MetalMiner™

An executive whitepaper written by Aptium Global, Inc.

# Metal Price Trends for Q3 and Beyond

MetalMiner™ is the creation of Lisa Reisman and Stuart Burns, the co-founders of Aptium Global Inc. Both Reisman and Burns have sourced and traded metals products around the world. The authors of dozens of articles, sourcing tools, and white papers, Reisman and Burns write their award-winning blog MetalMiner™ to share strategies, insights, and trends for cost avoidance and cost savings opportunities for metals related purchases. MetalMiner™ is available online at:

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### A note from the authors and founders

This may sound sad, but it's true: We lie awake at night thinking about how manufacturers could save or avoid spending money on their metal purchases. It's a strange thing to think about, but alas, someone has to do it. Through MetalMiner™, we take a global perspective on the issues, trends, strategies, and trade policies that will impact how you source and/or trade metals and related metals services. From aluminum and steel to rhodium to gallium, from the thinnest gauge foils to the largest castings and forgings available today, we'll cover a wide range of diverse topics—including green sourcing, lean sourcing, global pricing trends, capacity constraints, supply market M&A activity, and more. As always, you can reach us at info@agmetalminer.com to share comments and ideas.

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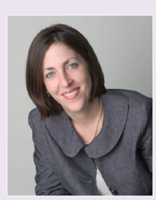
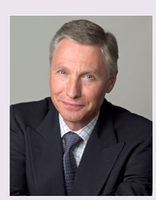
Lisa Reisman and Stuart Burns

## Credit Suisse Bullish on China Metal Demand

Stuat Burns, August 12, 2009

Credit Suisse has released a research piece broadly bullish on metals prices in the medium and long term this week. The paper covered in Mineweb (http://www.mineweb.com/mineweb/view/mineweb/en/page67?oid=87321&sn=Detail) specifically calls out copper, zinc, carbon steel, platinum and nickel as being driven by on-going demand from emerging markets and growing supply constraints due to mine closures. Unfortunately the report doesn't quote any numbers as to what they predict the price of these commodities will do but they do make certain interesting comments that are worth reviewing.

The first is the bank believes China is front loading its industrial recovery over the next few years by stockpiling commodities while they are cheap. We would argue they could have done much more, and if they hadn't made such a song and dance about it they could have purchased a lot more metal before the markets realized and reacted by jumping onto the bandwagon. The volumes purchased by the state are not large in comparison to total Chinese consumption and the benefit to China's industry in accessing low priced metal will be limited. Purchasing for stock by consumers and traders has been more significant but even that could work through the system in a matter of months at current rates. Credit Suisse made an interesting statement—the country is currently consuming the amount of copper it should be consuming in 2011/2012. "There is a risk of a pull back, especially if prices start to rise, and any rapid pullback is unlikely to be matched by external China demand growth." The tough assessment is how much is consumption and how much is speculative buying but we have covered that topic elsewhere.

The bank is particularly bullish about the long term trend saying emerging markets are in a long term industrialization phase which will drive demand and hence prices for the next 10–15 years—sounds a lot like the old super cycle model. Specifically the bank says:

Copper demand could be at 21 m tons by 2012 and 25 m tons by 2016 although Chinese primary metal imports are dramatically up on previous years. A significant part of this is stocking, not consumption and some of the rest is primary metal substitution for scrap. Meanwhile, consumption is down in the rest of the world so we question if this rate of China buying will be sustained at higher prices and whether world demand will reach 21m tons when it has hovered around 17-18 m during 2006-2009 (ICSG—http://www.icsg.org/images/stories/pdfs/presrels_2009_07.doc).

The bank is keen on zinc, expecting sharp price increases in 2011/12, largely due to rising global demand meeting the effects of current mine closures. It is true that there has been significant production idled and it is rarely brought back on stream quickly once it has been closed down, but much of this year's capacity has been taken out on care and maintenance not long term shutdown so significant capacity could be bought back within a year. Falling grades are more of a worry for us although the bank does not raise that as a specific issue.

The bank's message on iron ore is opaque at best but they seem to say volumes will grow and most of the growth will come from seaborne trade, meaning Vale, BHP, and Rio rather than domestically produced lower grade ores in China and India. In view of the relatively plentiful supply, price rises should remain modest; of course they won't because the market has a limited number of suppliers but how fast and how far remains to be seen.

