

Copper market

Copper distinguishes itself by its excellent corrosion behaviour and particularly favourable mechanical properties: the metal is extremely resilient and tough. These properties seem meanwhile to apply for the copper price as well. Its toughness and resilience to developments in the macroeconomic climate and other adverse market factors are remarkable. Although the price trend has remained volatile, the cash copper prices have been above US\$ 4,500/t since the beginning of May. At the beginning of June, the US\$ 5,000/t mark was exceeded and in the last few days copper has been quoted at times at over US\$ 5,200/t. Contango for the 3-month period moved in a narrow range of US\$ 10 to 30/t.

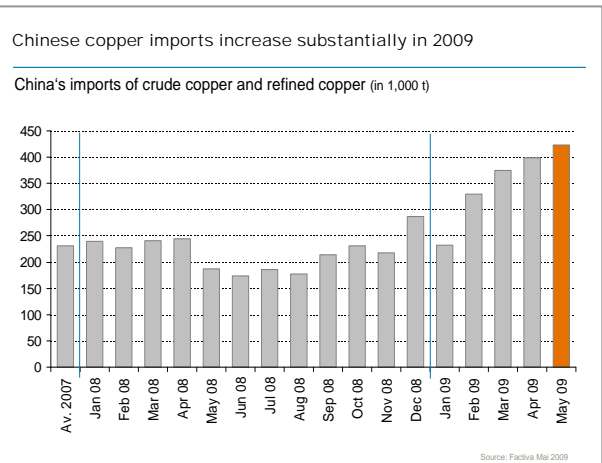
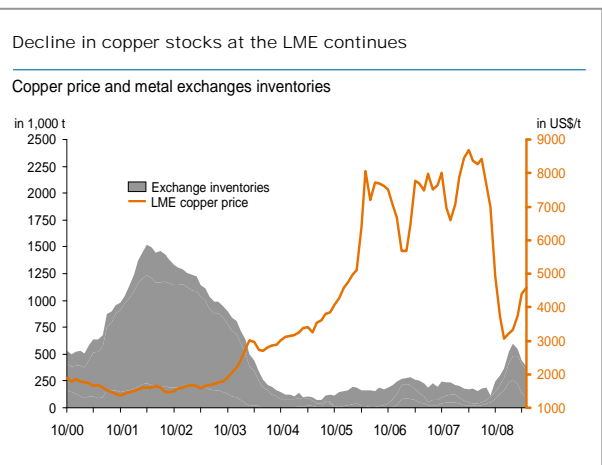
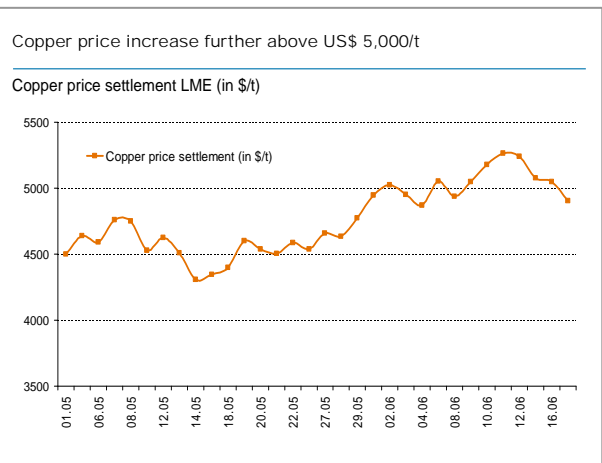
Anyone trying to find reasons for these phenomena should remember that a price performance on the forward exchanges anticipates the future. The prices are also increasing for other commodities. Crude oil at more than US\$ 70/barrel has reached the highest level since the end of October 2008, the S&P GSCI commodity index rose in May by 20 %, a consequence of the strong inflow of investors' money in the commodity sector with higher liquidity. Although the economic recovery has still not arrived, there is a general consensus that it is on its way. The World Bank has now cited China's growth in 2009 at 7.2 %. The economy in the Euro-zone will probably stabilise as of the beginning of 2010 and then grow again as of mid-year. In America, there are admittedly the first signs of an improvement in the economic situation, but a real recovery is also not expected here until after the turn of the year. In addition, scenarios with longer-term time horizons, in which the subject of inflation plays a main part, are being taken as a reason for investing in commodities.

However, the trend on the copper market is supported by current and short-term fundamental factors. Developments still focus on China's imports and the ongoing decline in LME copper stocks. Chinese customs statistics again report record imports of crude copper (refined, anodes and blister copper) and copper semi-finished products: the 422,666 tonnes imported in May were 5.7 % up on the prior month. Thus, 1.76 million tonnes of copper were imported in the first five months of this year, representing about 12 % of last year's non-Chinese copper output. At the same time, the LME copper stocks have continued to decline. They are currently at about 283,000 t, thus 116,000 lower than at the beginning of May. Whether the copper price can establish itself long-term above the US\$ 5,000/t mark in the coming weeks is questionable: the quieter summertime is imminent, as already reflected in the slowing reductions in the LME stocks: currently only 18,000 t (compared with the prior more than 70,000 t) are scheduled for removal. The high imports in China in the last few months have significantly improved the physical availability of copper there so that the price difference between the SHFE and LME has disappeared. The copper stocks at the SHFE have risen from 30,217 t to 60,647 t in June and there are supposed to be inventories still outside the exchange that could be released to cover demand. It is thus expected that China's monthly copper imports will not continue at the high May level in the second half of 2009. If this view is increasingly adopted in short-term strategies of the funds, it could result in profit-taking and cause a downward price correction, as was the case in the last few days to US\$ 4,900/t. The performance of the U.S. dollar also has an effect here. However, copper is fundamentally well supported so that the price decline should only be limited.

Copper raw materials and products

The spot business for copper concentrates was strongly impacted by position purchases in the last few weeks. Some traders used the Chinese price difference and bought with TC/RCs at less than US\$ 30/t and cents 3/lb. Generally, however, a rise in TC/RCs is expected again. On the copper scrap market, there have been delays in Chinese ports in clearing imported quantities. This together with the disappearance of the arbitrage has resulted in a far-reaching withdrawal of Chinese buyers from the market with the result that the situation for European buyers has improved.

In the copper product sector the bottom seems to have been reached. Stabilisation and a slight recovery is also apparent here.



**GLOSSARY:**

- Backwardation:** amount by which spot price is higher than 3 month price
- 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:** Strategic Reserve Bureau
- TC/RC:** Treatment and refining charges for concentrates