Commodity Idea

July 17, 2025

Index

Copper

Copper – Likely to fall as tariff trade unravels

Summary

- US tariff threats and supply issues caused copper prices to surge to $5.88/pound (COMEX up 38% this year vs. LME's 10%). However, prices corrected due to tariff doubts.
- The US demands 1.5-1.6 MT of refined copper annually, importing most (Chile, Canada, Mexico, Peru). In H1 2025, US imports (881,000 MT) outpaced demand (~441,000 MT), creating a 440,000 MT surplus. US demand is forecast to drop 16% to 1.32 MT this year.
- ICSG predicts a global copper surplus of 289,000 tonnes in 2025 (third consecutive year). Tariff threats initially caused LME backwardation ($379), but this ended post-July 8th tariff announcement. We forecast a Q3 peak ($10,200/t), declining to $8,500 by Q4 2025, with US prices converging with LME.

Fundamental report-based call

Sell LME copper at	$9661
Sell MCX July 2025 copper at	Rs 883.90
Target	$8500
Stop-loss	$10,300
Timeframe	Six months
Rollover required	Yes
Date of Call generation	0/07/2025

Copper Fundamental snapshot

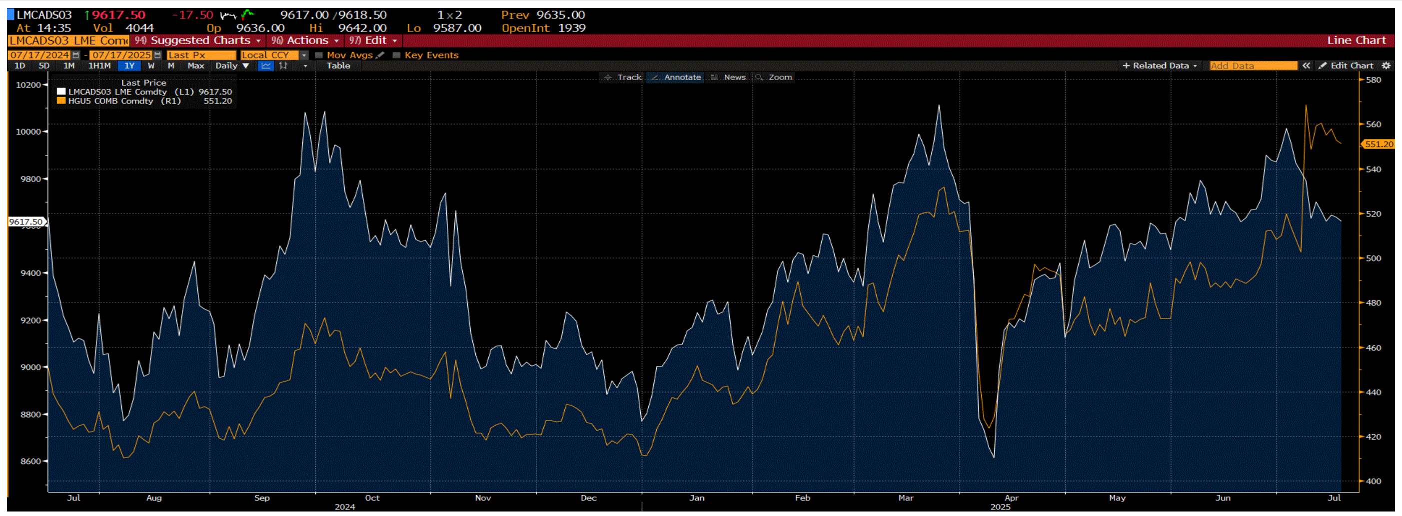
Positive factors

- Abrupt changes in tariff policies
- Weaker US Dollar

Negative factors

- COMEX-LME copper arbitrage opportunity disappearing
- Surplus market
- Trade war leading to global economic concerns
- US warehouses well stocked with copper
- China's economy still struggling

Copper : LME vs Comex



Source: Bloomberg

US Copper industry

Copper joins the US tariff list after steel and aluminium. The US plans to impose a 50% tariff on copper, although this exposes the fragility of the US's copper supply chain. Despite having ample copper resources, the US has only two major smelters. Thus, it heavily relies on imports (for 45% of its refined copper consumption). Chile (51%), Canada (31%), and Mexico (7%) account for bulk of the US's imports. Together with Peru, these nations supply 94% of US copper imports and are all free-trade partners.

