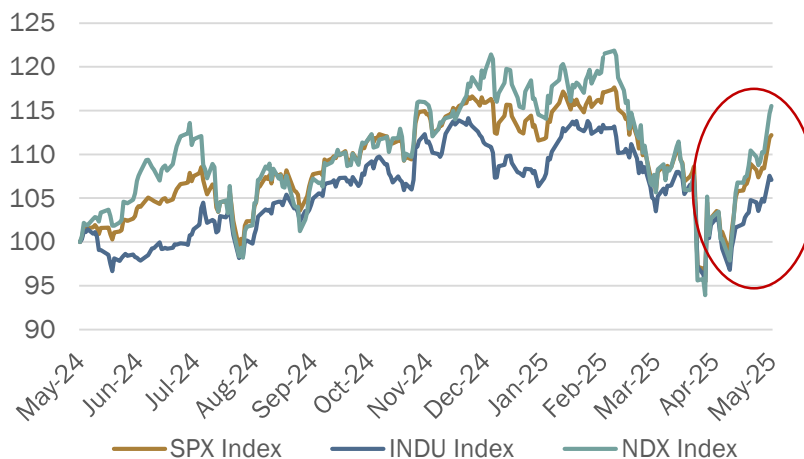
Yangshan copper premium rose in April, indicating solid demand

- Copper demand in China has proved remarkably resilient this year despite headwinds from the US-led trade war and China's property crisis. There's speculation that Beijing may ramp up stimulus to support the domestic economy and counter the more challenging overseas conditions under Trump's tariffs.
- The global copper market has been in turmoil in the opening months of 2025, with prices plunging briefly towards \$8,000/t earlier in April. Yangshan Copper premium jumped to the highest since late 2022, pointing to solid demand with spot orders from fabricators increasing after copper prices fell. Copper inventories in SHFE warehouses also saw a record weekly drop, adding evidence that China's physical copper market is tightening up.

Prolonged weakness in China's property market weigh on copper prices

Normalized
Base 100

Three major US stock index



Source: Bloomberg

YoY %



Source: National Bureau of Statistics of China

US stocks surge following US-China tariff reductions

- Looking back at the entire month of April, the US stock market showed a deep V-shaped trend, and by the end of the month, it had almost fully recovered. The rebound in the stock market was largely due to several measures taken by the Trump administration to soften its trade policy.
- On May 12, the US and China announced a 90-day cooling-off period to reduce tariffs, which was seen as exceeding market expectations and led to a significant rise in US stocks. However, tariffs remain relatively high, and investors still need to prepare for potential inflation. Additionally, another viewpoint suggests that market volatility and uncertainty may suppress investment in 2025, further dragging down US economic activity.

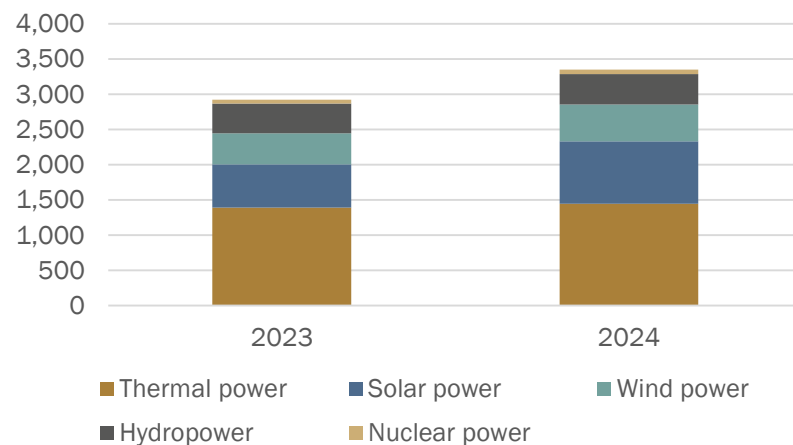
China's property market has shown no signs of improvement

- Despite multiple supportive policies from Beijing, the real estate market has shown no significant signs of improvement. According to the NBS, the area of new housing starts in March fell by 18.74% year-on-year, the area of houses under construction decreased by 9.5%, and the area of completed houses dropped by 14.3%. Additionally, new home prices in 70 major cities continued to decline.
- Reduced construction activity led to lower copper demand, pressuring copper prices. Additionally, the real estate crisis has broader implications for China's economy. Falling property prices reduce household wealth, leading to decreased consumer confidence and spending, which could slow economic growth.

