ICBCS Copper Market Outlook

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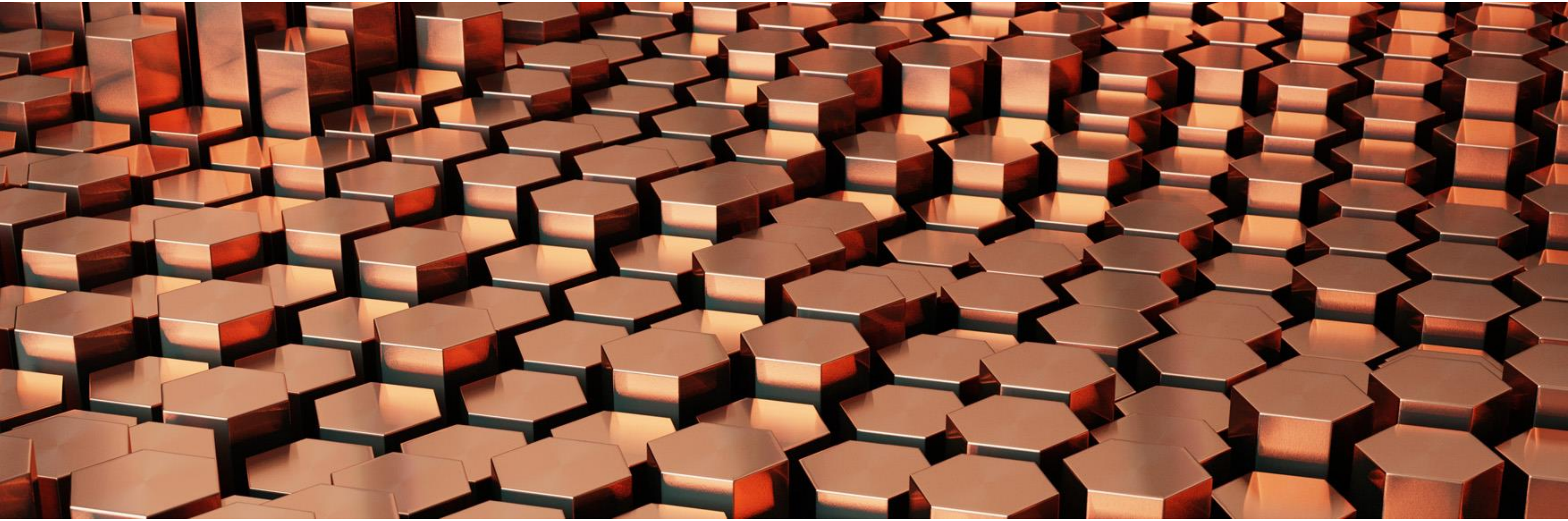
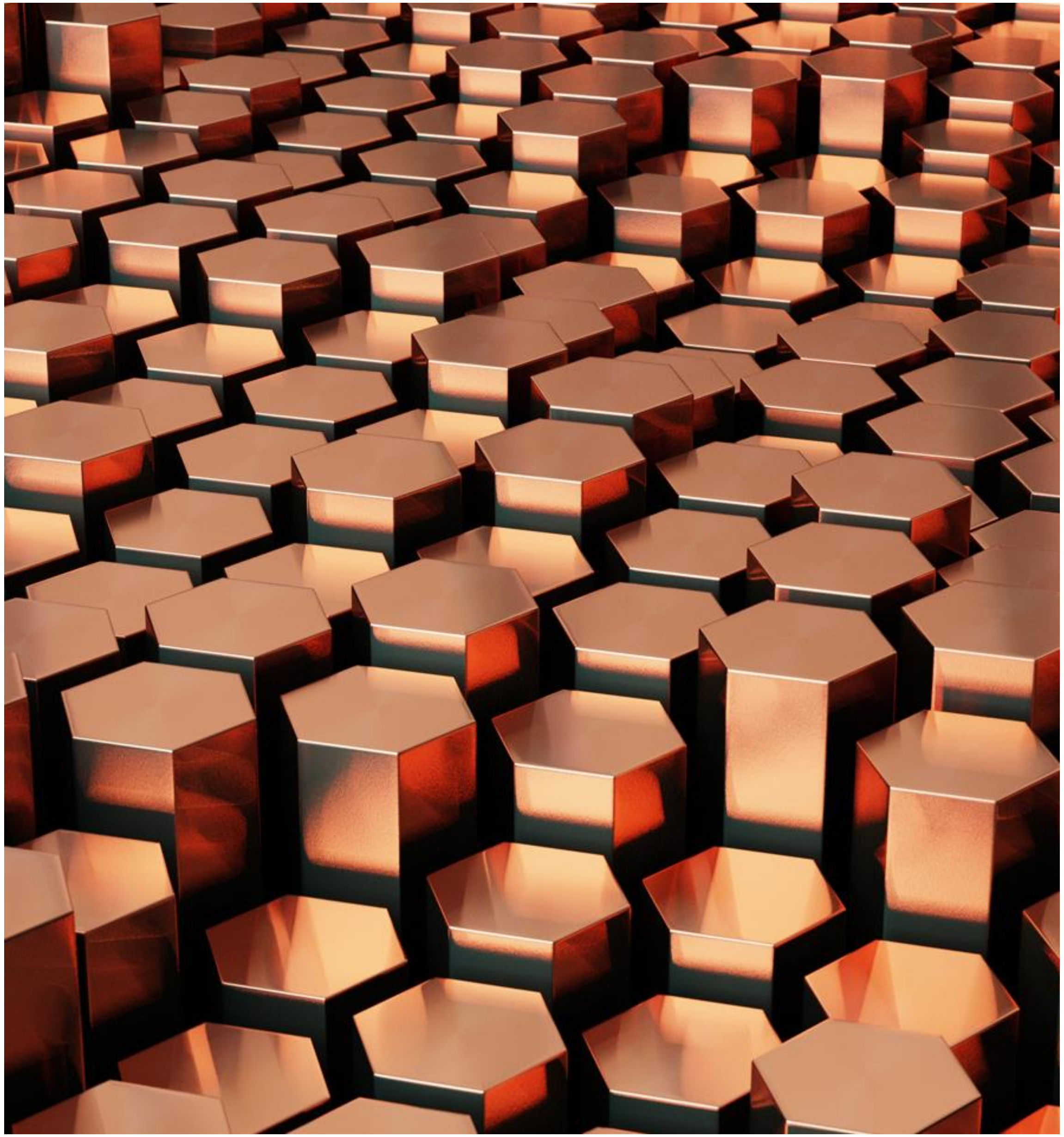
May 2026





