



GFMS See Copper Market Undersupplied Through to 2013

The tightness that has emerged in the copper market in the last few months is expected to remain in place for much of the next three years, fuelling a rally through a series of all time highs and a peak well above \$11,000/tonne in 2013. These are the principal conclusions of the November edition of GFMS' Quarterly Three-Year Copper Forecast, which the consultancy published last week.

The report suggests that the noteworthy deficits the market has seen recently will push the overall market balance for this year into negative territory. The positive backdrop for the red metal is expected to be briefly disturbed by an economic slowdown in the first half of 2011, for which GFMS forecast a brief return to a modest surplus. Thereafter, the consultancy projects deficit conditions to re-emerge in the second half of 2011 and for these to remain in place over the following two years, as supply struggles to keep up with consumption.

These conclusions have been reached in spite of projections for healthy additions to production over the period. Given the high price environment, GFMS expect miners will boost output, where this is possible, and supply from secondary sources will continue to expand. The report notes that this will be partly offset by persistent structural constraints to mine supply growth, such as political and operational risk, falling grades at major operations and labour disputes. Overall, refined production is expected to grow by an average 3.4% per annum over 2011-2013.

Elsewhere, allowances have been made for renewed substitution pressures on consumption, expected to emerge as prices continue to move upwards, particularly in the second half of 2011-2013 period. Despite this fact, healthy additions to annual consumption are projected, fuelled primarily by growth in emerging markets. Focusing on China, GFMS forecast demand growth will slow compared to recent years, reflecting an ever rising base and a move towards maturity. Nevertheless, averaging 6% per annum, copper consumption growth in the country is expected to remain strong and to account for a little less than two-thirds of the global rise in annual consumption over 2010-2013.

Compounding tight supply-demand conditions, the report suggests that ongoing interest by investors will continue to boost copper prices as well as perpetuate high levels of price volatility. GFMS argue that the metal's bullish fundamentals coupled with their expectation that the investor base for the wider commodities' sector will continue to grow, will result in further inflows into the red metal over much of the foreseeable future.

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The Quarterly Three-Year Copper Forecast provides GFMS' independent insight into the latest developments and trends in the copper market and offers a three-year forecast on supply, demand and prices. The report offers three different scenarios for copper over the next three years: a best case, a base case, and a worst case. These three scenarios in turn are strongly influenced by three different paths for the world economy in 2010-13 that are described in the forecast. For more information on the report, subscriptions and to request a free sample, please email Charles de Meester on Charles.deMeester@gfms.co.uk or call our offices on +44 (0)20 7478 1777.

Note to Editors about GFMS Limited:

GFMS Limited is a leading metals consultancy, specialising in research into the global precious and base metals markets as well as steel. GFMS is based in London, UK and has representation in Australia, India and Russia, and a vast range of contacts and associates across the world.

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