Platinum is the only other metal specifically covered in the article and the bank is expecting price rises over the long term driven by limited new capacity and increasing demand from higher automotive clean air standards and a gradual return of the jewelry market. In a completely separate report released by the bank's emerging markets department Dong Tao, Credit Suisse Chief Regional Economist for non-Japan Asia introduces a word of caution (http://www.pressreleasepoint.com/credit-suisse-raises-emerging-asia-growth-expectation) "China's continued monetary expansion also brings the threat of inflation next year. We have revised up our year-end consumer price index forecast from 2.5% to 4.1% year-on-year for 2010." As we have reported elsewhere any move to ward off the threat of inflation in China, like the restriction of bank credit and raising interest rates could bring the recovery to a shuddering halt. China has only kept itself growing by a massive injection of money into the economy. To what extent it manages to wean itself off that lifeline and back to stable growth remains to be seen. ●

## Banking on Technicals to Support Higher Base Metal Prices?

Lisa Reisman, August 4, 2009

Last week a dear friend of mine sent me an email asking for some clarification on our thoughts on a rising commodity market. He characterized our on-going commentary this way, "I get the distinct impression that you do NOT believe the commodities markets will continue to move higher—based on your belief that the world economy is, and will remain tepid." He went on to say, "Because, I have got to tell you, pretty much every technical sign ever invented by man is pointing to a move higher in the financial markets. All that is needed is a little more market volume and it's all sunshine and roses."

Before we address technical signs etc., we'll refer to a couple of predictions recently made by Nouriel Roubini, the noted economist, also a professor at New York University. He told attendees of the Diggers and Dealers mining conference (http://www.reuters.com/article/newsOne/idUSTRE5720MG20090803) in Australia yesterday that, "China may have overstocked on commodities, risking a slowdown in buying and a correction in prices in the second half of this year." We have made similar comments. He went on to say that he does expect prices for commodities to increase "in step with rising general economic growth" which he believes will occur during the second half of this year with prices increasing next year. Here, we have echoed similar comments recently though we did state that some of those price increases wouldn't stick (http://agmetalminer.com/2009/07/27/are-industrial-metals-really-on-the-rise-%E2%80%93-part-two/) until the middle of 2010. Roubini mentions the fact that China has overbought inventory relative to its growth rate. Our concern relates to the fact that the supply/demand equation may also get out of whack in that too much Chinese production may come on stream without enough demand to support it.

The other part of Roubini's comments of particular interest relate to the long-term economic outlook. Here Roubini appears more pessimistic (http://www.bloomberg.com/apps/news?pid=20601087&sid=aQwbwmRnTEsg), "…the global economy will begin recovering near the end of 2009 before possibly dropping back into a recession by late 2010 or 2011 because of rising government debt, higher oil prices and a lack of job growth."

Taking a look at July ISM (Institute of Supply Management) (http://www.ism.ws/ISMReport/MfgROB.cfm) data released Monday afternoon we see some positive trending. The PMI reached 48.9 or 4.1 points higher than the reading from last month (44.8). According to Norbert Ore, Chair of the ISM, "The decline in manufacturing was slower in July when compared to June, as the more leading components of the PMI—the New Orders and Production Indexes—rose significantly above 50 percent, thus setting an expectation for future growth in the sector."

The only area in which we see more than a 3-month positive trend, relates to customer inventories. Here most suppliers believe customer inventories are too low. This is the fourth month in a row in which suppliers believe customer inventories remain too low. Manufacturing production also appears on the rise, however, we only have two months of data supporting that finding. We look for three month's worth of data before concluding a new trend has appeared.

Though the data all appears to point to some positive trend lines, we still remain as our friend suggested "tepid" regarding the rate of global economic growth. It certainly appears as though the worst is behind us but it just goes to show that little rays of sunshine can have a very big impact on prices. And as we previously commented, "if we were buyers we would look to cover at least a portion of our annual requirements during any softening of prices this summer," with the exception of aluminum noted in this morning's earlier post. ●

