



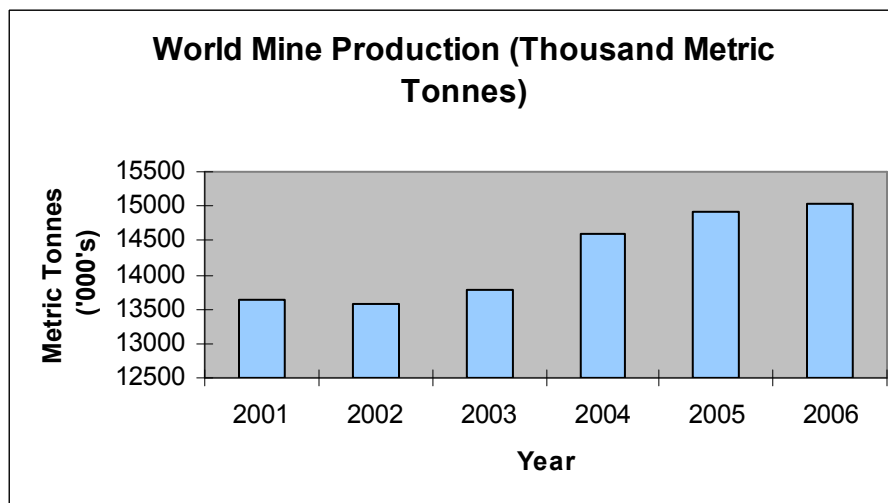
## COPPER - ON A TIGHT ROPE WALK!!

Ulhas Shenoy  
Sr. Research Analyst  
July 6<sup>th</sup>, 2007

Copper futures have seen a rally due to concerns on supplies. Falling warehouse inventory levels have also underpinned prices. Though the looming specter of an increase in interest rates particularly in China and the United States, the two largest consumers of copper worldwide has prevented a runaway rally. We try to analyze the factors, which are likely to play a key role in influencing the direction of prices:

Following are some factors, which are likely to be bearish for prices:

- **Demand from China:** Concerns of a fall in demand from China, the largest consumer of the metal is a factor, which has the copper bulls on tenterhooks. According to a report by the International Copper Study Group demand for copper in China during 2006 registered a miniscule increase of 0.1 percent as compared to 2005. The likelihood of interest rate hikes with a view to curtail spending and thus cool a rapidly expanding economy could see a sharp fall in demand from China. Sustained demand from the rapidly growing Chinese economic has been one of the pivotal factors for the sharp rally seen in copper futures over the past couple of years.
- **Increasing mine production:** The International Copper Study Group estimated world production of refined copper at 18.07 Million Tonnes in 2007, an increase of approximately 740,000 Tones or 4.3 percent compared to 2006. Most of the growth in production is expected to come from Africa and the United States. Meanwhile, usage of copper worldwide is estimated to grow by 3.6 percent to 18.43 Million Tonnes in 2008. Hence a surplus scenario is being forecast.



(Source: International Copper Study Group).

Comm-trendz Risk Management Services Pvt Ltd is an independent research firm dedicated to the commodity futures and foreign exchange markets. For more information, contact us at +91 - 22 - 2682 3028 or [info@comm-trendz.com](mailto:info@comm-trendz.com)