Solar power capacity surge boosts copper demand in power generation

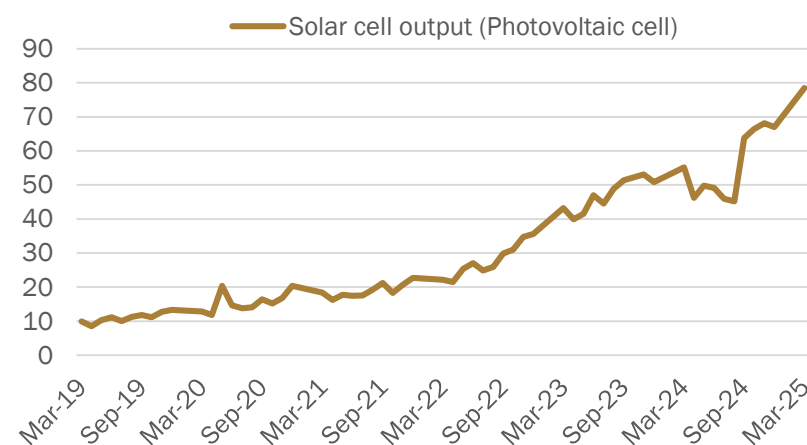
GW

National installed power generation capacity



Source: National Energy Administration

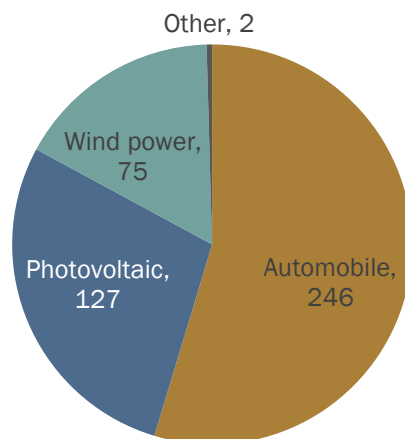
China solar manufacturers set record output



Source: National Bureau of Statistics

'000 tonnes

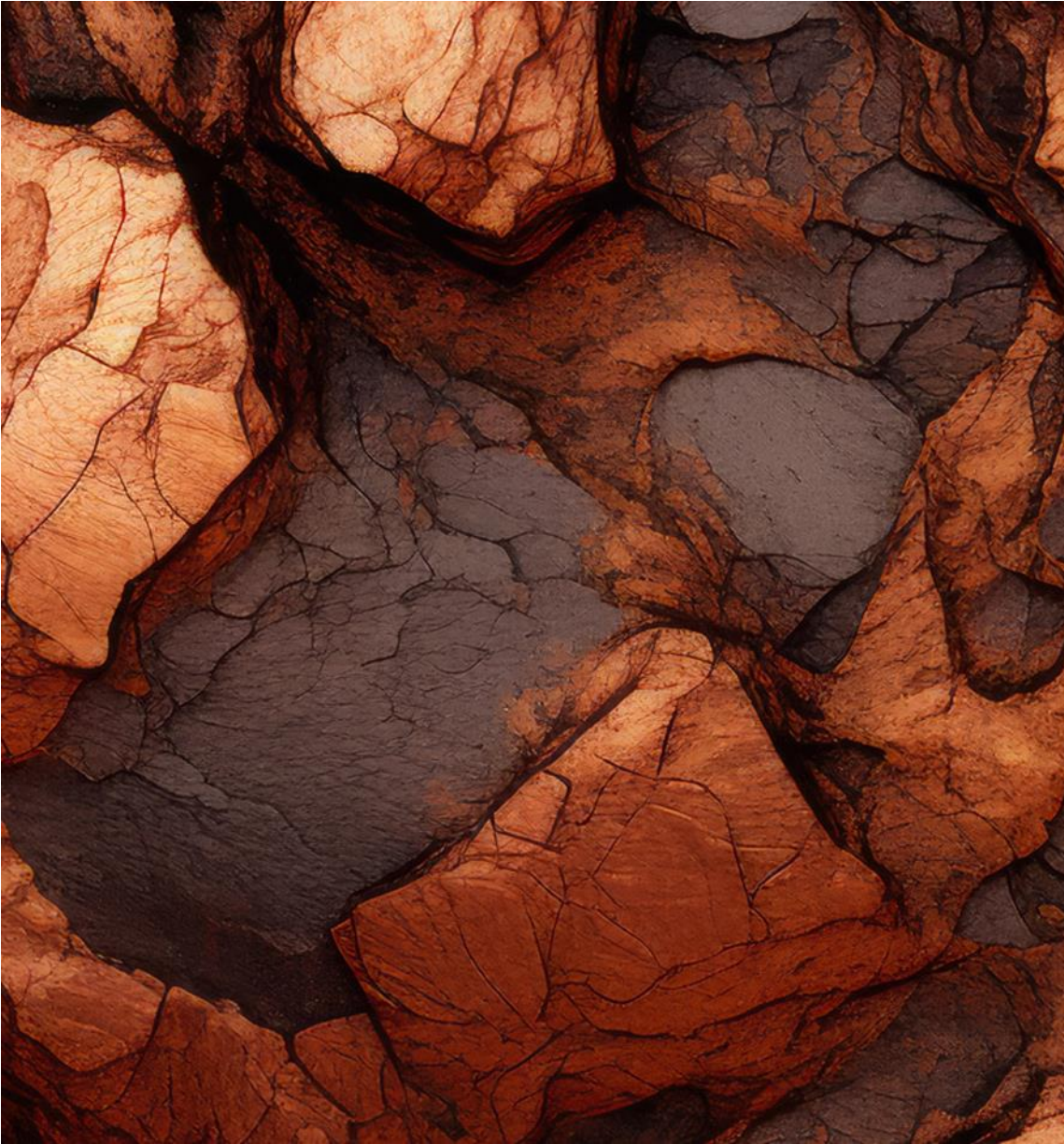
Global additional copper consumption in 2025