Global Economic Outlook

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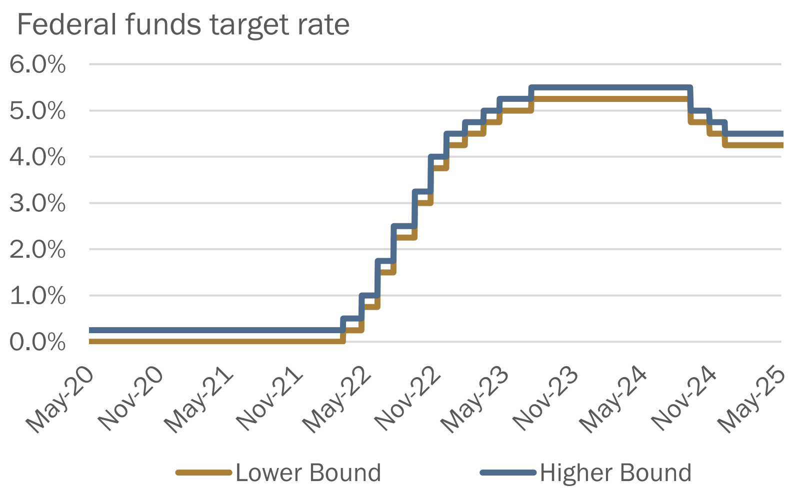
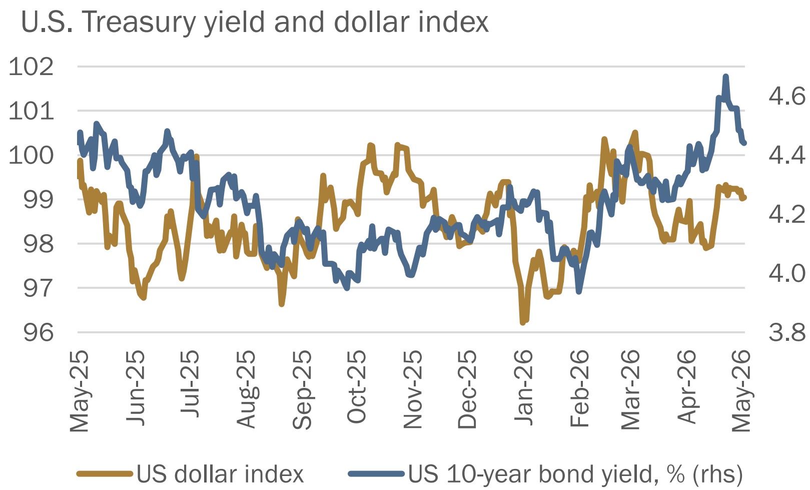
Fed Keeps Rates on Hold as US–Iran Situation Remains Highly Uncertain



Source: Federal Reserve



Source: Bloomberg

U.S. Interest Rate

- The Fed announced that the FOMC has decided to keep the federal funds target range unchanged at 3.50%–3.75% in April. This marks the third consecutive policy meeting in 2026 at which the Fed has paused. While the decision was broadly in line with expectations, the voting outcome highlighted growing divisions over the Fed's future monetary policy path.
- The Senate voted on May 13 to confirm Kevin Warsh as the next Federal Reserve Chair, succeeding Jerome Powell, marking the start of a new policy cycle for the Fed. Warsh faces a more challenging macro environment: the Iran conflict has pushed up energy prices and intensified inflationary pressures, significantly cooling market expectations for near-term rate cuts and even prompting discussions of potential rate hikes around 2027.

U.S. Treasury Yield and Dollar

- The dollar index edged higher following the April CPI release. In the final week of May, the US and Iran agreed in principle to extend a ceasefire by 60 days, a development that offered the market some breathing space and helped cool oil prices, with Brent down around 10% over the month.
- However, upside risks to inflation remain. The Strait of Hormuz is still effectively closed, and even if it were to reopen immediately, a full recovery in shipping flows would likely take several months. In addition, part of the refining capacity had previously been shut due to damage and storage constraints, and any restart of these facilities will be gradual and time-consuming. Against this backdrop, Warsh will need to balance political pressures with inflation realities, leaving limited room for policy easing in the near term, keeping the dollar supported.

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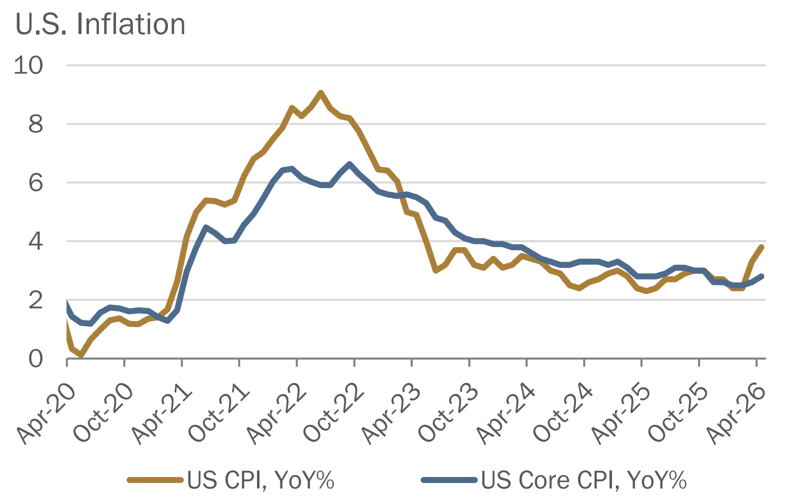
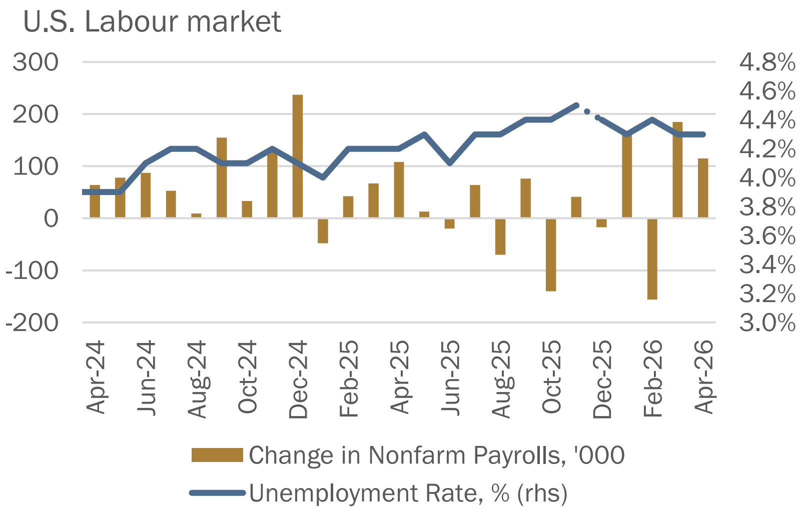
Supply Constraints Keep Inflation Rising, Delaying Fed Easing This Year



