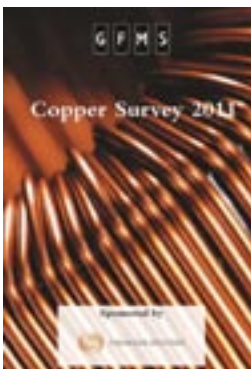


## **Publication of *Copper Survey 2011***

### **Buoyed by a Market in Deficit and Ongoing Interest by Investors, Copper Prices are Expected to Set New Highs in the Second Half of 2011**



Following the success of its inaugural annual report on the copper market last year, GFMS launched *Copper Survey 2011* today in Santiago, Chile to coincide with CESCO Week. Nikos Kavalis, Senior Analyst for copper, gave a presentation outlining the main findings of the report.

GFMS estimates that the copper market went into deficit in the second half of last year, more than offsetting the small surplus noted in the first six months of 2010. The swing to deficit was the result of accelerated growth in mature economies' consumption, further increases in Chinese offtake and lacklustre growth in mine production. Despite a significant increase in secondary production boosting total refined output, the consultancy estimated that global refined consumption exceeded supply by 286,000 tonnes.

"The sharp improvement in copper fundamentals", Kavalis noted, "rekindled investor interest in copper, after a period of relative weakness, in the aftermath of the European sovereign debt crisis." The combination of a tight physical market and strong investment demand saw prices rise to a series of all-time highs late in 2010 and in the first few weeks of 2011, peaking at \$10,148/tonne on 14th February.

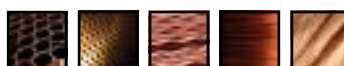
The report argues that the continued recovery of mature economies, consumption and strong underlying increases in demand in developing countries, led by China, should result in global refined consumption remaining strong in 2011. Although mine production is also expected to accelerate and scrap volumes to rise further, the consultancy believes that refined production is unlikely to outpace demand this year. As such, the market is expected to remain in a deficit at least through to the end of the year.

"Despite this positive fundamental backdrop," Kavalis argued, "in the near-term a noteworthy correction cannot be ruled out." Although, in the medium term, tight supply-demand conditions remain in place, sales from unreported inventories of refined copper and scrap have, in recent months, resulted in a well supplied market. In addition, given that the speculative long overhang by investors still prevails, any negative news for copper, whether linked to European sovereign debt problems, geo-political events, the outlook for industrial production in key markets or Chinese monetary policy, could result in a major liquidation and in prices falling comfortably below \$9,000/tonne.

Such a move would likely, in turn, see consumers move into the market to replenish stockpiles, which have been kept at low levels in recent months, providing essential support to prices. In addition, GFMS expect strong bargain hunting by investors to emerge at these levels. The combination of the two, the GFMS *Copper Survey* argues, would provide the floor for copper prices, which the consultancy expects will remain well above \$8,000/tonne.

In addition, GFMS expect that such disturbances would most likely prove short-lived and that a full-scale crisis would be averted. Eventually investors would regain their confidence in copper's longer-term fundamentals and return to the market. Coupled with an ever-tighter fundamental market, as deficits continue to work their way through stockpiles, GFMS expect that this will see prices resume their upward trajectory and that a new peak towards the \$11,000/tonne mark will be breached, in the second half of the year.

The statistical highlights of the report are outlined overleaf.





## Supply Highlights

- Global **mine production** growth slowed to 0.8% in 2010, hampered by falling grades and industrial action. Total output for the year reached 15.9 million tonnes. China posted the largest year-on-year increase in tonnage terms, amounting to 114,000 tonnes and other noteworthy contributions to the global total were noted in Zambia, Democratic Republic of Congo and Spain. Lower output in the United States and Peru more than offset the small increases seen in Chile and Canada.
- GFMS estimate that global average **cash costs** (C1) rose by 11.4% in 2010 to 112 ¢/lb, equivalent to \$2,740/tonne. Higher input costs related to rising energy and other commodity prices as well as strong producing country currencies accounted for the bulk of the increase, which was partly offset by higher by-product prices.
- Global **refined production** rose by 3.8% last year to reach 19.1 million tonnes, in spite of the limited growth of mine production. Strong increases in secondary production, as the high price environment encouraged the recycling of old equipment and also saw scrap stockpiles be released to the market, boosted total output.

## Demand Highlights

- As mature economies' consumption recovered strongly in the second half of the year and Chinese growth remained in double-digit territory, global **consumption** growth reached 11.3% in 2010, with total offtake amounting to 19.4 million tonnes for the year.
- Healthy increases were seen across all end-use sectors. Having been the only sector that registered net growth in 2009, **electrical and electronic** consumption saw the lowest rise in percentage terms, although, at 8.2% and given a high base, this continued to account for much of the global increase in demand.
- In spite of weak economic growth in the EU-27 and North America, **construction**-related demand grew strongly, underpinned by Chinese air-conditioning production growth, as well as by 20% plus growth in fixed asset investment in the country.
- Copper consumption, in **consumer and general products**, in the **transportation** sector and in **industrial**

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**Copper Survey 2011** 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 Emma Hastings - Tel: +44 (0)20 7478 1750, Fax: +44 (0)20 7478 1779, Email: sales@gfms.co.uk.  
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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, but has representation in Australia, India and Russia, and a vast range of contacts and associates across the world.

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