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Markit Economic Research

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Commodities / metals

Metals prices fall further amid slowing industrial consumption, but supply shortages persist

- **Copper, aluminium and steel prices down sharply from recent peaks.**
- **Price falls reflect weakening of output growth at worldwide metal-using firms.**

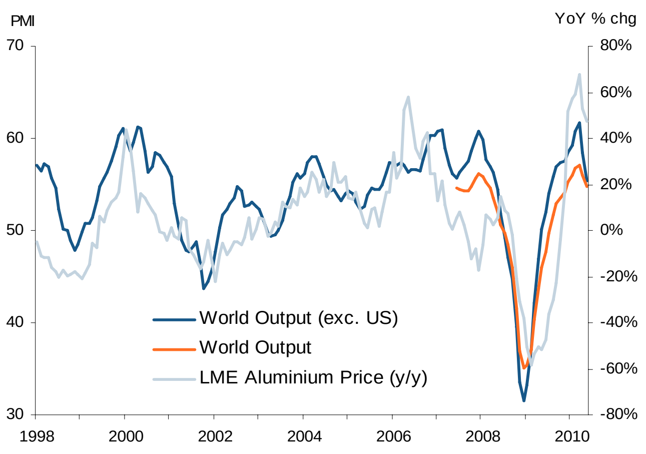
Metals prices have dropped sharply in recent weeks, reflecting a cooling of worldwide output growth and worries regarding the global outlook. LME copper had slumped to $6,290 per tonne in mid-June, compared with an average of $7,830 in March – a fall of around 20%. Aluminium prices declined by approximately 14% to $1,905 per tonne over the same period, while both the Mediterranean and Far East Steel Billet contracts traded on the LME also fell sharply.

The extent to which prices have fallen due to the *actual* slowdown in growth of demand or the perceived *future* slowdown is difficult to estimate, but information provided to Markit from buyers of these metals indicates that supply shortages persist at historically high levels, suggesting that the current slowing in demand has not yet alleviated supply chain pressures. This should provide a support to prices in the short term at least.

PMI data signal slower growth at metal-using firms

Markit's metals PMI data – collected exclusively from firms which use copper, aluminium and steel as inputs to their production process – indicate that the drop in prices has been accompanied by a weakening of output growth at these companies. Production at copper-using firms rose at the slowest rate for six months in May, while growth at aluminium- and steel-users was the weakest for seven and eight months respectively.

Output of aluminium-using manufacturers



Source: Markit.

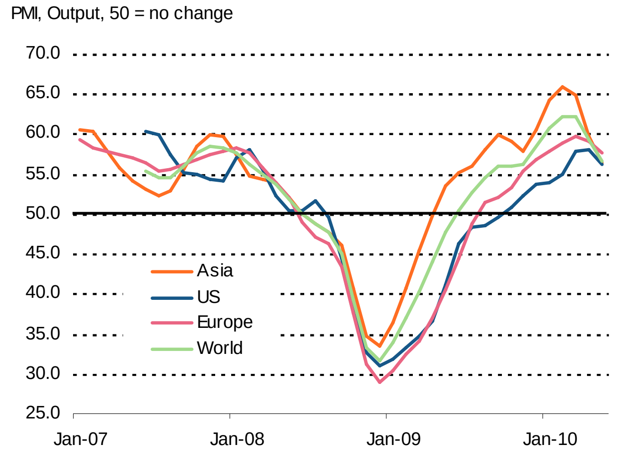
Correspondingly, growth of raw material buying at metal-using firms has eased, with companies reluctant to allow stock levels to expand at a time of uncertainty over future demand.

Asian demand is slowing…

Rising metals prices in the first quarter of 2010 were strongly linked to buoyant growth in China. However, policy tightening by the Chinese authorities, designed to combat overheating in the property market, has slowed the pace of economic expansion.

Indeed, the HSBC China PMI signalled the weakest rise in manufacturing production for over a year in May, and other PMI data show that output growth at Asian metal-using firms has slowed sharply, much more than has been the case in Europe and the US (albeit from a stronger pace of expansion in prior months).

Output of copper-using manufacturers

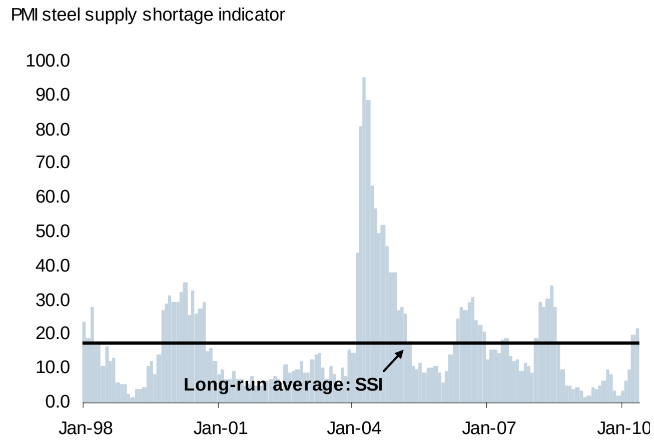


Source: Markit.

…but some supply shortages remain, which should put a floor under prices

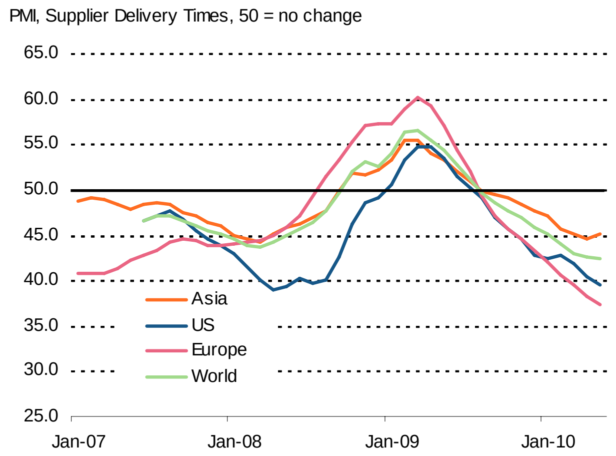
Despite slower growth of purchasing activity, metal using companies have reported that their supplier delivery times have continued to lengthen sharply, reflecting low stock levels, and purchasing managers surveyed by Markit have reported an increased incidence of supply shortages as a result (particularly for steel products).

Steel supply shortages



The PMI Supply Shortage Indicators, which measure the proportion of firms across Markit's worldwide survey panels reporting specific goods to be in short-supply, signalled the highest incidence of steel shortages for almost two years in May and the largest number of aluminium shortages for just over three years. Copper shortages were the greatest for 22 months. These tight supply chains suggest that prices are unlikely to fall too far from current levels unless production growth slows sharply in coming months.

Supplier lead times to steel-using manufacturers



PMI data provide key guide to metals demand fundamentals

Using data from our established survey panels across Asia, Europe and the US, Markit produce data tracking trends at copper, aluminium and steel intensive goods producers. Data cover indexes for output, new orders, new export orders, input purchasing, stock holdings, prices, vendor delivery times and employment.

For further information on commodities PMI data, please contact economics@markit.com.

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