Section 232 Tariff Cases and Sector Tariffs

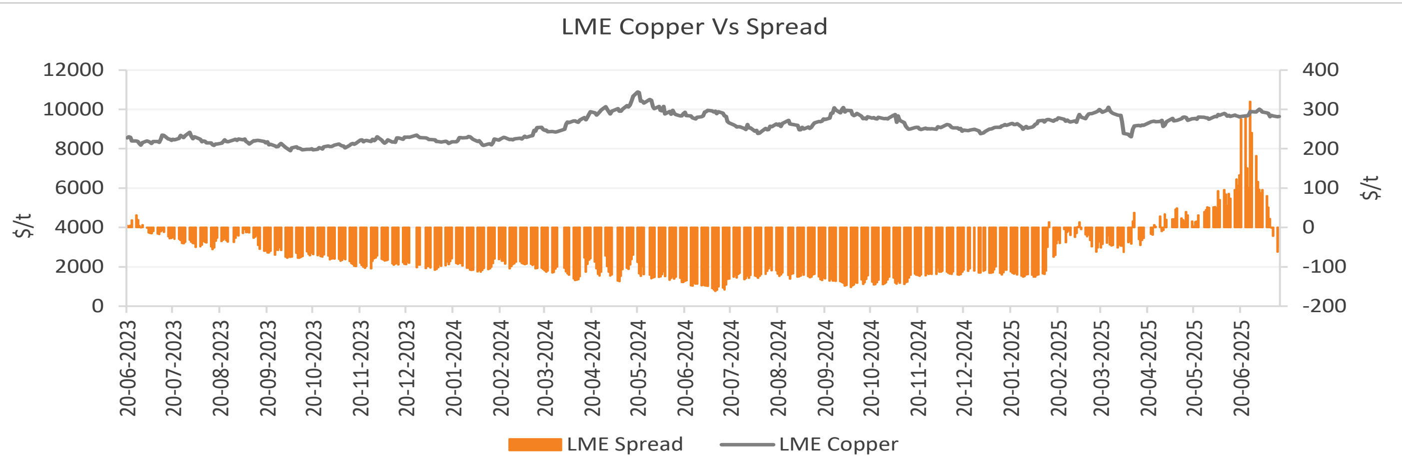
Sector	Status	Status
Automobiles & Auto Parts	Effective 3 May	25%
Steel & Aluminum,	Effective 4 June	50%
Copper,	Effective 1 August	50%

Source: Mirae Asset Sharekhan Research

US Domestic Production Constraints:

It is not feasible for the US to fill the import gap by increasing domestic production in the medium term. Building new smelters is a capital-intensive and time-consuming process with environmental regulatory hurdles as well. Therefore, the 50% tariff will likely be passed on to US consumers and downstream industries, acting as an inflationary tax without boosting domestic output. Yet, we believe that US will continue to need copper because it doesn't have the capacity to replace copper imports from Chile and other countries.

LME cash-to-3-month spread flips into a Contango



Source: Bloomberg

Soon after the tariff announcement, the LME cash-to-3-month copper spread flipped from a steep backwardation to a steep Contango. The current spread stands at $62 (Contango).

