



METALS CONSULTING

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GFMS Metals Consulting's Base Metal Index Makes New Highs

Concerns about demand have not affected LME prices

GFMS Metals Consulting's base metal price index made new cycle highs in February reaching 161.59 on February 24 (January 2000=100). The LME's index (LMEX) also made a new high in February. This index is heavily weighted towards aluminium and copper (42.8% and 31.2% respectively). Our own index gives equal weighting to all the base metals.

Some of the latest statistics highlight the slow down in the rate of economic growth in some of the ASEAN countries, the return to recession in Japan in the final three quarters of 2004, and the on-going lacklustre level of activity in the EU. This is filtering through to an easing in the rate of base metals demand growth. For example, anecdotal evidence that we receive suggests that demand for aluminium and copper semis is weakening in Japan, particularly from the construction sector. This is supported by some of the latest industry data. Japanese aluminium buyers are looking for a reduction in physical premiums in Q2 citing high stock levels.

In the US market, although some of the economic data is more encouraging, it appears that a reaction to the above trend growth enjoyed in 2004 is underway. In EU, both the economic and the industry specific data are weak. This is reflected in the base metal markets. For example lead times for some aluminium semis are at minimum levels. The ready availability of material is encouraging a hand to mouth existence by consumers.

...as inventories move ever lower

The focus of the market at the moment is not on the possibility that demand growth will slow, but on the exceptionally low level of inventories and the seeming inability of producers to significantly raise production. In this regard, some industries are better placed to raise output than others.

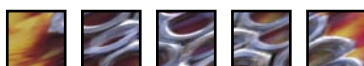
Spot TC/RCs point to higher copper production, spot alumina quotes tell a different story

For copper, the latest statistics from the International Copper Study Group confirm that mine production growth is accelerating, while the dramatic rise in spot TC/RCs suggests that the concentrate market has swung rapidly from a position of extreme tightness to significant over-supply. Spot business has been conducted as high as \$150/tonne-15c/lb in China against levels of \$15-20/tonne-1.5-2.0c/lb a year ago.

The aluminium market is at the other extreme. Spot alumina prices remain incredibly strong. Although spot quotes primarily refer to trade with China and are not necessarily representative, they confirm their on-going tightness, as unlike copper there is little new capacity in the pipeline. Spot prices for alumina in early 2005 remain over \$400/tonne and represent over 20% of the LME price.

The structural shortage is also being reflected in long-term contracts with deals generally being settled at 14-14.5% of the LME quote compared to the 12-12.5% norm. The Australia export data also shows alumina prices rising in both absolute terms and as a percentage of the LME quote. According to the latest figures from ABARE, alumina exports averaged \$222/tonne in Q3 2004 compared to an average LME quote of \$1,708/tonne, thereby representing 13% of the LME quote. A year earlier alumina prices were \$176/tonne and represented 12.3% of the LME quote. When ABARE releases figures for Q4 and Q1, alumina's share of the primary aluminium price should show another increase.

The zinc market shares similar characteristics to aluminium with a structural shortage at the raw material stage. Recognition of this fact was behind the relatively quick resolution of this year's TC negotiations, which saw another sharp swing in the favour of the miners with the benchmark established around \$126/tonne compared to \$142/tonne in 2004.





Recent developments confirm the inability of the nickel producers – particularly the key suppliers – to raise output. Russian nickel exports recorded a 5.6% rise in 2004 to 251,400 tonnes. GFMS Metals Consulting is forecasting these levels to be maintained in 2005 as Norilsk Nickel's production in 2005 is forecast in the region of 240,000-245,000 tonnes, largely unchanged from last year's level. Inco has announced that planned maintenance shutdowns at Ontario and Manitoba will see production fall from last year's record of 236,000 tonnes to 222,000-227,000 tonnes.

The bottom line is that GFMS Metals Consulting forecasts that all the base metals will remain under-supplied in 2005. As such, given the renewed dollar weakness and continued speculative activity, we expect the GFMS Metals Consulting base metal index to make new highs during the remainder of the first quarter.

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GFMS Metals Consulting was established to build upon GFMS Limited's unparalleled reputation for providing authoritative analysis on the precious metals markets. GFMS Metals Consulting will utilise the same in-depth research techniques to meet the industries' demands for market information and analysis on the base metals, steel and related sectors.

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