## Aluminum: Look to China—Time for a Pause?

Stuart Burns, August 4, 2009

Are the cracks beginning to show in the gravity defying aluminum market or is this just a welcome pause for breath? The LME price has continued to rise in spite of well over a million tons of available stock in exchange warehouses plus another 3.2 million tons in the same warehouses but tied up on long term financing deals for the next 9–10 months (although what happens at the end of the period has not been widely discussed). The price is now $1800/ton and the LME-SHFE arbitrage window is firmly shut. Chinese traders are said to be trying to delay deliveries of some 100,000 tons of metal due to arrive this month and are beginning to resell stocks already in warehouse in China according to Reuters (http://communities.thomsonreuters.com/BaseMetals/380139?utm_source=20090730&utm_medium=bmemail). There is only one reason they would do this. They don't see it as advantageous to hold onto the metal any longer. The importers looking to delay arrival realize the market is probably saturated at the moment. With increased domestic production and good but stable domestic consumption new deliveries are not going to be consumed anytime soon. The article estimates some 700,000 tons is already sitting in bonded warehouses in China and some traders are beginning to re-sell holdings to reduce their exposure. At this level we could expect to see more capacity brought back on stream as more producers see an admittedly thin profit to be made. More metal coming onto the market would puncture the artificial scarcity the producers are currently maintaining. It would not take much of a turn in sentiment for the price to begin to slip back and indeed a third quarter retrenchment has been muted from several quarters. Now may not be a good time to place resting orders or placing contract prices unless they are linked to an index for aluminum deliveries in the second half. ●

## Are Industrial Metals Really on the Rise?—Part One

Lisa Reisman, July 27, 2009

This is part one of a two part series which we will continue this afternoon. Part One examines the hypothesis: Are Industrial Metals Really on the Rise? Part Two reviews the specific metals markets and draws conclusions.

Many industry observers would certainly have us think that indeed, industrial metals are on the rise. Consider some of the following recent statements:

From a recent article (http://seekingalpha.com/article/150745-crb-spot-indices-suggest-growth-happening-inflation-coming) entitled, CRB Spot Indices Suggest Growth Happening, Inflation Coming, "We think that the CRB Spot indices are a better means by which to judge the movement in commodity prices because they are based on spot (here and now) prices not highly volatile prices for future delivery." We won't argue with that statement but the author goes on to say the following, "Secondly we think that the CRB Spot Raw Industrials Index is the best representation of what is happening in the industrial heartland of the world economy…advances in copper prices is nothing but random noise unless it is accompanied by advances in the prices of commodities like rubber, zinc, cotton and wool!" The author explains that by reviewing spot commodity prices in comparison to other prices, one can gain a sense of where the commodity markets will go—so far, so good.

And finally, the big conclusion, "The behavior of the CRB Spot Industrial Index suggests that there is a genuine industrial demand for commodities (not just stockpiling by the Chinese that your average economist would have you believe)." I guess I'm just average then because though we've seen a run-up in base metal prices, let's face it they are coming up from the bottom of the ocean floor! The question to ask involves, sustainability. Will the industrial metals markets continue to rise?

According to a second article (http://seekingalpha.com/article/150721-industrial-metals-should-move-significantly-higher) on Seeking Alpha, Industrial Metals Should Move Significantly Higher the author says, "…if industrial metals are rising on a rolling 100 day basis, it is highly likely that it is because of a change in fundamentals (albeit perceived). Specifically it is due to demand outstripping supply and indicates a rise in world industrial activity and inflationary conditions." Despite the words "albeit perceived" the author goes on to say that the move up is "very real" with more upside. He postulates that world growth is picking up and even that this may be the next "TMT" bubble (technology, media and telecoms bubble).

Admittedly, as an "average economist" I don't spend a lot of time looking at commodity charts and analyzing body parts i.e. shoulders, heads or tails. And I don't mean that as a slam. I admire technical traders. But we do spend considerable time looking at economic indicators, demand patterns, re-stocking patterns and industry sentiment. We look at what metals producers are saying and what manufacturing purchase volumes look like. We speak to companies and learn how companies worry about working capital and cost reduction. And we're sorry. Though the manufacturing patient has stabilized since the beginning of the year, so to speak, it's too soon to say the patient is back to health.

In a follow-up post this afternoon, we'll look at demand factors within some of the major industrial metals categories. ●

## Are Industrial Metals Really on the Rise?—Part Two

Lisa Reisman, July 27, 2009

This is part two of a two part series. Part One (http://agmetalminer.com/2009/07/27/are-industrial-metals-really-on-the-rise-%E2%80%93-part-one/) examined the hypothesis: Are Industrial Metals Really on the Rise? Part Two reviews the specific metals markets and draws conclusions.

