

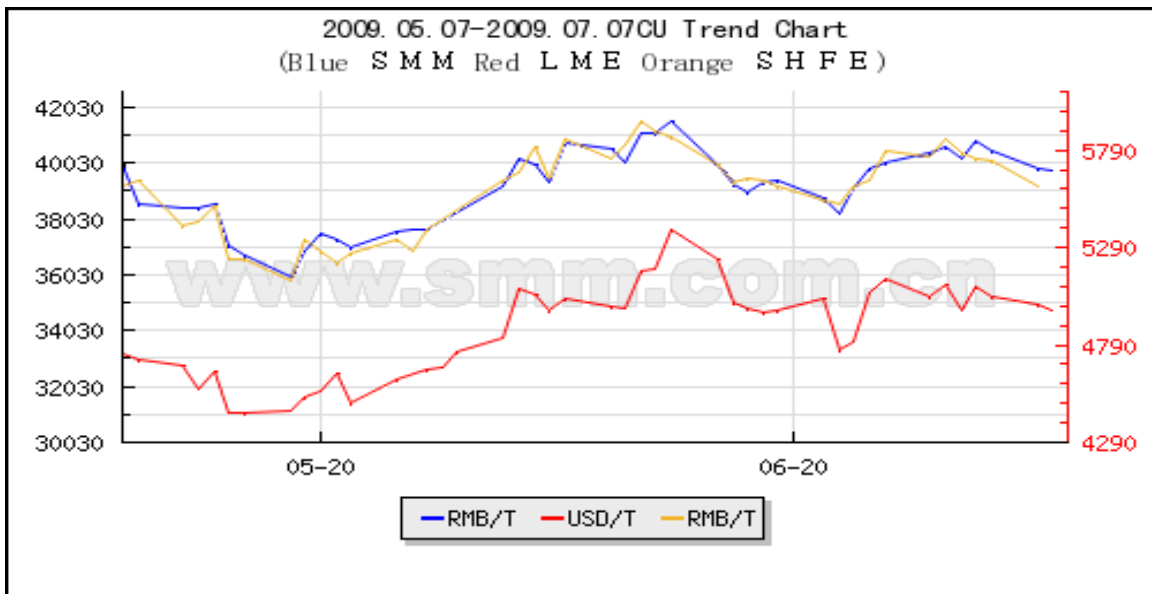


Bothered, or Becalmed?

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The second half of 2009 will be dominated by differences of opinion about the depth, length and, we think most importantly, the geography of the recession. The global economy realigning to eastern and southern growth is increasingly obvious to us, but many in the west still doubt the underpinnings of this growth. That doubt is as worrying as the weak economic stats coming from the “mature” economies.

Given the warning flags being tossed up about over enthusiasm in the western markets, **copper's** price consolidation has so far been a show of resilience rather than concern. Well over half of the nearly 20% decline copper took from a post Debt-Crunch high of US\$2.40 per pound on the 11th of June has been regained. Like most things, metals are looking for some direction from a US\$ market that is acting quite directionless. However there is evidence that copper's soft landing may continue.



Above is a 60 day copper price comparison for the past 60 days from the Shanghai Nonferrous Metals Exchange (SMM) in blue, with the LME in red and the Shanghai Futures Exchange (SHFE) in light orange. Pricing on the two Shanghai exchanges includes China's 13% VAT. The net difference varied from about \$330/tonne SMM/LME in early May to about \$100/tonne now . SMM — <http://en.smm.cn/index.php> — for updates

Through last month the copper arbitrage shifted from the higher prices being in Shanghai to the LME, and then back again. The arbitrage now is too small at about \$100/tonne (see chart on next page) to induce trade on its own. Copper traders are inherently cautious this time of year since June usually marks the end of stocking for the northern summer construction season. The weakening price in Shanghai looked like a normal outcome of having been the price maker earlier in the year.

What shifted Shanghai traders back to long positions was continued buying for commercial (rather than government) stockpiles. There is still a lack of scrap copper availability and this appears to be the reason for the extended buying season by commercial users of the metal. When, or if, scrap will show up is anyone's guess. For now watching registered stocks is still the best price gauge.

LME stocks of copper continued to decline, though by more modest sums than they had earlier in the year. However, the Shanghai inventories built up for nearly three weeks before a quick drop in the last week of the quarter. The change in available exchange stocks in both London and Shanghai was negligible by month's end. For the immediate future the balance between London and Shanghai warehouse stocks will be the important gauge of sentiment rather than just the changes seen at the LME.

What interests us now is the red metal's base price, which on a near term basis is currently US\$2.14. How much weaker it gets during the summer is an open question, that will be answered by China's economy.

There are a couple of other longer term notes for copper, from either side of the trade. Freeport McMoran (FCX-N) has just joined the list of large suppliers who don't plan further mine development funding at current prices. Current price levels offer decent operating margins to most copper miners. Capitalizing new large scale mines in this environment is the issue. Growth will be a mid tier game while sentiment continues.

The other note is that in May Shanghai began using its own guides for copper pricing rather than the LME's. That has little practical impact right now. Rather, it is a step in Beijing's longer term plan for a new global reserve currency basis - the LME prices but in US\$. Expect to see greater use of the chart like the one above in future. Ω

David Coffin and Eric Coffin produce the Hard Rock Analyst publications, newsletters that focus on metals explorers, developers and producers as well as metals and equity markets in general. If you would like to learn more about HRA publications, please visit us [HERE](#) to view our track record, see sample publications and other articles of interest. You can also add yourself to the HRA FREE MAILING LIST to get notifications about articles like this and other free analyses and reports.

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