



## Changing Priorities for Turkish Jewellery Exporters

» By Philip Newman, Research Director, GFMS

In the decade I have been visiting Turkey (GFMS have of course been travelling to the country for many years prior to this), the jewellery landscape has changed dramatically. A concentration of small and medium sized operations near the Grand Bazaar has given way to industrial-scale factories, close to the main airport. Nothing symbolises this transition more than the opening, earlier this decade, of

The Goldsmiths' City (Kuyumcukent), which is dedicated to the entire jewellery supply chain. Although you will still find empty floor space, Kuyumcukent has effectively become a one stop shop for much of the Istanbul market.

While the restructuring of the jewellery sector continues, the export segment in particular, now faces a new set of challenges. In

essence, for Turkish jewellery exporters, their target audience continues to evolve. For close to a decade the United States has been the foremost destination for Turkish jewellery. First dominated by exports of *stampato* products, the industry has had to adjust to changing tastes across the Atlantic, as the US market has shifted to gemset and other more design oriented styles. Added to this has

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been the weakness in US jewellery consumption; a 12% drop in 2006 was followed by a 16% fall last year and current GFMS estimates point to another double-digit decline in 2008. In fact, over the first five months of this year Turkish jewellery exports across the Atlantic have more than halved in volume terms.

Against this backdrop, it may be surprising to learn that total Turkish gold jewellery exports over the same period were "only" 12% lower. However, regular meetings with the top exporters have revealed a long-held aim to diversify into neighbouring markets. Turkey of course has a natural advantage, not only in terms of its location but also its expertise in 14-carat jewellery fabrication. While alloy composition and finish will vary, many of these companies have a proven track record of also producing 14-carat pieces for the local market.

Added to this is the strength of the Russian jewellery market, which has offset much of the decline in the United States. But nothing is ever clear cut. Three to four years ago Russia introduced a license scheme, whereby bullion imported from Russia, fabricated in Turkey

and returned as jewellery would see the finished product only attract the import duty on the value added element, rather than on the entire value of the imported product. Research trips to Istanbul in 2007 showed that the scheme had been well received by the Turkish trade and was in fact gaining in popularity. Not only was total trade on the rise but it had led to a reduction in "luggage" or unofficial movements. However, a follow-up trip earlier this year revealed that the scheme had been cancelled, with no sign of a reprieve. Even so, official exports to Russia have continued to grow in 2008. To put this into context, estimates derived by the GFMS jewellery team suggest that the volume, in fine gold terms, of jewellery exported officially to Russia over the January to May period grew by around one-third, to close to two tonnes. In contrast, shipments to the US collapsed to around 2.3 tonnes. By the end of this year I would expect Russia to comfortably take second place behind the UAE (which itself overtook the United States in 2007) among Turkey's major export markets.

This is a far cry from the landscape, which confronted the trade as recently as 2005, when the United States accounted for around one-third of Turkey's gold jewellery exports. In barely three years, the country's target markets have changed dramatically.

*Philip is a Research Director at GFMS, focusing on the gold, silver markets and PGMs in the United States, the Middle East (including Turkey and Egypt) and the UK.*



*In addition, for the past fourteen years, Philip has run a quarterly survey of the world coin market. Philip holds an Honours degree in economics from the University of Surrey in England. He joined GFMS in January 1994.*



## NEW AT GFMS

### GFMS and World Gold Form New Mining Equity Research Joint Venture in London

GFMS, the world's foremost precious metals consultancy, and World Gold Analyst, the gold mining industry's leading independent information source and investment aid, have joined forces to form an independent mining equities research company within the GFMS Group.

As well as continuing to publish the long-established World Gold Analyst, and the popular series of comprehensive regional reports into gold exploration and development, the new joint venture undertakes independent research into worldwide precious metal production and exploration companies.

The new company, to be known as GFMS World Gold, is run out of London by Paul Burton, the current editor of World Gold Analyst. In launching the new joint venture to the market at the Denver Gold Group's Zurich meeting, Paul Burton commented, "For some time GFMS and I have felt that there would be a natural business fit in combining our extensive databases of gold and silver mine supply information and our collective industry expertise into a new research vehicle to take advantage of a perceived need in the market for solid, independently-generated equity research. I think

that having the team that compiles the authoritative Gold and Silver Surveys behind this initiative will add considerable value to the analysis that we already provide to World Gold Analyst subscribers through our quarterly publication and our series of regular independent country reports".

