

Commodities / copper

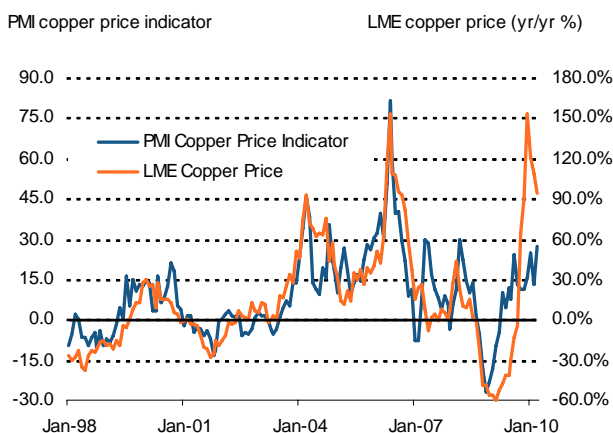
Copper prices hit 20-month high, supported by Asian-led demand growth

- Higher copper prices feeding through to manufacturing.
- Copper-users report accelerating output growth but little evidence of copper supply shortages to date.
- China remains key driver, underlined by rapid GDP rise in Q1.

Copper prices have continued to power ahead in early 2010, driven by strong demand and expectations of continued rapid economic growth in markets such as China. On the London Metals Exchange (LME), copper traded at an average of \$7,830 per tonne in March, its highest level for 20 months and around 170% higher than its post-financial crisis low of \$2,900 recorded in December 2008. By mid-April, the price had increased further to \$7,914.

Correspondingly, purchasing managers surveyed by Markit reported an increased incidence of copper prices rises during March. The PMI Copper Price Indicator rose to its highest level for two years.

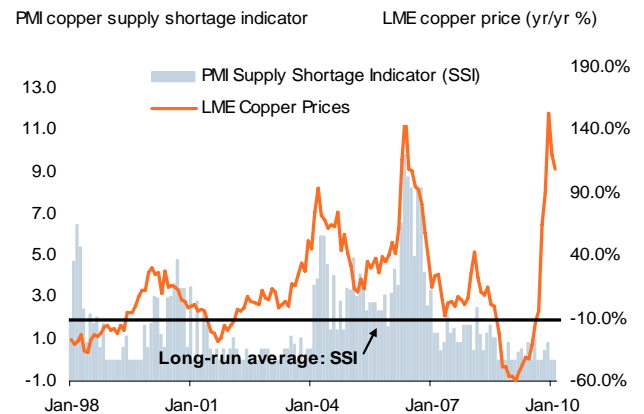
Copper price



However, there remained relatively few reports of supply shortages for copper, with the PMI Copper Supply Indicator – which measures the proportion of purchasing managers indicating a lack of availability –

remaining below its long-run average. This suggests that high prices are being partly supported by investors' expectations of future supply shortages as opposed to any real scarcities at present.

Copper supply shortages

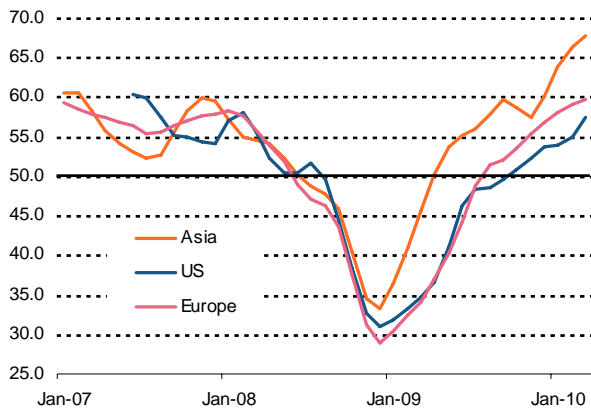


Production growth at copper-using manufacturers accelerates

On the demand side, consumption continues to heat up across the globe, buoyed by a recovery in the global manufacturing sector. PMI data compiled by Markit, monitoring business conditions exclusively at companies that use copper as a key input to their production process, signalled increased rates of output growth across the major economic regions in March. Asia continued to lead the upturn, posting the fastest growth since data were first available in February 2004. In Europe, production rose at the sharpest rate for 39 months, while in the US growth was the strongest for just over two years.

Output of copper-using manufacturers

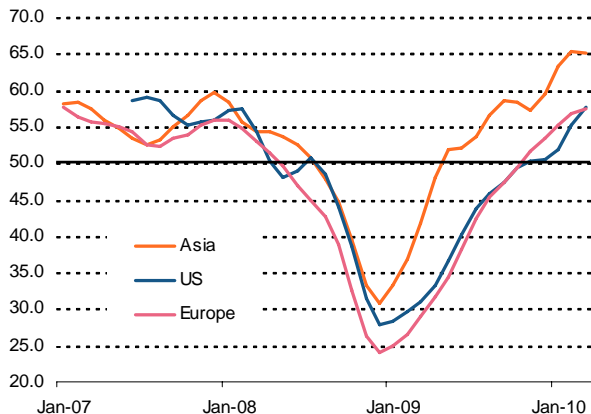
PMI, Output, 50 = no change



Correspondingly, copper-intensive manufacturers' purchasing of inputs has increased strongly in recent months. Again, Asia remains at the front of the pack, though both Europe and the US are also now seeing robust rates of growth.

Copper users' purchasing of inputs

PMI, Quantity of Purchases, 50 = no change



Rapid Chinese growth providing key support to prices

China continues to play a crucial role in driving commodity price increases as its economy remains on a rapid growth trajectory. Copper – widely used in power and construction projects – has been a prime beneficiary, and prices received further support in April following the release of official data showing sharper-than-expected economic growth of 11.9% in Q1, the fastest annual pace in nearly three years.

Although the heady rate of expansion has prompted speculation that China's authorities may have to tighten monetary policy to prevent overheating, it also provided further ammunition to critics of China's currency peg and increased the perceived likelihood that the yuan would be allowed to rise against the US dollar. That would make imports cheaper for China, most likely further stoking demand for commodities and thus adding to global inflationary pressures.

Jack Kennedy

Economist

Markit

Tel: +44 1491 461087

Email: jack.kennedy@markit.com

For further information, please visit www.markit.com

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