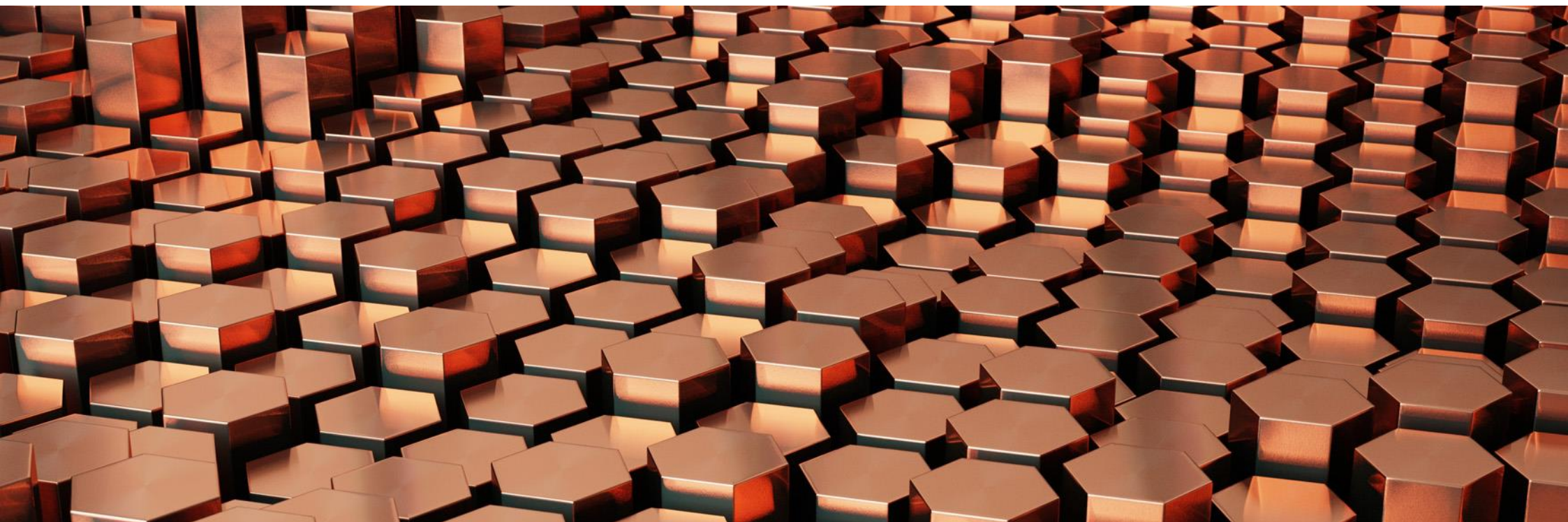


ICBCS Copper Market Outlook

Julia Du - Senior Commodities Strategist

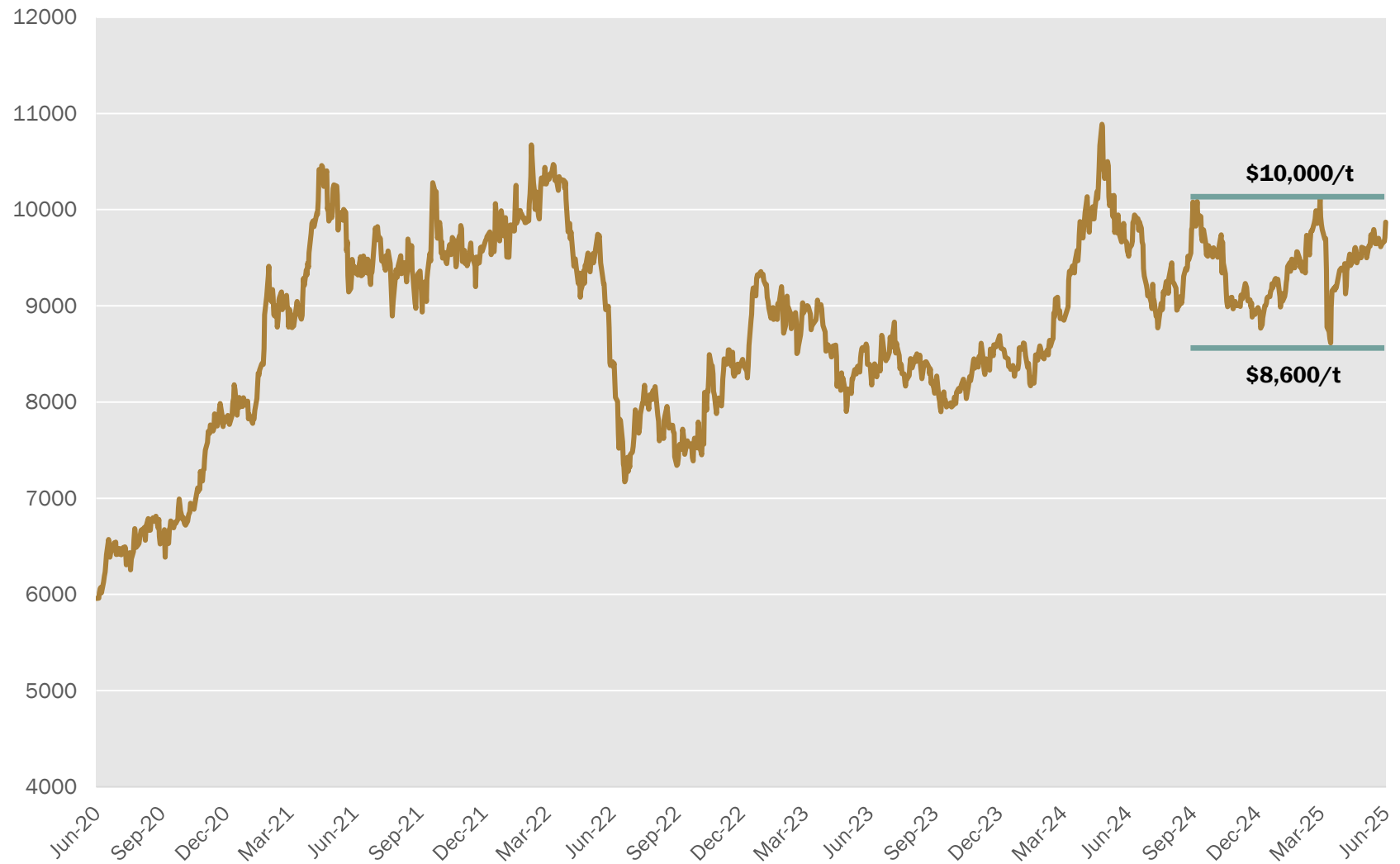
June 2025



LME copper has traded sideways since H2 2024, struggling to break out

\$/t

LME 3-month copper prices

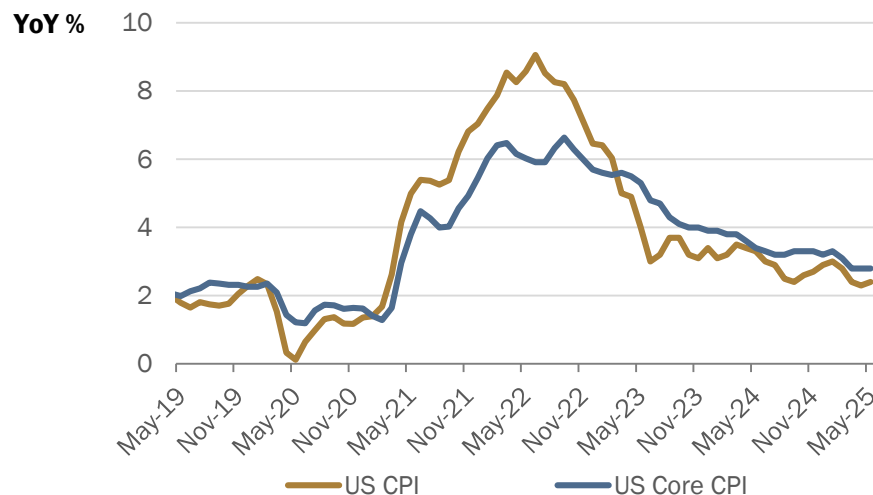


Source: LME

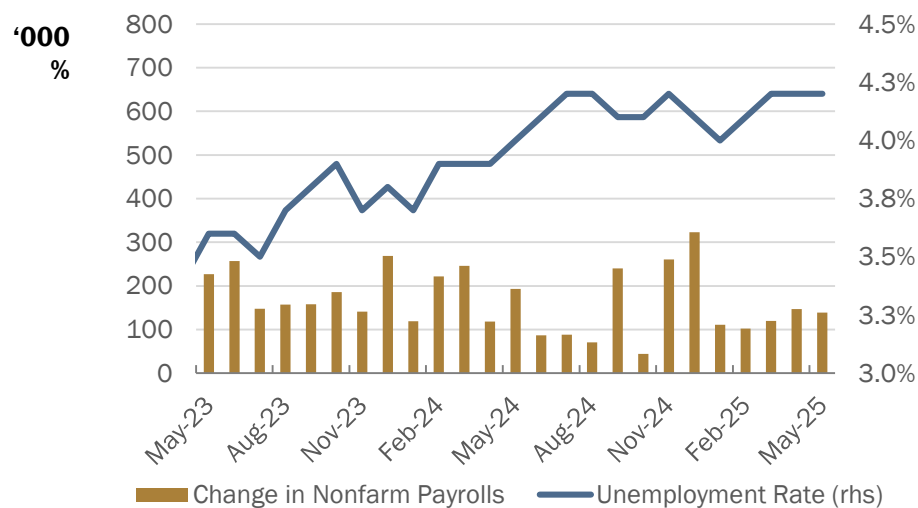


Global Economic Outlook

Downward revisions to prior months' NFP revealed labour market softness



Source: Bureau of Labour Statistics



Source: Bureau of Labour Statistics

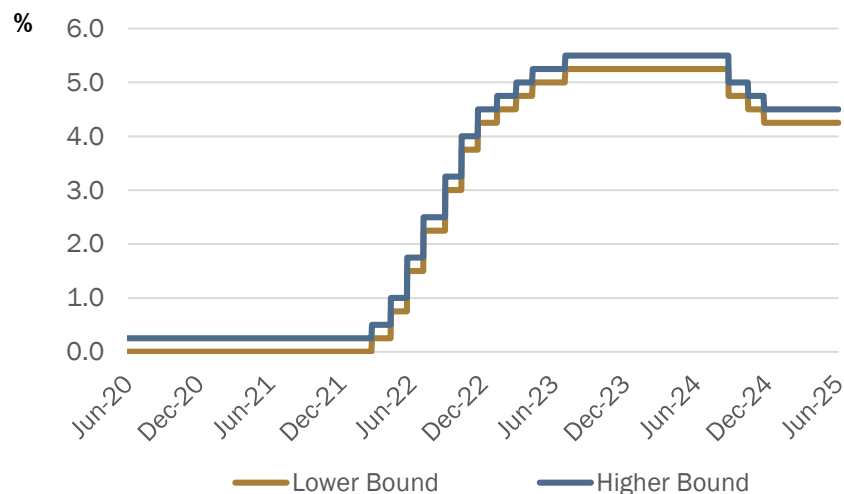
US CPI

- Major US CPI indicators came in below expectations in May 2025, indicating the impact of Trump's tariffs has not yet filtered through to overall price levels, and businesses may still be digesting existing inventories.
- May CPI rose by 2.4% y-o-y, in line with expectations and slightly higher than April's 2.3%. However, on a m-o-m basis, CPI increased by just 0.1%, falling short of both the forecast and the previous month's 0.2% gain.
- Core CPI rose by 2.8% y-o-y, below the expected 2.9% and unchanged from April. On a m-o-m basis, core CPI increased by only 0.1%, also underperforming expectations of 0.3% and down from April's 0.2%.