But it is the development of new business research that Mr. Burton believes will be the key value driver for the joint venture. "It is the area of independent equities research that perhaps offers the greatest opportunity for growth and I am very excited about our natural progression into this market space". I believe we have the right blend of technical knowledge and market experience to generate research reports on mining equities that the investment community will find a very valuable resource."

Dr. Paul Walker, chief executive of GFMS commented, "Paul Burton brings considerable expertise and experience to the GFMS Group of companies, and we believe that this collaboration will only serve to reinforce the GFMS brand as the premier provider of genuinely independent and high quality research to the industry as a whole.



Like Paul, we have long recognised an opportunity for well researched, independent equities' analysis, and feel that this new venture will fill an important gap in the market".

GFMS World Gold's first quarterly World Gold Analyst, covering in detail the operating and financial results, as well as the exploration and development activities, of the world's seventy top listed gold companies will be published in London shortly. Plans for the first country report under the new banner, on gold and silver in Mexico, are close to being finalised with publication scheduled for Q3 this year.



# PUBLICATIONS AND PRODUCTS

## GFMS Quarterly Three Year Gold Forecast - July 2008 Issue

**These are interesting times for Gold and speculative commodities. Gold and precious metals are reasserting themselves as invaluable hedges against inflation. Dollar weakness and interest rates left at 2% by the Federal Reserve have spurred fresh concerns leading to further speculation in gold and oil. Will we see a bout of renewed investor interest and an orgy of buying in the coming months?**

**GFMS are delighted to announce that the latest edition of the *GFMS Quarterly Three Year Gold Forecast* tackling these important issues was released on 8th July.**

Published four times a year, this report gives GFMS' independent insight into the latest developments and trends and offers a 3-year forecast on supply, demand and the price for gold.

This report is the result of rigorous analysis of key market dynamics such as fabrication demand, mine production (feeding off GFMS' proprietary mines database), investor trends, exchange and speculator (hedge fund) activity, producer hedging, central bank activities, and macro economic factors including GDP growth, interest and exchange rates.

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- 1/ Executive Summary
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- 3/ Mine Production
- 4/ Producer Hedging
- 5/ Scrap
- 6/ Official Sector Sales
- 7/ Investment
- 8/ Jewellery Consumption
- 9/ Other Fabrication

### Scenarios

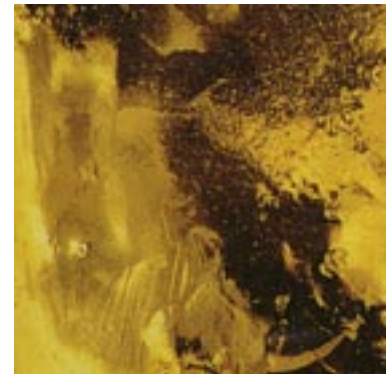
The forecast is provided under three alternative scenarios for the world economy: The Base Case scenario represents GFMS' expectations of global economic growth, energy prices and exchange rates over

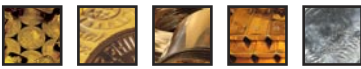
the forecasting period, while the Low GDP and High GDP variants provide alternatives based on more pessimistic and more optimistic outlooks for the world economy respectively.

### Availability and Annual Fee

The *Quarterly 3-Year Gold Forecast* is available for an annual fee of £5,450 or can be purchased in a package along with the *Quarterly 3-Year Silver and Platinum and Palladium Forecasts* for £9,950 pa.

» **For further information please contact Charles De Meester at [charles.demeester@gfms.co.uk](mailto:charles.demeester@gfms.co.uk) or [sales@gfms.co.uk](mailto:sales@gfms.co.uk)**





## World Silver Survey 2008

GFMS are pleased to announce the release of the **World Silver Survey 2008**, which was launched on 7th May 2008 in New York and 8th May in Mexico City.

### Description

The *World Silver Survey* contains the only truly global analysis of the world's silver markets and has been produced by GFMS on behalf of The Silver Institute in Washington since 1994.

### Unique Features of the World Silver Survey 2008

- » Unique source of supply and demand statistics for more than sixty countries.
- » Comprehensive analysis of worldwide investor activity, silver stocks and bullion flows.
- » Lucid and concise account of the financial, economic and social factors underlying market trends.

### Content

1/ Summary and price outlook, providing an overview of supply and demand figures in 2007 as well as commentary on GFMS' expectations in the near to medium term.

