

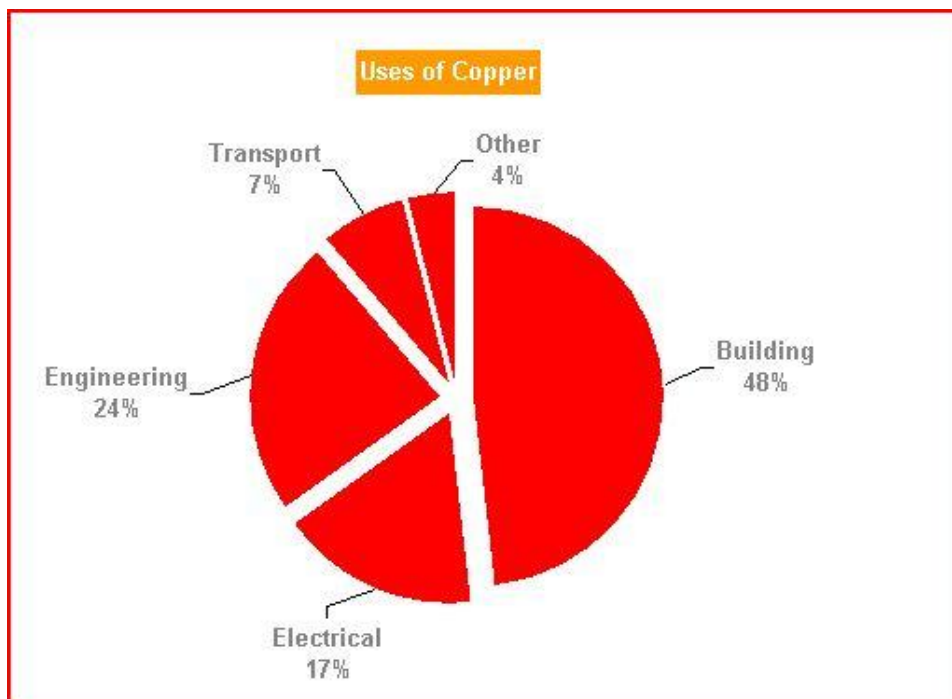
Where would we be without copper?

Copper was the first mineral that man extracted from the earth and along with tin gave rise to the Bronze Age. As the ages and technology progressed the uses for copper increased. With the increased demand, exploration for the metal was extended throughout the world laying down the foundations for the industry as we know it today. Copper is an excellent conductor of electricity, as such one of its main industrial usage is for the production of cable, wire and electrical products for both the electrical and building industries. The construction industry also accounts for copper's second largest usage in such areas as pipes for plumbing, heating and ventilating as well as building wire and sheet metal facings.

Well in theory probably still in the Stone Age, as we would not have had the Bronze Age yet. Copper was the first mineral man extracted from the earth to make utensils, weapons and tools and since the early days it has become invaluable.

