

Copper market

Even optimists were surprised. The German economy is growing more strongly than it has in years. All the forecast up to now appear to have been overtaken by reality. If the Federal Ministry of Economics expected growth of 1.5 % at the beginning of the year, most of the banks' economists have scaled up their forecasts to about 2 % in recent weeks. Barclays even thought economic growth of 2.4 % was possible. The upswing seems to be strengthening and should continue into the next year. In addition, what is being described here also relates to the copper industry's customers. From the automotive industry, machine construction through to the electro-industry, the companies all have substantially increased order intakes. In the German electrical engineering industry, order receipts rose by 42 % in June compared with last year. Copper wire rod, which is indispensable due to its very good electrical conductivity, was consequently in demand. Business on the copper semis markets also showed a clear uptrend. One of the leading European producers of copper and copper alloy products, the KME Group, reported good product demand and indicated a 21 % production rise for the first half-year. The only sector that was not yet satisfactory was the construction industry. The traditional summer break in the European centres of the copper processing industry therefore took on a different appearance this year. In Germany production activity has only been reduced to a very limited extent, the same applies to France where activities have been only moderately cut back. Only Italy is keeping to its traditional holiday time and shows little change compared with the last few years. Demand for copper products in central and northern Europe therefore reflects only a slight seasonal downtrend. At the same time it can be assumed that the demand is the direct result of the good order situation and not caused by restocking. With a copper price of more than US\$ 7,000/t, stockpiling at processors seems improbable beyond the level necessary to maintain production.

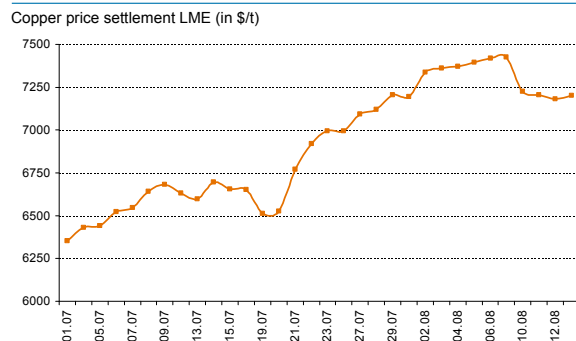
Copper should therefore remain in demand, and the renewed concern about the economic trend in the USA and news about a downturn in economic activity in China should basically not affect this. When talking about China, it should not be forgotten that although economic growth there has dropped from about 12 % in 2007 to just under 10 %, it is still at the level of 2008. The decline is also a consequence of the Chinese authorities' direct influence and is in the range they want. In the first half of 2010 Chinese demand for refined copper is expected to have been even higher, with downtrends only in energy production, transmission and distribution. An increase in copper demand can be expected particularly in this sector, when the three-year investment programme for expanding the electricity supply in the country's western and rural regions takes effect in 2011. The Chilean Codelco, the largest copper producer in the world, believes China's copper demand will rise by 8 % in 2010, followed by similar growth again in 2011.

The inventories in the warehouses of the metal exchanges reflected the high demand also of the past few weeks. Since mid July the LME stocks have declined by a further 18,650 tonnes to the current 409,000 tonnes and will probably keep declining. The European warehouses only account for about 8 % of the LME copper stocks. Currently 21,475 tonnes are scheduled for delivery (cancelled warrants). The copper quantities stored at the SHFE reduced by 13,870 tonnes to 106,368 tonnes. Stocks at the American Comex have even shown some movement and are declining, even if only very slightly to date, with withdrawals of less than 1,000 tonnes per day. Thus the availability of copper cathodes is declining further. Currently the premiums in the European spot business are higher than the annual premium. If the fundamental situation proves to be stable, the cathode premium should remain firm for the rest of this year. The copper price rose since mid July from US\$ 6,656/t (settlement) to US\$ 7,425/t on 9 August and has since dropped to US\$ 7,180/t. Today it amounted to US\$ 7,200/t.

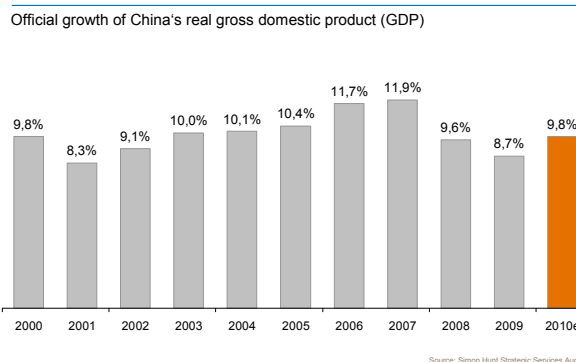
Copper raw materials and copper products

Almost no buying activities can be observed on the spot market for copper concentrates, also not from China where inter alia maintenance work on smelters is having an effect. No official announcements have been made about the mid-year negotiations, although there are rumours that there have been settlements of about US\$ 40/t and cents 4/lb. However, there seems to be higher settlements favouring the smelters that are not publicised. The supply on the European copper scrap market is good for the time of year. Chinese buyers are also only sporadically apparent for certain types. The demand for copper products has remained at a high level. This applies in particular for rod, shapes and strip products.

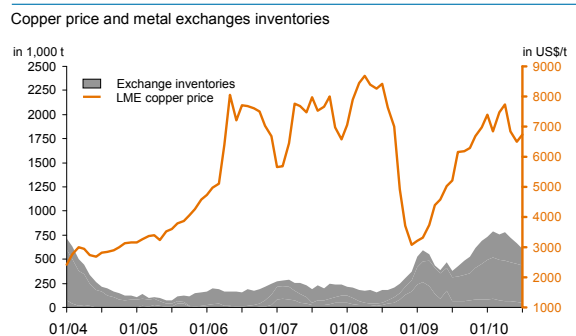
LME copper price again on an uptrend



Chinese GDP 2010 remains at a good level



Decline in copper stocks at the metal exchanges continues



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