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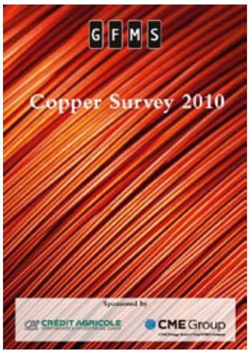
Publication of *Copper Survey 2010*

Lacklustre Fundamentals Offset by Ongoing Investment Demand to Result in a Period of Price Consolidation, Before Renewed Strength Emerges Towards the Latter Part of 2010



Following over 40 years producing similar reports on precious metals, GFMS launched their inaugural annual *Copper Survey* today, in Santiago, Chile. During the event, Neil Buxton, the Managing Director of the Base Metals division of the consultancy, gave a presentation outlining the key findings of the report, some of which are detailed below.

GFMS estimates that the copper market was in surplus of 777,000 tonnes in 2009, as falling consumption in the majority of key markets more than offset the remarkable growth noted in China and production continued to increase, albeit at the margin. As Buxton noted, "despite this outcome, prices climbed 141% from their annual low in January of a little more than $3,000/tonne to an end-year peak of $7,346/tonne, before rising further in the new year, peaking recently above $7,800/tonne".

The report argues that the main driver of such, seemingly counter-intuitive, developments, was strong investment demand for copper throughout the year. Support was also provided by official stockpiling in China, an increase in work-in-progress inventories in the same country as well as modest improvements in supply-demand conditions as the year progressed, especially compared to their dire state in the first few months of 2009.

GFMS note that although copper's supply/demand fundamentals were negative for the price in 2009 and remain uninspiring this year-to-date, the outlook for them in the longer-term is positive for prices. Given projections of a persistently tight concentrate market, it is difficult to see how production will be able to keep up with the consumption recovery expected going forward. Realisation of this has undoubtedly been a principal factor driving investors to the red metal and can in large part explain why copper has outperformed the majority of other commodities.

One issue the *Copper Survey* addresses is the short to medium-term outlook for copper prices. "The key question here", Buxton argued, "is whether the momentum provided by investment demand will be maintained through to a time when an improvement in supply-demand conditions can take over the reins. Developments so far this year suggest that the answer is yes." The limited extent of the recent correction, and the fact that speculators and consumers alike found prices well above $6,000/tonne low enough to rush back into copper is supportive of this view.

At the same time, GFMS acknowledge the price currently stands at levels already elevated and that in the upper-$7,000s it is difficult to see a new wave of money moving into the market, at least until the time when supply-shortages emerge. Elsewhere, yield-hungry speculators are likely to actively trade copper-related news, macro developments and movements in other asset classes and this will likely maintain considerable volatility in the price.

To conclude, GFMS expect that the above forces will most probably see copper prices go through a period of consolidation over the next few months and breaches through the February low and the end-March high are expected to be limited and short-lived. As the market moves into deficit towards the end of 2010, strong investment demand is likely to re-emerge. This will probably lead to more noteworthy advances and GFMS would expect copper prices to exceed $8,000/tonne before the end of the year.

The statistical highlights of the report are outlined overleaf.

Supply Highlights

- Global **mine production** increased by 2.4% in 2009, to reach a 15.8 million tonnes. Noteworthy increases were seen in Africa and Asia, amounting to 14% and 15% year-on-year respectively. North American declines were partly offset by increases in Chilean production, culminating in output in the Americas overall falling by 1.9%.

- GFMS estimate global average **cash costs** (C1) declined by 5.9% in 2009 to reach 99.5 ¢/lb, equivalent to $2,194/tonne. The decline was fuelled by weaker producing country currencies, lower input prices and higher gold by-product credits.

- Global **refined production** rose by 0.9% last year to reach 18.4 million tonnes. A tight concentrate market compounded with lower scrap availability, in the aftermath of the collapse in copper consumption in the second half of 2008 and over much of last year, limited growth.

Demand Highlights

- In spite of dire conditions in most key markets, **global consumption** posted a limited decline of 1.7% last year, to reach 17.6 million tonnes overall. The relatively benign outcome was almost exclusively due to China's 26% year-on-year growth, fuelled by an aggressive fiscal stimulus and loose monetary policy in the country. In contrast, demand in the majority of mature economies posted double digit declines.

- A large part of the year-on-year decline noted last year was accounted for by the 6.0% or 357,000 tonne drop in consumption by the **construction** sector, with this largely due to falling demand in North America and European Union countries. These overwhelmed healthy increases in Chinese construction-related consumption.

- Copper consumption, both in the **transportation** sector and in **industrial machinery and equipment**, fell by 11% in 2009, the combined decline for these end-uses amounting to 430,000 tonnes.

- The only end-use sector that posted positive results last year was **electrical and electronic products**, copper consumption in which rose by 8.8% year-on-year to reach 6.8 million tonnes. The increase was largely due to a 31% rise in Chinese demand, fuelled by investment in power utilities. The global total was supported by declines elsewhere being contained, as long lead times inherent in utilities projects delayed the effect of the crisis and also due to government support.

Copper Survey 2010 contains over 80 pages of statistics, commentary and analysis on all aspects of world copper supply/demand and investment activity, and on copper prices in various currencies. The publication can be ordered from GFMS for £325 or US$595 / €440 per copy. For orders and to receive further product information please contact Neil Greenfield - Tel: +44 (0)20 7478 1777, Fax: +44 (0)20 7478 1779, Email: sales@gfms.co.uk,
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