Arbitrage Opportunity on price divergence disappearing

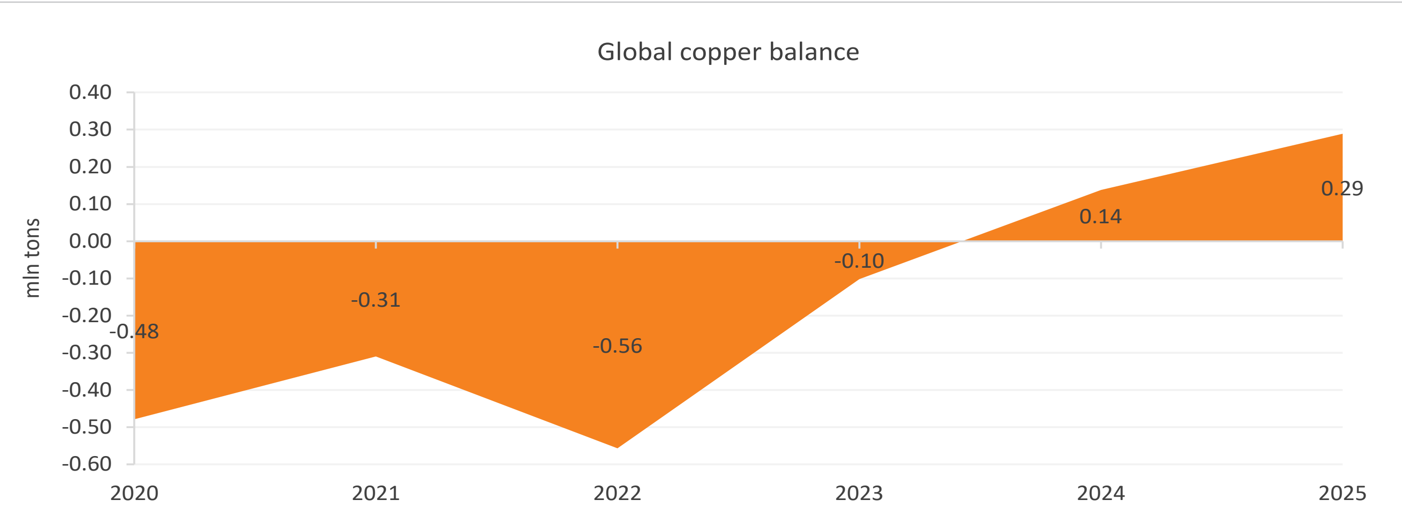
Price Dislocation:

Price disparity between COMEX and LME copper prices triggered a massive arbitrage that drove movement of physical copper to the US. Consequently, COMEX-registered warehouse inventories rose to a seven-year high in early July. Conversely, inventories in LME and SHFE warehouses have rapidly depleted; LME-registered stocks have fallen by 64% since mid-February as of mid-July. Most of the copper shipped to the US came from the LME. As of June-end, LME copper inventories had fallen by 66% from mid-February to nearly 90,000 MT, the lowest level since August 2023.

In the wake of the tariff announcement, the benchmark COMEX copper futures contract surged 13% to a fresh record high of $5.88/pound, the largest single-day gain on record since 1968. The price gap between the US COMEX price and the LME global benchmark price, historically negligible, widened to over 33% following the announcement; however, the COMEX premium currently stands around 26%.

LME-COMEX Copper arbitrage physical opportunity has all but disappeared as it takes nearly four weeks to ship copper from Asian warehouses to the New Orleans warehouse in the US, so there is not enough time left to do physical arbitrage. In addition, COMEX copper move shows that investors are taking the 50% tariff planned tariff with a pinch of salt as the current COMEX-LME spread stands ~26%. That the US physical traders are unwilling to buy COMEX copper at such lofty prices could be another reason behind the current spread. COMEX copper inventory currently stands around 207,000 tonnes, up 113% from April 2024 level.

Global demand-supply scenario



Source : ICSG Sharekhan Research

The global copper market remained in a surplus in 2024 despite the shutdown of the Cobre mines in Panama (capacity of 600 KT of annual production) and as the mine is expected to resume operation, the global copper market could experience a notable surplus over the next two years. The first quantum mine operating in Panama has guided that the mine should be able to ramp up to close to 80% of capacity (close to 400 ktpa pre-suspension capacity in late 2023), within 6-9 months and full capacity in next 12 months. Thus, the ICSG now expects a surplus of 289,000 metric tonnes in 2025, which is more than double the 138,000 surpluses in 2024. For 2026, it forecasts a smaller but elevated surplus of 209,000 tonnes owing to concerns over the economic fallout from US tariffs and reduced copper usage in key global markets.