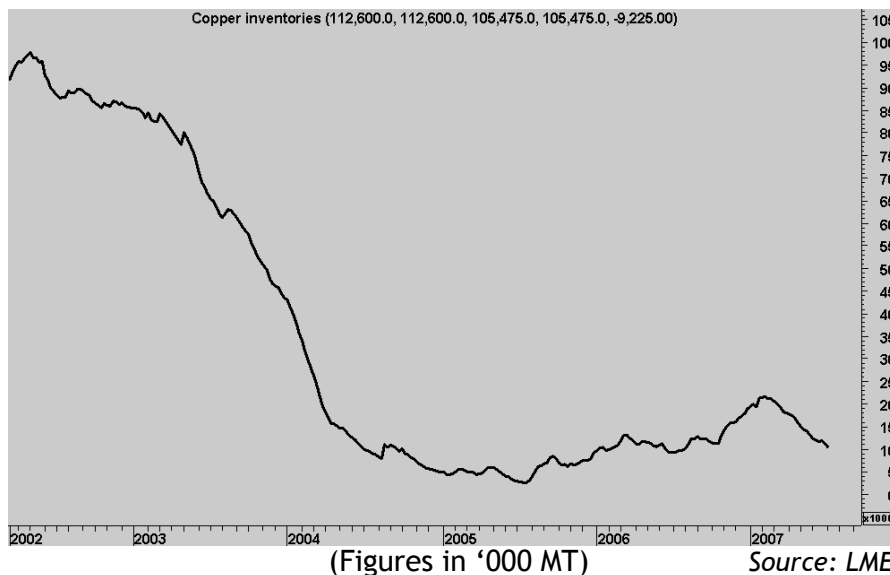
**DISCLAIMER:** Neither Comm-trendz nor any of its employees accepts any liability whatsoever, for any loss arising from the use of this report or contents thereof. As a prudent risk management strategy, please adhere to the stop loss levels mentioned in this report. This report is meant for the exclusive use of its intended recipient(s). This report may not be redistributed or reproduced, in part or full, unless authorized in writing by Comm-trendz.



# CommTrendz Research

Following are some factors, which are likely to be favorable for a rally in prices:

- **Threat of disruption in production due to labor unrest:** Copper mines have been faced with increasing labor unrest, with several shutdowns being reported from various parts of the world owing to labor problems. Workers at Codelco mines in Chile have been on strike since June 25. The possibility of a strike at Dona Ines de Collahuasi, Chile's third largest mine looms on the horizon. A strike at Codelco mines in Chile began on June 25, though it is thought there has been a minimal impact on production owing to the strike. The possibility of a strike at Dona Ines de Collahuasi, the third largest mine in Chile looms on the horizon. The Chilean Copper Commission estimates the Mine is likely to produce 433000 tons of copper or approximately 2.6 percent of global supplies. Workers at Grupo Mexico SAB the world's seventh largest producer of copper have gone on strike on July 5<sup>th</sup>. It is estimated about 110,000 miners in Peru could strike work for two days starting July 10 to protest efforts aimed at restricting creation of new unions.
- **Falling warehouse inventories:** The latest inventories report release showed Copper inventories in warehouses of the LME fell to 105475 metric tons. Warehouse inventories have fallen 42 percent from the beginning of 2007, it is not likely to be too long before alarm bells start sounding on this front.



- **Possibility of a recovery in the US markets:** Though the US market is thought to be in a recession at present, the monetary policy adopted by the Federal Reserve indicates the possibility of a recovery in growth. Though it was widely speculated, a cut in interest rates from the Fed hasn't materialized. The policy statement from the latest meeting has dropped the word "elevated" which was used to describe core inflation. Though the US housing market has seen a slowdown of approximately 21% year to date in 2007, presently it looks unlikely that the problems in the Housing sector will spread to other pockets of

CommTrendz Risk Management Services Pvt Ltd is an independent research firm dedicated to the commodity futures and foreign exchange markets. For more information, contact us at +91 - 22 - 2682 3028 or [info@commtrendz.com](mailto:info@commtrendz.com)

**DISCLAIMER:** Neither CommTrendz nor any of its employees accepts any liability whatsoever, for any loss arising from the use of this report or contents thereof. As a prudent risk management strategy, please adhere to the stop loss levels mentioned in this report. This report is meant for the exclusive use of its intended recipient(s). This report may not be redistributed or reproduced, in part or full, unless authorized in writing by CommTrendz.



