

Demand seems to have bottomed; we can't say the same yet for prices

1 The \$1,300 per mton support has prevailed... In the last six trading days, LME 3M aluminum prices have naturally increased 6% from \$1,325 to \$1,405 per mton (60 to 63 cent/lb) after failing to break support level at \$1,300-1,325 per mton (59-60 cent/lb). In fact, aluminum prices reached today a two-week high of \$1,420 per mton (64 cent/lb). This looks like a typical bearish pause after the 15% price drop in the first three weeks of the year. Although conditions are present to believe demand has bottomed, we can't say the same yet for prices.

2 ...as aluminum demand seems to have bottomed.

January's annualized global daily demand is estimated to have been at 28.8 million tons (1% above Dec '08 levels). We need daily demand to bounce 20% for the oversupply to end. This means we need annualized daily demand to be 34.5 million tons. Is this level far away? Let's see two interesting facts: A) The Baltic Dry Index (BDI) has increased 32% so far this year to a level of 1,036. The upward trend continues. Last time BDI sustained levels like these (late Oct '08), annualized global daily aluminum demand was 34.2 million tons, 18% above today levels. B) Fear index is currently hovering around 40, still above "normal" levels below 25. However, past evidence suggests readings of 40 are associated with annualized daily aluminum demand of 31.5 million tons (or 9% above current demand). The Fear index has a two-month lagged effect on aluminum demand. This means that even if the Fear index remains stable, daily aluminum demand should increase at least 9% in the next two months. The bottom line is that demand seems to have bottomed and that there is a reasonable case to expect the rebound to gain track and be up by 20% sometime in the IIQ

3 Nevertheless, we can't say the same about prices yet. Although conditions are present to believe demand has bottomed, we can't say the same yet for prices.

A) LME aluminum stocks rose by 109,400 tons just in the last five days, B) Fear has eased, but it is still above normal levels, C) Alumina prices are still trending down, D) Oil prices remain in a bearish tone around \$40 per barrel, E) US dollar has gained 7% so far this year, F) Global short term interest rates are still falling and G) Daily, weekly and monthly aluminum price technical indicators still officially in bearish mode.

4 The bottom line is: Although we are closer, conditions are not present yet for a sustainable price bounce.

LME 3M Aluminum Average Daily Prices (\$/mton)



Date	Average LME 3M Price		Annual % change
2007	\$2,661/ton	120 cent/lb	3
2008	2,615	118	-2
Feb '09	1,378	62	-51
Prior week	1,369	62	-44
Week ending Jan 30	1,346	61	-49
Today	1,405	63	-47

	Week Movement	Up/Down	Click for Details
Inventory Levels	Stand at all time highs and continue to grow	↑	Data Analysis
Oil Prices	Roughly stable trading around \$40 per barrel	↔	Data Analysis
Regional Premiums	Stable at multi-year lows	↔	Data Analysis
Bull/Bear Sentiment	Down last week, it remains inside bearish territory	↓	Data Analysis
Shanghai Prices	Increased slightly to ten-days highs	↑	Data Analysis
LME FWD Curve	Modestly up from mid Jan '09 lows, still below Dec '08	↑	Data Analysis

Forecasted by	LME Cash Prices (\$/mton)		MKT Balance (ktons)	
	'09	'10	'09	'10
HARBOR Realistic	1,847	3,000	1,361	158
World's Best 5 Analysts	1,790	2,665	1,195	204
Consensus	1,633	2,047	1,241	792
HARBOR Downside	1,440	2,300	1,871	751