China copper market

China's share of total word refined copper usage is currently about 58%, The impact on China's domestic market (SHFE) is complex. On one hand, the siphoning of global copper to the US could tighten supply in Asia, supporting sHFE prices. On the other hand, if other tariffed countries redirect their surplus copper to China, it could create oversupply and depress prices. As a result, the sHFE market is expected to face increased volatility. Chinese demand has also been underpinned by strong growth from the power and certain consumer goods sectors (automobiles and appliances). China's scrap copper imports have been impacted by tariffs, but ore imports and refined production have remained largely unaffected by lack of demand.

Global economy faces tariff headwinds

The uncertainty surrounding tariffs is the main reason behind decline in demand, as it stifles economic growth. The latest data shows that the US manufacturing sector, a driver of copper demand, is in a state of contraction. China economy is likely to experience further headwinds in H22025, as softening property sales, diminishing policy effect of the trade-in scheme and strict alcohol ban on government employees weigh on consumption, and softening exports suppress manufacturing output and investment. With the trade deal with the US being reached potentially in Q425, China might focus on economy rebalancing with stronger fiscal expansion, additional consumption stimulus and faster overcapacity reduction.

TACO trade risks

Chile and Mexico indicated that they might seek alternative markets to avoid Trump's tariff threats. Chile is the largest single supplier of copper to the US, accounting for about 11% of Chile's total copper exports, but less than 7% of its refined copper exports. Most of Mexico's and Chile's copper exports go to China. In the past, we have seen President Trump making U-turns on his promises, which could pose a clear risk to our sell recommendation as the US might exempt certain countries from tariffs. This would add uncertainty and could potentially weaken US copper prices.

Another risk to short copper position will come from US President Trump extending August copper tariff deadline to a date which would make shipping copper from Asia to the US feasible.

Market Outlook:

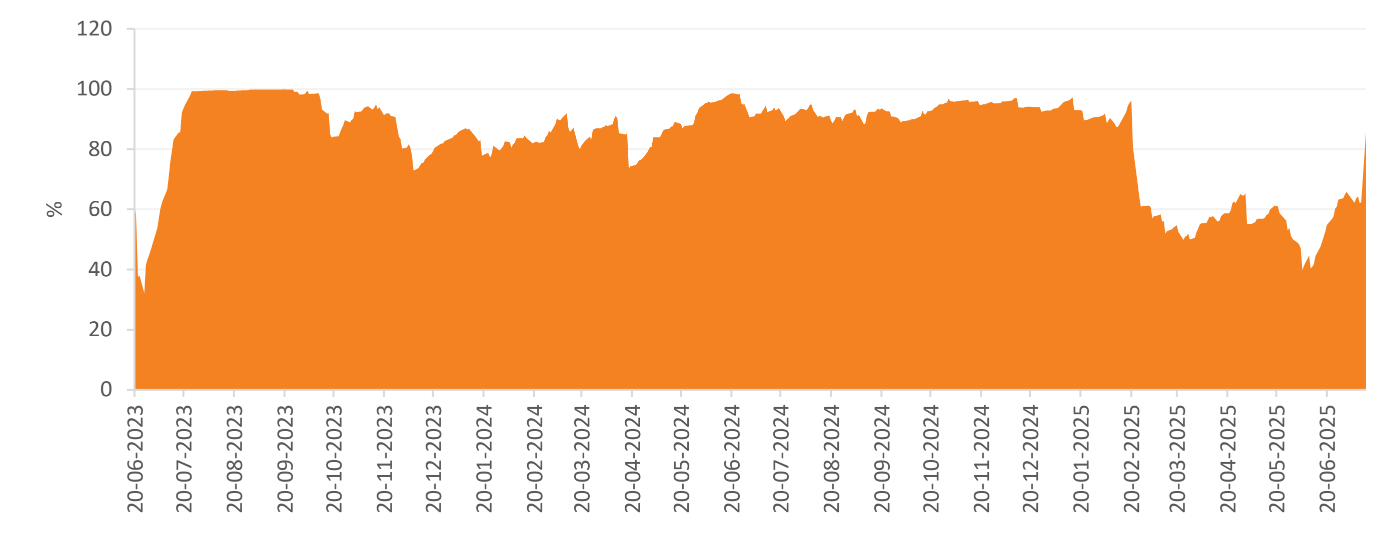
Short-Term outlook (Six months): If the US grants widespread exemptions to major suppliers like Chile and Canada or reduces the tariff rate, the COMEX price premium could collapse, leading to a sharp correction as warehoused copper floods the market. The current high price on the COMEX is viewed as a speculative bubble, not supported by market fundamentals. This disconnect between a well-supplied market and speculative high prices presents a medium-term opportunity for a short-selling strategy, betting that the policy-driven bubble will burst and prices will revert to levels determined by actual supply and demand.

