

Fortis metals monthly

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Gold, silver, platinum,
palladium, aluminium, copper,
nickel, lead & zinc, tin, plastics.

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Metals and plastics – Strategic view

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Introduction

From starting the year badly base metals enjoyed a better-than-expected January, although the jury was still out on the current trend. News that China's economy grew 10.7% in 2006 – the fastest pace in more than a decade – reinvigorated the market, as did confirmation that the USA economy registered 3.4% growth in 2006, against 3.2% in 2005.

Gold

IMF – will it at last sell some gold? Unchanged USA interest rates spark fresh investment interest.

Silver

Lack of fundamental news helps keep silver's next direction guessing.

Platinum

Diesel-engine growth will be crucial, long term.

Palladium

Investors flock back but *caveat emptor*.

Aluminium

Alumina prices recover lost ground but Rusal reckons 2007 will be boring.

Copper

China: probable return to buying on low stock levels.

Nickel

Sudbury strike averted but doubts linger over New Caledonian output.

Lead & Zinc

Zinc collapses on supply-side optimism. Lead holds up despite fundamental bleakness.

Tin

Indonesia tightens the screw, prices likely to remain high.

Plastics

LME re-launch, with regional contracts – will it work? Dubai to launch its own plastics' contracts.

Forecasts

Price forecasts

		End-January	1-month	2-month	3-month	12-month
Gold	\$ per oz	650.50	610-680	600	650	650
Silver	\$ per oz	13.36	12-14	14	14	13
Platinum	\$ per oz	1,169	1,100-1,300	1,200	1,200	1,300
Palladium	\$ per oz	331	320-365	340	380	300
Aluminium (3-month)	\$ per tonne	2,730	2,600-2,900	2,500	2,700	2,700
Copper (3-month)	\$ per tonne	5,690.50	5,000-5,600	6,000	6,500	5,800
Nickel (3-month)	\$ per tonne	36,355	35,000-40,000	40,000	40,000	30,000
Lead (3-month)	\$ per tonne	1,695	1,600-1,700	1,500	1,400	1,200
Zinc (3-month)	\$ per tonne	3,450	2,900-3,300	3,300	3,000	3,000
Tin (3-month)	\$ per tonne	12,200	11,800-12,500	11,000-12,200	11,000-12,000	11,500
Plastic: LL (September)	\$ per tonne	1,095	1,000-1,100	1,000	1,000	1,000
Plastic: PP (September)	\$ per tonne	1,150	1,000-1,200	1,100	1,100	1,000
		2-years	3-years	4-years	5-years	6-years
Gold	\$ per oz	550	490	450	450	400
Silver	c per oz	11	10	10	10	9
Platinum	\$ per oz	1,300	1,200	1,000	900	900
Palladium	\$ per oz	280	280	250	230	230
Aluminium (3-month)	\$ per tonne	2,000	2,000	2,000	1,900	1,900
Copper (3-month)	\$ per tonne	5,000	5,000	4,000	4,000	3,500
Nickel (3-month)	\$ per tonne	25,000	20,000	15,000	14,000	13,000
Lead (3-month)	\$ per tonne	1,000	900	900	800	800
Zinc (3-month)	\$ per tonne	2,800	2,000	2,000	2,000	2,000
Tin (3-month)	\$ per tonne	10,000	9,000	9,000	8,000	8,000
Plastic: LL (September)	\$ per tonne	1,000	1,000	1,000	1,000	1,000
Plastic: PP (September)	\$ per tonne	1,100	1,100	1,100	1,100	1,100

Source: Virtual Metals

Analysis

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Bolivia's uncertain future

Foreign mining companies in some parts of Latin America face an uncertain future. Nowhere is this more obviously true than in Bolivia, where the whirligig pronouncements of left-wing President Evo Morales took on a more menacing tone in January. Morales' bark is perhaps worse than his bite, but it is difficult to sort the rhetoric from the reality. Now in office for a year, he is looking to repeat in the mining sector the tighter state control he enforced over the energy sector by nationalising it in January 2006. Nationalising the energy sector – Bolivia has the second biggest natural gas reserves in Latin America – caused Morales problems with his neighbours and the move was greeted with horror by the country's business community. Morales has obviously learnt from that searing experience, for he has stepped back from his early promise also to nationalise the country's mining sector. Instead he plans a slightly more subtle back-door expropriation of foreign mining assets. Thus his first annual address to the Bolivian Congress, on 22nd January, saw him deliver a 4½ hour speech during which he announced he was presenting legislation that would “modify” the country's Complementary Mining Tax (CMT). Details were initially scanty but the local Bolivian daily newspaper *La Razón*, a centrist and independent newspaper, reported on 26th January that it had obtained details of what Morales has in mind. If correct, they will give some foreign mining companies based in Bolivia pause for thought.