NFP and the unemployment rate

- In May, the US nonfarm payrolls report came in above expectations, which improved market sentiment. However, significant downward revisions to the previous two months' data revealed underlying softness in the labour market.
- The US added 139,000 jobs in May, slightly surpassing the forecast of 126,000, though this marked the lowest monthly gain since February. Notably, job gains for March and April were revised down by a combined 95,000.
- The unemployment rate held steady at 4.2%, remaining within the narrow range seen since May 2024. Average hourly earnings showed unexpected resilience, rising 0.4% m-o-m and 3.9% y-o-y, also beating forecasts.

The dollar has continued to weaken this year, trading at a three-year low

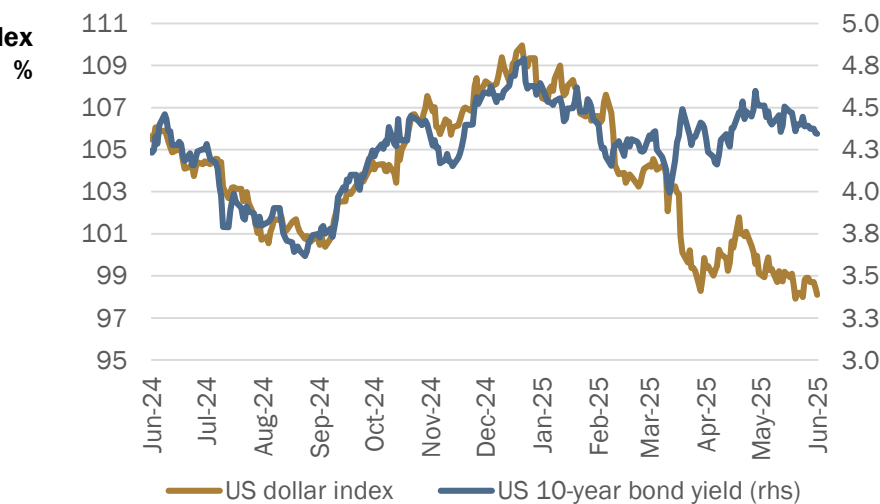


Source: Federal Reserve

US Interest rate

- At its June FOMC meeting, the Fed decided to keep interest rates unchanged at 4.25–4.5%, as widely expected. While the Fed maintained its projection for at least two rate cuts in 2025, Fed Chair Powell cautioned that inflationary pressures—particularly from US tariffs—remain a concern. He emphasised that any future rate cuts will be highly data-dependent.
- Within the Fed, there is growing division over whether rate cuts should occur this year. The central bank is also facing political pressure, with President Trump calling for more rate cuts. Oxford Economics noted that rising oil prices, driven by the Iran-Israel conflict, could push the Fed toward a more dovish stance, especially as the economy shows signs of weakening.

US Dollar Index



Source: Bloomberg

US Treasury yield and dollar

- The US dollar fell sharply following the announcement of a temporary ceasefire between Iran and Israel. While the truce has brought short-term relief, investors remain cautious about its sustainability. Analysts noted that although recent US strikes did not eliminate Iran's nuclear capabilities, they likely delayed its progress by several months.
- May data released so far suggests that tariffs have yet to significantly impact US inflation, economic activity, or the labour market. As a result, investors are closely watching upcoming economic indicators. Any signs of weakness could prompt earlier rate cuts, adding pressure on the dollar. Additionally, Trump's unpredictable trade and foreign policy stance continues to inject uncertainty into markets, prompting investors to reduce exposure to US assets.

Fed officials increasingly divided on future interest rate policy



Hawks:

Maintain that inflation risks may be more persistent and advocate keeping interest rates unchanged.

Neel Kashkari

President, Federal Reserve Bank of Minneapolis

- Supports holding interest rates steady due to uncertainty around the duration and impact of trade negotiations and retaliatory tariffs.
- Prefers to wait for clearer signals on how tariffs will affect inflation before considering any policy changes.

Lorie Logan

President of the Federal Reserve Bank of Dallas

- Argues that current interest rates are appropriate and may need to remain unchanged for an extended period.
- Warns that excessive rate cuts could lead to an inflationary spiral, despite their short-term boost to employment.

VS



Doves:

Downplay the short-term inflationary impact of tariffs to pave the way for rate cuts.

Christopher Waller

Governor, Federal Reserve Board

- Believes the inflationary impact of tariffs will be temporary and should not influence monetary policy decisions.
- Supports rate cuts later this year if inflation continues to decline, the labour market remains strong, and tariff effects stay contained.

