

The Near Term Outlook for Base Metals

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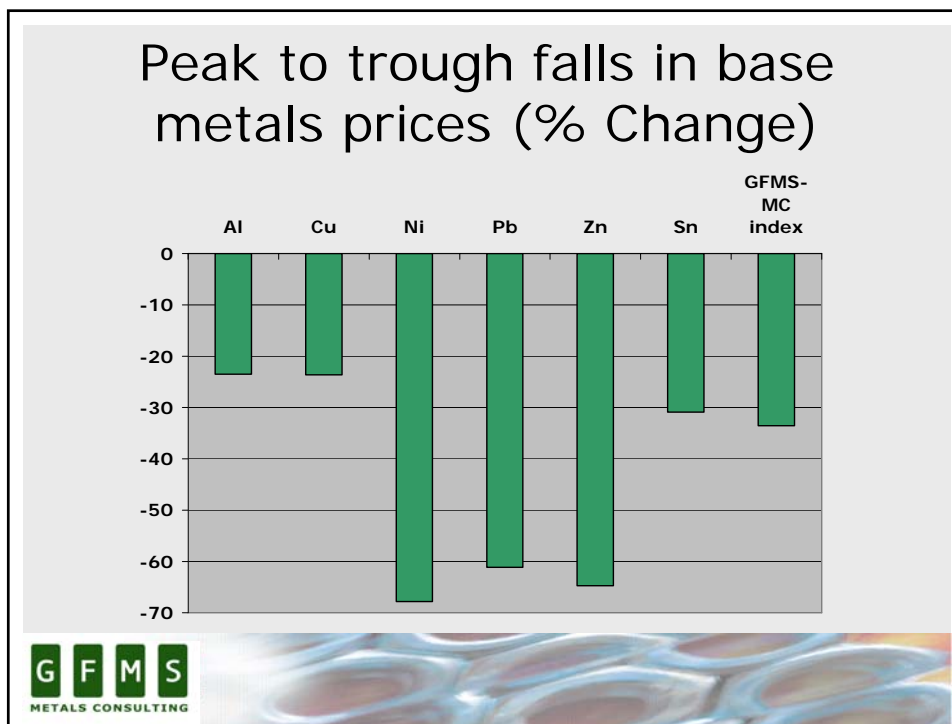
GFMS 5th Precious & Base Metals Seminar

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GFMS-MC's Base Metals Index trends lower





Recent price performance raises some questions

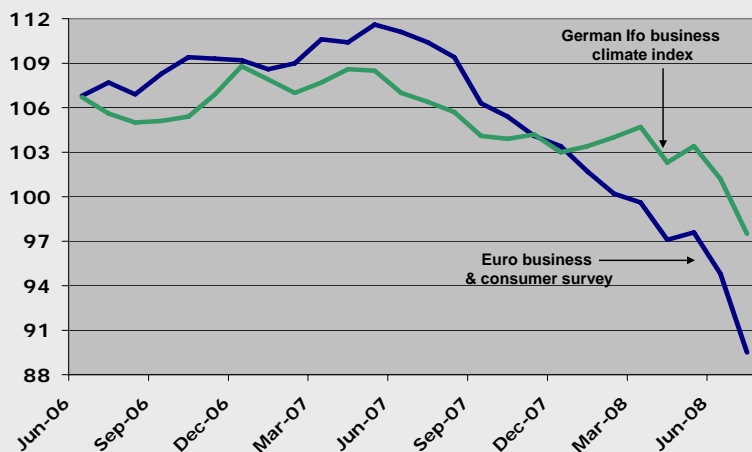
- Will aluminium, copper and tin prices follow the others?
- Are nickel, lead and zinc prices at/near the cycle lows?
- How long will prices remain "low"?

