COPPER MAIL

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Copper market

It is summer in the Northern Hemisphere. The World Cup is over, temperatures of more than 30 degrees Celsius are paralysing public life and the holiday season has begun. But the copper market is still unimpressed by all that. The quantities leaving the warehouses of the metal exchanges continue to flow and the copper price is proving to be robust.

Since mid June, the LME copper inventories have declined by a further 35,000 tonnes to meanwhile 428,000 tonnes. According to the current data, another 31,500 tonnes have been scheduled for delivery in the coming weeks (cancelled warrants). Changes are above all apparent in Asia, where the copper inventories in the LME warehouses have fallen by 15,000 tonnes since mid June, while the SHFE even had to record a decline of some 22,000 tonnes. This seems to confirm that inventories are being reduced in Asia, which in China's case could also affect the quantities outside the metal exchanges. About 6,800 tonnes of the stored 58,000 tonnes of copper cathodes have been withdrawn since mid June, mainly from the warehouses in Rotterdam, Livorno and Liverpool.

All this indicates good copper demand which recently reflects the recovery trends in the global economy. The International Monetary Fund has just increased its forecast for this year's global economic growth to 4.6 %. In China, the largest copper consumer in the world, the economy should grow by 10.5 %. This will be reinforced in the medium term by the special programmes of the Chinese government. Thus the Economic Information Daily, which is combined with the Xinhua News Agency, reports that China wants to invest about US$ 30 billion (Yuan 200 billion) in its rural electricity network in the next three years. Two thirds of that should be used for transmission and transformation technology, including transformers, cable and wire. According to Antaike, the Chinese information network for metals, China had a copper demand of 5.4 million tonnes in 2009, of which 2.7 million tonnes, i.e. 50 %, have been used for the expansion of the electricity grid. On the basis of this, a copper demand of 883,000 tonnes would arise from each 100 billion Yuan invested.

As regards the lower Chinese imports of unwrought copper and copper products in June, which at 328,231 tonnes were surprisingly 17 % down on the prior month, this should not be overrated. Import figures are a momentary summation and are subject to various parameters, not only demand. Thus the decline is surely an effect of the unfavourable price ratio for imports between LME and SHFE. In April the average copper quotations on the SHFE were still lower than the LME level, in May and June only slightly higher. Only recently has the difference risen again to substantially higher than US$ 100/t on certain days. For the whole of the first half of 2010, Chinese imports of unwrought copper and copper products amounted to 2.23 million tonnes, only -0.2 % down on the prior-year period. This should also reflect the basis for the second half of 2010. At the beginning the imports could still be weaker, inter alia due to seasonal impacts, but increase again later.

Although the distrust for Europe is still running deep, unclear moods and expectations of a verifiably improved economic situation are confronting each other, which represents a striking discrepancy. Germany in particular is catching up rapidly. The order books in the electrical industry are filling up, which is particularly important for the intensity of copper demand. In May the order intake was 26 % up year-on-year, in the period January to May 23 %. The good export business in particular made itself felt here (May: +38 %), but also the domestic business (May: + 16 %). The cathode demand is quite good at the moment. Enquiries are coming from German customers, but also increasingly from China: cathode premiums in certain cases are already said to be significantly higher than the yearly premium of US$ 80/t. This all indicates that availability could become more limited, which will become clearer after the summer.

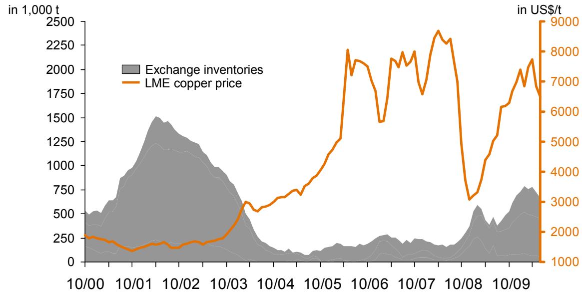
Despite the above general conditions, the copper price is still currently susceptible to negative news. This was apparent in that price declines are immediately followed by a recovery, thus reflecting the good support for the price. For the first half of July, the average copper price (settlement) amounted to US$ 6,563 (average June: US$ 6,499/t).

Copper raw materials and copper products

On the spot market for copper concentrates, the TC/RCs in the Chinese business have recently risen from less than US$ 10/t and cents 1/lb to up to 20/t and cents 2/lb, mainly due to the lack of Chinese smelters' buying activities. These were not prepared to accept the too low TC/RCs or must reduce their production due to maintenance standstills. Business on the European copper scrap market has slowed down, primarily due to the beginning of the holiday season. Demand for copper products has been good up to now. The summer season should however have an effect here and could result in reduced business activity until the end of August.

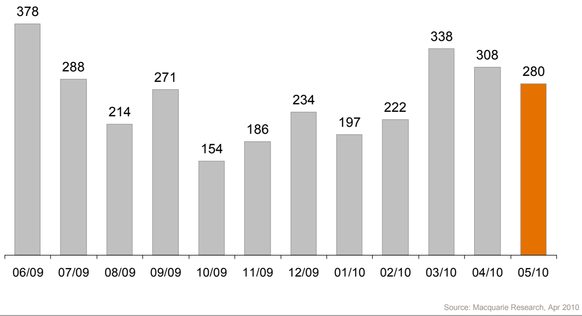
Decline in copper inventories on the metal exchanges continues

Copper price and metal exchanges inventories



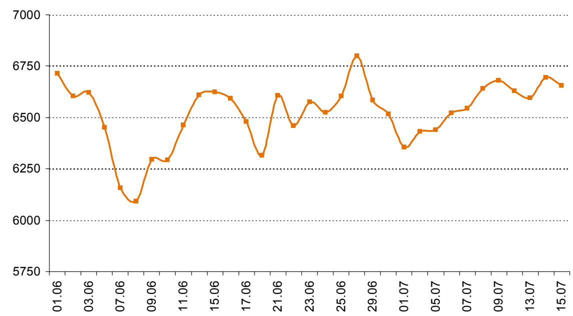
Chinese imports of refined copper at a high level

Chinese net imports of refined copper (in 1,000t)



LME copper price has recently stayed over the US$ 6,500/t mark

Copper price settlement LME (in $/t)



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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