Austan Goolsbee

President, Federal Reserve Bank of Chicago

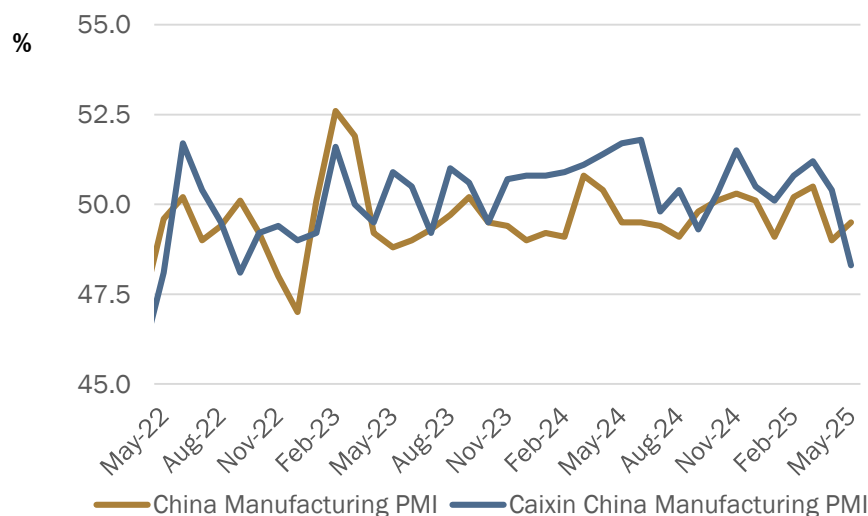
- Views tariff-related inflation as short-lived and not significant enough to alter the broader policy direction.
- Maintains that the Fed remains on a path toward rate cuts, with fundamentals largely unchanged.

The outlook for Federal Reserve policy depends on the scale and persistence of tariffs. The core of the disagreement between hawkish and dovish Fed officials lies in the unresolved question of how long the tariff effects will last.

China's industrial production growth slowed in May amid weaker demand



Source: National Bureau of Statistics of China



Source: China Federation of Logistics and Purchasing

China's industrial production and retail sales

- China's industrial production grew slightly below expectations in May, as elevated US tariffs dampened overseas demand and weighed on domestic output. However, stronger-than-expected retail sales helped offset some of the broader weakness in consumer activity.
 - Industrial output grew 5.8% YoY in May, just below expectations of 6.0% and fell from the 6.1% rise seen in the prior month. Retail sales rose 6.4% YoY, beating expectations of 4.9%. The strong print was driven largely by the May Day holiday.
 - Fixed-asset investment growth softened to 3.7% YoY, year to date, missing expectations of 4.0%.

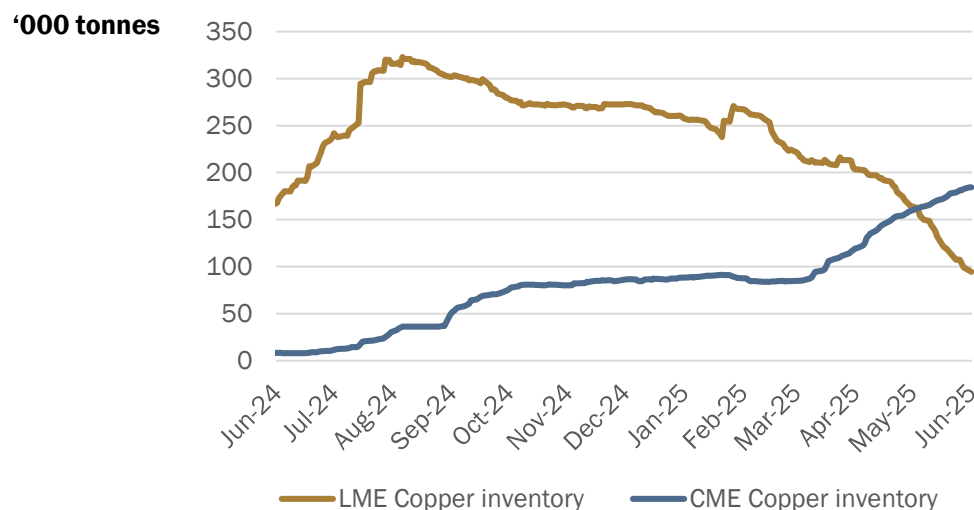
China's manufacturing PMI

- China's manufacturing activity shrank for a second month in May, reflecting tariff impacts and raising expectations for more stimulus measures from Beijing to support the economy under the US-China trade war.
 - The official manufacturing PMI improved slightly to 49.5 in May from 49.0 in April but stayed below the 50-mark separating growth from contraction.
 - China's Caixin Manufacturing PMI fell to 48.3 in May from 50.4 in April, missing analysts' expectations of 50.7 and marking the first contraction since September last year. It was also the lowest reading in 32 months. The gauge for new export orders fell to its lowest level since July 2023.