Conclusion:

The vanishing COMEX-LME physical copper arbitrage opportunity, which has been supporting the red metal this year is negative for the red metal. In addition, the tariff war is yet another dampener. China is already grappling with deflation threat and a fragile property market. These factors are expected to weigh on copper prices; however, risk will come from Trump's tariff policy changes, which we need to monitor closely.

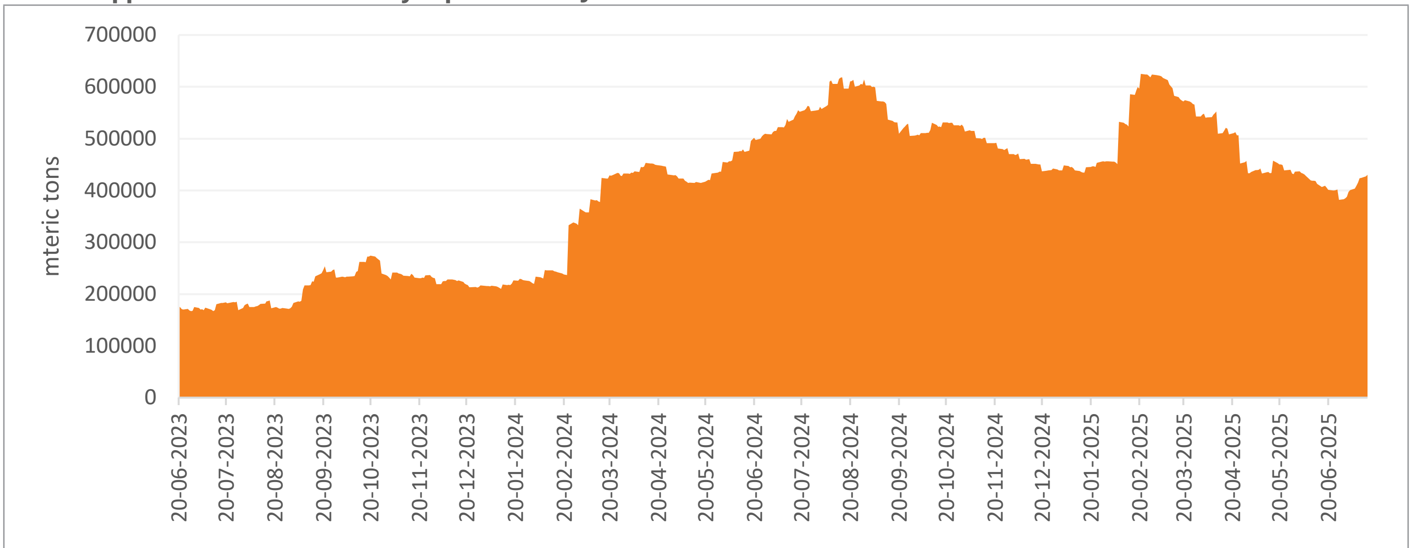
It is to be noted that this is a short-term call. Fundamentals of copper remain appealing on long-term horizon due to green energy transition.

