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COPPER MARKET

While the copper industry met last week in Santiago de Chile for the annual CESCO conference, the copper price surged to new highs. On 10 April the settlement quotation on the LME amounted to US$ 8,884/t, with backwardation of US$ 164/t for a three-month period. Thus, the copper price has stayed well above the US$ 8,000/t mark since mid February 2008. The question of whether this price level is justified can be discussed at length, but a definite reply was also not given in Santiago.

The fact is that a great deal of investors' money is still flowing into raw material investments and thus the funds still have a significant impact on the copper price performance. It is, however, also true that the fundamental situation on the copper market speaks in favour of high prices. The still smouldering international financial crisis and the connected consequences for the economy and copper demand have currently taken a back seat. Instead the increasingly critical supply situation on the cathode market is attracting considerable attention.

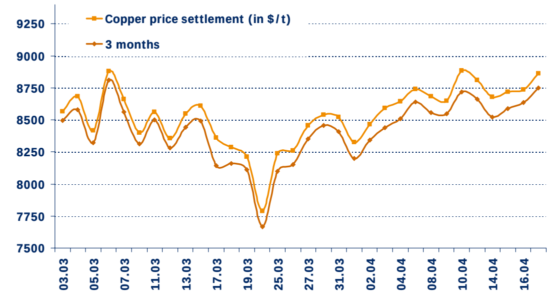
In 2007 the copper market reflected a slight production deficit in terms of figures. In the first two months of the new year nothing changed in this according to the just published figures of the World Bureau of Metal Statistics. Investors are very receptive for new market-related events in such a situation. The high copper price still ensures the expansion of production capacities, which corresponds to the theory that high commodity prices generate higher production. The problem in industrial everyday life, however, is to ensure production performance. After the persistent shortage of equipment for the mining and smelting industry – the delivery term for ore crushing facilities amounts meanwhile to 36 months – the rising energy shortage above all weighs on capacity utilisation. Chile, which accounts for about 35 % of the global copper mining output and 16 % of the production output of refined copper, is particularly affected by this. In southern Chile, the energy supply is based on water power, in the north, where the copper industry is concentrated, it is dependent on gas, which is mostly imported from Argentina. In both cases, drought and delivery failures have resulted in shortages that have weighed on production. The switch to diesel-driven energy generating plant is not a sufficient alternative. The situation has been aggravated by the current walkout of subcontractors in all five divisions of Codelco, the state Chilean copper producer, as a result of which the transport to the ports has been interrupted. Higher wages and better working conditions are being demanded, even though a collective agreement was reached not even a year ago. The copper stocks in the warehouses of the metal exchanges currently amount to some 186,000 t, thus 12,000 t less than in mid March. This would theoretically suffice to cover global demand for 3.5 days. Regionally, there are 27,000 t of grade „A" cathodes stored in Europe (15 %), 30,000 t in the USA (16 %) and 129,000 t in Asia (69 %). Stocks can hardly be available along the value added chain. Consequently, there is a lack of physical quantities, above all in Europe, at a time, when business in the processing industry is not being dampened by seasonal impacts.

COPPER RAW MATERIALS AND PRODUCTS

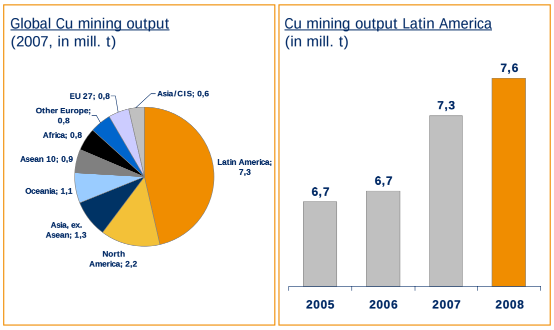
The concentrate market is hardly giving any signals at present. Activity is limited in the spot business, which could give indications for a representative level of TC/RCs. The high copper prices ensure a good copper scrap supply, demand from China and other interested parties was not particularly high. The business trend in the customer industries is reflected in the situation of the copper product market. The German electrical engineering industry expects a 4 % rise in revenues this year, 2008 is also being regarded as a record year for mechanical engineering. In the automotive industry, car sales fell 2.8 % in Western Europe and the EFTA states, but increased 14.7 % in Eastern Europe. The construction industry started into 2008 with a high order intake.

Copper price rises again significantly to over the US$ 8,000/t mark

Copper price settlement LME (in $/t)



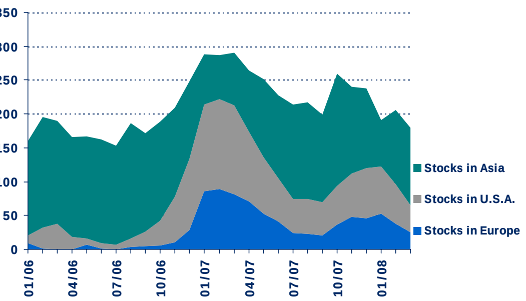
Copper mining output in Latin America accounts for almost 50 % of global mining



Source: ICSG Oct 07

Copper stocks at the metal exchanges decline further

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



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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