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## Monday Market Monitor - Metals (WEEK 33) - Rally slows down

Monday, 17 Aug, 2009

The prices of most of the base metals have again started moving in tandem with the rising equity markets. All industrial metals followed copper, the first metal that surged and gained 70% since March.

### London Metal Exchange Rates

Product	6-Aug	13-Aug	Change	%
Zinc	1872	1897	25	1%
Nickel	20070	21065	995	5%
Tin	15650	15625	-25	0%
Aluminium	2001	2034	33	2%
Copper	6034	6418	384	6%

In USD per tonne

On cash buyer basis

Change is on August 13th 2009 as compared to August 6th 2009

Even as the demand at large is seen subdued barring the massive stockpiling by China, the short term indicator of demand, the LME inventories of certain metals adds to the suspicion over the momentum of gains.

In last 1 month the inventory gains for all the metals have increased by a similar extent. Though the inventories of certain metals like copper and zinc have showed a declining trend in turn triggering the price rise since late February 2009, stocks of metals like aluminum and lead have risen at a pace similar to the same in prices in the period.

While the gains in industrial metals are largely driven by a strong rebound in equity markets and the dollar weakness, the view is that in case of a near term economic turn around the developed economies could also come back to increasing their stockpiles.”

While there are no signs of strong recovery in the fundamentals of all metals on standalone basis, the rise in equity markets and escalating optimism for a recovery has directed the gains in industrial metals. Even as some buoyancy prevails regarding the demand outlook in the future, the amount of the stockpile is expected to limit the upside for these metals.

### 1. Zinc

State run nonferrous metals information provider Beijing Antaike said that higher output of Chinese galvanized steel in the first half of the year due to the growth in the local automobile and construction sectors resulted in increased zinc consumption. As a result, Chinese domestic zinc demand in the summer which is a slack season was better than usual on the state's stimulus package.

But the support from Chinese seems to be waning as zinc market was subdued during last week.

GFMS said that given the zinc market's fundamentals and anecdotal evidence pointing to a speculative overhang having been built in base metals, a noteworthy correction over the remainder of the summer period was seen.

GFMS said that zinc is seen trading in a USD 1,450 per tonne to USD 2,000 per tonne range from August to November 2009.

### 2. Nickel

The stainless steel market has suffered the worst half year of its history due to the world economic crisis and the industrial activity plunge. As a reference, the world steel production has dropped by 21.3%. In Europe it has been 43.2% lower and plunging by 51.8% in the United States.

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The uncertainty in face of the length and the depth of the situation and the strong process of stainless steel inventories reduction in the factories and warehouses have led to an unparalleled demand correction aggravated by the reduction of inventories and the consumption of products which stainless steel content.

The apparent consumption of stainless steel in Europe and in the United States has fallen by more than 40% in this period according to our estimations, which reflect the crisis magnitude, but it also shows that from these minimum levels there will be an upward correction although the world economic recession would extend further than forecasted.

After the drop during most of year 2008, nickel has maintained a level of around USD 10,000 per tonne in the period October to March and since then it has had a strong 60% appreciation. It is currently quoting at levels of USD 16,000 per tonne. The nickel price rise in the second quarter and the subsequent increases of the alloy surcharges have led in all the markets the beginning of a process of inventories replenishment, which are still in historical low levels.

Nickel has been one of the biggest sufferers in the global commodity price meltdown, with its price falls preceding and being longer lived, than those for many other base metals. But this year it has been making a bit of a comeback fuelled by investment demand and huge Chinese imports, and now, as the stainless steel market is seeing some signs of a return, by better fundamentals.

Now, LME nickel stocks, which had built to very high levels and had been a big drag on the price, are seen to be reducing slightly and have thus been another price supporter, although the size of these stocks gives some cause for concern still, representing over seven weeks of world consumption.

What may also be a cause for concern in the nickel markets has been that a large segment of demand over the past few months has been from China where considerable restocking has been taking place. Chinese imports have been running hugely above levels seen at any time in the past and with talk that restocking programs may be ending there, there could be some impact on prices. But, to an extent the Western and Japanese consumers had been destocking and it is now their turn to restock, although it is not certain that the extent of this will make up for a possible fall in Chinese restocking demand.

In its recent Base Metals Forecasting Monthly, GFMS is also relatively cautious on prices over the next few months, with the note that the nickel price has now risen sufficiently to bring it up past the marginal production cost for much of the world's idled capacity, which could put a bit of a cap on prices in the short to medium term. Consequently the metals analysis consultancy is looking to a price range of from just below USD 7 per pound around a little over USD 10 per pound over the next four months.

Whether the actual price remains at the upper or lower end of this range though may well depend on the longevity of the current miner's strike at Vale Inco's Sudbury and Voisey's Bay operations.

