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Copper Mail
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COPPER MARKET

A German newspaper very recently gave its article on the raw material markets the title „Bulls in bear-skins“. The current situation on the copper market could not be described more aptly. After the LME Week in October that was still accompanied by mostly positive forecasts for 2008, the mood changed. Suddenly the “bears” controlled the spectrum of opinions with references to the unresolved crisis on the international finance and credit markets, possible economic impacts, not only in the U.S.A. but also in China and Europe, and rising stocks in the warehouses of the LME. The cash prices fell from US$ 8,300 to US$ 6,272/t on 18 December 2007, thus losing almost 25 %. In addition, the public holidays at years end had their effect. The New Year rockets had hardly gone out, when thoughts returned to the realities of the market. Some “bulls” shed their bear-skins again. The copper prices increased at times to over US$ 7,300/t. The contango for 3-month contracts was reduced to US$ 14/t.

Spot purchases on the one hand are behind this „reorientation“, e.g. in connection with the revised weighting of the Dow Jones AIG Commodity Index, which will be finished on 14 January. The change in the weighting of the 21 raw materials included can influence index investments to the extent of umpteen billion because such changes have consequences. Institutional investors, such as the commodity fund managers, who orient themselves to the Dow Jones Index, will react accordingly. A stronger weighting attracts purchases. Copper was classified higher for 2008 with a weighting of 7.04 % compared with 5.91 % in the prior year and 5.88 % in 2006.

However, the revised index weighting is not the only factor currently moving the copper market. Both the demand and production sides are showing momentum. China’s present copper demand is high before the New Year celebrations in February and faces a physical shortage. The copper stocks in the warehouses of the SHFE have fallen since the beginning of December from 34,400 t to 24,100 t. The premiums in the Shanghai spot market have risen significantly. All too great risks that the economic downturn in the U.S.A. could curb the dynamics of Chinese copper demand more strongly are not apparent. The metal is mainly used in China for infrastructure measures and in the construction and transport sectors, while only a minor part is used in the production of export goods. On the production site, there could be strikes as of February at the mines of Codelco in Chile, since about 5,000 subcontractor employees are insisting on being treated the same as Codelco employees as regards tariffs. In addition, maintenance work is due at two Japanese copper smelters and at the Indian smelters in the first half of 2008, which will mean production stoppages.

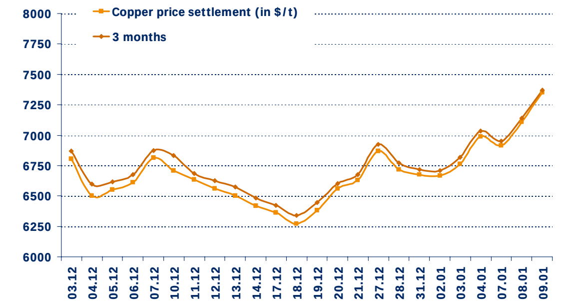
The copper stocks in the warehouses of the LME increased from 189,500 t to 198,350 t in December and passed the 200,000 t level in the first few days in January. However, the height of the cancelled warrants also increased surprisingly strongly from 6,900 t on 2 January 2008 to 25,600 t on 9 January 2008. Thus, the trend seems to be changing in the coming weeks. In 2007, LME stocks declined by more than 100,000 t in only a few months, from February to July.

COPPER RAW MATERIALS AND PRODUCTS

Only individual settlements were concluded on the international spot market for copper concentrates during the past few weeks. Treatment and refining charges rose again to over US$ 60/t and cents 6/lb. A further rise can be expected in the next few months as a result of scheduled stoppages for maintenance at a number of smelters. The market for copper scrap was determined in the last few weeks by the copper price trend and year-end impacts. The trade showed only a limited readiness to release stocks. Seasonal impacts also determined business as regards the demand for copper products. Buying activities were lower than in the prior month due to the run-up to Christmas and year-end holidays.

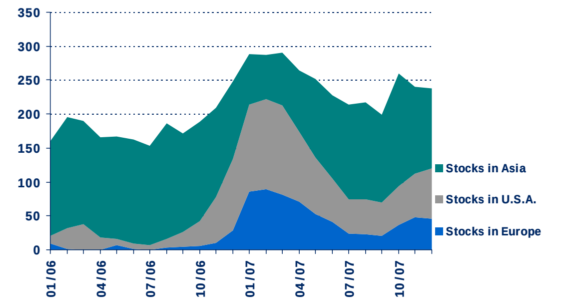
Copper price recovers significantly at the beginning of the year

Copper price settlement LME December 2007 (in $/t)



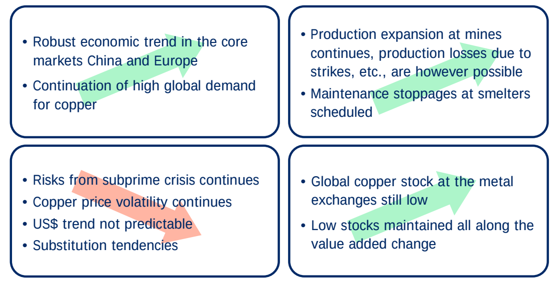
LME copper stocks reach 200,000 tonne mark

Copper stocks on the metal exchanges (in 1,000 t)



Many aspects indicate a good copper year 2008

General conditions



GLOSSARY:

Backwardation:	amount by which spot price is higher than 3 month price
Comex:	New York Commodity Exchange
ICSG	International Copper Study Group
IMF:	International Monetary Fund
LME:	London Metal Exchange
Settlement :	cash selling rate
SHFE:	Shanghai Futures Exchange
SRB	Strategic Reserve Bureau
TC/RC:	Treatment and refining charges for concentrates

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