# CommTrendz Research

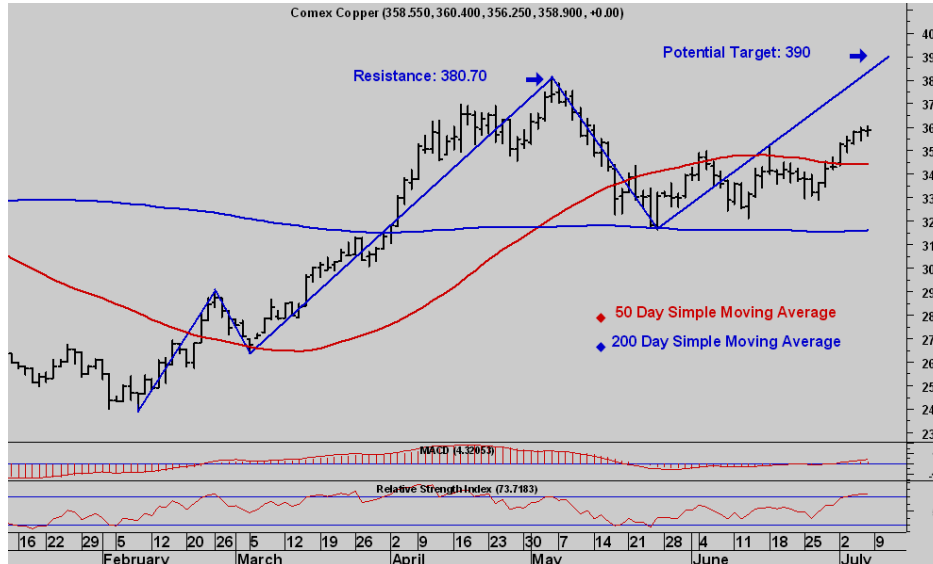
the economy. A slowdown in the US housing market continues to be another source of concern.

- **Power disruptions in South America:** Several countries in South America are presently grappling with a deficit in power supply. The situation in Argentina has come to such a stage where the government has had to impose upto 8 hours of power cuts. The possibility of a hike in the pricing for power could translate into higher pricing for copper. The inelastic demand for copper to be used in the field of power generation and transmission is likely to be a major factor supportive of a rally in prices.

Given the above factors, the market seems to be doing a tight ropewalk at the moment. With concerns of falling demand capping gains and the threat of disruption in production underpinning prices, the market is awaiting an infusion of fresh leads to decisively drive prices.

## TECHNICAL OUTLOOK ON COMEX COPPER FUTURES:

After analyzing the present structures using Elliot Wave Analysis, a 5-wave impulse has begun at 240.15. Presently, we could be in Wave 5 of the impulse, which has been confirmed on a move above the resistance at 352. A potential target is set at its move could see prices testing 390 or even 400, though resistance is likely to be seen at 380.70. Present structures suggest the potential for an extension towards 435.