But like the whole base metals sector, forward price prediction remains difficult and dependent on the true state of the global economy and whether the 'green shoots' being seized upon by politicians, economists and the media are for real, or just a mirage. There are signs that China may be pulling in the reins a little on its highly effective stimulation programs and while the Western World does seem, on the face of things, to be turning the corner, some analysts also see this as a false dawn.

Whatever the situation, nickel may be one of the more vulnerable of the industrial metals to any stuttering in the perceived upturn. It could well maintain current pricing levels as long as the economy continues to recover, but sharp price increases above current levels could see, as we mentioned above, idled capacity coming back on line and there is always the twin specter of the Chinese pig nickel sector and substitution in stainless steel, overhanging the market which will put an ultimate cap on price.

The stock position needs to be watched and a continued fall in LME stocks will be a positive sign but so far the stock falls have been small.

GFMS forecasts nickel prices in a range of USD 14,000 per tonne to USD 21,000 per tonne from August to November. And although outputs at a number of stainless mills outside of China have been increasing as orders from consumers pick up.

### 3. Tin

For the week ended, the tin price on the Kuala Lumpur Tin Market went up USD 300 to close at a two month high of USD 15,300 per tonne compared with USD 14,760 per tonne last Friday. However, the volume dropped to 507 tonnes from 605 tonnes last week.

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The Kuala Lumpur Tin Market is expected to continue its uptrend next week on firmer interest following improved sentiment over the global economy. The renewed optimism of the world's economy will spur players to accumulate stocks in line with similar interest in other commodities as well.

The tin price is expected to remain above USD 15,000 per tonne in the week to come.

It is also reported that Indonesia has handed out 6 new permits to export tin in the last 3 months, swelling the ranks of licensed smelters to near pre crackdown heights in 2007 but the world's top exporter is unlikely to increase supply until it firms up new mining rules which may take months or years.

GFMS said that on tin, demand was set to remain weak during the summer months with prices forecast at a USD 12,000 per tonne to USD 17,000 per tonne range over the next 3 months.

GFMS said that "Tin's price performance to date is a reflection of speculative activity rather than any sort of improvement in its fundamentals. In the medium term the shortage of new projects leads us to believe that prices could rise considerably from current levels if consumption returns to pre recession levels."

#### 4. Aluminium

Aluminium stocks held at key Japanese ports plunged to the lowest since records started to be kept 14 years ago as imports dropped due to a slump in demand. Aluminium stocks held at the ports of Yokohama, Nagoya and Osaka totaled 174,200 tonnes at the end of July, down by 16% from the previous month and 14% YoY. The previous low was 178,100 tonnes in November 2007.

There was no supply tightness as demand remains stuck below levels prior to the economic crisis. Some market players said that stocks have returned to levels appropriate to current demand.

Demand for aluminium, used widely in the construction and auto industries, has tumbled since late last year as world battles its worst downturn in half a century.

Supplies tightened then, but a simple comparison of the figures does not provide a true picture of the situation as the economic conditions of the two periods are totally different.

Signs of a nascent recovery in auto demand are also a welcome development, although aluminium industry cautions that more time will be needed for metal demand to return to levels seen before the economic crisis.

GFMS said that aluminium tightness is expected to grow in the H2 of the year, especially outside China, with cash prices ranging between USD 1,550 per tonne to USD 2,150 per tonne over the next 3 months.

Analyst of GFMS said that "That said, the current strength of the rally given the fundamentals is somewhat exaggerated, while the market remains so well stocked and with vast restarts occurring in China."

GFMS expects the price to come under pressure in the weeks ahead, although prices will not get close to lows below USD 1,300 seen in February.

#### 5. Copper

Copper rose to a fresh 10 and a half month high on August 14th 2009 before reversing gains, as US consumer price data offset fragile expectations of improving demand. Earlier, prices of the metal used in power and construction hit USD 6,480, the highest since early October.

Copper prices turned lower after government data showed that US consumer prices were flat in July versus June but fell over the past 12 months by the most since 1950.

Mr Charles Kernot an analyst at Evolution Securities said that "People have got the view that it will still be long and slow for the US to exit recession and the government is going to have to keep with its various policies to try and steer the economy out from the downturn."

GFMS said that a summer correction could see volatile copper prices fall to USD 5,000 per tonne before rising back up to

USD 6,500 as consumption begins to recover in the final quarter.

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London based GFMS said that a copper correction was due before the end of the summer season, with an overall surplus of 245,000 tonnes seen in 2009.

Analyst of GMFS said that "Investor sentiment towards copper has been very positive in the last few weeks and this continues to be the case. Although the basic argument of structural tightness in the copper market is undoubtedly sound in the medium term, our projections continue to see consumption declines more than offsetting losses in production over the rest of the year."

GFMS sees copper prices at between a USD 5,000 to USD 6,500 range from August to November. London Metal Exchange prices for copper used in power and construction are currently at about USD 6,000 per tonne. The red metal has risen about 100% this year as improving economic sentiment coupled with investor and state buying have boosted prices.

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