

Sujet: Le marché des métaux de base reprend... Hors de la Chine / Metals market pick-up... Outside China

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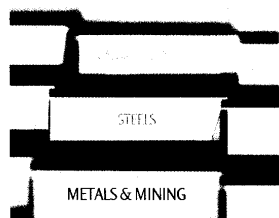
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Research



Metals & Mining Weekly

New life in the Old West—metal markets outside China 'pick up'

- Western world metal markets improving—higher premiums, improved semi-fabricated markets, scrap supply remains tight
- Stainless steel production in the western world up 54.3% yoy in 1Q10
- Metal prices and base metal equities perform in line in 2010

Signs of improvement in western world metal markets

Despite volcanic ash and high-level fraud cases, there are a growing number of indications that metal markets are improving in the western world. Investors who have so far avoided the base metal sector "because everything depends on China" should be encouraged to build positions. We note that the US, western Europe, Japan and Southeast Asia (excluding China) account for roughly 50% of metal demand. Several factors point to increased western world demand.

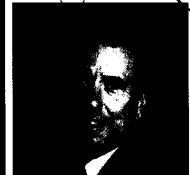
Premiums on the rise. Premiums charged over and above the LME price for delivery into certain regions are on the rise for virtually all metals. When consumers are prepared to pay an increased amount above the LME price, this is usually a sign of rising demand. Premiums for copper delivered into northwest Europe currently stand at US\$80/tonne compared with US\$70/tonne in 4Q09 and US\$50/tonne in 1Q09. In the US, copper premiums have moved up in the last month to US\$0.045/lb from US\$0.040/lb. For aluminium, the premium charged for metal delivered into the US midwest currently stands at US\$0.065/lb compared with US\$0.058/lb in February 2010 and US\$0.055/lb in March 2010. In Europe, aluminium premiums have risen to US\$75/tonne from US\$65/tonne at the beginning of 2010.

Improved markets for major end users. Several end-use markets for the base metals have strengthened significantly in 2010. According to the Japan Copper and Brass Association, production of copper semi-manufactured products rose 55.2% yoy in January. As shown in Exhibits 1a–b, prices for aluminium sheet products (which account for roughly 40% of aluminium end use) are on the rise in all major western world markets. Many would suggest that aluminium has lagged the other metals in terms of a 'pick-up' in demand this cycle. Consequently, any indication that demand in the major markets for aluminium products is improving is positive news for the other metals.

Please see disclosure section on pages 12–13 for company specific disclosures, analyst certification and legal disclaimers.



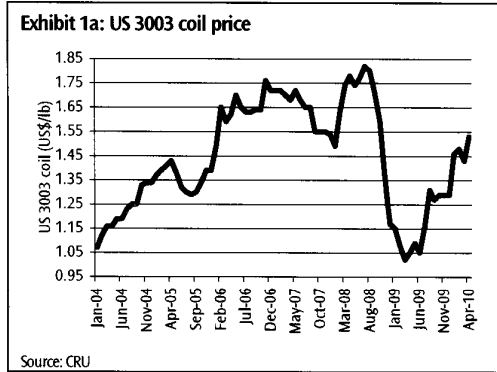
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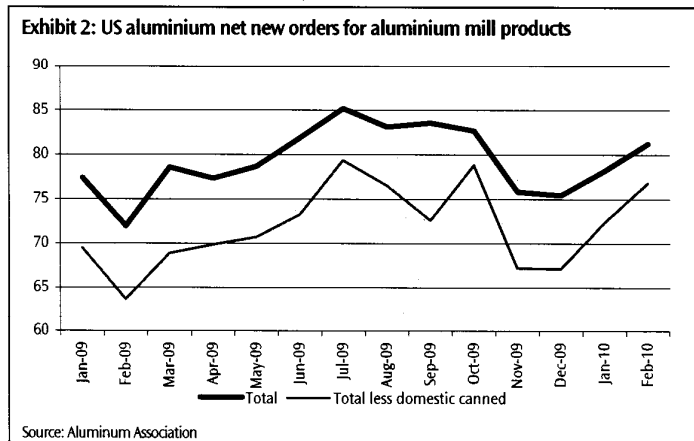
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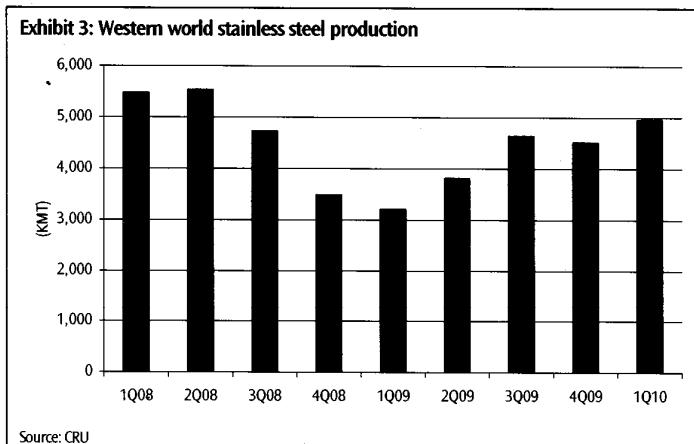
Furthermore, order and shipment levels for aluminium semi-fabricated products have risen throughout the western world. According to the Aluminum Association, orders in the US rose sharply in February 2010—see Exhibit 2.



