COPPER MAIL

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Copper market

The LME Week, during which the copper world meets in London each year to exchange opinions, is now over, but nothing has changed in the „wait and see“ attitude of many market participants. This also applies for the copper price, which is still moving above the US$ 6,000/t mark. Although attention is again on the production side due to the ongoing collective bargaining and possible strikes, the focus is mainly directed on the demand side of the market. Almost everyone is in agreement that the strong decline in global economic activity has come to an end and is bottoming out. Even the International Monetary Fund has meanwhile announced an end to the economic and financial crisis. But the concrete recovery signs in the real economy are rare and differ greatly, both regionally and from industry to industry. The extent of the recovery is also unclear, because global trade and production are still at a very low level. It is however expected that the emerging markets, which play an increasingly important role in the trend in copper demand, will recover from the crisis relatively quickly.

China must be named here first and foremost. The just published Chinese copper import figures for September caused some astounded faces. Hardly anyone had expected that there would be a rise of 23 % to 399,052 tonnes compared with the prior month. They were even 87 % higher than the comparable month of the prior year. The puzzle is now to find the reason. Explanations vary from substitute purchases for still missing scrap quantities to additional purchases before the Chinese public holiday week in October. Since the buying interest in the last few days has continued despite the lack of arbitrage possibilities, this is also an indication of good physical end demand. China's economic growth this year until the third quarter 2009 had risen by more than 7 % to which the extensive state investment programme has made a decisive contribution. Three fifths of that should have been directed into infrastructure projects.

Whether the trend in demand can be stabilised will be seen by how the exchange inventories in Asia develop. Currently 162,000 tonnes of copper - 100,000 tonnes at the Shanghai Futures Exchange and 62,000 tonnes in the Asian warehouses of the LME - are stored which would theoretically cover demand for about 6 days in the region (excluding Japan). Even if the copper quantities in private warehouses could put the market under pressure, and nobody knows how much is stored, the prospects for the coming year are reflected in optimism. This optimism is based above all on the booming construction industry, high consumer spending and the recovery in the export business and good liquidity availability in the country. Senior representatives of the Chinese smelter industry are no longer ruling out a rise in Chinese copper demand of up to 10 % in the coming year. The quoted cathode premiums for annual agreements between the Chilean Codelco and Chinese customers of US$ 80 to 85/t are also an indicator of this.

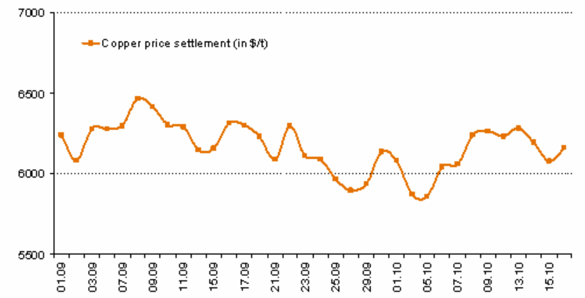
Outside China the picture is much more mixed. While Japan can already present an improved order intake, the signs of a recovery in the US economy are still limited. Although industrial production there has risen for three months in succession, it is still 6 % down on the prior year. In the European countries the economic recovery shows disparate trends: Germany has however an above average trend. Overall however, the EU Commission is optimistic for the second half-year and has cautiously raised its economic forecast. It is rather unlikely that this will end in rising copper demand shortly, particularly since seasonal impacts take effect in the final quarter of the year and the buying activities of the processing industry are reduced. In the coming year, European copper demand, after elimination of the year-end effects will lean more strongly towards the more positive economic trend, especially since the stocks ought to have declined along the value added chain, and will have to be procured even if the order intake remains moderate.

Copper raw materials

Although a strike at the Chilean Escondida mine could be prevented after reaching a consensus about wage increases, there has hardly been any movement in the TC/RCs in the spot business for copper concentrates. Chinese smelters are thinking in terms of US$ 60/t and cents 6/lb for annual agreements 2010. The copper scrap market has only changed slightly. The supply is somewhat weaker, with Chinese buyers keeping a low profile.

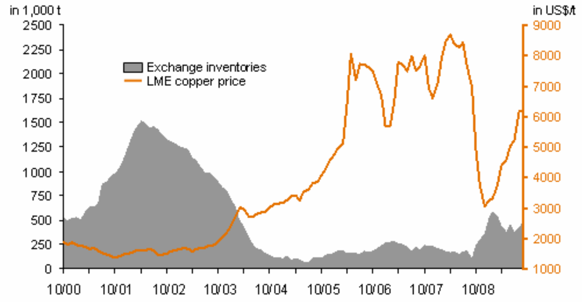
Stable copper price at over US$ 6,000/t

Copper price settlement LME (in $/t)



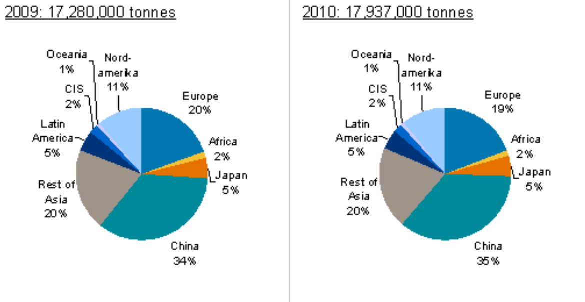
Copper stocks increase again at the metal exchanges...

Copper price and metal exchanges inventories



... but copper demand will increase again more strongly in 2010

Copper demand by regions (refined copper in 1,000 t)



Source: Brook Hunt 3Q 2009

Glossary:

Arbitrage	Price difference between metal exchanges
Backwardation:	amount by which spot price is higher than 3 month price
Cancelled warrants:	Delivery notes registered for shipment
Contango:	amount by which the forward price is higher than the spot price
Comex:	New York Commodity Exchange
ICSG:	International Copper Study Group
LME:	London Metal Exchange
Settlement:	cash selling rate
SHFE:	Shanghai Futures Exchange
SRB	State Reserve Bureau
TC/RC	Treatment and refining charges for copper concentrates

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