Source: Bureau of Labour Statistics

U.S. CPI and Core CPI

- U.S. inflation accelerated further in April, as rising gasoline prices driven by the Iran war continued to push energy costs higher, underscoring the growing economic impact of the conflict. Underlying inflation pressures, however, also showed clearer signs of firming.
  - U.S. CPI climbed to 3.8% y/y in April, the fastest pace since 2023, above both the previous 3.3% reading and the 3.7% consensus forecast. CPI rose 0.6% m/m, in line with expectations and easing from March's 0.9% increase.
  - Core CPI increased to 2.8% y/y from 2.6%, exceeding the 2.7% forecast. Core CPI rose 0.4% m/m, above expectations of 0.3% and the prior month's 0.2% gain.



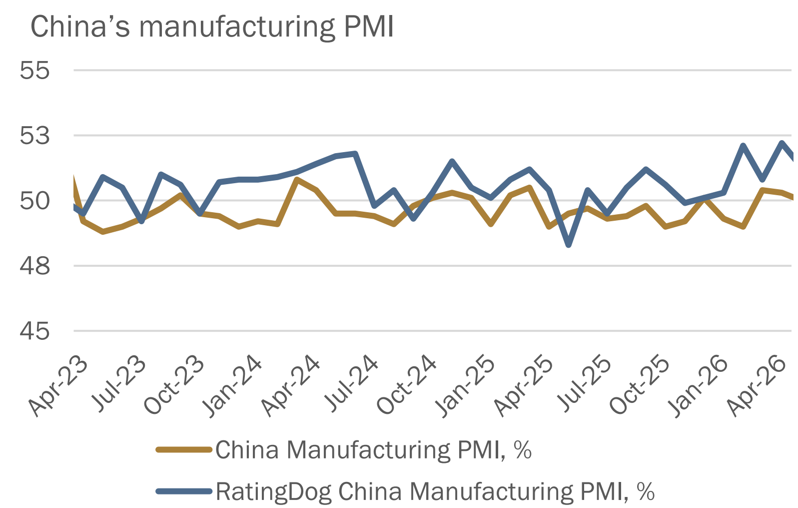
Source: Bureau of Labour Statistics

U.S. NFP and Unemployment Rate

- Signs of stabilisation in the US labour market continued to strengthen in April, supporting the case for the Federal Reserve to keep rates on hold. Key uncertainty remains whether the prolonged Iran war could eventually weigh on hiring, as the conflict has pushed inflation higher and driven consumer confidence to record lows.
  - The US added 115,000 jobs in April, marking a second consecutive monthly gain and the first such streak in nearly a year. While below March's revised 185,000, payroll growth exceeded economists' expectations of 65,000.
  - The unemployment rate held steady at 4.3%, in line with expectations. Average hourly earnings rose 0.2% m/m, slightly below the 0.3% consensus.

China Manufacturing Activity Continues to Improve Amid Solid Exports

Source: National Bureau of Statistics of China



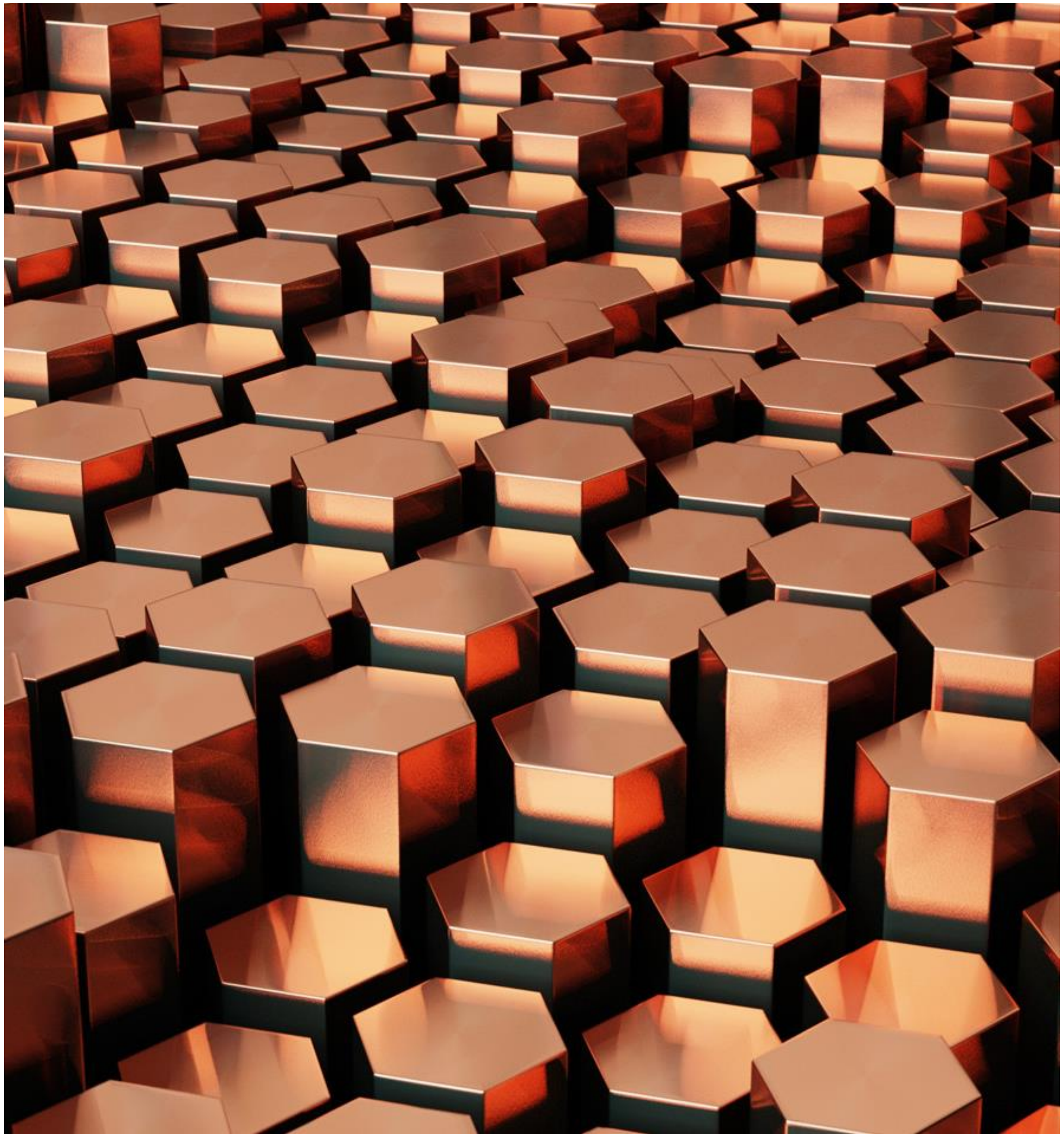
Source: China Federation of Logistics and Purchasing; S&P Global