2/ Silver prices, examining the evolution of silver prices along with market analysis.

3/ Investment, analysing the principal drivers that led investors' activity last year as well as going forward.

4/ Mine supply, including extensive data and commentary on mine production, costs and producer activity in the derivatives market.

5/ Supply from above-ground stocks, considering the market impact of movements in private sector and government stocks as well as supply from the recycling of fabricated products.

6/ Silver bullion trade, divided by 5 main regions: Europe, North America, Middle East, Indian sub-continent and East Asia.

7/ Fabrication demand, providing comprehensive statistics and in-depth discussion of the trends seen in all areas of fabrication such as: industrial applications, photography, jewellery, silverware, official coins and medals.



8/ Appendices, including detailed historical information on prices, activity in silver futures and options and mine production by leading mines and by source metals.

### Specifications

- » *World Silver Survey 2008* was published on 7th May 2008
- » 100 pages - Price: £130 / US\$225 / €180
- » Also available in pdf format (contact Elena Patimova at [elena.patimova@gfms.co.uk](mailto:elena.patimova@gfms.co.uk) for prices)

### Availability

Order your *World Silver Survey 2008* now:

- » By Fax: Printable order Form
- » Online: <http://shop.gfms.co.uk>
- » By Phone: + 44 (0) 20 7478 1750
- » By email: [info@gfms.co.uk](mailto:info@gfms.co.uk)

» GFMS' brand new **Quarterly 3-Year Silver Forecast** was launched on 16th May 2008. This report provides projections on all the key supply and demand components, focusing on the various endogenous and exogenous factors GFMS expect will drive the silver market and the price over the next three years. Similar to GFMS' Quarterly 3-Year Gold Forecast, the **Quarterly 3-Year Silver Forecast** is provided under three alternative scenarios for the world economy: The Base Case scenario represents GFMS' expectations of global economic growth, energy prices and exchange rates over the forecasting period, while the Low GDP and High GDP variants provide alternatives based on more pessimistic and more optimistic outlooks for the world economy respectively.

» If you have any questions regarding this product or are interested in buying GFMS' **Quarterly 3-Year Silver Forecast**, contact Charles De Meester at [charles.demeester@gfms.co.uk](mailto:charles.demeester@gfms.co.uk).



# EVENTS

## GFMS Precious & Base Metals Seminar

» London, 17th September 2008

After last year's success, GFMS and sister company GFMS Metals Consulting will be holding their **5th Precious & Base Metals Seminar** in London on 17th September. The GFMS Seminar is unique in that it will assess the prospects for all the precious and base metals in a special one-day event. The Seminar will look at specific issues that are affecting the individual markets as well as general factors that have affected the whole of the metals sector. International experts in the area, including a representative from the Venezuelan Central Bank will join GFMS' in-house analysts in these presentations.

### Why Attend

Approaching our fifth event, GFMS Seminar has been very successful, with last year's event hosting nearly 100 participants and high-level industry leaders from different countries and regions. Thus GFMS Seminar provides an important channel for communication and exchanging information among leading companies operating in

precious and base metals area, while building relationships and creating valuable networking opportunities.

Moreover, the Seminar provides a great opportunity to learn about market developments and the price outlook for precious and base metals markets. The GFMS Seminar always has active Q+A sessions, a feature which is particularly relevant this year, given the massive volatility and the wide divergence of views in the market place.

### About the GFMS Seminar

The Seminar consists of two parts: precious metals and base metals sessions. The former will include the launch of GFMS' *Gold Survey 2008 - Update 1* publication, with its first half estimates and full year forecasts for gold supply, demand and the price along with presentations on oil prices, PGMs deficit and surpluses, jewellery demand and a keynote presentation from the Venezuelan Central Bank. The precious metals session will be followed by the afternoon base metals session, giving the outlook for these markets and their prices.

**EARLY BIRD DISCOUNT**  
(valid until 25<sup>th</sup> July 2008)



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**By Fax:**

**Click here to download the registration form**

**Registration fees**

**(Early Bird - £199 for the full day)**

Whole day: £225

Half Day: £150

These fees are VAT chargeable

### This year's papers will include:

#### Precious Metals Session:

Launch of *Gold Survey 2008 - Update 1*

Venezuelan Central Bank Presentation (Speaker is To Be Confirmed)

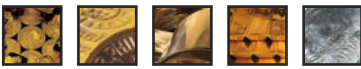
The Impact of Prices on Jewellery Demand

Oil Prices: Speculative Bubble or Structural Shift?