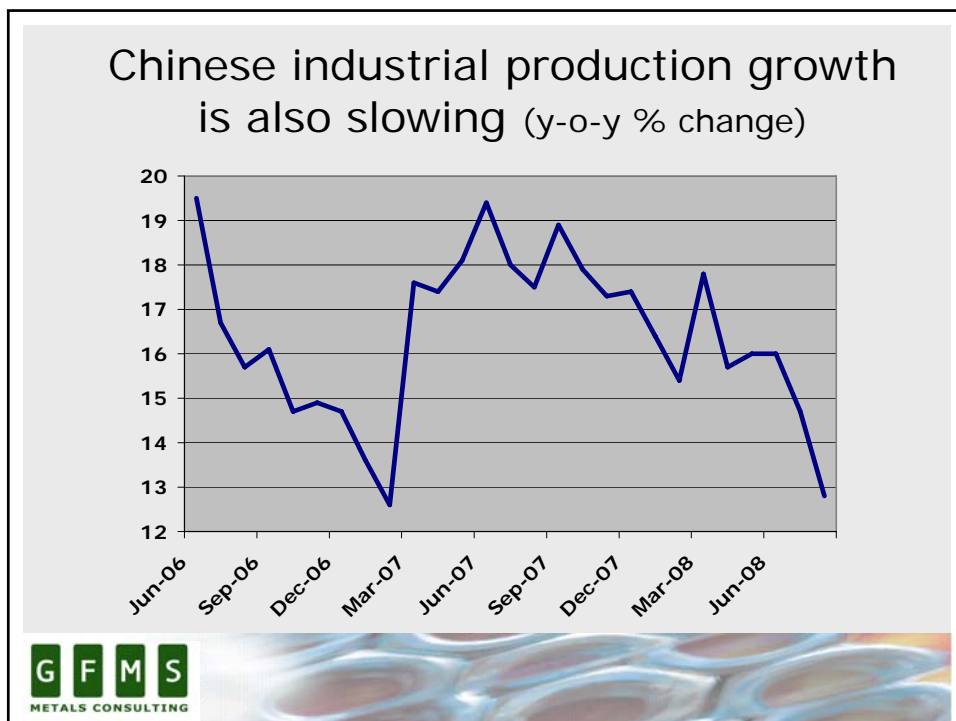
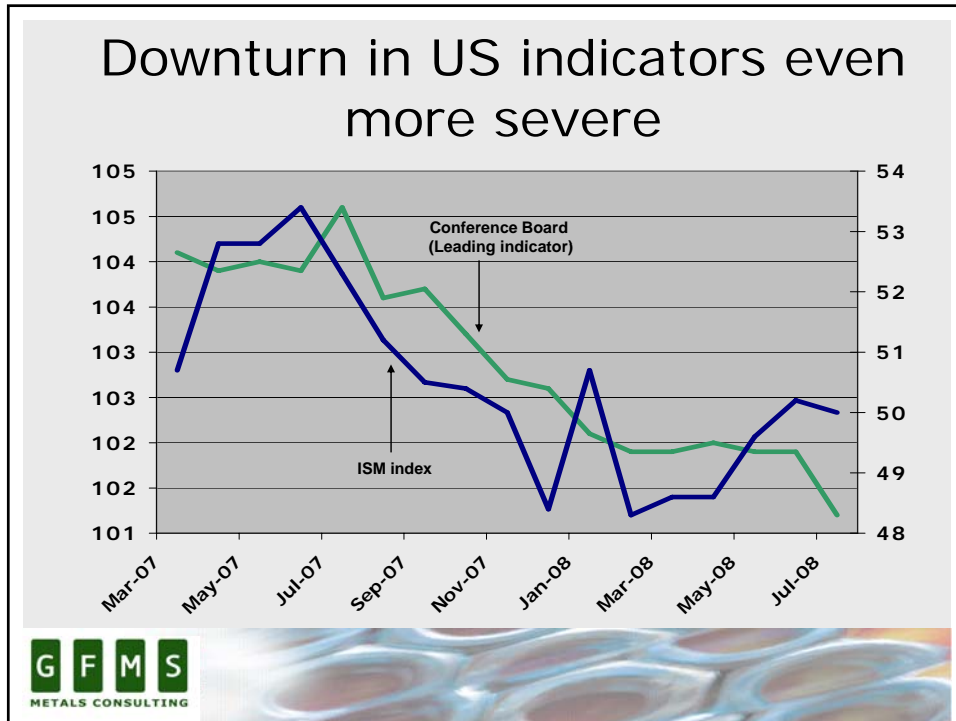
Economic environment