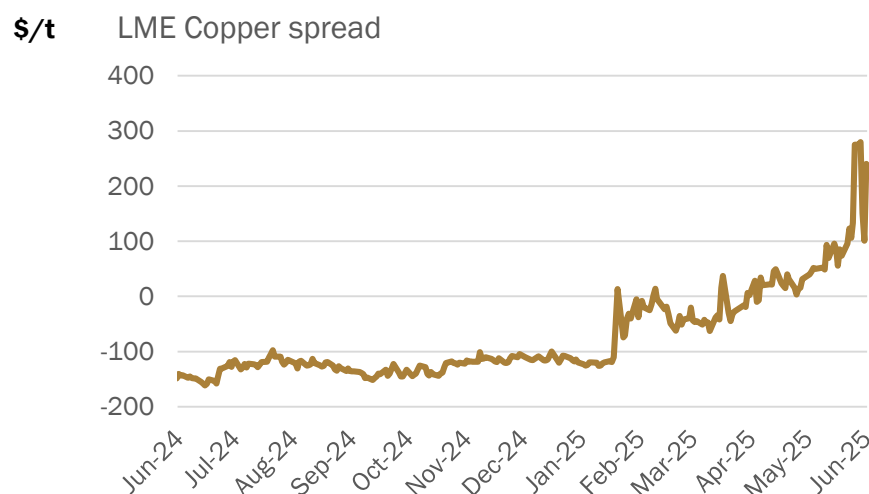


Copper Market Analysis

Copper faces the biggest squeeze as LME inventories drop significantly



Source: LME



Source: China Customs; SHFE

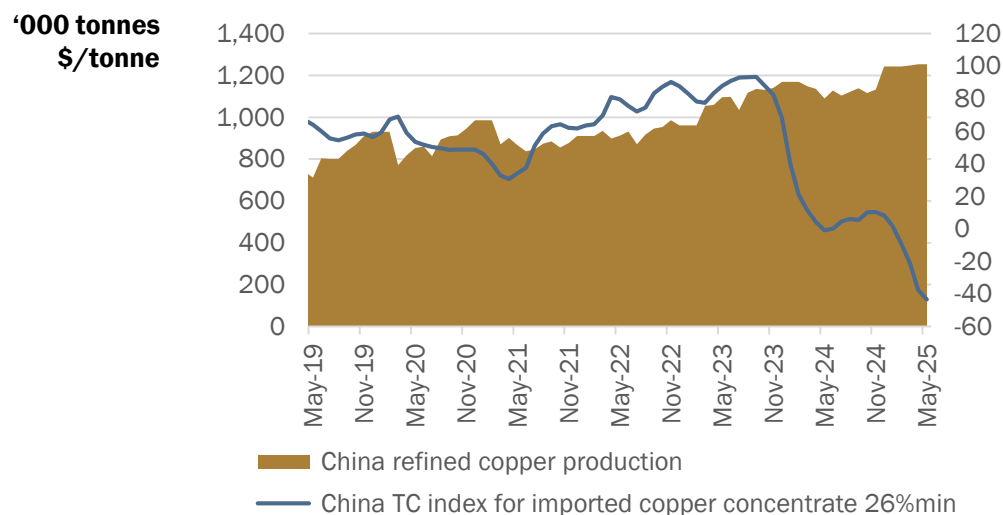
LME and CME copper inventory

- Earlier this year, US President Trump launched a probe into potential tariffs on copper imports. Traders quickly responded by shipping large volumes of copper from Asia and Europe to the US, aiming to profit from the price gap before tariffs were imposed. In March, the CME-LME copper spread peaked at \$1,600/t and remains elevated near \$1,000. US copper imports hit a record 170,000 tons in April.
- As a result, LME copper stocks have plummeted, while CME inventories have increased over the same period. Readily available copper inventories on the LME have declined by 80% this year, now equating to less than a day of global consumption. Buyers outside the US are facing increasing difficulty securing physical copper.

LME Copper spread surge in June

- As LME copper inventories have declined significantly, the spot price of copper has surged relative to the three-month futures, with the premium reaching as high as \$280 per ton, the highest level seen since the record spike in 2021. This sharp spot premium, known as a backwardation, is a clear signal of a supply shortage in the market. Although the premium has since eased from its peak, it remains elevated.
- Some Chinese smelters are planning to export at least 30,000 tonnes of copper to LME Asia's warehouses in the coming weeks to cover their positions on the exchange. The shipment could increase further if the tightness persists. Besides, the planned Chinese exports are already supporting premiums for copper shipments to Shanghai.

Domestic copper demand weakened amid the end of the peak season



Source: National Bureau of Statistics of China; SMM International

Production cuts at Chinese copper smelters have been limited

- Chinese copper production remained at record levels of 1.245 million tonnes in May, even as spot treatment charges have turned deeply negative amid insufficient supplies of copper ores. Falling TC/RCs have put financial pressure on Chinese copper smelters. However, large-scale production cuts haven't materialised, as surging by-product prices — especially sulfuric acid and gold — have helped offset losses and keep operations running.
- Meanwhile, the surge in Chinese copper production is squeezing smelters outside of China. Japan's largest refined copper producer, JX Advanced Metals, has begun scaling down its smelting operations and is shifting its strategic focus toward its recycling business.

