

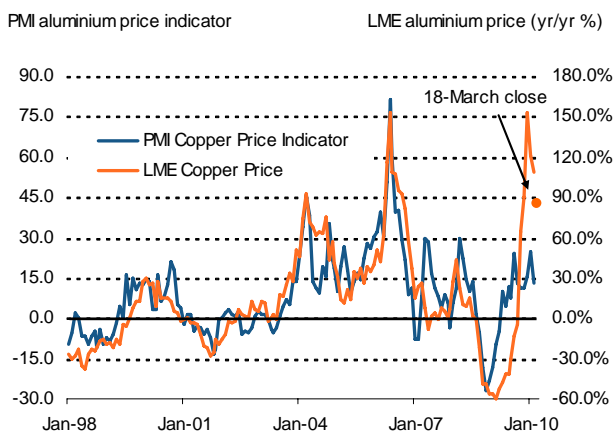
# Commodities / copper

## Strong Chinese demand drives copper prices higher, but speculative factors also provide support

Copper prices have powered ahead at the start of 2010, buoyed by strengthening demand from China and elsewhere. On the London Metals Exchange (LME), the price of copper has climbed to \$7,480 per tonne this week, approaching the elevated levels of 2008 and well up on their sub-\$3,000 nadir in the aftermath of the Lehmans collapse.

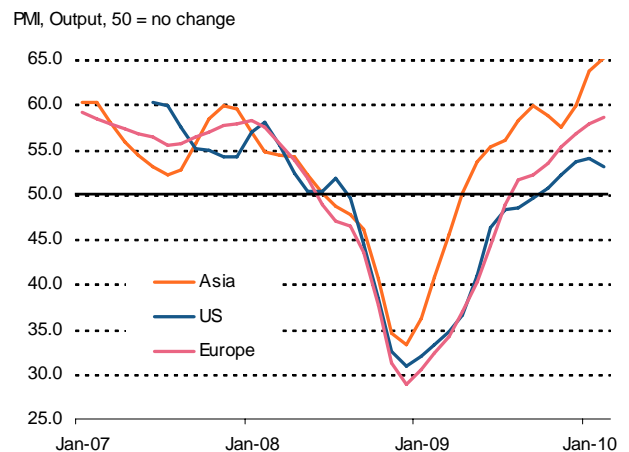
Purchasing managers surveyed by Markit have reported a broad upward trend in copper prices over the past year and continued to do so in the February round of PMI surveys (although at a slower pace following an easing in LME prices in January). The continued increase in prices over the past fortnight is expected to drive the PMI Copper Price Indicator higher in March.

### Copper price



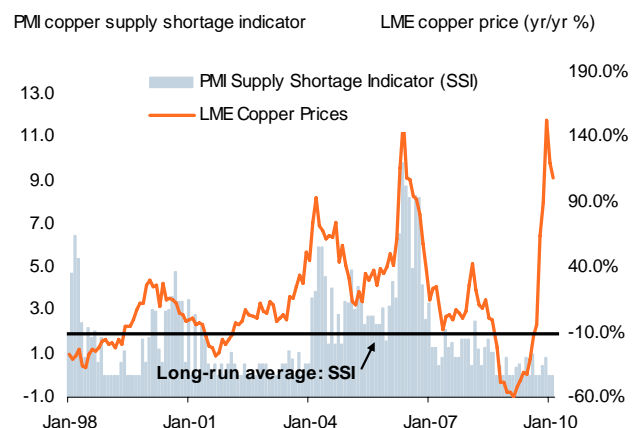
The rise in copper prices corresponds with increased demand from manufacturers that use the metal as an input. Data compiled by Markit have indicated strong growth of production at copper-using firms in recent months, particularly in Asia, which continues to outperform Europe and the US.

### Output of copper-using manufacturers



Although demand certainly seems to be picking up, there is also some evidence to suggest that the price rally has been accentuated by speculative factors. The PMI Copper Supply Indicator – based on the proportion of purchasing managers reporting shortages – currently indicates few actual instances of supply difficulties. It is possible that some short-term bottlenecks could have emerged in early March following earthquake-related disruption in the world's top copper producer Chile, but the current divergence between prices and supply is in marked contrast to previous price spikes in 2004 and 2006.

### Copper supply shortages



If speculative factors are helping drive the current strength in copper prices, this likely reflects investors' increased optimism regarding future global economic activity and hence copper demand. The Federal Reserve's pledge to hold interest rates low for an extended period is expected to stimulate growth in the US and thus boost consumption of commodities. Meanwhile, any action by China – the world's largest copper user – to allow its currency to appreciate would provide added impetus to demand as its imports become cheaper.