- Credit crisis still to run its course
- Problems are widening geographically and by sector
- Inflationary pressure will limit the policy response
- Some slowdown in the rate of IP growth in the emerging economies

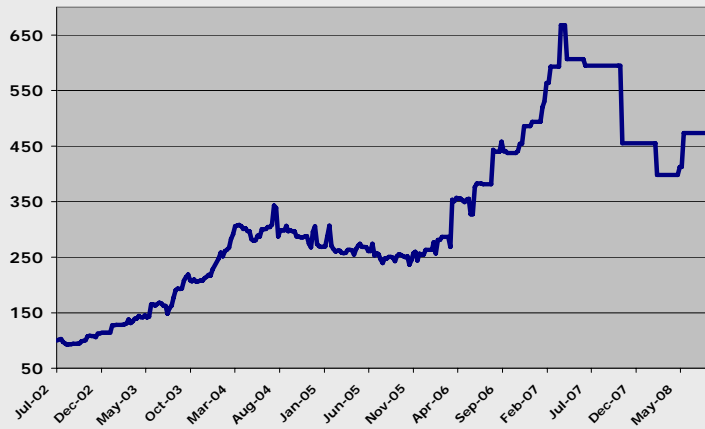


European indicators pointing to slower growth





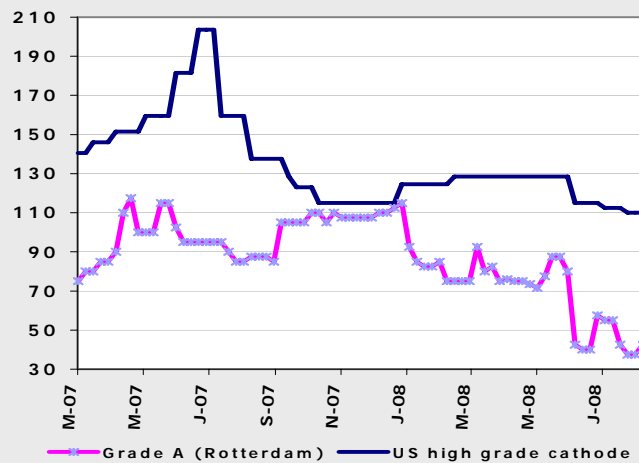
Physical premiums⁽¹⁾ point to weaker demand