Let's look at some of the key metals markets in turn to assess this new "rise in world industrial activity." Last Friday, Stuart posted a piece on the aluminum market (http://agmetalminer.com/2009/07/24/how-much-further-can-aluminum-increase/?preview=true). Essentially we conclude as follows:

1. Real production is up for aluminum semis, though that may be temporary
2. Prices for ingot have increased but that may be a completely separate issue—it could be speculative possibly but physical metal is tighter in the US particularly due to scrap shortages and much of the metal on exchanges is tied to long term storage contracts
3. Imports are up in the US suggesting demand is picking up or at least re-stocking by distributors may be up
4. Mill conversion premiums are not up—ingot to plate or ingot to extrusions—this suggests mill capacity is still below optimum and mills need the orders

So we could be seeing a primary metal increase due to a temporary tightness of the physical ingot market and an increase in semis demand combined. But how long it will last and what happens after that has left us with some open questions.

Now let's examine some of the other metals markets. Two producers, Outokumpu (stainless steel) and Allegheny Technologies (stainless and exotic alloys) both posted losses (not surprising) but their comments and analyst comments about their earnings announcements are worthy of discussion. First Outokumpu, "although inventories seem (http://www.reuters.com/article/rbssIndustryMaterialsUtilitiesNews/idUSLN17452520090723) to have been run down, it will not allow an increase in volumes as end demand remains weak," according to Evli analyst Mika Karppinen. Demand for these types of stainless steel products comes from the kitchenware industries to machinery to aircraft, all of which remain in recession. Allegheny Technologies echoed similar sentiment, "Demand for our titanium alloys and our nickel-based alloys from the aerospace market was at significantly lower levels as the supply chain adjusted to aircraft production schedule push-outs and reduced demand from the 'aero-engine' aftermarket," CEO L. Patrick Hassey said (http://www.cnbc.com/id/32081947). In addition, according to steel and mining analyst (http://communities.thomsonreuters.com/BaseMetals/372819?utm_source=20090723&utm_medium=bmemail) Charles Bradford, "few metals companies were reporting any signs of recovery."

Steel billet prices fell on the LME, despite steel price increases by many of the US mills. The question becomes this—will demand justify higher steel price levels or is this just a temporary pop in prices as mills know some consumers need to restock? With major steel markets still very much flat to down (e.g. automotive, construction) and steel centers only carefully re-stocking, it's hard to see price increases sticking. Moreover, new capacity has come on-stream and that will put pressure on prices for the second half of the year.

Rounding out the base metals now, as we reported earlier this month, nickel (http://agmetalminer.com/2009/07/09/is-the-worlds-third-largest-producer-exiting-the-market-for-nickel/) remains in oversupply and as we just covered in stainless, demand remains flat. Zinc may be undervalued, but according to another recent post, copper (http://agmetalminer.com/2009/07/08/standard-bank-analysis-suggests-zinc-may-be-undervalued/) is likely at it's ceiling. That leaves tin and lead. On tin, we have gone on record as stating that prices will remain flat to lower through 2010 though longer term, supply issues could cause price increases beyond 2010. As for lead, demand may slightly increase but only with rising automotive production. Q3 will be telling for demand particularly from the automotive industry. Q4 tends to be quieter. Lead may remain in surplus this year and next, putting a brake on prices. And like tin, lead could increase once demand really increases.

Finally, some comments about China. As we reported last week, we see some potential big problems with China's demand due to China's lending boom (http://agmetalminer.com/2009/07/22/the-dark-side-of-chinas-lending-boom/). According to that post, "since December 2008, China's banks have made loans of over RMB 6 trillion but the author [ed note: of a recent book] believes much of it has been used to fuel speculation rather than investment. As a result, commodity prices have surged and the Chinese economy has suffered. In the author's words, "The damage is already significant. If lending doesn't cool, this force would transfer Chinese income to foreigners and trigger stagflation for a long time to come." We have long argued that much of the "buying" in China came as a result of re-stocking, government stockpiling or short-term stimulus dollars creating incentives to buy big-ticket items such as automobiles. Whether or not China can sustain real long-term growth will depend upon its ability to fuel domestic demand. We think the jury is still out on that question.