Platinum and Palladium Deficits and Surpluses – Past, Present and Future

#### Base Metals Session:

**To Be Confirmed**



## Gold Survey 2008 - Foreign Language Editions



GFMS are delighted to announce that **Gold Survey 2008** is now available in several foreign languages, namely, Japanese, Chinese, Hindi, Russian and Arabic.

On 3rd July 2008, GFMS launched the 12th Chinese language version of its annual *Gold Survey*, at an event in Beijing, which was co-hosted by the China National Gold Group Corporation and the World Gold Council.

The event was attended by over 100 delegates including representatives from the Peoples' Bank of China, commercial banks, leading jewellery retailers and the media. Mr. Shen Xiangrong, chairman of the Shanghai Gold Exchange and Mrs. Wang Lihua, chairman of the Shanghai Futures Exchange, were also invited to deliver speeches on the latest gold trading developments in China.

In his presentation at the launch, Philip Klapwijk, GFMS' Executive Chairman, focused on the company's latest views on global gold supply and demand trends, as well as the outlook for the gold price this year.

Starting with the supply side, Philip noted that GFMS expect total supply to be at best only marginally higher than in 2007. Mine production is forecast to be down slightly in 2008, although higher scrap supply should broadly offset this and the anticipated fall in official sector sales. However, on the demand side, jewellery fabrication is forecast to drop sharply in 2008. Philip explained that "in addition to periods of very high prices and continued price volatility, there is also another factor at work, namely a much softer tone to consumer spending in several countries, as real income growth becomes negatively affected by slowing economies and rising inflation". At the same time, the prospects for further de-hedging are limited in the second half of this year due to the by now very low outstanding producer hedge book.

As a result, the widening gap between global supply and fabrication demand is expected to be satisfied by investor demand. GFMS believe that there is still a strong investment case to be made, partly because of the ongoing credit crisis. Despite intervention from the US Federal Reserve, negative real interest rates and the persistence of the twin-deficits are putting an already weak US currency under further pressure. As a result, investment is expected to retain its dominant role in driving prices higher

throughout this year and potentially into 2009. "These conditions are likely to lead, at some point, to a renewed surge in investor interest that could well take gold back above the \$1,000 mark later this year" commented Philip.

» For further information on the foreign language editions of **GFMS' Gold Survey 2008**, please contact Elena Patimova at [elena.patimova@gfms.co.uk](mailto:elena.patimova@gfms.co.uk) or tel: + 44 (0) 20 7478 1750

### GFMS DIARY



#### **Gold Survey 2008 - Japanese Edition**

10<sup>th</sup> June

#### **Gold Survey 2008 - Chinese Edition**

3<sup>rd</sup> July

#### **Gold Survey 2008 - Arabic Edition**

July 2008

#### **Gold Survey 2008 - Hindi Edition**

August 2008

#### **Gold Survey 2008 - Russian Edition**

August 2008

#### **Gold Survey 2008 - Update 1**

17<sup>th</sup> September

#### **Gold Survey 2008 - Update 2**

January 2008



## Excellence in Mining & Exploration 2008 on 14-16 September 2008

Cameron Alexander, GFMS' Australian based Analyst responsible for research in South-East Asia, Australasia and the Gulf States in the Middle East, will be one of the keynote speakers on the Excellence in Mining & Exploration Conference in the middle of September 2008. Cameron will give a detailed presentation on gold market supply and demand, including the latest consumption numbers as well as forward looking view on the market. He will also touch on the latest developments in the silver market.

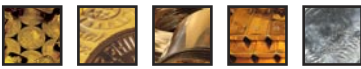


**This premier industry investment event, now in its sixth year, will be held at the Hilton Hotel Sydney from 14 - 16 September 2008.**

The conference profiles the exploration and mining industry in an investment context. The event provides presentation opportunities for the mining community in the area of capital raisings, listing issues, and infrastructure as well as on and offshore investment activities. The three-day conference also includes an industry exhibition, the Legends in Mining Awards breakfast and the National Mining Awards ceremony and gala dinner.