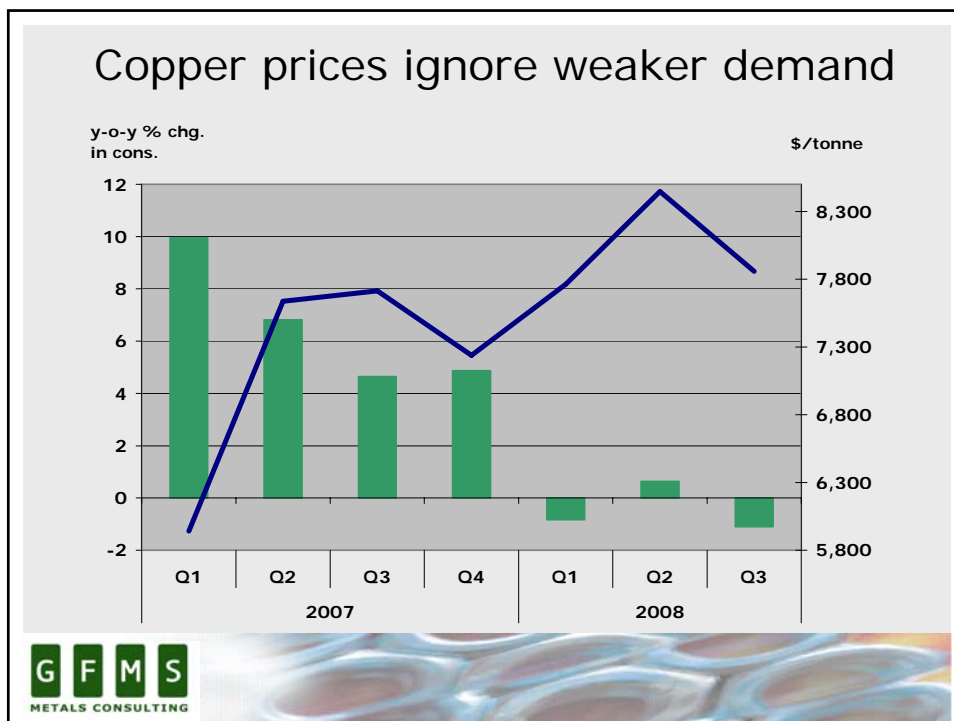
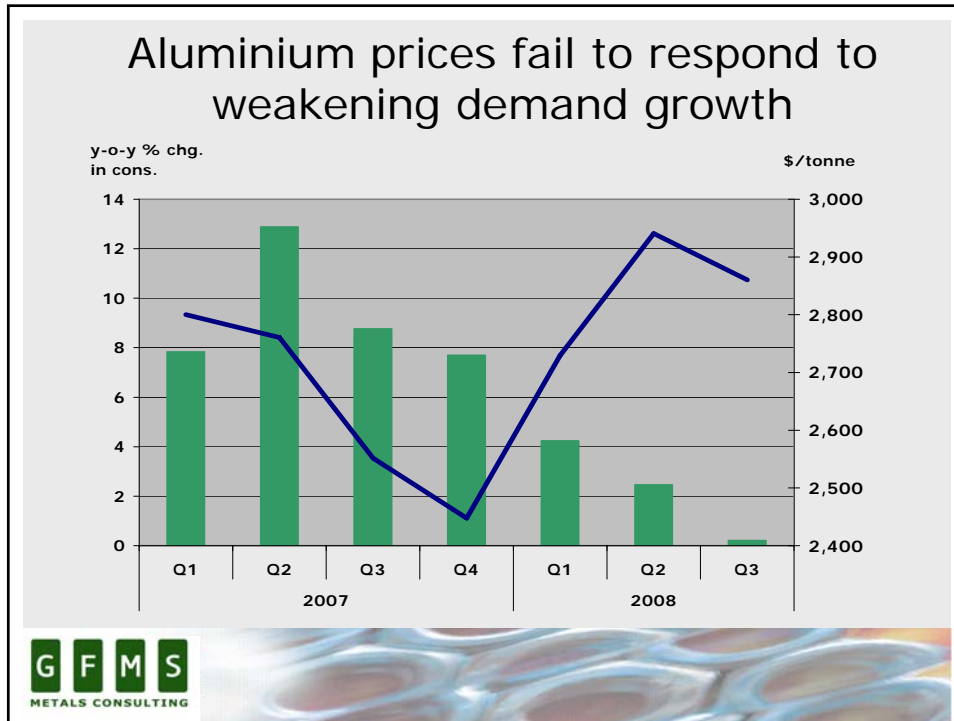


(1) Index of Al, Cu, Ni, Pb, Zn & Sn



Copper premiums March '07 – Date (\$/tonne)





New supply should not swamp the market

- Copper: relatively small scale additions, political economic risk.
- Nickel: more capacity in the pipeline, but large political and technical risk.
- Lead & Zinc: limited supply additions, but current over-supply.
- Will China continue to supply more of its own raw material requirements?

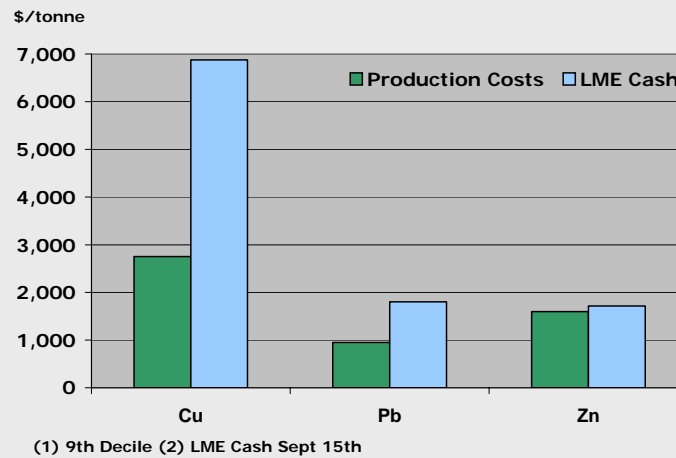


Production costs are coming back into play

- Where do current prices stand in relation to marginal costs?
- What are the implications of a steepening of the cost curve?
- Will a more price elastic supply response emerge?
- Where next for production costs?