Applications

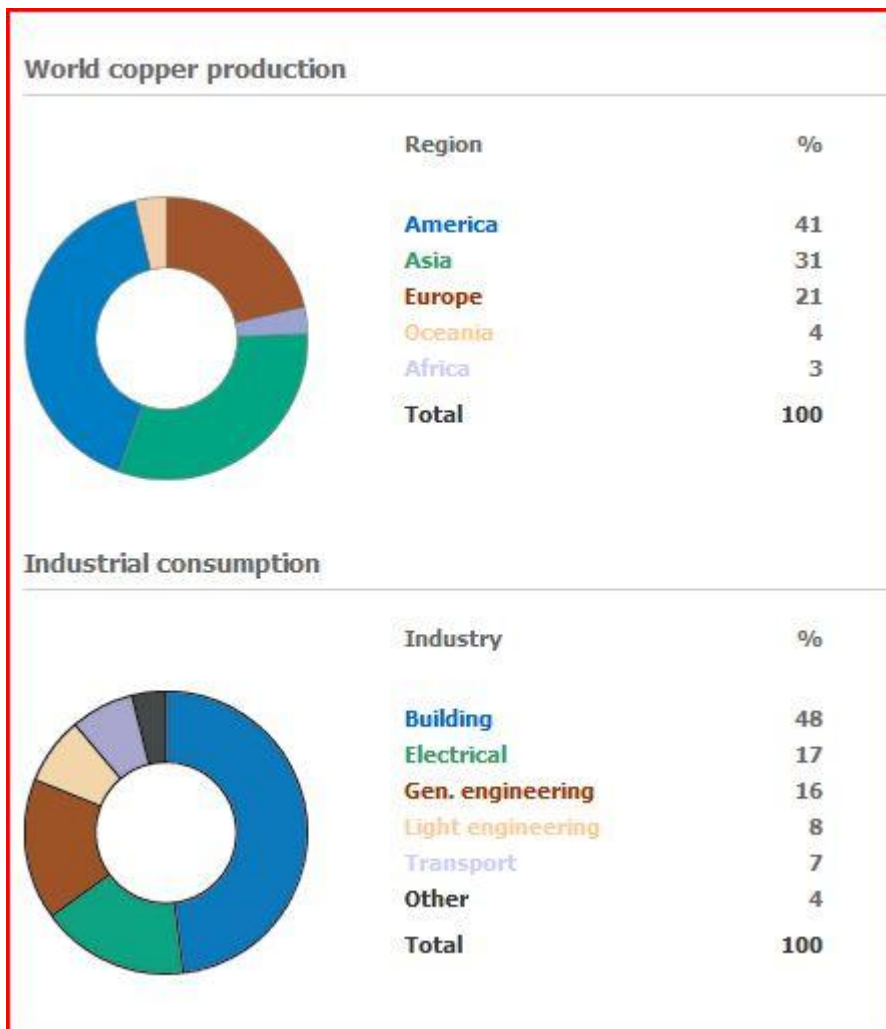
Copper has a wide range of attributes which is why it has so many applications today. It was found to be a very efficient conductor of electricity and heat as well as being flexible, strong, durable and resistant to corrosion. As such it has been key to many of man's technological advances, the two biggest being telegraphic communications and electricity. But it is also widely used for heating, air conditioning, plumbing, roofing, brass fittings and for so much of the electrical environment we now take for granted: TV, radio, lighting, computers, mobile phones etc all require copper wiring, electrical leads, adapters, transformers and motors. Various copper compounds and chemicals are also used to protect plants and crops and to preserve wood. The breakdown of copper by use is as follows



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Demand

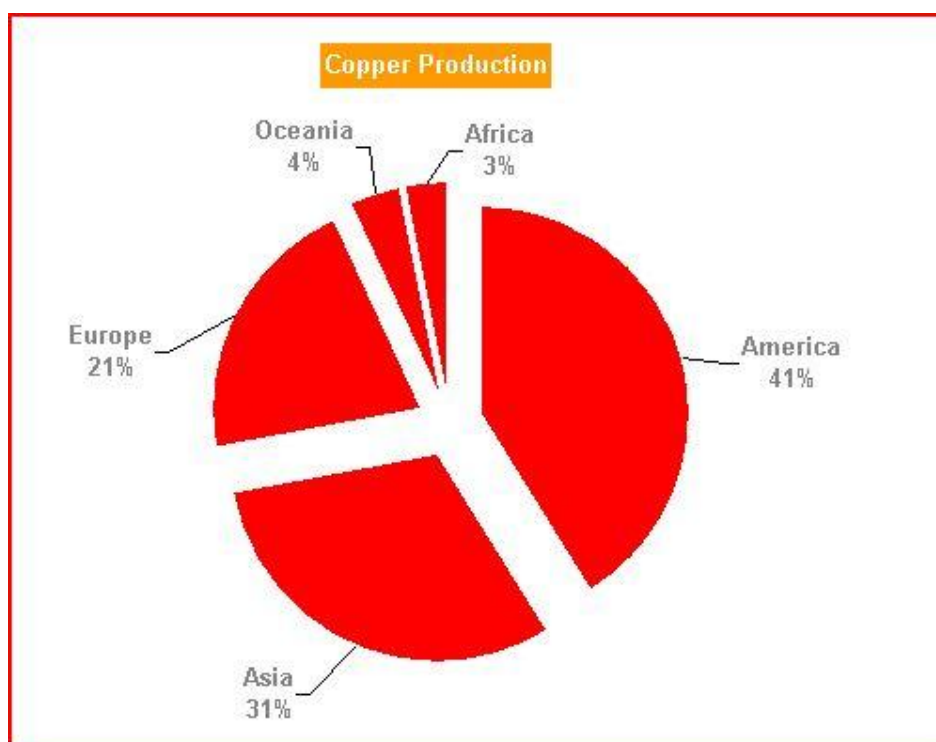
Between 1900 and 2000, copper demand grew from 500,000 tonnes to around 13,000,000 tonnes, with growth accelerating since the 1950's. With some many widespread uses it is not surprising copper demand keeps growing and now with China, India and many other developing countries starting to industrialise and urbanise, demand is likely to grow from strength to strength. Per capita demand for copper rises as GDP per capita rises. Japan consumes around 12kg per capita, North America consumers around 10kg per capita and Europe around 9kg per capita. The large populations of China, India, Eastern Europe and South America are all consuming less than 2kg per capita - this is a huge indicator of what lies ahead for copper demand.