China's Industrial Production and Retail Sales

- China's economy showed a firmer start to 2026 with Q1 GDP growth rising to 5.0% y-o-y from 4.5% in Q4. Early momentum was supported by exports, although rising geopolitical tensions have increased external uncertainty.
  - Industrial production growth eased to 5.7% y-o-y in March from 6.3% in January–February, while retail sales slowed to 1.7% y-o-y, down from 2.8% in January-February.
  - Fixed-asset investment growth moderated slightly, with YTD growth at 1.7% y-o-y versus 1.8% in the first two months. Property investment continued to decline alongside falling home prices.

China's Manufacturing PMI

- China's manufacturing activity remained in expansion in April, extending the recovery that began in March, even as rising energy prices and escalating tensions in the Middle East posed new cost pressures. Factory output stayed resilient, supported by solid external demand, while signs of moderation emerged in overall new orders.
  - The official manufacturing PMI edged down to 50.3 in April from 50.4 in March, beating expectations of 50.1 and marking a second consecutive month above the expansion threshold.
  - The RatingDog China Manufacturing PMI jumped to 52.2 in April from 50.8 in March, well above expectations and the strongest reading since late 2020.



Copper Market Analysis

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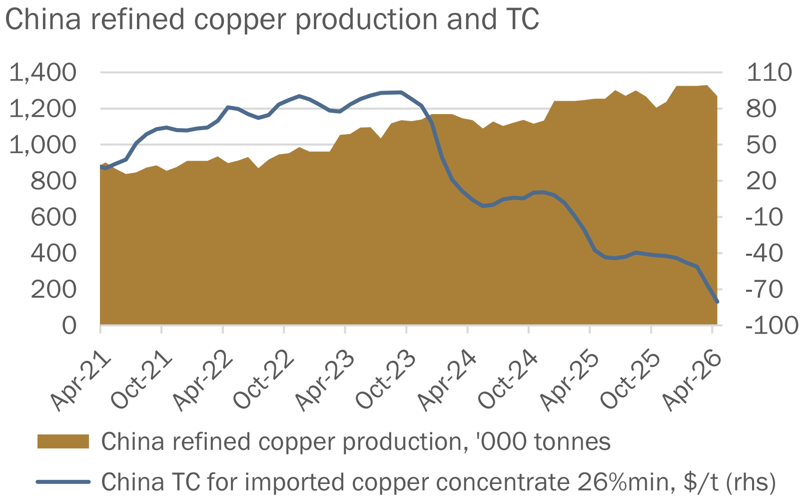
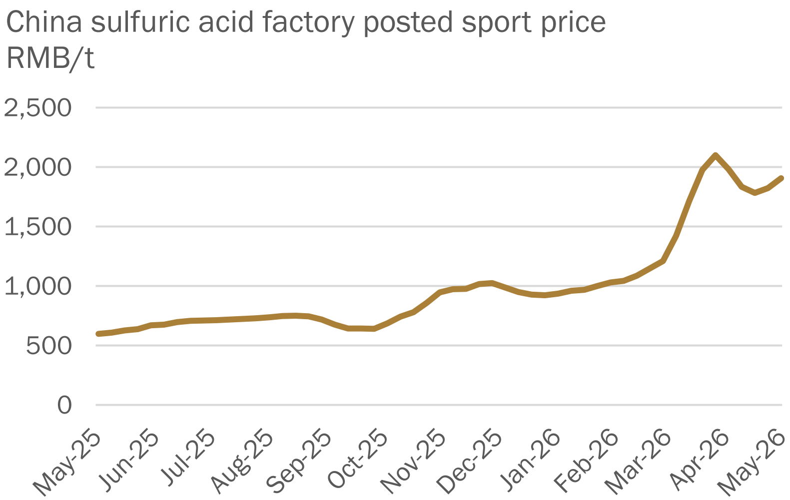
Rising Sulfuric Acid as Primary Profit Source for China's Copper Smelters



Source: National Bureau of Statistics



Source: Bloomberg; Green Markets

China Refined Output Stays Near Record Highs Despite Deeply Negative TCs

- Since early 2025, spot copper TCs have turned negative and continued to deteriorate, reflecting a shortage of copper concentrates driven by mine disruptions and declining ore grades. As a result, smelters have increasingly had to pay to secure feedstock.

- In theory, such negative margins should have triggered large-scale production cuts across the smelting sector. However, in reality, global refined copper output has remained resilient and continues to grow. Taking China as an example, refined copper production declined modestly by 4.6% month-on-month to 1.27 million tonnes in April, but still remained close to historical highs.