Yangshan copper premium

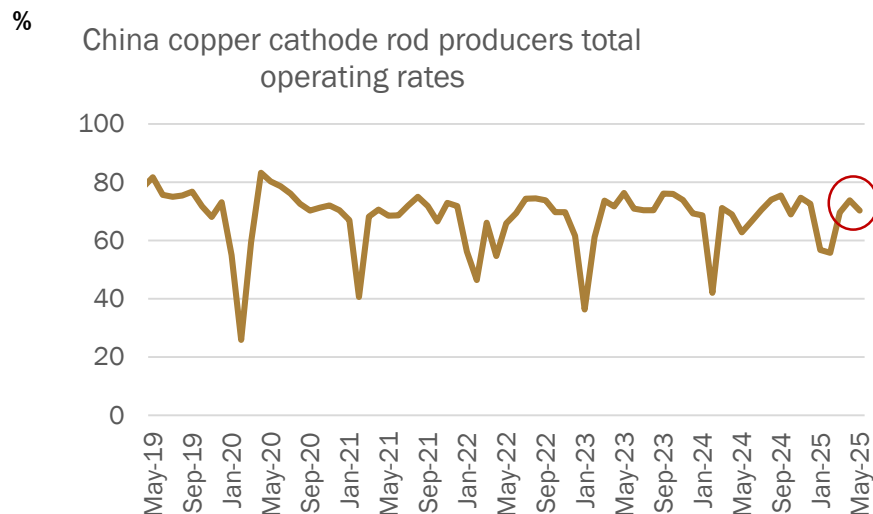


Source: SMM International

Yangshan copper premium fell in June due to a seasonal slowdown in demand

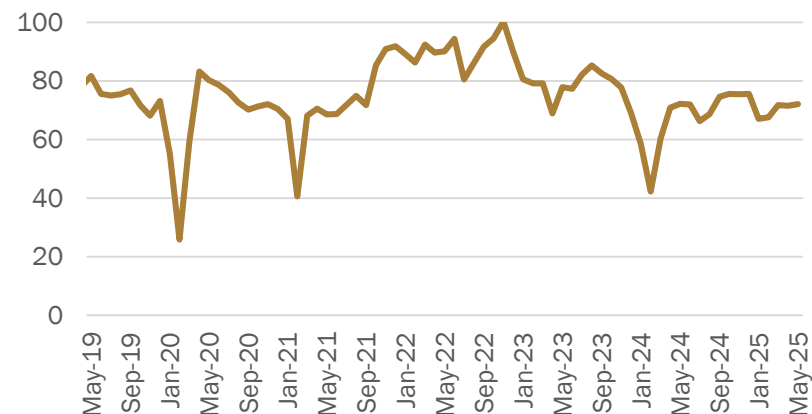
- In early April, LME 3-month copper prices briefly dropped to around \$8,000 per ton, triggering a surge in demand from fabricators. This price dip led to a rise in the Yangshan copper premium, reflecting increased import appetite. However, starting in May, the premium began to retreat from its peak and saw a sharp decline in June.
- The weakening premium trend is largely due to a seasonal slowdown in copper demand from downstream factories in China, following the end of the spring production peak. Operating rates among copper cathode rod producers and copper tube manufacturers also declined last month, signalling softer industrial activity and reduced raw material consumption.

Some Chinese copper downstream producers cut operating rates in May

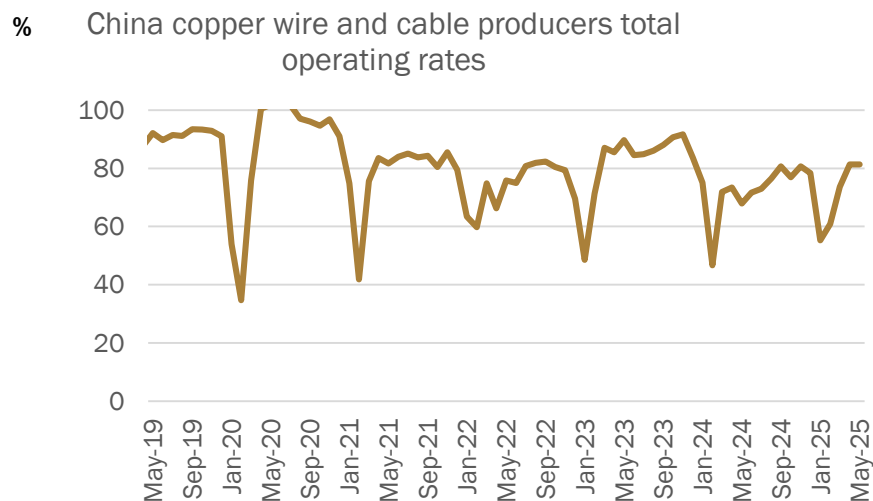


Source: SMM International

China copper foil producers total operating rates

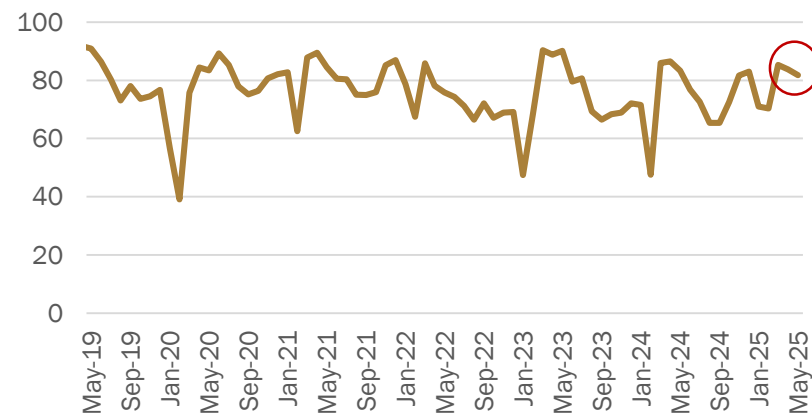


Source: SMM International



Source: SMM International

China copper tube producers total operating rates



Source: SMM International

China's property market slump has dragged on for four years



Source: National Bureau of Statistics of China

China's housing market shows little sign of improvement despite government support

- China's housing slump has dragged on for four years, with little sign of improvement despite government support. In May, the floor area of newly started housing projects, housing under construction, and completed housing all continued to decline year-on-year. New home prices fell by the most in 7 months, and residential property sales also dropped.
- The deeper underlying reasons include China's shrinking population and the declining ability of younger generations to purchase homes. China has introduced a requirement for state-owned developers to avoid defaulting on publicly issued debt. Most of the largest private developers have defaulted since 2021, leaving behind huge debt that currently stands at nearly \$140 billion.