Marginal production costs⁽¹⁾ and current prices⁽²⁾



Will analysts turn from being too bearish to too bullish?

- A rising dollar
- Active hedge fund selling
- Falling costs
- Weak demand
- Destocking

Reuters analyst survey 2009 price forecast

	Al	Cu	Ni	Pb	Zn
Current price	2,491	6,841	17,570	1,784	1,702
2009 Av. Price forecast (published Jan 2008)	2,525	6,119	25,048	1,982	2,272
Diff between forecast and current price	-1.3	11.8	-29.9	-10	-25.1
July 2008	3,213	7,729	23,433	1,895	2,041
2009 Av. Price forecast (published July 2008)	-22.5	-11.4	-25	-10	-16.6



Will we remain in a low inventory environment?

- GFMS Metals Consulting was projecting small surpluses for 2009 on the back of "reasonable" demand forecasts.
- If we scale back projections, inventories will inevitably rise.

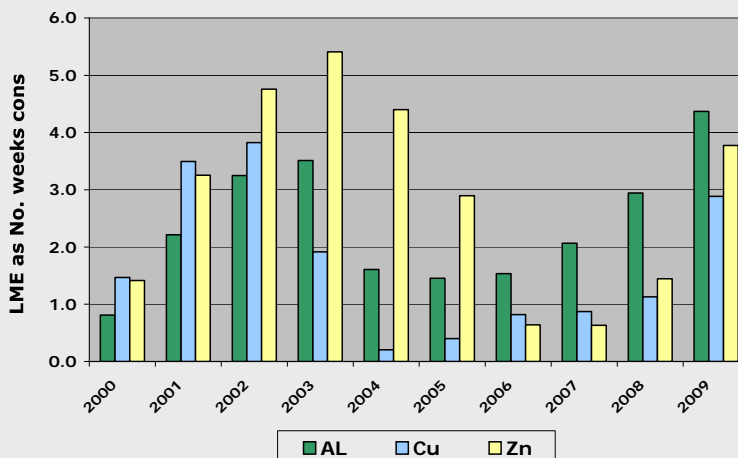


Will we remain in a low inventory environment?

- "Pre-Lehman" consumption forecasts for 2009
 - Al +5.4%; Cu +3.7%; Zn +4.6%;
 - Pb +3.4%; Sn +4.3%; Ni +6.9%.
- "Post-Lehman" consumption forecasts for 2009
 - Al +3.7%; Cu +2.5%; Zn +3.2%;
 - Pb +2.3%; Sn +2.9%; Ni +4.7%.



Inventories back to the early 2000s?



Will the low case become the base case?

- In our Quarterly Forecasting Services, we already were ascribing a high (35%) probability to our low case scenario, compared to 40% for our base case.
- Should they have equal weighting?



LME cash average prices (2009) ⁽¹⁾

	Al	Cu	Ni	Pb	Zn
Current price	2,491	6,841	17,570	1,784	1,702
Average 2009	2,200	5,500	14,000	1,274	1,400
Range: Low	2,200	4,500	12,000	1,050	1,250
High	2,600	7,000	18,000	1,500	1,700

(1) GFMS Metals Consulting's low case forecast



Conclusions for near term prices

- Weak demand growth will be the key driver of prices not supply tightness/disruptions
- Bull market characterised by lack of natural sellers, the bear market by a lack of natural buyers.
- Further long liquidation and some short selling. The steepening of the cost curve may see prices fall sharply before a supply response emerges.
- The 9th decile is not a Holy Grail in the short term.



Conclusions for medium term prices

THE SUPER CYCLE RESUMES
IN 2010



THANK YOU.

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