On the basis of demand alone, industrial metals will move higher [eventually] but we don't see that before at least the middle of 2010 if not later. If the market continues to increase, you can be sure it's due to ETF's, speculators and commodity traders because the underlying fundamentals aren't telling us its so. ●

## How Much Further can Aluminum Increase?

Stuart Burns, July 24, 2009

Apart from the obvious industry boosters, most observers have been a little surprised by aluminum's resilience during the 2nd quarter. With a massive 4.5m ton stocks in exchange warehouses and traditional markets like automotive and construction heavily depressed, few analysts could see a reason for prices to rise. However rise they have done and finally some metrics are feeding through to show why.

First and foremost consumption is up. Oh compared to May-June 2008 it's still way down but that is almost a nonsensical comparison, the world has changed since then. But from April to May 2009 demand as measured in shipments from US and Canadian producers plus imports edged up 5.8 percent in May from April. Demand for semi-fabricated, or mill, products rose 6.8 percent in May from April according to a Reuters article (http://communities.thomsonreuters.com/BaseMetals/370635?utm_source=20090722&utm_medium=bmemail) quoting Aluminum Association figures.

In its breakdown of U.S. and Canadian mill products, the association said demand for aluminum sheet and plate was up 8.0 percent in May from April while shipments of extruded products jumped 10.1 percent. May shipments of aluminum ingot for castings on the other hand edged up just 3.4 percent from April. Total imports of aluminum ingot, scrap and mill products into the U.S. and Canada, minus cross-border trade, shot up 71.3 percent in April and as we will see in a moment exchange stocks are also in the process of being withdrawn suggesting semi's metals producers are raising production. The question is how much is the long awaited re-stocking and how much is end user demand?

As we mentioned above, aluminum metal prices have been rising and some pundits are predicting a break above $1800/ton driven by a shortage of physical metal. How can you have a physical shortage of metal when there is 4.5m tons in warehouse you may ask? Well the answer is the producers have been playing the arbitrage game between spot and one year. The difference has been $150/ton so banks have bought and sold and pocketed the $150/ton. Long term storage deals and low interest rates have cut the cost of carrying for the 12 months. Of course 12 months from now a lot of metal is going to become available. Maybe of more interest is the 1.35m tons of non long term material, a significant proportion (13%) of this is now appearing as canceled warrants, according to some reports (http://www.forexyard.com/en/reuters_inner.tpl?action=2009-07-22T105413Z_01_LL175677_RTRIDST_0_ALUMINIUM-PRICES-ANALYSIS), much of it in the US. Gayle Berry, analyst at Barclays Capital thinks it could be because scrap is tight but others see it as a return of the auto market. Car makers account for about 30 percent of the global aluminum market estimated at around 37 million tons. The expectation is US auto build rates are going to increase by 1 to 1.5 million units in the third quarter spurred by the Cash for Clunkers program.

We suspect there is also an element of the supply chain, distributors in particular, seeing the rising prices and re-stocking before it goes too far. Stocks had been run down desperately far and re-stocking appears to be gathering pace.

Whatever the reason, the aluminum price is proving gravity defying when looked at in the context of world stocks and must raise questions about how far, for how long and what happens after that. Meanwhile producers will hopefully not be wound up in the euphoria and bring too much capacity back on stream, at $1800/ton many previously loss making plants begin to break even. ●

## Deutsche Bank Report on the Prospects for Base Metal Markets

Stuart Burns, July 10, 2009

The online mining website Mineweb covered a recent Deutsche Bank report (http://www.mineweb.com/mineweb/view/mineweb/en/page36?oid=85988&sn=Detail) regarding base metal prices that we felt was of sufficient interest to review.

The main thrust of the bank's position was that China's demand for base metals is slowing and this will impact prices in 2009 and 2010. Prices this year have been almost solely driven by demand from China with consumption contracting in much of the developed world and only emerging markets showing any growth in metals consumption. Indeed even the word consumption is debatable as much of China's headline grabbing buying has been for strategic stockpiles and as such is still sitting in store. Underlying consumption is more modest than buying suggests. The bank believes that as the effects of the stimulus package wear off later this year, and China's growth slows as dependence on world trade takes a larger percentage of the demand, metals prices will ease.

