

## Copper market

What some contemporaries had already suspected beforehand has in fact now happened: commodity prices cannot always just go upwards. The two weeks since the beginning of February have seen significant price declines on the raw material markets. The copper price fell to below US\$ 7,000/t, after being at almost US\$ 7,400/t on average in January, and reached a low of US\$ 6,242 on 5 February. Thus, copper lost about 19 % of its value compared with the January high of US\$ 7,685/t. This development was initially triggered when the Chinese Central Bank raised the minimum reserve ratio and the China Banking Regulatory Commission (CBRC) instructed the main banks in the country to restrict lending as of mid January. This was interpreted as a sign of a turnaround in China's up to then expansive monetary policy, with the resultant dampening impact on economic growth and demand for raw materials. The spreading financial problems in the EU emanating from Greece also exacerbated the nervousness about the sustainability of the economic recovery. As a consequence, the euro came under pressure against the U.S. dollar, which in addition caused the interest of funds in dollar-based copper commitments to diminish. A growing aversion to risks was the result, which caused limited withdrawals from raw materials and therefore also from copper commitments. This was however done in an orderly manner and was not accompanied by panic reactions.

The extent of the price decline has meanwhile been regarded as exaggerated, particularly as the appraisal of the situation in the copper market's environment turned out to be too negative. The first analysts have already recommended using price corrections as a buying possibility.

To the China factor: The Chinese Central Bank intends focusing on flexibility in its measures to avoid overheating and inflation, but in principle holds on to its moderately relaxed monetary policy. The current conditions on the Chinese credit markets are also still suitable to initiate good economic growth. For copper, it means that the dynamics of Chinese demand could decline, but the rise in demand would still move in the range of the targeted economic growth, i.e. at 8 to 9 %.

To the EU factor: Despite the concern about certain countries in the euro-zone, the economic situation improved further in the currency area at the beginning of 2010, even if trends differ regionally. Positive signs are coming from exports and regionally in particular from Germany and Italy, which both account for high copper demand. This recovery trend is clearly noticeable in the copper product business.

During the last few days, the copper price again showed an uptrend and was quoted most recently on the LME at US\$ 6,900/t, thus recouping most of the previous price decline. Nevertheless, the price could go in any direction at short notice: in China the one-week public holiday for the New Year celebrations is beginning, so that the country will not provide momentum on the copper market during this period. In Europe, no solution to the Greek crisis has been found – with the result that investors will take a wait-and-see attitude with their investment decisions. In addition, many countries are in the transition from stimulating their economy to going back to normal, although the result of this is unclear. The copper stocks in the warehouses of the metal exchanges have remained at about 750,000 tonnes for a few days and give no indication of whether a turning point has been reached. Altogether, there is therefore a lack of facts that could set a clear direction for the copper price performance.

### Copper raw materials and copper products

The market for copper concentrates is still in short supply, however the level of treatment and refining charges is rising slowly. Chinese smelters report purchases in the spot market of more than US\$ 25/t and cents 2.5/lb. The high copper prices are encouraging endeavours to optimise and expand mining output. In addition, smelter closures in North America and a possibly lower smelter capacity utilisation will ease the market further. The supply possibilities in the European copper scrap market are currently good and the consumers of scrap are well covered. In view of this, the refining charges are at a good level. Copper products are still increasingly in demand. The market for wire rod is benefiting from the positive trend in the cable and wire industries. Sales in the automotive sector are at least stabilising. The recovery in the semi-finished product industry is also continuing, with the higher demand making it necessary for fabricators to adjust their supplies of copper shapes. The severe winter in Europe has not had an adverse effect on any market sector, apart from the construction industry.

### Current market environment despite economic recovery characterised by uncertainties

#### Raw materials

- » Insufficient market supply of copper concentrates
- » TC/RCs therefore remain at low level in limited spot business
- » Good availability of copper scrap and refining charges

#### Copper demand

- » Chinese cathode demand still high
- » Recovery trends for copper products
- » Severe winter in Europe only weighs on the construction industry so far

#### Copper inventories

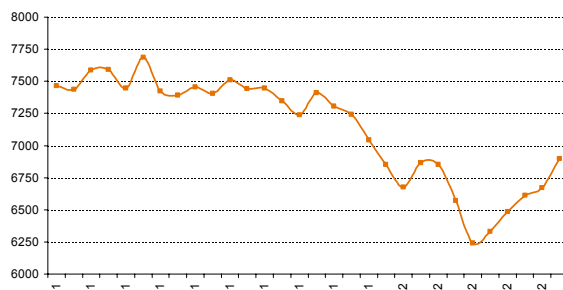
- » Exchange inventories reach level of about 750,000 tonnes of copper
- » Future trend unclear
- » 56 % located in the USA, followed by 32 % in Asia and 12 % in Europe

#### Copper prices

- » Copper price proves to be robust, but is still affected by investor activities
- » Price volatility continues short-term in view of uncertainties in macro-economic environment

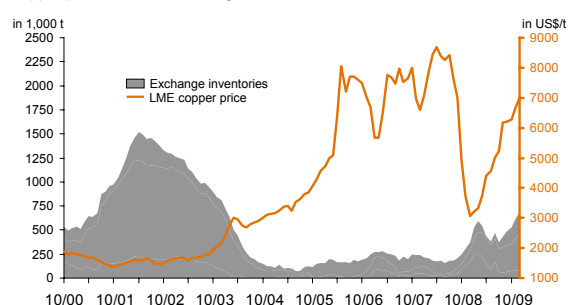
### Copper price recovering again after decline

Copper price settlement LME (in \$/t)



### Unclear trend in exchange copper stocks after reaching 750,000 tonnes

Copper price and metal exchanges inventories



### 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