

3 February 2012

WORLD COPPER MARKET REVIEW

(Week of 30 January-3 February 2012)

Copper closed the week trading at 377.389 ¢/lb. in the London Metal Exchange (LME), down 13.15 ¢/lb. (3.37%) over the week before. Exchange inventories climbed 6.9 percent, closing at 586.35 KMT or 10.4 days' global consumption.

Financial markets remained cautious as Greece continued talks with creditors to avoid defaulting on the country's debt. As a precondition for a new bailout package, however, the European Union and the IMF require new budget cuts and further fiscal austerity measures. In the eurozone, the manufacturing PMI stood at 48.8, better than markets expected but still within the no-growth zone. The manufacturing PMI in Germany –the eurozone's largest copper consumer- surpassed the 50-point barrier for the first time in six months, suggesting that the economy may be undergoing a moderate recovery. At least 25 of 27 European Union member states have agreed to a German proposal to tighten budget deficit rules that include sanctions for offending countries.

In the U.S., manufacturing in January posted its best performance in seven months. The Institute for Supply Management's Index of National Manufacturing Conditions stood at 54.1, its best showing since June 2011 yet still below the expected 54.5. In addition, in a statement to the U.S. Congress, Fed Chairman Ben Bernanke was not cheerful about the economy. Bernanke asked Congress to give fiscal austerity measures high priority, noting that interest rates may spike if investors lose confidence. Bernanke also confirmed that the real estate market is in a state of depression, that the labor market has yet to recover fully, and that sluggish growth is making the country vulnerable to external shocks.

In labor news, the ADP wire service reported that some 170,000 new jobs were added by the U.S. private sector last month. On Friday, the U.S. Department of Labor reported that the economy added some 243,000 jobs in January.

In China, manufacturing activity in January stayed within the growth zone for the second month running. The Chinese manufacturing PMI came in at 50.5, portending increased demand for copper going forward as well as a soft landing for the economy. That said, trade results weren't as upbeat. The export demand index in January fell to 46.9 from 48.6 the month before, while the import index dropped to 46.9 from 49.3 in December, developments which suggest flagging consumer confidence and domestic demand.

In industry news, Xstrata and Glencore, a major mining and commodities trading company, are in talks about a merger that would create a US\$79-billion behemoth. In Chile, Xstrata is involved in mines Collahuasi and Lomas Bayas and the Altonorte Smelter.

Metal Exchange Inventories

Exchange inventories rose 37.59 kMT (6.9%), closing at 586.35 kMT, driven mostly by strong increases at the Shanghai Futures Exchange (SHFE), which gained 179.89 kMT (36.6%).

LME holdings were down 9.32 kMT (2.8%), closing at 326.10 kMT worldwide. Consistent with recent performance, inventories in Asia and the U.S. dropped 5.5 and 1.5 percent, respectively, again falling to new lows. The largest losses were reported in Europe, where holdings fell 36.42 kMT or 9.4 percent.

Comex inventories dropped 1.6 percent over the week before.

Canceled warrants stood at 92.57 kMT or 28.39 percent of total inventories.

Metal Exchange Activity

Risk-averse traders opted to take out new short positions through Thursday, driven by sliding prices and a rise in the open interest. The forward price curve was down.

Spot/3M prices fell 0.3 percent.

Exchange Inventories (Metric Tons, Weekly Closings)

Market	Final	± MT	± %
Asia	25,675	(1,500)	(5.5%)
Dubai	-	+0	
South Korea	15,250	(1,300)	
Malaysia	875	+0	
Singapore	9,550	(200)	
United States	264,000	(4,025)	(1.5%)
Baltimore	275	+0	
Chicago	46,250	(250)	
Mobile	2,375	(75)	
New Orleans	109,700	(3,175)	
St. Louis	105,400	(525)	
Europe	36,425	(3,800)	(9.4%)
Germany	2,500	(1,400)	
Belgium	250	+0	
Spain	600	(425)	
Netherlands	25,925	(1,925)	
Italy	7,075	(50)	
United Kingdom	75	+0	
Sweden	-	+0	
TOTAL LME	326,100	(9,325)	(2.8%)
COMEX	80,367	(1,326)	(1.6%)
SHFE	179,891	+48,246	+36.6%
TOTAL	586,358	+37,595	+6.9%

N.B.: LME data to 2/3/2012; Comex and SHFE data to 2/2/2012.



LME Average Weekly Prices
Week of 30 January-3 February 2012

Spot	¢/lb.	± %
Spot	380.065	-0.3%
3 Mos.	381.014	-0.3%
3 Mos. - Spot	(Contango) 0.948	34.0%

Technical Analysis

Weekly prices were down but still comfortably above the short-term (40-day) moving average and its medium-term (100-day) counterpart.

As predicted last week, high prices underwent a slight downward correction, driven additionally by ongoing concerns about the eurozone and the result of Greek debt talks. Price support and resistance expectations for the coming week stand at 370 ¢/lb. and 395 ¢/lb., respectively.

Expected next week in the U.S. are the minutes of the Federal Open Market Committee, trade balance results, and the University of Michigan Consumer Sentiment Index. Reports expected in the eurozone will include the ECB's interest rate decision, the Sentix investor confidence index, and German industrial output. China will post inflation data.



Expected Price Trends for the Coming Week

Short Term (ST)	Stable
Medium Term (MT)	Stable

LME Daily Copper Prices (¢/lb.)

Date	Price		
30 January	380.972		
31 January	384.896		
1 February	378.818		
2 February	378.251		
3 February	377.839		
	2010	2011	2012
January	335.035	433.439	364.845
February	310.628	447.587	378.153
Annual Average	341.978	399.656	366.508⁽¹⁾

Average to 3 February 2012.