» **In order to register for this conference please visit the website <http://www.resourcefulevents.com/page/excellence-in-mining-and-exploration>**

» **For further information on the conference, please contact Polly Hitman - Event & Marketing Manager - Resourceful Events at [polly@resourcefulevents.com](mailto:polly@resourcefulevents.com) or tel: + 61 02 9279 2222**



# MARKET COMMENTARY

## Oil; a “dot.com” situation?

» *By Rhona O’Connell, Managing Director, GFMS Analytics*

The stellar performance of the oil price has understandably been capturing the headlines in recent weeks, with reference not just to its inflationary implications and the transience (or otherwise) thereof, but latterly also with respect to potential official investigation into speculative dealings and whether they are tantamount to manipulation.

This feeding frenzy in the headlines prompts a brief assessment of the relationship between gold and oil, both from the point of view of market performance as well as at a more fundamental level.

The gold:oil ratio currently stands at 6.97, and the ratio has been on a firmly-established downward trend since 19th December 1998, when it was 27.4. Although the overall low came in the downward spike in late August 2005, when it reached 6.2, there has been some suggestion in the markets that the ratio is now oversold and that gold should start to reassert itself. This is debatable as it hinges on the inflationary argument and there is a reasonable consensus that inflationary forces will ebb to some extent during 2009.

The US’ FOMC is looking for an easing in inflationary pressures in 2009 and a further gentle easing in 2010, while the latest World Economic Outlook from the IMF has referred to the record high prices of oil in 2008, despite slowing demand in the advanced economies, and how it has simultaneously dampened consumption and raised inflation concerns in the advanced economies

- thus constraining the potential for a monetary policy response.

The IMF’s assessment of global risk factors suggests that the high oil price may take four basis points off global growth. The Fund observes that the market remains tight and that with spare capacity still limited, supply shocks or heightened geopolitical concerns could cause oil prices to rise further - unless there is a significant softening in demand in the emerging as well as the advanced economies.

The Fund’s forecasts for inflation in advanced economies stands at 2.6% for this year after 2.2% in 2007, moderating to 2.0% in 2009. US inflation is projected at 3.0% for this year and 2.0% for 2009, while inflation in the euro area is expected to drop back to 1.9% from 2.8%.

On this basis, therefore, it does not necessarily follow that the gold:oil ratio has overshot. Gold prices have been buoyed by substantial investment and this interest needs not only to be sustained, but increased if prices are to remain at these elevated levels through next year. This is debatable, especially if the consensus view turns out to be correct and the dollar enters a secular recovery in the first half of 2009.

Oil prices, by contrast, may well be in for a downturn, especially if the authorities find evidence of over-extended speculative activity - although this looks unlikely. The CFTC has said that it has been

investigating “the purchase, transportation, storage and trading of crude oil and derivative contracts” since last December and that it is to share information with the Financial Services Authority in the UK. Market members are vociferously denying any suggestions of impropriety, noting the enormous size of the market and how difficult it would be to manipulate.

Meanwhile, and potentially more importantly, Lehman Brothers estimates that from January 2006 - mid-April 2008, over \$90 Bn of investor funds flowed into commodities indices and that oil is starting to look very much like a dot.com bubble. There is more than one view that by early next year oil prices could be down towards \$90/bbl.



**Rhona O’Connell**

*is a recognised authority in the metals markets, with over 20 years’ experience as an analyst in the metals*

*sector. Rhona is the managing director of GFMS Analytics and ROC Consultancy, an independent consultancy specialising in metals markets analysis and comment. The specialist areas constitute gold, silver, platinum and palladium, looking at the markets themselves in the context of the economic, political and financial environments while considering also the performance of other asset classes and related mining equities.*



## The Changing Landscape of the Chennai Retail Sector

» *By Gargi Shah, Metals Analyst, GFMS Limited (India)*

At a time of record gold prices and high volatility, it is surprising to see a surge in retail expansion in a market known for its price sensitivity.

Nowhere is this more evident than in Chennai, one of India's largest gold jewellery consuming cities; on a recent research trip to that city, there were numerous examples of a nascent retail boom taking place in jewellery in spite of the high and volatile gold prices.

Many of the major retail players have expanded aggressively in an effort to remain competitive, improving the retail experience by pampering customers with various services. Expansions have taken place through the construction of mega flagship stores as well as through growing the branch network. The scale of these majestic flagship stores can be breathtaking, with some extending to all of five storeys with each floor covering some 500 sq meters of glittering gold ornaments and jewellery as well as diamonds. Branch stores, although more modest (typically about the size of one such floor or less), are still a major departure from the usual retail environment.

