

COPPER MARKET

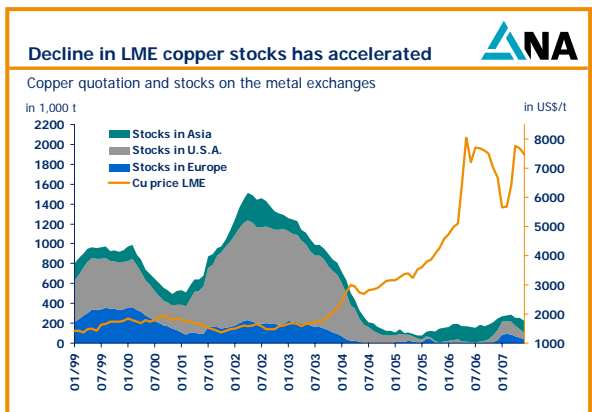
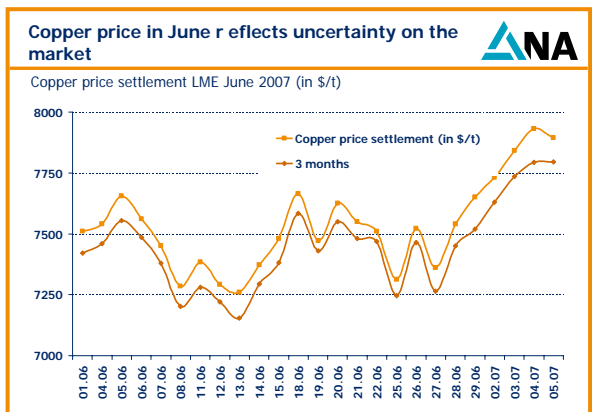
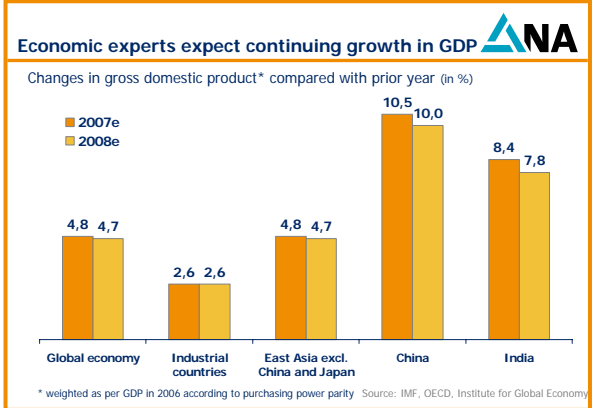
The fundamental situation on the copper market really militates in favour of high prices. The economic experts are making mostly positive forecasts for global economic development despite the weak U.S. economy, such as the Institute for Global Economy at Kiel University: after the clearly upward trend in the first few months of this year, there is no end in sight to the upswing which has meanwhile lasted for four years. Global economic growth of 4.8 % is expected for 2007, 4.7 % for 2008. While the economic expansion in the industrial nations continues at a moderate pace, production in the developing and threshold countries is growing strongly. The upswing in Germany and abroad is above all carried along by the demand for capital goods. These are very good general conditions for copper demand. The worldwide growth in demand in the first quarter 2007, which has just been announced by ICSG as amounting to 9 % compared with the prior year, is surely not representative for the whole year, since it includes special effects caused by China's high net imports. However, growth of certainly 4 % is expected for 2007, i.e. some 750,000 tonnes. This is confronted with a copper mining production that is again weighed down by the threat of labour disputes regardless of all the expansion projects. The signs are pointing to strikes in the South American copper industry. The indications are that there will be strikes at Collahuasi, the Chilean producer, which mines about 440,000 tonnes of copper concentrates annually, from which it produces copper cathodes. Protests and strike action continues at the Chilean Codelco with demands for higher wages and better employment conditions. In the Peruvian copper industry, the discussions at Southern Copper Corp. have still not reached a conclusion after a strike planned for the end of June was abandoned. An end to the strike started at the CCR copper refinery in Montreal (Capacity 370,000 t/year!) on 11 June is also not in sight.

In the gap between growth in demand and insufficient production, there is normally the possibility of falling back on copper stocks, but at present this is only possible to a limited extent. The stocks in the warehouses of the LME declined in June by almost 15,000 t to 112,600 t of copper cathodes. A further 30,000 t are earmarked for delivery (cancelled warrants). This refers, in particular, to the European sites in Rotterdam and Vlissingen. At the Comex the copper stocks are currently at 20,070 t, thus almost 5,000 t down on the beginning of June. This is the lowest level since October 2006. Stocks are meanwhile declining even at the SHFE and have now dropped to 90,600 t after reaching a high of almost 100,000 t.

The fact that there was still some uncertainty on the copper market in June, as reflected in the price range of US\$ 7,260/t and US\$ 7,650/t, is really inconceivable in view of the current market situation. Meanwhile the doubters seem to realise that there is a great deal speaking in favour of tightening supplies. The price has risen to US\$ 7,930/t (Settlement). The difference between cash and 3 month prices (backwardation) has increased to US\$ 138/t.

COPPER RAW MATERIALS AND PRODUCTS

The market for **copper concentrates** is still in short supply. The new Yanggu copper smelter in China should apparently now be processing the first deliveries of copper concentrates. The continued trend on the spot market is not clear since the current deficit is apparently smaller than expected. Many smelters have good stocks of copper concentrates despite the negative predictions. The **copper scrap** market currently offers smelters good procurement possibilities with ample supplies. Refining charges are at a high level. Demand for **copper products** could slow down temporarily with the onset of the summer season. This is, however, not yet noticeable for wire rod. Demand in Europe was 3.3 % up in the second quarter year-on-year. Demand for flat products, in contrast, has recently declined slightly from its very high level at the beginning of the year.



GLOSSARY:

Backwardation: amount by which spot price is higher than 3 month 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