Copper miners to keep churning out metal despite price slide

LONDON, July 21 (Reuters) - Copper's production costs have fallen in the wake of lower oil prices and weaker local currencies, which means most miners will continue to pump out metal despite a recent slide in prices.

Benchmark copper on the London Metal Exchange tumbled nearly a fifth between early May and earlier this month when it touched the lowest in six years at $5,240 a tonne.

It has since recovered about $300, but confidence is fragile as investors worry about the global economy and an expected market surplus this year in the metal.

Despite weak prices, however, there is little incentive to cut output as prices are still well above costs at most mines.

"We do not expect significant price-related cutbacks in the current environment as tail winds from factors including low oil prices continue to filter through," said senior analyst Karen Norton at GFMS, the metals research and forecast unit at Thomson Reuters.

Average net cash costs for copper miners in the first quarter were $3,661 per tonne, down about 5 percent over the past year, according to GFMS data.

"Once Q2 results have come through and are processed, we would expect those levels to have fallen further," Norton told the Reuters Global Base Metals Forum.
In addition to energy prices, mining costs have declined due to weaker local currencies against the dollar in top copper producing countries such as Chile.

Efficiency gains are also pushing costs lower. Top miner BHP Billiton said in May it expected unit costs at the world's biggest copper mine Escondida to decline by 16 percent in the next financial year.

Even the so-called "marginal cost" - marking the 10 percent highest-cost copper mines - is at $5,051 a tonne, according to GFMS. This is the level which is regarded as key to prompting mine closures when prices break below it.

Societe Generale pegged the marginal cost in copper even lower at about $4,500 a tonne due to currency depreciation and falling oil prices.

While some analysts expect further weakness in copper, they say prices would have to remain at lower levels for an extended period to stimulate production cuts and mine closures.

Prices can be volatile, dipping lower and then rebounding, so mine managers are often willing to wait for a recovery.