Partners or masters?

According to *La Razón* the revised CMT will raise taxes on metals' mining on a sliding scale that ratchets up the tax level in line with any rises in the internationally quoted prices for the metals concerned. Thus in the case of the current silver price, while today's tax level is 6% it would be increased to 11.15%, an almost 86% rise in the rate. For tin the current tax rate of 5% would rise to 12.4%, a 148% rise. For gold, the tax rate would rise from the current 6.5% to 12.9%, a 98% rise in the tax rate. *La Razón* calculated that the rise in the rate of tax on copper could be as much as 855%. The underlying justification for the proposed CMT increases were given by Bolivia's deputy Mining Minister, Luis Alberto Echazú, who suggested the state has not been receiving a fair share of mining profits. He said in January that while Bolivia's total mineral exports in 2006 were valued at \$1.066bn, the state received via the CMT just \$45m. Other sources put the value of such exports rather lower, at \$792m. The Morales administration seems determined therefore to squeeze the mining sector harder, rather than try to take it into direct state ownership. In the words of Morales at a meeting of Mercosur, the Latin American trading bloc, in Rio de Janeiro on 19th January: “We are discussing some deep reforms that will allow investors to recover their investments but they are also going to have to make an economic contribution to the state. I've said it before, we need partners not masters.” To this extent, Morales is sticking to undertakings he made on the occasion in 2006, when he gave a number of different foreign-based mining company executives to understand that they need not fear outright nationalisation.

Muddy waters

Foreign-based mining companies that will see their profitability hit by any increase in Bolivia's CMT rates have been noticeably silent in the days succeeding Morales' Congressional speech, no doubt digesting the implications for their multi-million planned investments. The USA silver miners Apex Silver and Coeur d'Alene Mines are among those that have big plans for expanded Bolivian projects. Bolivia's independent mine-workers, grouped in the Bolivian Confederation of Mining Cooperatives, has already said it “vehemently opposes” the proposed tax rate hikes, fearful that it will see the country's already dilapidated mining sector suffer further from intensified reluctance on the part of foreign investors. The state-run COMIBOL mining corporation will no doubt back the tax rises. Last October the country's biggest tin deposit briefly ceased

operation as a result of clashes between independent miners and those affiliated to COMIBOL. On 8th February it seemed that Morales had done a deal with Bolivia's independent miners, under which it looks like the proposed tax increases on minerals will be introduced gradually, thus giving the miners some measure of protection from a possible shrinking of their take from the mineral sector. However, trust is a rare commodity in today's Bolivian political environment and this truce may break down. We may see more ructions between the state and independent miners later this year.

Focus

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Nickel: we have been here before

"The continuing crisis in the nickel market, which has brought prices to record levels and sent nickel consumers scrambling for cover, again has called into question the use of the London Metal Exchange as a market barometer and led to new calls for fixed producer prices to replace LME-based contracts." From: American Metal Market 16th March 1988.

Nickel first began trading on the LME on 23rd April 1979. Since then fresh "records", at least in nominal terms, have come and gone, invariably accompanied by the usual round of finger-wagging at "speculative" money. January 2007 was no exception, as nickel became the first base metal to break into semi-precious status, the spot price touched the equivalent of \$1/oz. Ranjit Singh Kothari, managing director of the Indian metals importer Kothari Metals, told Dow Jones on 23rd January: "It's true that there is a very low level of inventories in LME warehouses, but there is no huge shortage of nickel as being projected... [the nickel market] is reacting on panic and out of haste. Speculative funds are taking control." The example of what has happened to copper recently should have laid this *canard* to rest; as soon as global exchange stocks showed signs of being set on a rising trend, (some) investment money fled the scene. Nickel's soar-away strength in January owed everything to fundamental issues of supply and demand, which in turn were latched onto by investors. Zinc's collapse in late January and the start of February – down 25% since the start of the year – coincided with a widening bearish consensus that last year's shortage of concentrates might evaporate in 2007. The bigger question for nickel is – will its fundamental prospects alter much in the near future? We think this year could see considerable volatility as a plethora of confusing signals feed into the market.