Source: Analysis Data compiled by CME from Relevant Institutions

New energy sector continues to drive future copper demand growth

- The use of copper in power generation has risen, driven by the increase in installed capacity of new energy sources. China's solar cell output reached a record 78.44 gigawatts in March, up 24% from last year, driven by policy-driven demand.
- Additionally, the application of large models such as Deepseek will accelerate copper consumption in the AI sector in China, potentially leading to a copper demand growth rate exceeding 5% in 2025. Globally, the additional copper consumption in 2025 is projected to be 450,000 tons. Of this, photovoltaics, wind power, and automobiles are expected to contribute 127,000 tons, 75,000 tons, and 246,000 tons, respectively.



Copper Price Outlook

Copper price outlook

Copper price outlook – Short term

Bullish

- The US CPI continued to decline in April, increasing expectations for a rate cut by the Fed, which has put pressure on the US dollar.
- Trump has reduced some tariffs on the automotive industry to mitigate impacts, leading to a recent rebound in US stocks and increasing investor risk appetite.
- China and the US jointly announced a temporary reduction in tariffs for 90 days, significantly improving market sentiment and boosting copper prices.
- The Yangshan Copper premium rose, indicating solid demand with spot orders from fabricators increasing after prices fell. Copper inventories in SHFE warehouses also saw a record weekly drop.
- The US jobs market data for April was relatively strong, indicating tariffs have not yet impact on hiring, enhancing confidence in the US economy.

Bearish

- Due to US tariffs, China's manufacturing activity saw its largest contraction in over a year in April, casting a shadow over the outlook for copper demand.
- Despite the temporary tariff reductions, it is unlikely that the trade negotiations between China and the US will reach a mutually satisfactory outcome in the short term, and tariff risks remain.
- There have been no follow-up reports on the investigation into potential copper tariffs, and the market is gradually realising that previous reactions to potential copper tariffs were somewhat excessive.

Copper price outlook – Medium to long term

Bullish

- Beijing plans more economic stimulus to counter external challenges, and authorities are fully confident of reaching this year's GDP growth target of 5%.
- The development of the new energy industry and AI data centers will become new forces driving future copper demand growth.

Bearish

- Market volatility and uncertainty may suppress investment in 2025, further dragging down US economic activity.
- Trump's protectionist trade policies could disrupt global trade flows, slow global economic growth, and potentially harm base metal demand.
- The long-term weakness in China's real estate market poses a significant obstacle to economic recovery, and the slowdown in electric vehicle production and sales growth is unfavourable for copper demand.

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