Rising Sulphuric Acid Prices Help Offset Negative TCs in China

- The continued closure of the Strait of Hormuz and China's export ban on sulphuric acid have driven sulphur and sulphuric acid prices sharply higher, with Chinese sulphuric acid prices reaching around RMB 1,906/t, up 86% year-to-date. This surge in by-product prices has helped Chinese copper smelters maintain profitability despite deeply negative TCs.

- From a cost pass-through perspective, sulphuric acid generated from smelting one tonne of copper can contribute roughly RMB 4,000 in by-product revenue, based on the average price over January–April 2026. Sulphuric acid by-product revenue has become the decisive cash flow source for maintaining high operating rates under the extreme negative TCs.

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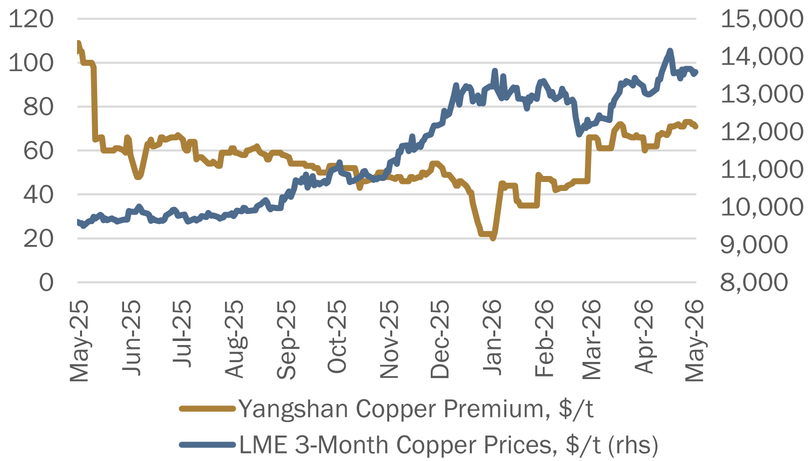
Copper Supply Tightens as Strong China Demand Meets Rising US Inflows

China Yangshan copper cathode premium

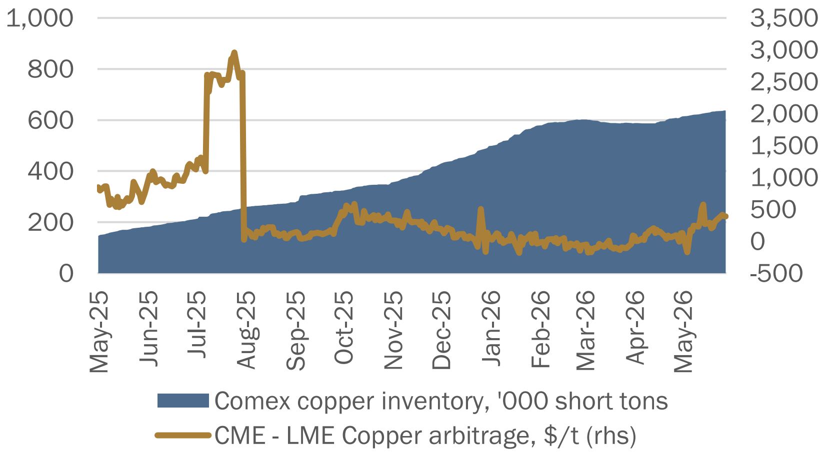


Source: National Bureau of Statistics

Demand for imported copper remains strong despite elevated LME Copper Prices

- LME 3-month copper prices have remained strong recently, hovering near historical highs, supported by tightening sulfuric acid supply, a temporary ceasefire between the US and Iran, and a broader risk-on sentiment driven by gains in AI-related equities.
- Despite elevated global copper prices, China's demand for imported copper has stayed resilient, with the Yangshan copper premium continuing to rise in May. This reflects post-Lunar New Year industrial activity and the peak manufacturing season, as operating rates across downstream sectors have all improved. However, as the market transitions into the summer off-season, downstream purchasing activity is expected to slow notably.

Copper arbitrage and COMEX inventory



Source: Bloomberg; COMEX

Copper Tariff Trade Returns as Global Flows Redirect Toward the US

- The US Department of Commerce is required to submit an updated assessment of the copper market by June 30, which is expected to lay the groundwork for potential tariffs from January 2027. The Department has previously recommended a 15% tariff on refined copper imports.
- Global traders have once again begun redirecting inventories toward the US. The nearby Comex copper futures contract is now trading at a premium of over $500 per tonne to LME spot prices — the first time since last autumn. Market participants anticipate that US copper imports could soon rebound to 150–200kt per month, with traders reportedly withdrawing hundreds of millions of dollars' worth of copper from LME warehouses last week to capture the Comex premium.

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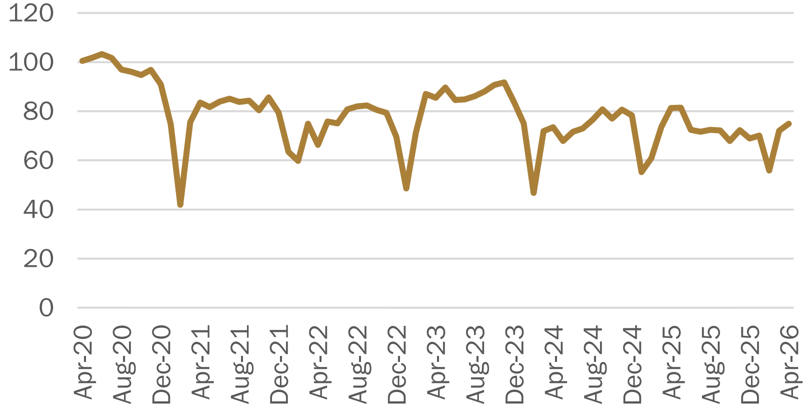
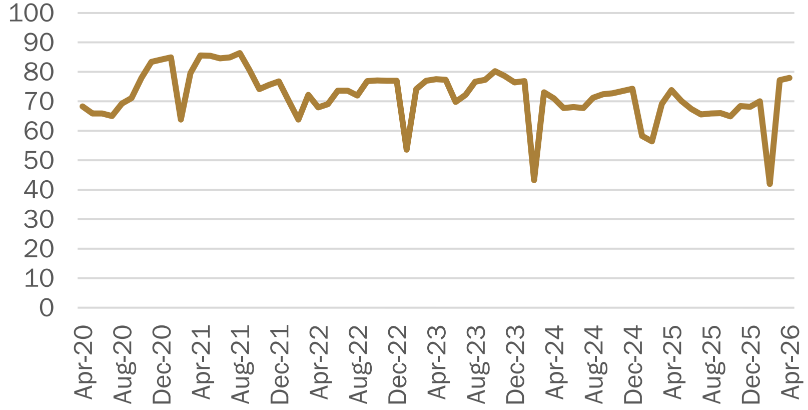
China Copper Downstream Operating Rates Picks Up in Peak Season