Nickel price since 1979 (\$/tonne)



Source: Reuters Ecowin

New Caledonia – new supplies?

The tussle between supply and demand considerations is more tense with nickel right now than for any other base metal. While global demand for refined nickel is likely to grow in excess of 7% this year, several of the biggest nickel mining projects that were due to be coming on-stream in 2007 have been delayed. There are also the occasional unexpected supply-side disruptions, such as BHP Billiton's intention to shut its Kwinana nickel refinery in Western Australia for scheduled maintenance from March for three weeks. The refinery produces 65,000t-70,000t of nickel annually, making it the world's third-largest producer of refined nickel. BHP partially shut operations at its Mount Keith and Leinster nickel mines in Western Australia due to heavy rains. Between them, the two mines produce around 87,000t of nickel annually, or about 6% of world mine output. The market was also briefly spooked in January by the possibility of a strike at a key producer in Canada. The final straw for spot nickel prices to test

\$40,000/t in January came on the back of a stand-off between workers and management at Xstrata's Sudbury plant in Ontario. Sudbury accounts for about 4% of global nickel supply and its 1,000 unionised workers had been unhappy with what was on the table in the final stages of a new pay contract. The current contract was due to expire at midnight on 31st January, after which a strike would commence. As it turned out the management and workers struck a last-minute deal and the strike was averted. That eased fears that an already tight physical market might become tighter, but it only returns the scenario to an already tight status quo, in which low LME stocks (down to 3,222t by 2nd February, less than one day's average global consumption) and strong demand from the stainless sector have kept traders on tenterhooks.

Another, more serious, strike that was also hanging over the market was finally settled in January. A general strike on the island of New Caledonia which, since September 2006 had severely dented output at the Doniambo nickel smelter, operated by Société Le Nickel (SLN), drew to an uneasy end. This strike, called by New Caledonia's Workers Confederation union (CSTNC), had started out with the demand that the local government in the French-administered territory should resign, and that another miner, (originally Inco but now majority owned by Brazil's Companhia Vale do Rio Doce or CVRD, since it acquired Inco last year), which is developing a mine and smelting complex on the island, send its Filipino sub-contracted workers home. About 2,000 Filipino contract workers are due to arrive to complete the project, to join the 1,600-strong workforce already in place, 1,400 of those from the local population. SLN, which is 60% owned by the French company Eramet, was forced in November to temporarily lay off about 100 workers at two of its local nickel mines due to the strike. Production at the Doniambo smelter, the sole nickel smelter on the island, was cut by about one-third due to a lack of ore, resulting in about 20,000t of refined nickel being lost, on an annualised basis. There are plans for another nickel smelter to start up operations by the end of 2008; this would be a joint venture between South Korea's Posco and New Caledonia's Société Minière du Sud Pacifique (SMSP).

New Caledonia is especially critical for new nickel supply as the island possesses about a quarter of the world's nickel ore. One of the biggest projects in New Caledonia, Goro, owned by CVRD and managed by CVRD Inco, might still come into production by late 2007, building up to annual output of 60,000t of metal. This project has been dogged by (occasionally violent) protests led by an indigenous Kanak environmental group that calls itself Rheebeu Nuu, which means "eye of the land" in the local Djubea language. Rheebeu Nuu, led by a New Caledonian entrepreneur called Raphael Mapou, alleges that the Goro nickel project is damaging to the environment; it filed a complaint with a Paris court last November, and the court ordered CVRD to stop clearing land at Kwe Ouest, a section of Goro that is set up as a storage residue facility. New Caledonia's provincial government allowed the company to continue work at Kwe Ouest so that it could secure the area for environmental reasons. On 2nd February this year, the Paris Court of Appeal overturned that ruling, thus granting CVRD Inco the right to continue working on the Goro project. While the Kanak population accounts for less than 50% of New Caledonia's 220,000 population, it exercises considerable political weight through its fractious and often internally divided umbrella political party, the Front de Libération Nationale Kanak Socialiste.