In Europe, the CRU/Markit order book index of aluminium-intensive goods has been rising since early 2009 (when it dipped below 30); it now stands at 55.1. In Japan, shipments of flat-rolled aluminium products rose 55% yoy in February, and shipments of extruded products rose 32% yoy in the same period. Lead times for aluminium products are now in the order of several months—as opposed to several weeks in 1H09.

Roughly 55% of zinc is consumed by the galvanized steel sector. In the US, prices for galvanized sheets have risen to over US\$850/tonne at present from below US\$600/tonne in 1H09. In Europe, during 1Q10, prices for hot-dip galvanized sheets rose 8% in northern Europe to US\$879/tonne and 10% in southern Europe to US\$781/tonne.

Approximately 70% of nickel is consumed in the production of stainless steel. According to CRU, production of stainless steel in the western world rose 54.3% yoy in 1Q10—see Exhibit 3.



Auto industry provides support. The auto industry is a major consumer of base metals (eg auto production accounts for roughly 20% of aluminium end use). In the US, automotive sales increased 6.4% yoy in January and 13.1% yoy in February. In Germany, car production increased 49% yoy in February to 443,200 units. In Japan, auto production increased 33% yoy in January to 657,000 units.

Scrap supply remains tight. A shortage of secondary materials is usually a sign of an overall 'tight' market. The discount for copper contained in scrap in the US has fallen to roughly US\$0.029/lb from US\$0.045/lb in 4Q09. Similarly, the discount in Europe is currently US\$0.17/lb compared with US\$0.25/lb in 4Q09. For aluminium, scrap prices continue to rise. The price for segregated alloy scrap in the US has moved up to US\$1.00/lb at present from US\$0.79/lb in September 2009. In Europe, wire and cable scrap prices have moved up to EUR1,580/tonne at present from EUR1,320/tonne in October 2009.

Although western world metal markets are by no means 'out of the woods', encouraging signs suggest that recovery is on the way, which can only strengthen the overall base metal markets. We continue to recommend that investors remain overweight in the base metal sector—this is no longer 'just a China story'.

Year-to-date base metal equity prices vs related commodities—recent uptrend in commodity prices outperform related base metal equities

The relative performance of base metal equity prices vs underlying commodity prices has returned to a 'stalemate' on a year-to-date basis. As noted in Exhibit 4, the trend in the price of base metal equities outperformed underlying commodity prices for the majority of 2010. This is reflected in the line residing above 0% in Exhibit 4. This relative outperformance no longer exists as of last week when the year-to-date movements were essentially equal. We use the Mines & Metals sub-index on the TSX to measure movements in base metal equities and refer to the LME composite pricing index for changes in base metal prices.

In terms of percentage move, we note that the year-to-date change in equity prices is the same as the year-to-date change in underlying commodity prices. This compares with a peak outperformance by commodity prices of 9% during mid-January. In other words, since mid-January, metal prices have been outperforming relative to equities of metal producers.

Last week the TSX Mines & Metals sub-index decreased 4% to 1114, including a slide of 2% on Friday (April 16) following the fraud charge against Goldman Sachs by the US Securities & Exchange Commission (SEC). Last week the LME remained unchanged vs the week's opening level of 3689.