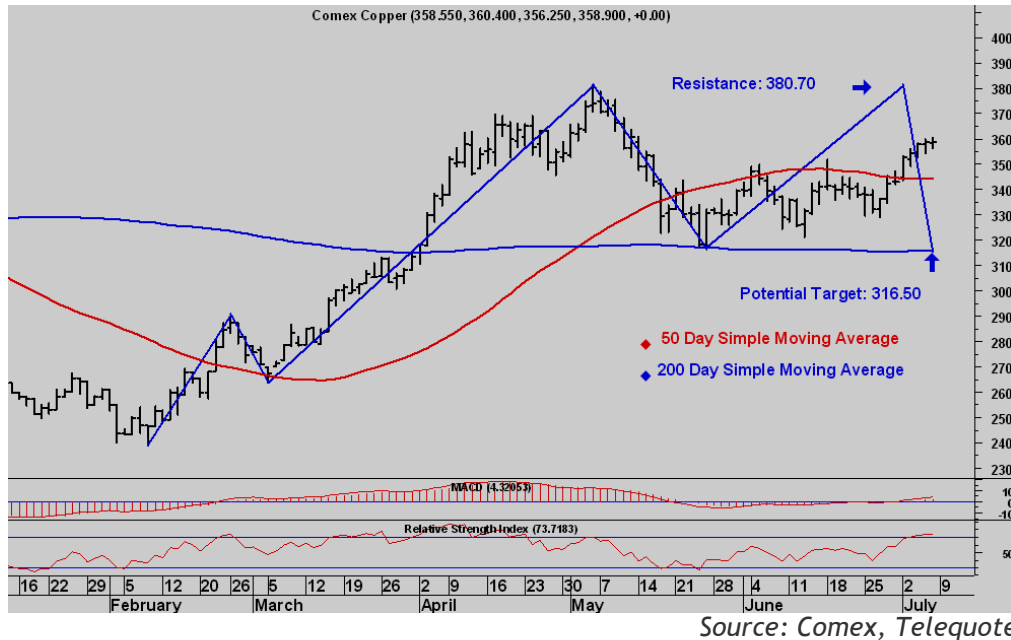


Source: Comex, Telequote

**Alternative Scenario:** An alternative scenario that could evolve in case resistance at 380.7 caps the upside, is prices could retest the recent lows at 316.50.

CommTrendz Risk Management Services Pvt Ltd is an independent research firm dedicated to the commodity futures and foreign exchange markets. For more information, contact us at +91 - 22 - 2682 3028 or [info@commtrendz.com](mailto:info@commtrendz.com)

**DISCLAIMER:** Neither CommTrendz nor any of its employees accepts any liability whatsoever, for any loss arising from the use of this report or contents thereof. As a prudent risk management strategy, please adhere to the stop loss levels mentioned in this report. This report is meant for the exclusive use of its intended recipient(s). This report may not be redistributed or reproduced, in part or full, unless authorized in writing by CommTrendz.



The moving averages in the MACD are below the zero line in the indicator suggesting bearishness. Only a crossover above the zero line will indicate bullishness. RSI is in the neutral conditions indicating prices are neither overbought nor oversold.

## PRICE OUTLOOK

Comex Copper futures have bounced after testing the 200-day simple moving average. Though the indicators in overbought conditions indicate the possibility of a dip, **the favored view at present is to expect prices to move higher towards 390 or 400 on a move above the resistance at 380.70. The present move has the potential for an extension towards 435.** Following are some factors, which are likely to be supportive of a rally in prices:

- a. Disruption in production owing to labor unrest.
- b. Falling warehouse inventory levels.

However, there are a few factors, which could potentially stall the rally in prices. A couple of the most important ones are as follows:

- a. A hike in interest rates in China, the world's top consumer of the metal, which could see a drop in demand for commodities.
- b. The US economy failing to sustain the early signs of a recovery in economic growth and falling into a deeper recession.

CommTrendz Risk Management Services Pvt Ltd is an independent research firm dedicated to the commodity futures and foreign exchange markets. For more information, contact us at +91 - 22 - 2682 3028 or [info@commtrendz.com](mailto:info@commtrendz.com)

**DISCLAIMER:** Neither CommTrendz nor any of its employees accepts any liability whatsoever, for any loss arising from the use of this report or contents thereof. As a prudent risk management strategy, please adhere to the stop loss levels mentioned in this report. This report is meant for the exclusive use of its intended recipient(s). This report may not be redistributed or reproduced, in part or full, unless authorized in writing by CommTrendz.



# CommTrendz Research

---

## **CONCLUSION:**

Copper futures have seen a rally after a correction seen during the middle of the second quarter of 2007. Presently the market seems to be focusing on a deficit in supplies owing to labor disruptions at several mines in South America coupled with falling warehouse inventory levels. Hence dips are likely to see sustained buying interest in the short term, however the longer term direction of prices hinges on the economic performance of two the world's largest economies and the top consumers of the metal: China and the USA.

---

CommTrendz Risk Management Services Pvt Ltd is an independent research firm dedicated to the commodity futures and foreign exchange markets. For more information, contact us at +91 - 22 - 2682 3028 or [info@commtrendz.com](mailto:info@commtrendz.com)

**DISCLAIMER:** Neither CommTrendz nor any of its employees accepts any liability whatsoever, for any loss arising from the use of this report or contents thereof. As a prudent risk management strategy, please adhere to the stop loss levels mentioned in this report. This report is meant for the exclusive use of its intended recipient(s). This report may not be redistributed or reproduced, in part or full, unless authorized in writing by CommTrendz.