LME On warrant inventory - Up 30% since June-end



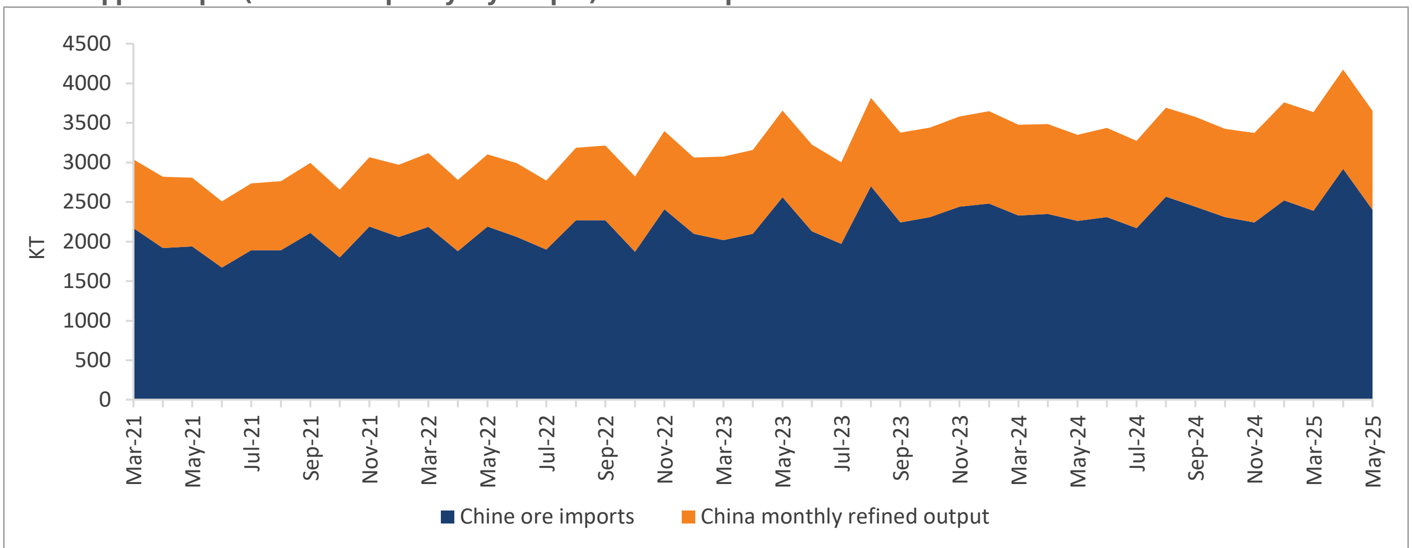
Source: Bloomberg; Mirae Asset Sharekhan Research

Global Copper warehouse inventory- Up 15% since June 26



Source: Bloomberg; Mirae Asset Sharekhan Research

China copper output (elevated - up 9% y-o-y in April) and ore imports



Source: Bloomberg; Mirae Asset Sharekhan Research

DISCLAIMER

This information/document has been prepared by Sharekhan Ltd. and is intended for use only by the person or entity to which it is addressed to. This Document may contain confidential and/or privileged material and is not for any type of circulation, and any review, retransmission, or any other use is strictly prohibited. This information/ document is subject to change without prior notice.

Recommendation in reports based on technical and derivatives analysis is based on studying charts of a stock's price movement, trading volume, and outstanding positions, as opposed to focusing on a company's fundamentals and as such, may not match with a report on a company's fundamentals. However, this would only apply to information/documents focused on technical and derivatives research and shall not apply to reports/documents/ information focused on fundamental research.

This information/document does not constitute an offer to sell or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Though disseminated to all customers who are due to receive the same, not all customers may receive this report at the same time. Mirae Asset Sharekhan will not treat recipients as customers by virtue of their receiving this information/report.

The information contained herein is obtained from publicly available data or other sources believed to be reliable, and Mirae Asset Sharekhan has not independently verified the accuracy and completeness of the said data and hence it should not be relied upon as such. While we would endeavour to update the information herein on a reasonable basis, Mirae Asset Sharekhan, its subsidiaries and associated companies, their directors, and employees ("Mirae Asset Sharekhan and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent Mirae Asset Sharekhan and its affiliates from doing so. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Recipients of this report should also be aware that past performance is not necessarily a guide to future performance, and the value of investments can go down as well. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved) and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Mirae Asset Sharekhan may have issued other recommendations/ reports that are inconsistent with and reach different conclusions from the information presented in this recommendations/report.