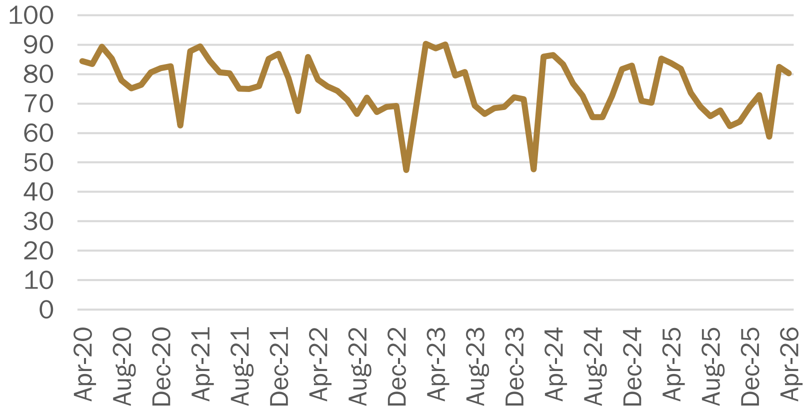
China copper wire and cable producers total operating rates, %



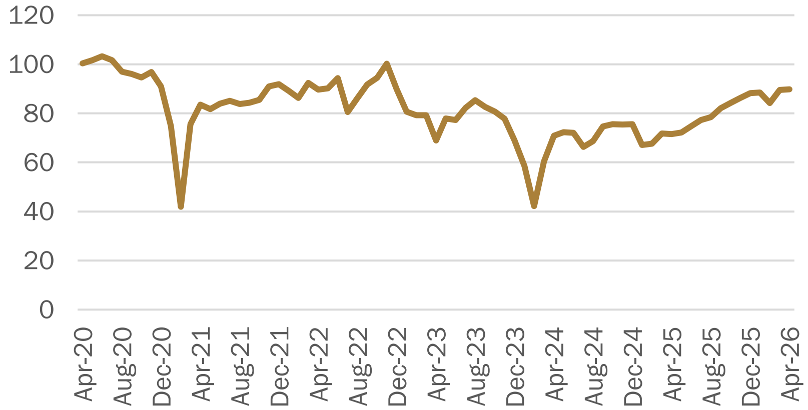
China copper plate/sheet and strip producers total operating rates, %



China copper tube producers total operating rates, %



China copper foil producers total operating rates, %



Source: SMM International

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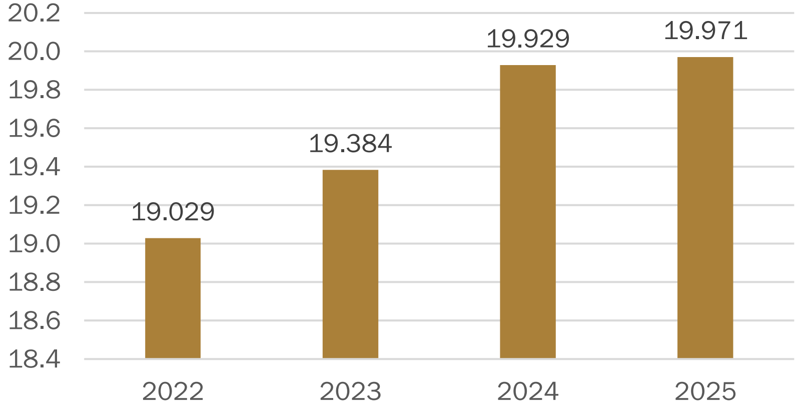
Frequent Mine Disruptions Constrain Sulfide Copper Ore Output in 2025

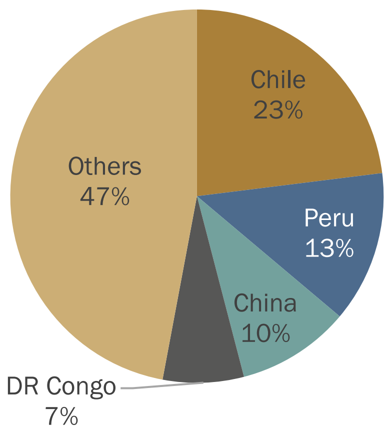
Global sulfide copper ore production
Million tonnes



Source: SMM International

Country	Project name	Estimated annual impact volume
Chile	El Teniente	54,000 tonnes
Chile	QB	40,000 tonnes
DR Congo	Kamoa-Kakula	181,000 tonnes
Indonesia	Grasberg	200,000 tonnes
Chile	Collahuasi	70,000 tonnes
Chile	Antamina	10,000 tonnes
Canada	HVC	20,000 tonnes

Global sulfide copper ore production share in 2025



Source: SMM International

Copper Ore Production Remains Exposed to Disruptions

- Chile accounts for around 23% of output, followed by Peru at 13.1%, China at 9.8% and the DRC at 7%, together contributing well over half of global supply.
- Frequent mine disruptions throughout the year introduced significant volatility to the market. Frequent mine disruption events in 2025 brought many unexpected disturbances. Production interruptions at copper mines such as El Teniente in Chile, Kamoa-Kakula in DRC, Grasberg in Indonesia, Inner Mongolia Mining in China, Snow Lake in Canada, and QB in Chile all caused varying degrees of negative impact. According to SMM estimates, global copper mine production is projected at around 19.97 million tonnes in 2025, broadly flat year-on-year