The customer profile visiting both these store formats is a mix of all classes, and the idea behind having retail branches in key locations is to address the growing issues of traffic and time constraints and to service as broad a client base as possible.

The services at the flagship stores aim to be more innovative and unique, for example one retailer offers day care for children. All of these new stores offer a very wide variety of jewellery styles by sourcing from different fabrication centres across India, spoiling the customer for choice.

This expansion has had implications for the gold market, not just in terms of rising sales, but stock building as well; the merchandise required to stock a large store can run to hundreds of kilogrammes of gold, and there is little doubt that some of the growth in imports in 2007 was related to the stocking of new retail outlets.

Interestingly, silver has failed to attract much attention in spite of gold's high and volatile price. The reason behind the shrinking silver business seems to be due

to a fundamental change in the culture and lifestyle of the Indian populace (and in spite of the massive differences in absolute prices between gold and silver, it does appear that rising silver prices have been detrimental to offtake). For one, many families no longer practice some of the religious rituals, which require silver items. Many of the retailers with whom we spoke noted that turnover in silver has fallen so much in recent years that the business is now almost unviable.



*Gargi Shah has joined GFMS Ltd. as a Metals Analyst for research on gold, silver and PGM group metals. She is responsible for research in the Indian sub-continent*

*and assists Paul Walker.*

*Prior to joining GFMS, she worked as a commodities writer for a national daily in India. As a law graduate, she was involved in varied legal practice in a corporate law firm in Mumbai.*



## Copper – Supply Tightness Offsets Demand Weakness

» *By Neil Buxton, GFMS Metals Consulting*

The copper bull market has been written off prematurely a number of times. This has come about primarily due to myriad supply disruptions, which led to final output being well below initial expectations. The easiest way to quantify the impact is to look at the mine utilization figure that declined from an average of 92% in 2004 to 87.5% in 2007. According to the International Copper Study Group (ICSG), the rate fell to around 82% in Q1 of this year. Supply disruptions have continued since then – usually a combination of labour disputes and power-related issues – implying little improvement in the rate in Q2.

Global demand in the first quarter was essentially flat at 4.556m tonnes. Somewhat surprisingly, the data on the US and Japan show gains of around 3% y-o-y in Q1. This is at odds with most indicators within the automotive and construction sectors (key consuming markets), as well as the anecdotal evidence on these countries, which suggests that offtake is weak.

Further supporting this view, Japanese copper wire and cable shipments fell 4.8% y-o-y in April to 70,500 tonnes. The production of rolled products was unchanged in April at 86,300 tonnes. Copper shipments by North American distributors fell by 10% y-o-y in May, due to the fall-off of demand for wire and pipe.

ICSG has reported European (EU-15) demand down 8% y-o-y, however some of this can be attributed to destocking. Prysmian – the Italian cable and wire manufacturer reported a 3.4% rise in sales over

Q1, attributed to an 11.3% rise in sales from its energy cable division. However, rather than showing healthy demand in Europe, the company attributed the rise as due to strong offtake from China, the Middle East and Russia in the high voltage cable sector.

### **Demand eases in China despite strong economic growth**

Activity in key copper consuming industries within China remains upbeat. Fixed asset investment continues to run around 25% ahead of last year. Automotive production up to May rose by 18.1% y-o-y. There were also double-digit gains in the output of electricity generation equipment (+12.7%), alternating current motors (+15.5%) and household goods output, such as washing machines (+18.5%) and refrigerators (+17.5%).

However, the demand for copper cathode is more subdued than suggested by figures above. This reflects a combination of destocking and substitution triggered by high prices and a greater use of scrap. China's copper cathode imports in May fell by 26% m-o-m and 19% y-o-y to 94,196 tonnes. Judging by the latest preliminary data, this trend has continued in to June, with imports of refined copper dropping 12.6% m-o-m.

### **Will sub-prime worries begin to overshadow production losses?**

Most of the economic and financial data suggests that conditions in the construction sector – the single largest market for copper – will get worse before it gets better. The credit crisis took another downward spiral with the problems at the US

mortgage groups, Fannie Mae and Freddie Mac. Even if the Fed, and US government provide support, it highlights that the credit crunch has still to fully unwind. Another factor that may curb copper demand growth is the potential for the weakness to spread to the non-residential sector, which has longer lead times and is less affected by hikes in short-term rates than the housing market.

The bottom line is that the copper market will be increasingly reliant on supply disruptions to continue to support prices at their elevated levels of close to \$8,500/tonne in mid July 2008. If the flow of bullish supply-side news begins to dry-up, the performance of some of the other base metals suggest that there is significant downside potential.