CVRD is planning to spend \$6.3bn on various projects this year, including its Onca Puma nickel mine in the northern state of Para, due to start producing nickel from Q4 2008 and aiming at 55,000t output in 2009, as well as its Vermelho nickel deposit, also in the Carajas region. This mine is due to produce 46,000t a year of nickel but CVRD is still seeking development licenses and as yet has no scheduled starting date. As for Goro, CVRD has said that it "is under review" while its CEO, Roger Agnelli, has said he is optimistic that it will go ahead, once the local community's fears about environmental damage had been

resolved. Rheebeu Nuu however, which although a minority voice is nonetheless able to mobilise raucous agitation, seems in no mood for compromise. The February Parisian legal ruling in favour of Goro is unlikely to placate Rheebeu Nuu, which has already threatened to step up its campaign against the project. It is entirely possible that CVRD may decide that it has enough on its plate without such a troublesome project as Goro, whose costs seemingly endlessly escalate (the latest update suggests \$3bn, 50% more than previous estimates) and which in any case now will only come on-stream at the earliest at the end of 2008, more than a year after originally planned.

The French authorities regard the Goro nickel project, together with a less troubled nickel mine development controlled by Xstrata, the Koniambo project, as crucial for the island's economic development. The dilemma for Rheebeu Nuu is that its interests in protecting the island's natural environment need to be balanced by a recognition that these new nickel mine projects are the only currently visible means by which the island's populace can face a more certain economic future. While Rheebeu Nuu makes a song and dance about its environmental concerns, it is quite feasible that if CVRD makes sufficient concessions on the vexed issue of royalty payments, then a deal can be struck, and Rheebeu Nuu effectively bought off. Whether CVRD is inclined to do that when it has a number of other equally large, expensive and less politically irritating nickel projects on the books, is another question.

Strong, but maybe vulnerable, demand

The primary end use for nickel is in stainless steel, which accounts for about two-thirds of all nickel consumption. A strong global aerospace market and increasing demand for (nickel-dependent) rechargeable batteries have also played their part, as has the intensified demand for petrol-electric hybrid autos, which use nickel-metal batteries. But the core explanation for the current high prices for nickel stem from the relentless (and largely unexpected) upsurge in stainless steel demand and production; demand for stainless steel, still the backbone for most cars, could grow by 7% this year, while production may not be much more than 5%. Stainless steel production is notoriously subject to vicious cyclical movements; production rocketed 21% in 2003-2004, leading inevitably to a glut in 2005, and as the traditional key producers in the western world cut back production, less price-sensitive Chinese stainless producers stepped in to capture new markets.

Inevitably, at such high nickel prices, stainless steel producers are making threatening noises about switching away from nickel-intensive high grade 300 stainless and into lower grades. For example, South Korea's Posco, the world's third-largest steel maker, which expects to produce 1.99 Mt of crude stainless steel in 2007, similar to the output of 2.01 Mt in 2006, said in January that it will "slash" its demand for nickel this year from last year's 73,000t, switching more output to 400-grade, which uses chrome and very little nickel. But nickel's main advantage for stainless steel producers is its unparalleled effectiveness as an anti-corrosive additive. Consumer resistance to lower grades of stainless steel are strong.

A different threat to sustained high nickel prices may come from China, now the dominant volume player in steel of all kinds, and the biggest consumer of nickel; it imported some 90,000t of refined nickel in 2006. Chinese stainless steel makers are likely to increase their output by 40% percent this year to about 7 Mt. Yet refined nickel imports by China may fall more than 10% in 2007 as it steps up production from low-grade nickel ores bought from the Philippines. Laterite ores, containing nickel and cobalt, are processed using blast furnaces into nickel pig iron, containing 1%-3% nickel that can be used by stainless steel-makers to produce domestic items where high-quality 300 grade stainless steel is not absolutely essential. The Philippines probably supplied China with some 4 Mt of such ores in 2006, against 265,000t in the whole of 2005. China's demand for primary nickel, which includes refined and ferronickel, will top 300,000t this

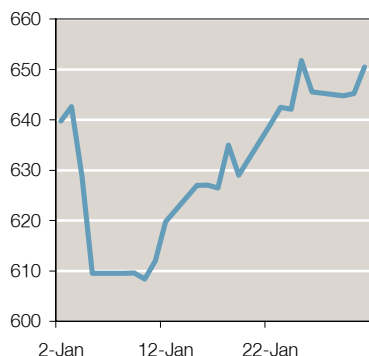
year, against 2006's 250,000 tons, but this increase in demand might be met by its own increased production of nickel pig iron, which currently costs China's stainless steel producers 60% of the LME's nickel spot price.