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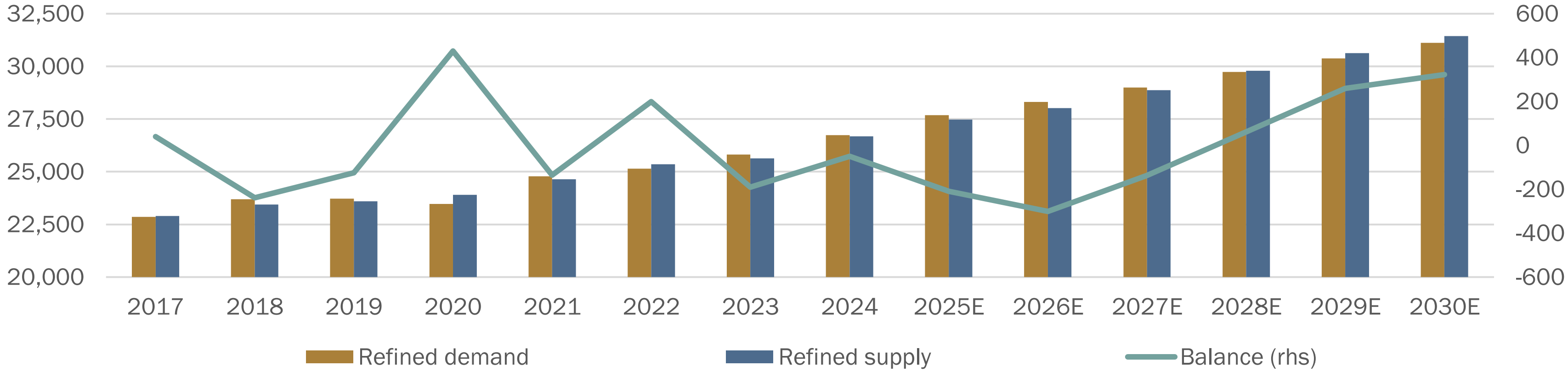
Global Copper Deficit Expected To Widen In 2026 on Mine Disruptions

BI base scenario: Refined copper supply, demand, balance
'000 tonnes



Source: Bloomberg Intelligence

Risk 1: China's Stimulus Could Deepen Deficit

- Stronger policy support (autos, infrastructure, renewables) could keep China's copper demand growth above base-case expectations
- If demand slows only to ~3% in 2026 (vs 1.8% base case), deficits could widen materially to ~490–500kt and persist through 2028

Risk 2: Fewer Mine Disruptions Could Narrow Deficit

- Mine supply has consistently underdelivered, but current guidance already embeds conservative disruption assumptions
- If disruptions fall back toward pre-pandemic levels (~4%), deficits in 2026–27 could narrow to below 100kt, bringing the market closer to balance

Risk 3: Destruction Could Rebalance the Market

- High prices could accelerate substitution (aluminium) and increased scrap usage, weighing on refined demand
- A further ~1pp slowdown in global demand growth could balance the market in 2026 and shift it into surplus by 2027

Source: Bloomberg Intelligence

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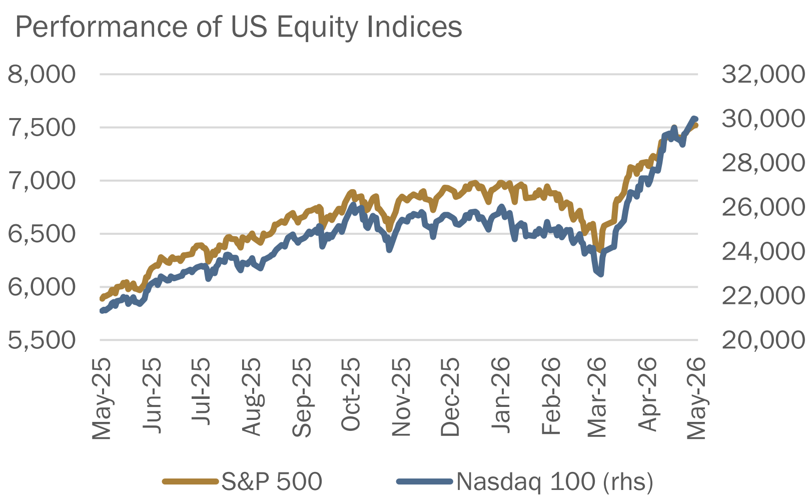
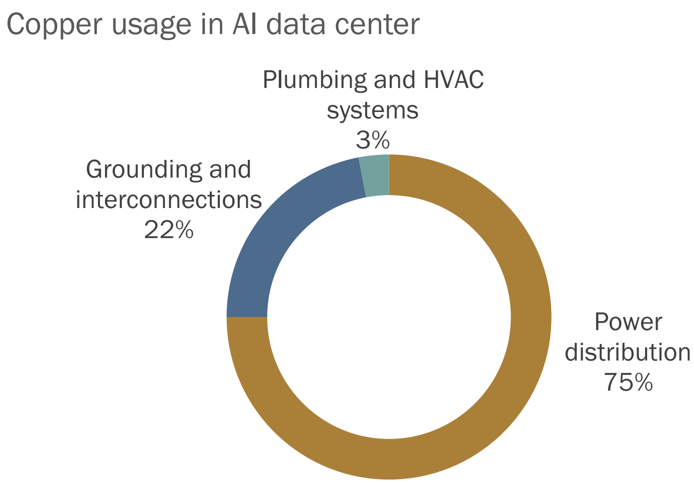
AI-Driven Equity Rally Driving Copper Demand And Price Momentum



