

27 August 2010

WORLD COPPER MARKET REVIEW

(Week of 23-27 August 2010)

Copper closed the week trading at 330.533 ¢/lb. in the London Metal Exchange (LME), up 1.1 percent over the previous weekly closing. Exchange inventories rose a slim 0.2 percent, closing at 601 kMT or 1.7 weeks' global demand.

Prices ebbed and flowed during the week. First they posted gains, driven by Chinese import reports. Later on they lost steam, pushed back by bleak reports out of the U.S. that rekindled fears about the pace of recovery and the prospects of U.S. demand. Late in the week prices picked up again, stirred by an unexpected 1.6 percent rise in U.S. GDP growth in Q2.

Net Chinese imports of refined copper rebounded 6.1 percent, from 210.1 kMT in June to 222.9 kMT in July, driven by a favorable LME/SHFE arbitrage window. The year to date figure, however, is down 14.6 percent due to a high comparison base over 2009, when refined imports rose 194 percent through August. The drop in refined imports was partially offset by concentrate (up 5.6 percent year-on-year) and scrap (up 10.1 percent year-on-year), making for a total 5.5 percent drop through July 2010.

Macroeconomic reports that slowed down prices included U.S. existing home sales falling 27.2 percent to an annualized total of 3.83 million units, below the expected 4.7 million units (a 12 percent expected contraction). In addition, new home sales expected to remain flat over the month before in fact shrank 12.4 percent to an annualized total of 276,000 units.

Declining prospects caused the Dow Jones to lose 2.2 percent through Thursday. On Friday most base metals posted losses over the week before, led by nickel (3.6%) and aluminum (2.4%). Gold and silver rebounded 0.3 percent and 4.9 percent, respectively.

More auspicious news reported this week included Germany's Ifo Business Confidence Index jumping unexpectedly to 106.7 points from the 106.2 points posted in July (it was expected to drop to 105.7 points). This appears to show that the business environment in Europe's largest economy is not sliding as previously expected.

In other news, the International Copper Study Group (ICSG) reported that the copper market showed a 190-kMT deficit in January-May, compared to a supply and demand balance in the same period in 2009. This is attributed to a strong 8.4 percent rebound in copper demand which was not matched by a rise in the refined supply (up only 5.7 percent, due mainly to increased recycling). The expected recovery in industrialized country demand (European Union, U.S., Japan) was confirmed, while Chinese demand, contrary to the expected moderation, rose 3.6 percent.

Metal Exchange Inventories

After last week's brief drop, exchange inventories rose 1.4 kMT, closing at 601 kMT.

Inflows were led by Comex with 2.8 kMT, a 3.2 percent increase over the previous weekly closing, followed by the Shanghai Futures Exchange (SHFE), which rose a slim 0.2 percent.

Things at the LME were quite different. Inventories fell 1.6 kMT or 0.4 percent, while canceled warrants (a proxy for future outflows) dropped to 7.6 percent of total inventories (from 7.8 percent the week before). The fact that canceled warrants held the line suggests that further outflows can be expected going forward.

Metal Exchange Activity

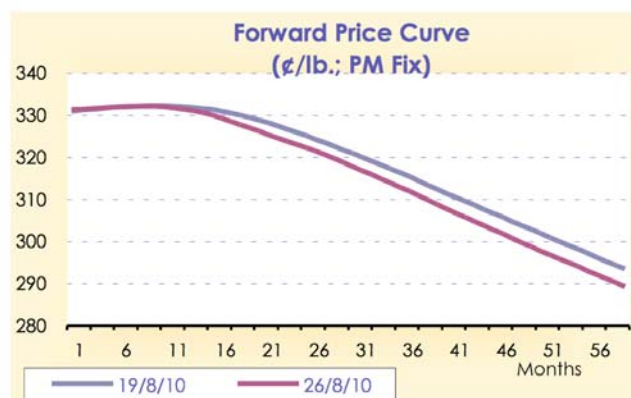
A review of LME trading activity shows that price losses through Wednesday were partly driven by the closure of long positions, prompted by renewed fears about the pace of recovery in the U.S.

The Thursday forward price curve was down through longer terms. Prices were in lower contango through terms of up to nine months and in higher backwardation thereafter.

Exchange Inventories (Metric Tons, Weekly Closings)

Market	Final	± MT	± %
Asia	61,025	(450)	(0.7%)
Dubai	-	+0	
South Korea	46,025	(725)	
Malaysia	4,750	+125	
Singapore	10,250	+150	
United States	291,700	(2,825)	(1.0%)
Baltimore	-	+0	
Chicago	32,425	+0	
California	-	+0	
Mobile	5,000	+0	
New Orleans	163,700	(3,475)	
St. Louis	90,575	+650	
Europe	47,375	+1,650	+3.6%
Germany	10,525	+0	
Belgium	750	+0	
Spain	6,900	+0	
Netherlands	22,750	+1,875	
Italy	5,375	(800)	
United Kingdom	1,075	+575	
Sweden	-	+0	
TOTAL LME	400,100	(1,625)	(0.4%)
COMEX	90,316	+2,767	+3.2%
SHFE	110,582	+211	+0.2%
TOTAL	600,998	+1,353	+0.2%

N.B.: LME data to 8/27/2010; COMEX & SHFE data to 8/26/2010



LME Average Weekly Prices

Spot	¢/lb.	± %
Spot	326.319	-1.5%
3 Mos.	327.203	-1.5%
3 Mos. - Spot	(contango) 0.884	-6.6%

Week of 23-27 August 2010

Technical Analysis

Weekly prices fell through Wednesday to the proposed US\$3.21/lb. foothold, then rebounded late in the week (see chart).

After the initial correction, short-term indicators appear neutral, leaving room for prices to stick to the medium-term trend. The uptrend, however, is losing momentum and appears more likely to start moving sideways. Confirmation should be provided by the 40-day moving average moving past its 200-day counterpart. If this is the case, the uptrend should resume. If not, prices should remain flat or fall slightly.

Initial support stands at US\$3.21/lb., with resistance at US\$3.38/lb.

Chief among developments expected next week will be the release of the PMI Index for the U.S., China and the European Union plus the regular rates meeting of the European Central Bank. In addition, the U.S. will report on employment, car sales and real estate performance, while the European Union will post, inter alia, Q2 GDP growth and inflation data. The LME closes on Monday for a UK bank holiday.



Expected Price Trends for the Coming Week

Short Term (ST)	Up
Medium Term (MT)	Stable/Up

LME Daily Copper Prices (¢/lb.)

Date	Price
23 August	328.855
24 August	325.271
25 August	320.554
26 August	326.382
27 August	330.533

Month	2008	2009	2010
January	320.283	146.088	335.035
February	357.780	150.353	310.628
March	382.800	170.086	338.508
April	393.942	199.878	351.311
May	380.235	207.230	310.152
June	374.694	227.429	294.803
July	381.655	236.573	305.506
August	346.304	279.653	330.232 ⁽¹⁾
Annual Average	315.316	234.217	321.864 ⁽¹⁾

Average to 27 August 2010.