Specifically Deutsche Bank estimates that China has between 700,000 and 1m tons of excess copper stocks and they are forecasting a 3.9% drop in global copper consumption this year. Consequently, the bank sees prices easing through H2 2009 and H1 2010 a process that has already started with the drop back from last month's 2009 highs. We would agree, the SHFE arbitrage has recently collapsed and stocks in Shanghai and LME Asian warehouses are set to rise by up to 100,000 tons over the coming weeks in the face of lukewarm demand according to Reuters (http://communities.thomsonreuters.com/BaseMetals/355690?utm_source=20090708&utm_medium=bmemail) reports.

Deutsche Bank suggests nickel is going to benefit from a narrowing of the supply surplus as production is finally brought closer to demand after 18 months of cuts with a pick up in stainless production following a prolonged period of de-stocking. The report suggests nickel's prospects are good once the summer period is over. We are not quite so bullish. Stainless production may pick up later this year or early next but this does not allow for the demand destruction that has reduced the consumption of nickel bearing stainless alloys. In addition, idled capacity is in some cases being brought back on stream and new facilities are coming on stream like Mirabella's 26,000 ton per annum Santa Rita (http://www.mineweb.com/mineweb/view/mineweb/en/page36?oid=85969&sn=Detail) mine in Brazil which will continue to keep exchange stock levels high. We can't see much upside for nickel this year or next.

We could be more in tune with the bank on zinc. They say "we are forecasting a 240,000 ton surplus in 2009 followed by a 250,000 ton deficit in 2010 as demand ramps up against concentrate supply constraints." Prices should follow; the bank is expecting an easing over the summer with prices firming towards the year end and into 2010.

Still on supply/demand Deutsche Bank is also forecasting a 1.75m mt aluminum surplus in 2009 followed by a smaller but still substantial 620,000 ton surplus in 2010. With exchange stocks already at 4.4m mt and the market set to remain in surplus, a significant rise in prices is almost inconceivable. As the bank observes, China re-starts are of crucial importance. demand is sluggish although the country remains a net importer at the moment. That could change if demand softens a little and anymore idled capacity is restarted; if that happens prices could come under pressure.

The bank is somewhat bearish on lead expecting the market to be in slight surplus this year and next, and in the medium term for prices to decline with lead use in automobile batteries. We wonder about this. Surely lead use in automobiles can only increase over the next 2–5 years as car production recovers. According to this assessment (http://www.worldometers.info/cars/) , global car production was rising inexorably from the last recession in 2001 at nearly 40m/units per annum to 2007 at nearly 55m/units. This year, it is projected to be nearly 52m units so a return to 54-55m seems reasonable over a 2–3 year time frame. Electric cars with Lithium-ion or metal hydride batteries are not going to make significant inroads into combustion engine sales within that time frame so we are not as conservative on lead. Dramatic rises are out but we expect that like copper, the prices will be firmer this time next year than now.

Lastly tin—the bank observes LME inventory levels have quadrupled over the past six months, hitting the highest level for over three years, from which we deduce they mean 2009/10 prices will be limited on the upside and vulnerable on the downside. However with economic supply sources limited the longer term prospects for the price are upward, just not this year or next.

All in all an interesting analysis, I am afraid we at MetalMiner are never able to accept them at face value so please excuse our footnotes to the originals findings. ●

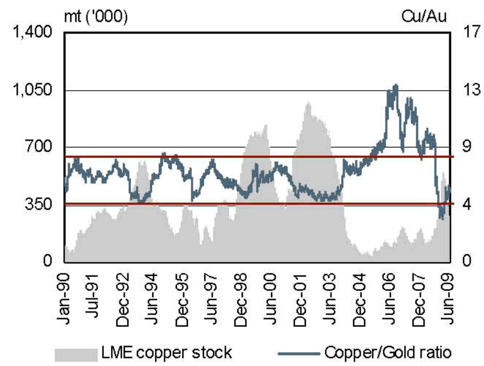
## Standard Bank Analysis Suggests Zinc may be Undervalued

Stuart Burns, July 8, 2009

Commodity specialists Standard Bank has recently completed a very interesting analysis looking at the ratio between the price of gold and that of several base metals since 1990. The bank is the first to hold up their hands and say the analysis does not look at market fundamentals on specific metals but it does provide a fascinating relative value analysis. Why choose to compare base metals to gold? To paraphrase the bank, it is because they see gold as a good indicator of global liquidity and the ratio of base metals with gold therefore indicates if prices reflect increased global liquidity or not.