Source: Bloomberg



Source: BlueWeave Consulting

Copper Supported By Tech-Led Equity Rally And AI Demand Optimism

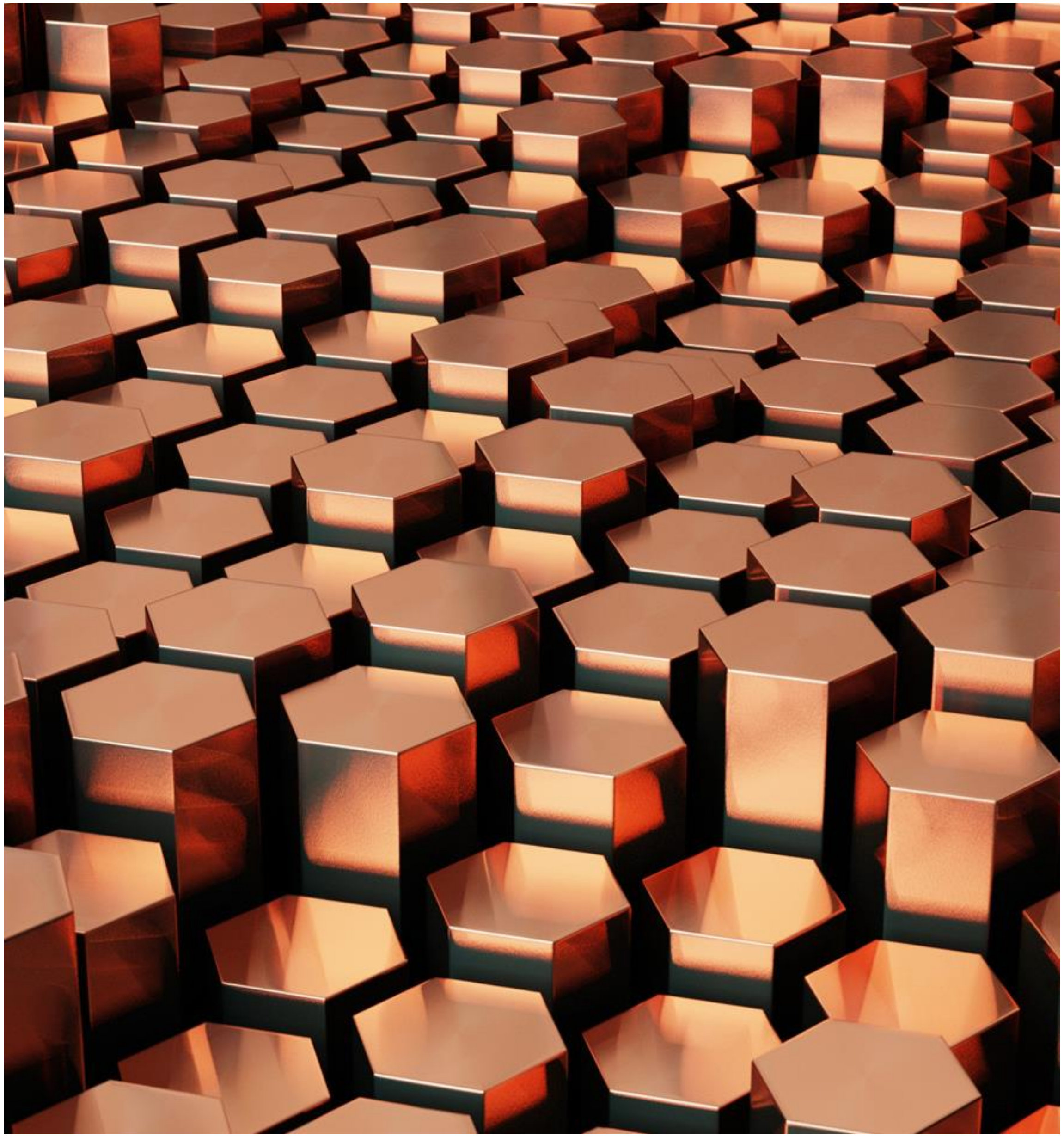
- U.S. equities have had a strong rally since April. As concerns around the Middle East conflict gradually receded and oil prices pulled back, markets shifted their focus back to fundamentals, with Q1 earnings significantly outperforming expectations, reinforcing confidence in the resilience of the U.S. economy.

- At the same time, a powerful re-acceleration in the AI and semiconductor complex has led the rally, with chip stocks and mega-cap technology names delivering standout gains. This strong performance in AI-linked equities has also spilled over into commodities, particularly copper, as improving expectations for data centre build-out and electrification have strengthened the outlook for future copper demand.

Copper Is A Critical Metal For AI Data Centers

- Copper plays a critical role in AI-driven data centres. Each megawatt (MW) of data centre capacity requires roughly 27 tonnes of copper. Around 75% is used in power distribution systems, including cables, busbars and transformers, while 22% is allocated to grounding and interconnections, ensuring system stability and reliability, and the remaining 3% is used in plumbing and HVAC systems.

- Copper's effectiveness stems from its unique combination of properties: its high electrical conductivity enables efficient energy transmission, strong thermal conductivity supports cooling systems and heat dissipation, and its ductility allows for compact, complex components such as connectors and wiring. In addition, copper is fully recyclable without loss of performance, reinforcing its importance as a sustainable material.



Copper Price Outlook

Copper price outlook

Copper price outlook – Short term	
Bullish	• The Iran war has disrupted sulphur supply and lifted prices, threatening acid-leach copper production in Chile and the Democratic Republic of Congo. • Despite strong LME copper price performance, rising downstream operating rates and higher Yangshan copper premiums indicate robust domestic demand. • Renewed concerns about US import tariffs have once again driven large volumes of copper to the US, tightening regional supply. • The recent rally in AI-related tech stocks has also benefited copper prices.
Bearish	• Energy prices remain elevated, forcing central banks to keep interest rates higher for longer. • Surging sulphuric acid prices have significantly boosted profitability for Chinese smelters, with China's refined copper output likely to remain near historical highs. • As the hot summer season approaches and China enters an industrial and manufacturing off-season, copper demand is likely to soften.
Copper price outlook – Medium to long term	
Bullish	• The energy crunch triggered by the Iran war is likely to accelerate energy transition efforts in some countries, boosting demand for copper. • Copper is a key metal for the construction of AI data centers, and demand from this segment is expected to grow rapidly. • Global copper concentrate deficits are expected to persist and worsen due to declining ore grades at existing mines and long development cycles for new projects.
Bearish	• If Middle East tensions persist, rising inflation and prolonged high interest rates could intensify recession risks, weighing on industrial metals demand and leading to price corrections. • China's sluggish property market remains a structural drag on copper consumption from traditional end-use sectors. • Strong long-term copper price prospects could accelerate substitution (aluminium) and increase scrap usage, weighing on refined copper demand. • A sharp correction in US equities following a potential unwind of the AI bubble could weaken investor risk appetite.

Source: ICBC Standard Bank

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