However, copper prices could be prone to a correction if Chinese demand fails to meet current heady expectations. This could occur, for example, if the Chinese authorities move to hike interest rates to dampen the risk of a property bubble.

Monitoring supply developments in the copper market in the coming months will be an important indicator of the extent to which the current strength in prices is justified, and whether it can be sustained in the medium term.

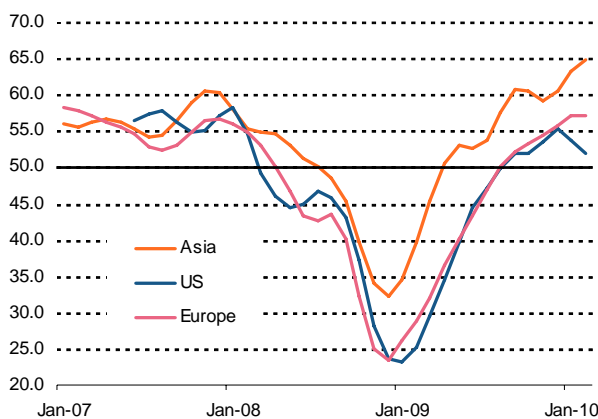
### PMI survey of copper-using manufacturers

The following charts are based on PMI survey data compiled by Markit which reflect business conditions exclusively at companies that use copper as a key input to their production process. Note that other indicators, such as output, employment and prices, are available on request.

Asia continues to see the strongest rebound, though the US and Europe have also returned to growth. Inventories at Asian copper-users are now rising, driven by strong increases in purchasing, while the US and Europe remain some way behind in this respect.

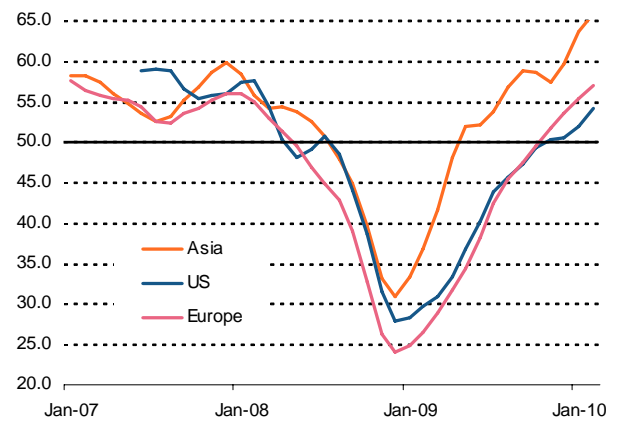
### New orders at copper using manufacturers

PMI, New Orders, 50 = no change



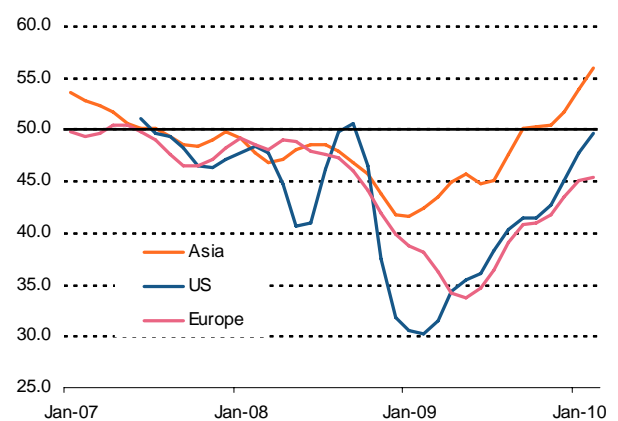
### Copper users' purchasing of inputs

PMI, Quantity of Purchases, 50 = no change



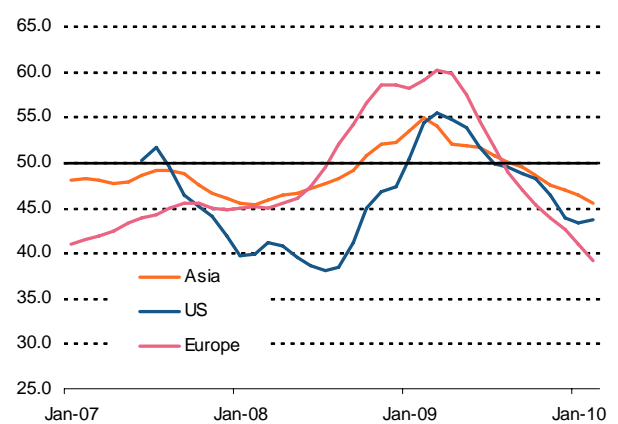
### Copper users' inventories of raw materials/inputs

PMI, Stocks of Purchases, 50 = no change



### Copper users' supplier delivery times

PMI, Supplier Delivery Times, 50 = no change



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