» **In order to receive our latest detailed analysis on the copper market (or any of the other LME-traded metals) contained in The Base Metals Market Briefing please contact [info@gfms-metalsconsulting.com](mailto:info@gfms-metalsconsulting.com)**

GFMS Metals Consulting has launched a series of Quarterly Forecasts on the individual base metals that will analyse their prospects for the next three years. The first report on the copper market – the **Quarterly 3-Year Copper Forecast** – was published in April, and will be shortly followed by similar forecasting services on the nickel, zinc, lead, aluminium and tin markets.

**Please contact Charles De Meester at [charles.demeester@gfms.co.uk](mailto:charles.demeester@gfms.co.uk) for further information.**



## Can Steel Prices Defy the Credit Crisis?

» *By Neil Buxton, Managing Director, GFMS Metals Consulting*

We commenced our analytical coverage of the steel billet and long products markets in April to coincide with the launch of the futures contract on the LME. At the time, we were bullish about the prospects for the sector. Billet prices on the LME have made new highs over the last quarter; however there was a modest correction in July on market pessimism on the future direction of prices. Despite physical Turkish export prices being in excess of \$1,300/tonne fob, forward billet prices on the Mediterranean contract are now as low as \$1,165/tonne, and Far East prices have retained their \$100/tonne discount.

The margin between Turkish 3-month billet delivered to Dubai (October) and current offer prices in the physical market of \$1,375/tonne cif Dubai is now \$200/tonne. Given the increased amount of lower priced Asian and CIS billet arriving we believe that the physical market in the Middle East will follow the LME quote lower in the short-term. In late June, CIS billet prices pushed through \$1,200/tonne fob, but the majority of sales since then have been in the range of \$1,160-\$1,180/tonne fob Black Sea.

### **Market still remains tight despite the price pressure**

However, it is by no means all "doom and gloom" as a key feature of this late stage of the steel billet price cycle is there has been no major build of inventories. This situation has allowed prices to catch up in some low-priced markets, and should see buyers return in force in the key emerging markets later in the year.

### **US wire-rod prices up by another \$60/ ton**

ArcelorMittal continues to be the US price leader in wire rod. It raised prices by \$60/ton for August deliveries (which are largely sold out) taking prices to \$1,140/ton (\$1,260/tonne) for low carbon and \$1,200/ton (\$1,320/tonne) for high carbon. We expect other mills to follow and this will be accepted by buyers, who have few alternative suppliers.

### **Northern European market at its peak?**

German prices for rebar are as high as €900/tonne ex-works, but they are likely to come under pressure in the short term. Suppliers from Spain and Italy can arbitrage into this market, while demand from construction companies is slowing.

### **Temporary surge in Chinese rebar shipments**

Chinese rebar exports have been running at around 100,000 tpm for most of 2008. However in June, offer volumes rose sharply and we expect exports to soar in Q3. The prices were around \$1,060-1,120/tonne fob with delivery costs of around \$100-120/tonne to Europe and the Middle East, and \$30-50/tonne to SE Asia. The exception is Shagang, which is able to supply the Dubai market and is therefore able to command even-higher prices.

The reason for the surge in exports was falling demand in the domestic market and weakening prices. Domestic prices fell to around RMB5,250/tonne (\$650/tonne ex-VAT) in the Shanghai market.

Adding VAT and the 15% export tariff and getting material to the port is equivalent to around \$900/tonne, so the attractiveness of the export market is clear. With the Beijing region shutting down some construction activity in anticipation of the Olympics, there is a surge of availability. In addition, not so much the rainy season but rather the floods in the south of the country has also stalled construction activity.

### **The prospects for Q4**

Moving towards the fourth quarter although demand in Europe, North America and Japan may continue to slow, we envisage a return to large-scale scrap buying by Turkish mills as they seek to maximize output given the large volumes that they have sold forward at high prices. This should drive up raw material prices, and push up pricing in most markets, although finished products may not rise by as much and margins (that are at record levels) may be curtailed. Therefore at this stage, it looks as though the LME steel billet contract will not be affected too much by the credit crunch.

» **In order to receive a free trial of our research covering the long product and raw material sectors – The Steel Market Futures Briefing – contact [info@gfms-metalsconsulting.com](mailto:info@gfms-metalsconsulting.com)**

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