This information/recommendation/report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject Mirae Asset Sharekhan and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to a certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restrictions.

The analyst certifies that the analyst might have dealt or traded directly or indirectly in the securities of the company and that all the views expressed in this document accurately reflect his or her personal views about the subject company or companies and its or their securities and do not necessarily reflect those of Mirae Asset Sharekhan. The analyst and Mirae Asset Sharekhan further certifies that either he or his relatives or Mirae Asset Sharekhan associates might have direct or indirect financial interest or might have actual or beneficial ownership of 1% or more in the securities of the company at the end of the month immediately preceding the date of publication of the research report. The analyst and Mirae Asset Sharekhan encourage independence in research report/ material preparation and strive to minimize conflict in the preparation of the research report. The analyst and Mirae Asset Sharekhan do not have any material conflict of interest or have not served as officers, directors or employees or engaged in market-making activity of the company. The analyst and Mirae Asset Sharekhan have not been a part of the team which has managed or co-managed the public offerings of the company, and no part of the analyst's compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this document. Sharekhan Ltd, or its associates, or analysts have not received any compensation for investment banking, merchant banking, brokerage services or any compensation or other benefits from the subject company or from a third party in the past twelve months in connection with the research report.

Either Mirae Asset Sharekhan or its affiliates or its directors or employees/representatives/clients or their relatives may have position(s), make market, act as principal or engage in transactions of purchase or sell of securities, from time to time or may be materially interested in any of the securities or related securities referred to in this report and they may have used the information set forth herein before publication. Mirae Asset Sharekhan may from time to time solicit from, or perform investment banking or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall Mirae Asset Sharekhan, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind.

Forward-looking statements (if any) are provided to allow potential investors the opportunity to understand management's beliefs and opinions in respect of the future so that they may use such beliefs and opinions as one factor in evaluating an investment. These statements are not a guarantee of future performance, and undue reliance should not be placed on them. Such forward-looking statements necessarily involve known and unknown risks and uncertainties, which may cause actual performance and financial results in future periods to differ materially from any projections of future performance or results expressed or implied by such forward-looking statements. Sharekhan Ltd and its affiliates undertake no obligation to update forward-looking statements if circumstances or management's estimates or opinions should change, except as required by applicable securities laws. The reader/investors are cautioned not to place undue reliance on forward-looking statements and use their independent judgment before taking any investment decision.

Investment in securities market are subject to market risks, read all the related documents carefully before investing. The securities quoted are for illustration only and are not recommendatory. Registration granted by SEBI, and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.

Mirae Asset Sharekhan has been ranked as India's No.1 Retail Broker by Asiamoney Brokers Poll 2023. For more details, visit bit.ly/AsiamoneyPoll

Client should read the Risk Disclosure Document issued by SEBI & relevant exchanges and the T&C on www.sharekhan.com

---

Registered Office: 1st Floor, Tower No. 3, Equinox Business Park, LBS Marg, Off BKC, Kurla (West), Mumbai 400 070, Maharashtra, India. Tel: 022-67502000.

Correspondence/Administrative Office Address - Gigaplex IT Park, Unit No 1001, 10th floor, Building No.9, TTC Industrial Area, Digha, Airoli-West, Navi Mumbai – 400708. Tel: 022 61169000 / 61150000.

Registration and Contact Details: Name of Research Analyst - Sharekhan Limited - (AMFI-registered Mutual Fund Distributor), Research Analyst Regn No.: INH000006183. CIN: U99999MH1995PLC087498.

SEBI Regn. Nos.: BSE / NSE (CASH / F&O / CD) / MCX - Commodity: INZ000171337; BSE – 748, NSE – 10733, MCX – 56125, DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669 (date of initial registration: 03/07/2004, and valid till 02/07/2026); IRDAI Registered Corporate Agent (Composite) License No. CA0950, valid till June 13, 2027.

Compliance Officer: Mr. Joby John Meledan; Tel: 022-4657 3809; email id: complianceofficer@sharekhan.com

For any complaints/ grievances, email us at igc@sharekhan.com, or you may even call the Customer Service desk on 022-41523200/ 022-61151111.