So how do the base metals fair from this analysis? In the bank's opinion, copper appears fairly priced relative to gold. Mapping back to previous downturns in 1998, the early 1990's and 2002 they believe that on this measure copper should stay at current levels with a 19 year floor at $4,400/metric ton ($2.00/lb). As you can see in this graph (courtesy of Standard CIB Global Research) compared to the historic average and previous stock levels copper is comfortably middle of the road.

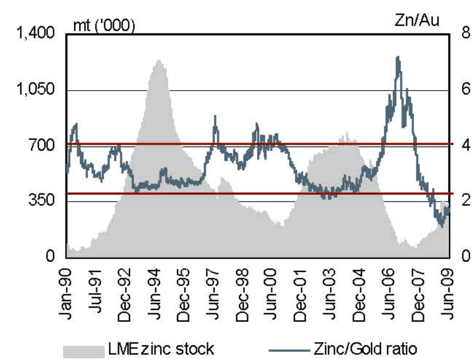
Figure 1: The copper/gold ratio




*Sources: Standard CIB Global Research; LME*

Zinc on the other hand appears cheap on a relative basis with gold. The bank observes stock levels have been rising but even when SHFE stocks and non LME deliverable stocks are added in, it would still not reach levels seen in 2003/4 when the ratio was higher.

Figure 2: The zinc/gold ratio




*Sources: Standard CIB Global Research; LME*

On this measure there is room for the zinc price to rise relative to gold without breaking the long term ratio band.

And the other metals? Like copper, lead appears quite favorably positioned compared to past measures although it is close to the 19 year ceiling which suggests all other factors being equal it does not have further to go. Aluminum on the other hand, is well below the 19 year floor, but with visible stocks at record highs this is hardly surprising. Nor is Standard Banks conclusion that they do not view aluminum as undervalued relative to gold. Few, if any, observers would expect aluminum prices to move up sharply in the short term.

## Steel Producer and Analyst Price Predictions

Lisa Reisman, June 29, 2009

Just as my colleague posted a piece last week on what the analysts and industry pundits see for the future of aluminum and copper (http://agmetalminer.com/2009/06/26/analysts-metal-price-predictions-copper-and-aluminum/), we thought we'd take a look at what folks see in their crystal balls for steel. And much of the steel story rests on current production levels and actual demand (vs. re-stocking).

To begin, we turn to statements made at a recent steel conference. From a global perspective, steel production has declined by 20% since last September, according to this article (http://www.guardian.co.uk/business/feedarticle/8579051). But production has not declined in China and India. Let's qualify that last point. Production has declined but not in line with demand. In other words, demand has fallen faster than production has declined. And though it has been reported that China will cap steel production to 460m tons (http://www.chinadaily.net/bizchina/2009-03/23/content_7606526.htm) this year, the numbers for Jan-May suggest China will miss the mark by some 12%. According to the World Steel Association (http://www.worldsteel.org/?action=stats&type=steel&period=latest), China produced on average approximately 43.317 tons/month from January—May of this year. Given that "average" run rate, we might expect China to produce 519m tons this year based on their current pace.

According to the Guardian article, Chris Plummer, managing director of Metal Strategies, estimates China will produce 540m tons of steel this year. Though our numbers differ a bit we both draw the same conclusion—China has missed its target and perhaps more important, has not cut production sufficiently to match demand.

Production aside, we see some upticks in prices globally. Our own MetalMiner IndX(SM) has shown prices for CRC have increased from RMB4300/ton on January 1 to $4500/ton on June 26. But prices for HRC dropped slightly from RMB3750/ton on January 2 to RMB3640/ton today. Others have reported 4% and 5% price increases for both HRC and CRC, respectively. Cru also reports of price increases and the same is true for both European and domestic markets. HRC and CRC have both seen increases in the 6-7% range recently in those same markets.

So are we in for a run-up of steel prices in general? The producers are raising prices as we have previously reported. But we think it all comes back to demand and here we still have some questions. If the mills bring on production too soon, and demand doesn't meet supply, prices will fall. But all producers have an interest in boosting prices as quickly as possible since many inefficient mills are not running profitably. However, if prices start escalating quickly, and countries such as China and India have extra capacity, they will undercut US producers and we'll see an uptick of imports.

Time will tell…. ●

If you are interested in exploring any of the concepts in this paper further, please do not hesitate to contact us at 773-525-9750 or by email at lreisman@aptiumglobal.com.

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