Nickel wedding bands?

Nickel might have achieved the status of a semi-precious base metal but the cyclical nature of stainless steel production in the past leads inescapably to the conclusion that this will not last. Yet with LME stocks down 90% from their level at the start of 2006 (and more than 20% lower than the start of this year) and stainless steel production growth perhaps reaching 8% this year measured against last, the siren voices warning of substantial shifts to lower grade stainless steel production should probably be ignored. Nickel is a small part of the cost of stainless steel and while stainless steel producers will shave costs wherever possible, even at these high prices we do not see sufficient volumes of lower grade stainless steel being churned out to make much of an impact. The International Nickel Study Group estimates that global refined nickel production will rise to 1.45 Mt this year, exactly matching consumption. This is by any standards a tight scenario and, even with China's rapidly expanding production of nickel pig iron, its massive infrastructural development, where low-grade stainless steel is inadequate, should keep demand for high-quality refined nickel firm. The real key to prices easing is greater mine supply, or a large and visible surfeit of stainless steel. We expect stainless steel producers to create a glut sooner than fresh nickel mines get up and running. Either way, 2007 should see significant supply-side news-driven volatility at historically high nominal prices.

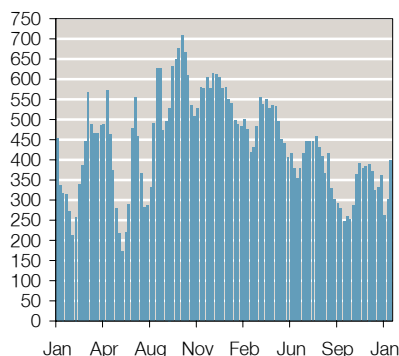
Gold

Gold price (\$/oz)



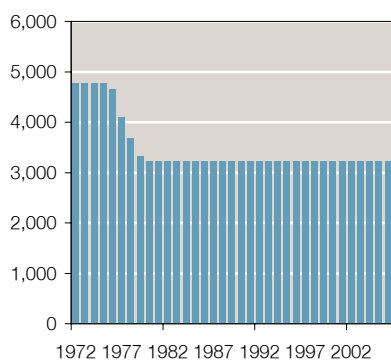
Source: London Bullion Market Association

Comex: Non-commercial net position (tonnes)



Source: Virtual Metals

IMF gold holdings (tonnes)



Source: IMF

News

- Jan 31st: Benchmark Asset Management in India said it would launch the country's first gold-backed ETF in February.
- Jan 26th: Russia's gold output fell 2.2% to 164.32t in 2006, according to the Gold Industrialists' Union.
- Jan 22nd: Emirates Gold, based in Dubai and the Middle East's biggest gold refiner, said production fell 18.3% to 170.5t in 2006 on lower demand for large bars and commemorative coins.
- Jan 17th: The chairman of Tocom, Masaaki Nangaku, said that if a gold ETF were to be launched in Japan it would draw significant investor interest. The Osaka Securities Exchange, the second-biggest Japanese exchange, denied reports in early January that it had plans to list a gold-backed ETF.
- Jan 16th: Freeport-McMoran, currently engaged in buying Phelps Dodge, reported Q4 profits of \$426m against \$463m for the same period of 2005, on lower copper output and gold production of 514,000 oz, vs. 1.12 Moz for the same quarter in 2005.

