

Copper use in China and India as a Proxy for Economic Development

Dr. Lal Sing, Dr. Aslam khan*

ABSTRACT

The study uses a copper flow model for the years 2010, 2012, 2010, and 2017 using regression analysis to look at the relationship between copper flows into usage (copper intensity of use) and the larger economic structures of China and India. China's transition away from copper mining and towards manufacturing is portrayed by the copper flow model. The model indicates that copper production in both countries is lowest during the mining and milling stages. Between 2010 and 2018, China's processing of copper ore increased by 138%, while domestic output of completed goods and copper flows into consumption increased by 320% and 131%, respectively. The volume of ore processed in India decreased by 14% between 2010 and 2018. Domestic finished product production in India expanded by 118% while copper flows into usage climbed by 152% during the same time period. Between 2010 and 2018, China's net imports of concentrates increased by 221%, while India's increased by 300%. China, on the other hand, exports completed commodities containing copper, whereas India imports finished goods containing copper. China's net exports soared by 1182% during the same period, while India's net imports increased by 210%.

INTRODUCTION

China's swift reopening after nearly three years of strict coronavirus controls could provide a much-needed boost to global economic growth, but may also stoke inflation just as it has shown signs of falling back. The revival of the world's second largest economy — and its biggest consumer of commodities — threatens to push up global prices for fuel, industrial metals and food this year. Since the beginning of January, prices for copper,

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aluminum and zinc have all had their best start to a year in 11 years, rallying by an average of 13%, analysts at Deutsche Bank told CNN, citing data from the London Metal Exchange. Tin, which is largely used to make electronics, has soared 30%, its biggest rise in 32 years.

“There’s a tremendous amount of pent-up demand that we do expect to come back to markets, specifically after Chinese New Year,” Nicky Shields, head of metals strategy at precious metals trader MKS Pamp, told CNN. “Markets have rallied in anticipation of that,” she said. It’s not just commodities that are rising on hopes for China’s recovery. Stocks in MSCI’s China index have risen 14% since the start of trading this year. Nasdaq’s Golden Dragon China index — which tracks Chinese companies listed in the United States — have climbed 19% over the same period.

There already signs that the economy is getting back on its feet. Bernard Arnault, chief executive of luxury retail group LVMH, (LVMHF) told analysts on Thursday that the rebound in visitors to stores in Macao, where Chinese tourists are now allowed to travel, had been “spectacular.”

Since last month, the Chinese government has been rapidly dismantling its strict zero-Covid policy following a wave of popular protests over the restrictions. The speed of the reopening, as well as indications that infections may have already peaked, has been surprising, analysts told CNN. But metals like copper and aluminum are “not a very meaningful part of the overall inflation basket,” Daniel Major, metals and mining analyst at UBS, told CNN. Yet, if global food and energy prices start rising again, that could feed through into higher consumer prices. China’s reopening could bump up demand for agricultural goods, while the

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world is still in the grips of the worst food crisis in modern history. Futures prices for wheat, a dietary staple, are still 58% higher than they were in mid-2020, when prices started to rise steadily. Chinese imports of soybeans, which its uses mostly to feed livestock, soared by 18% in December from the year before, possibly because buyers anticipated a rebound in demand at restaurants, Bill Weatherburn, a commodities economist at Capital Economics, said in a note earlier this month.

Copper prices are just starting to account for the fact that global growth is slowing,” Daniel Ghali, director of commodity strategy at TD Securities, told me. The metal is used in many construction materials, including electrical wires and water pipes. That means it’s often viewed as a proxy for economic activity, since demand tends to heat up when the economy is expanding and cool when it’s contracting. It’s affectionately referred to as “Dr. Copper” among traders because of its alleged talent for prognostication.

Earlier this year, after Russia invaded Ukraine, the price of copper shot up, along with other major metals. (Before the Bell readers will recall that the disarray led the London Metal Exchange to temporarily halt the trading of nickel in March.) Russia accounts for 4% of global copper output and almost 7% of nickel output, according to S&P Global. Traders were nervous that supply could run short just as the economic recovery from the pandemic was ramping up, and they started hoarding aggressively. Now, as recession fears take hold, prices are heading in the opposite direction.

“Once that stockpiling impulse ended, then global commodity demand started to reconnect with global growth,” Ghali said. This just in: The first look at a closely-watched economic

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gauge for June affirmed that economic activity is sliding into a lower gear as high food and fuel prices bite. The Purchasing Managers' Index released by S&P Global on Thursday found that private sector output slowed "sharply" in the United States this month.

"Having enjoyed a mini-boom from consumers returning after the relaxation of pandemic restrictions, many services firms are now seeing households increasingly struggle with the rising cost of living, with producers of non-essential goods seeing a similar drop in orders," said Chris Williamson, chief business economist at S&P Global Market Intelligence.

Businesses have also become much more stressed about the outlook as the Federal Reserve aggressively hikes interest rates in an attempt to put a lid on price increases. "Business confidence is now at a level which would typically herald an economic downturn, adding to the risk of recession," Williamson said. In Europe, growth in June dropped to a 16-month low, according to the PMI reading for the 19 countries that use the euro. And China, which has been a crucial engine of global growth, is still struggling with the aftershocks of its Covid lockdowns and fallout from a real estate slump. The country's economy showed some signs of improvement in May, but retail sales contracted for a third month in a row.

What happens next: Growth in China is expected to pick up later this year, and prices for copper and other base metals should rebound at that point, Darwei Kung, portfolio manager for commodities at DWS, told me. It's just not clear when that moment will arrive.

"They are coming back, it's just a matter of timing," Kung said. In the meantime, prices could drop further as anxiety about the economy persists. It becomes the responsibility of the

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researcher not to put the subjects in a situation where they might be at risk of getting physically and psychologically injured owing to their participation in the study. For this purpose, all the subjects were clearly informed about the purpose and procedure of study. The subjects were selected through PAR-Q which ensured that they were free from different diseases. A written consent was obtained from each subject. Likewise, a consent letter was also got from the head of the institution.

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