Source: SMM International

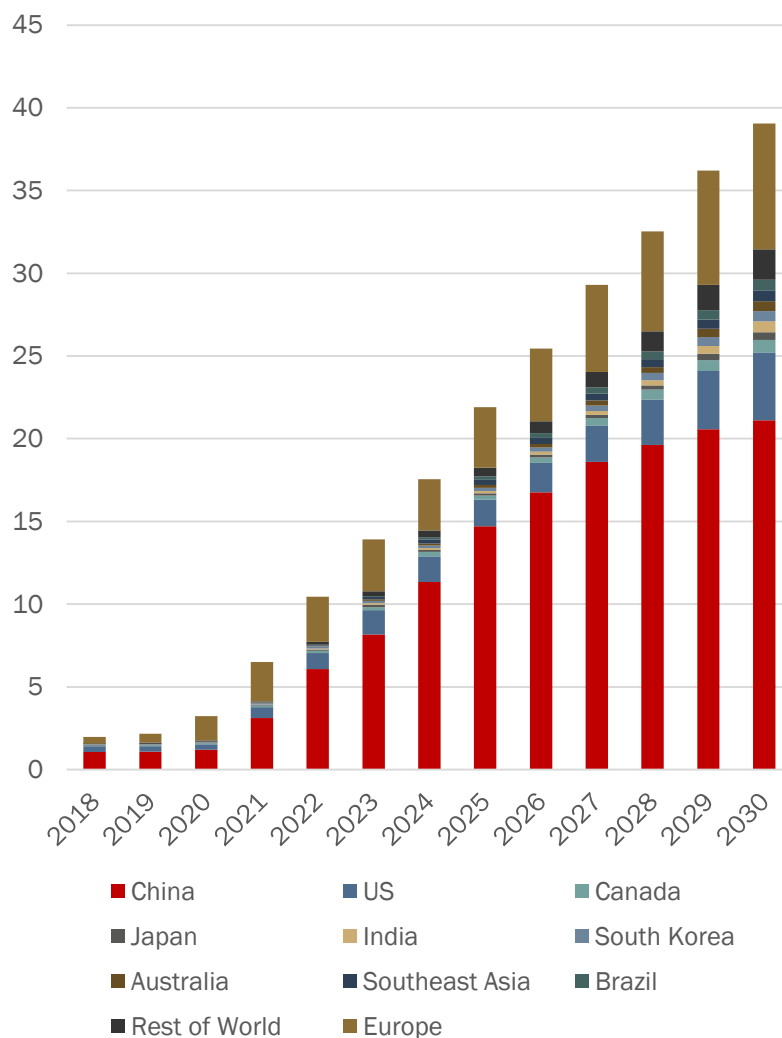
Tightening trends in China's copper scrap market

- Copper scrap imports are expected to drop sharply in May and June due to the ongoing Sino-US trade tensions, further tightening an already constrained secondary copper supply environment. Falling imports are likely to worsen low inventory levels.
- Amid tight supply, premiums for secondary copper raw materials remain elevated. Loss-making secondary copper rod producers have shifted some capacity toward copper anode production, which is then supplied to smelters. This has led to a slight decline in copper scrap consumption. However, this adjustment has not been sufficient to ease the shortage in the blister copper and anode markets.

Global EV sales are expected to increase by 25% in 2025, driven by China

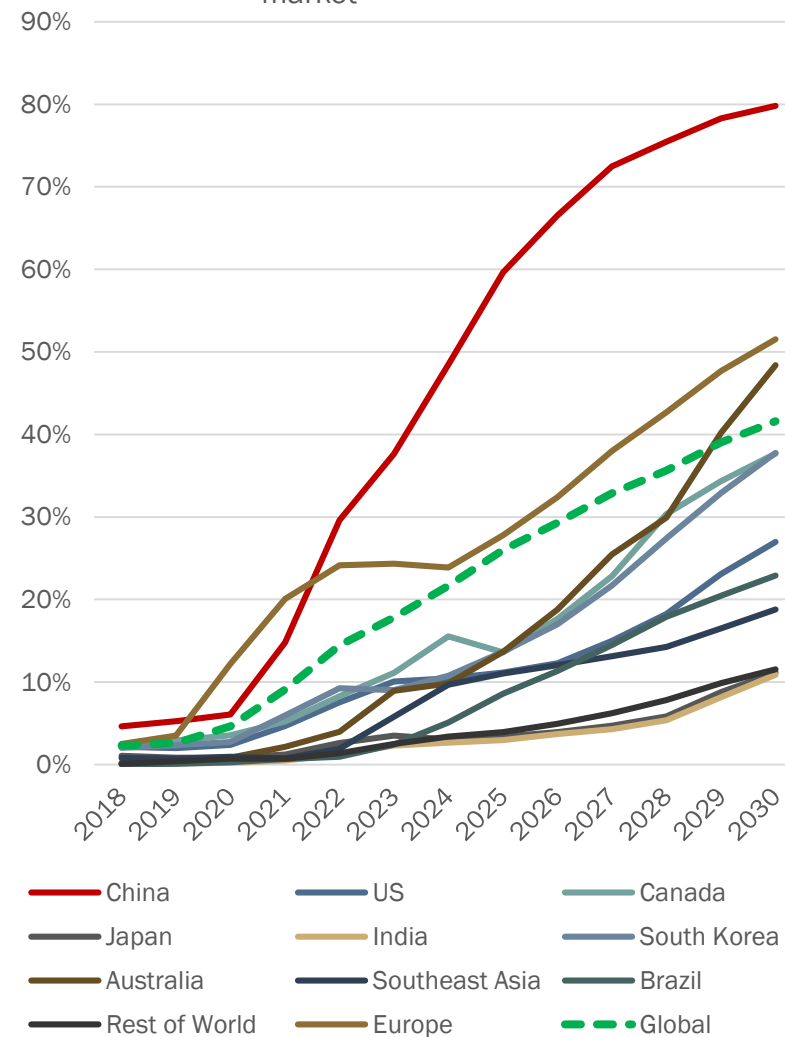
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Global passenger EV sales forecast, Million units