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Supply

Copper is not a particularly rare metal and it is produced in many countries, Chart 2 shows the geographical distribution of primary supply. Today copper supply is made up from two sources, the majority, 88%, comes from primary production, that new copper that is mined from the ground, but of growing importance is secondary supply which accounts for 12% of total refined copper supply. Secondary supply comes from recycling copper scrap.



Primary supply involves mining copper ores, which generally come in two forms, copper sulphides or copper oxides. Depending on the type of ore mined, the ore is processed by one of two methods. Copper sulphide ore is first concentrated then smelted and then refined; each of these stages is a separate process and can be carried out at a different location. Whereas copper oxide ore is crushed and the copper is then extracted from the crushed ore by dissolving the copper in acid and the collecting the copper from the acid via electrolysis. This process is called Solvent extraction-electro winning, SXEW for short. SXEW accounts for some 15% of primary copper production.

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Factors affecting copper prices

The wide production base means there are numerous factors that can affect production and therefore prices. In North and South America, production is often affected by labour unrest, in parts of Asia and Africa production can be affected by political unrest; take for example the closures of the Bougainville mine in Papua New Guinea and the decimation of production in Zambia. In addition, weather is an important factor affecting supply, with floods and droughts either hitting the production process or the transport of raw materials. New production also takes years to commission as the scale of mining is large; it takes enormous financing, requires endless environmental permissions and needs extensive infrastructure as well. All these factors make it hard for the market to balance supply and demand.

With such a large and diverse market it is little surprise that copper's fundamentals are continuously changing and as they do, so does the price. The copper prices changes constantly as the market attempts to balance supply and demand at any given time. These price fluctuations generate risk and opportunity to different participants in the market and the metal exchanges around the world provide the means for all those involved with the market to either hedge their risk or take on risk as an investor/speculator.

China Copper Imports May Be Hurt by Credit Crunch

- Copper imports by China, the world's biggest consumer, may be hampered by the global credit crunch in the next few months
- Volatile money-market rates have made it harder for traders to obtain letters of credit or to convert them into cash, disrupting payments and possibly hurting trade flows.
- The recovery of China's demand after the Olympics has been slower than expected and that may help push down copper prices which have already plunged 25 percent this month on the London Metal Exchange.
- The credit crisis has spurred concern growth could slow further, curbing raw-material demand.
- The financial turmoil has tightened bank loans that most traders rely on for finance" and has spurred lenders to look more closely at counterparty risk.
- If this continues to be an issue, much copper shipped will be affected due to all this factors. China imports of copper and copper alloys rebounded 46 percent to 132,978 metric tons in September.

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MONEY MARKET VOLATILITY

Trading companies in China receive a letter of credit from banks for imports when they buy metal overseas, and pay back the funds after they sell their imports usually within 90 days. Letters of credit have become a big issue as Libor fluctuates. It's getting tougher and tougher to sustain the level of imports for the month in china due to the credit problems that china is facing.

Weekly charts of copper international chart



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Weekly chart of copper (MCX)



Conclusion

"Short term, this will have an impact on sentiment. Investors have been concerned about Chinese growth and we might see some price movement downwards. From a fundamental perspective, this won't make much difference and the growth story remains in place, underpinning metals prices. Due to weakening demand in China which is the good consumer of copper, it has been found that many companies producing copper (raw material to finish goods) in India, China, and Chile have planned to cut down the production. Shanghai copper prices edged lower, under pressure after China raised interest rates, sparking fears that demand from the world's largest copper consumer could ease. Thus the prices that we find for copper in MCX are between 270 to 205.

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