Source: BloombergNEF

EV share of new passenger vehicle sales by market

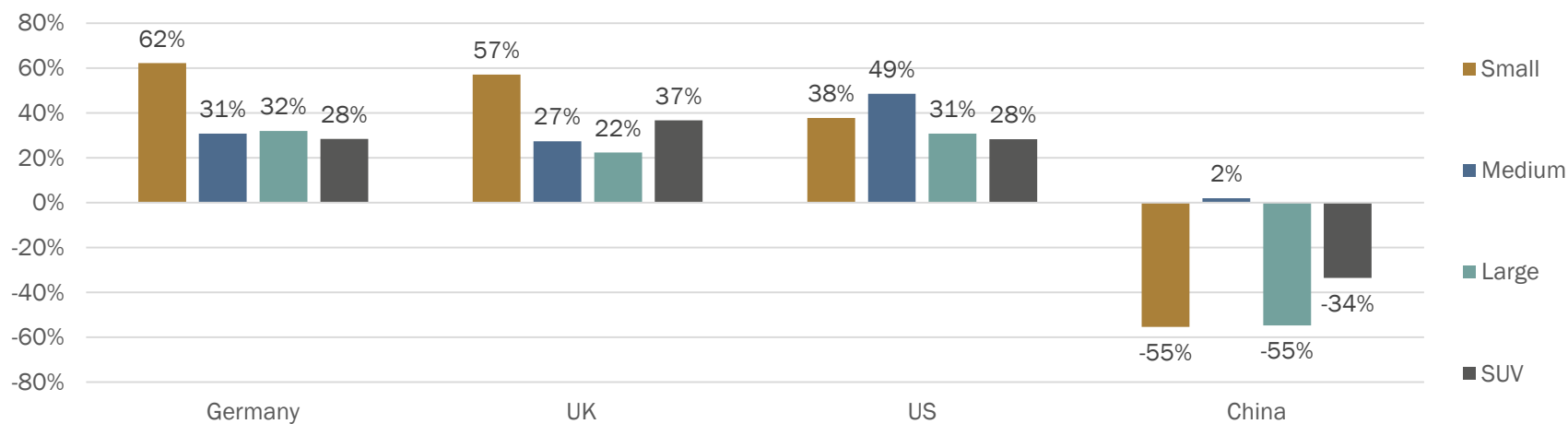


Source: BloombergNEF

Sales of conventional vehicles have peaked; BEV sales keep growing

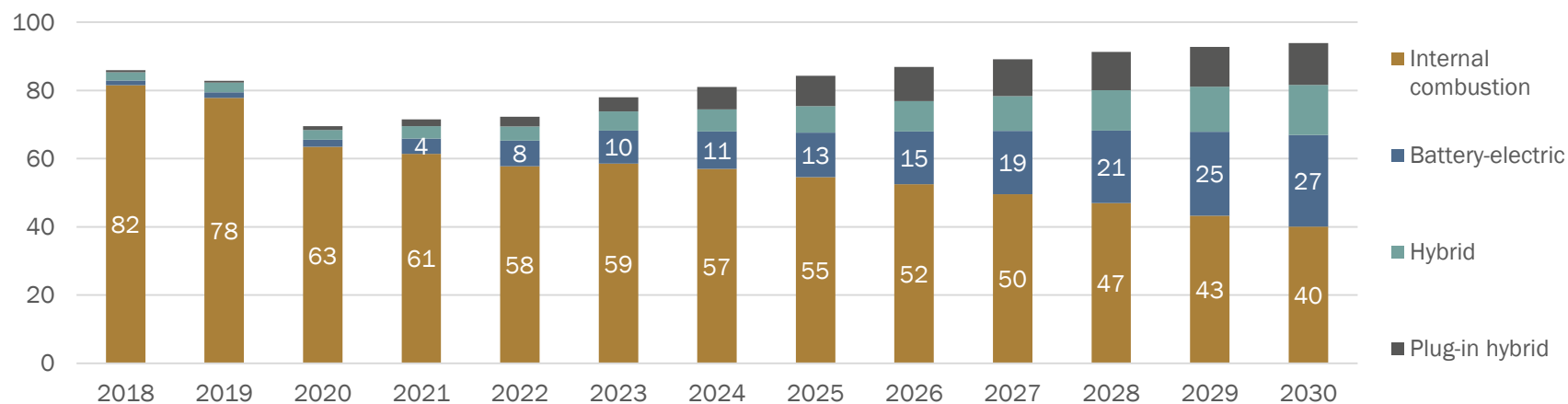
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Battery-electric vehicle price premium over combustion cars, 2024



Source: BloombergNEF

Global passenger-vehicle sales by drivetrain, Million units



Source: BloombergNEF



Copper Price Outlook

Copper price outlook

Copper price outlook – Short term

Bullish

- The ceasefire announced between Iran and Israel has improved investor risk appetite, providing support for base metal prices.
- The US dollar has continued to weaken throughout this year and is now trading at its lowest level since April 2022.
- Tariff threat has led to a surge in copper shipments to the US, resulting in a sharp decline in copper inventories at the LME and SHFE.
- The reduction in US scrap copper imports and the decline in China's secondary copper raw materials supply further tighten the domestic copper market.

Bearish

- The Fed is in no rush to cut interest rates, as it needs more time to assess the impact of Trump's tariff on inflation.
- Given current negotiations, it appears unlikely that Trump will reach trade agreements with key partners ahead of the July 9 deadline.
- Under US tariffs, China's manufacturing activity has contracted for two consecutive months, weighing on the outlook for copper demand.
- Despite severe oversupply, production cuts at Chinese copper smelters have been limited, as rising by-product prices help offset losses.
- Yangshan copper premium dropped in June due to a seasonal slowdown in copper demand from downstream factories.

Copper price outlook – Medium to long term

Bullish

- EV sales are set to grow strongly this year, with continued market expansion expected to provide sustained support for copper demand.
- The development of AI data centers and related infrastructure is also expected to drive further increases in copper demand.

Bearish

- Geopolitical risks in the Middle East have not been fully eliminated, and Iran's nuclear program has only been set back by a few months or years
- Trump's reciprocal tariff policy has weighed on US economic growth, worsened inflation, and increased the risk of economic stagnation.
- The long-term weakness in China's real estate market poses a significant obstacle to economic recovery.

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