Analysis

- IMF gold in the spotlight

There was a flurry of interest in the IMF's gold holdings (3,217t). A committee of former and current central bank governors recommended selling 400t which would garner \$6.6bn at a price of \$500/oz and, suitably invested, would generate annual income of approximately \$195m, covering a projected shortfall of \$105m in the IMF's finances for the current fiscal year. The committee said any such sales should "not add to the announced volumes of sales from official sources", i.e. the European Gold Agreement which currently limits sales of 15 European central banks to 500t/year between 2004-2009. There are two interesting points to this, beyond the mere fact that at least some of the IMF's gold holdings – long under pressure from a variety of lobbying – are now indisputably up for sale. The first is the composition of the committee, which included Tito Mboweni (governor of the South African Reserve Bank); Alan Greenspan (former chairman of the USA's Federal Reserve); Jean-Claude Trichet (president of the ECB); and Zhou Xiaochuan (governor of the People's Bank of China). In different ways all these individuals have either in the past been staunch defenders of gold's reserve asset status or might be expected to still be so. The second is that China's central bank head also supported the sale idea, which implicitly undermines the oft-repeated claim that China is about to become a big purchaser of gold for its own reserves (a view we have always cast doubt on). It's still a long way before any IMF gold is sold; but the ball has started rolling, and, crucially, it's less likely this time that the USA will exercise its capacity for a veto against the sale for such a purpose.

Outlook

Gold shrugged off the fact that the IMF's "wise men" dealt another blow to its status as an official reserve asset and jewellers in the main physical markets are still groaning at prices above \$600/oz. Yet the price remains strong. London pm fix, short-term: \$610/oz-\$680/oz.

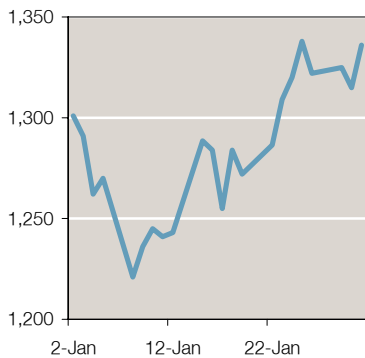
Market data (January unless stated)

Prices	US\$/oz	Euro/oz	Rand/kg	ETF investment	Ounces	Lease rates	1m	3m	6m	12m	Option volatility (end month, %)	
Average	629	485	144,835	US	118,959	Average	0.10	0.13	0.17	0.18	1-month	16.80
High	652	504	151,116	UK	19,968	High	0.11	0.14	0.19	0.22	3-month	17.00
Low	608	468	141,112	Aus	-	Low	0.09	0.11	0.14	0.13	6-month	17.15
				S.Africa	-						12-month	17.15

Source: Prices: London Bullion Market Association, Others: Virtual Metals

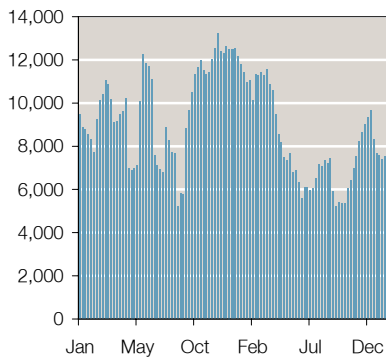
Silver

Silver price (cents/oz)



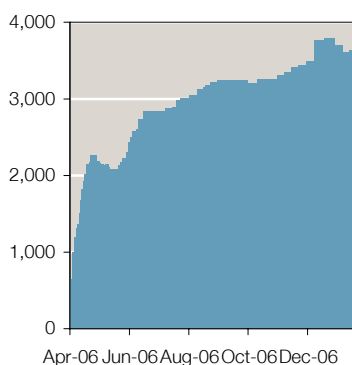
Source: London Bullion Market Association

Comex: Non-commercial net position (tonnes)



Source: Comex

Silver ETF offtake (tonnes)



Source: BGI website

News

- Feb 5th: The London Bullion Market Association said it had added China's Daye Nonferrous Metals Company to its good delivery list for silver, bringing the number of Chinese refiners on the list to 10. Daye is a wholly-owned state company.
- Jan 31st: Mexico's silver production in November 2006 was slightly more than 5.9 Moz, a 13% decline compared with the same month in 2005.
- Jan 26th: The world's fifth-largest silver miner, Russia's Polymetal, produced 17.3 Moz of the metal in 2006, a decline of 8.5% from 2005, including 4.3 Moz in Q4 2006. It expects 2007 to show a slight increase in silver production.
- Jan 23rd: Total COMEX silver investment was up by 658t, due to the addition of 448t and 225t of futures contracts by large and small spec investors respectively in the week ending 23rd Jan. Total ETF holdings by the same date were unchanged from the previous week at 658t.
- Jan 16th: The Peruvian company Hochschild Mining reported silver production rose 12% in 2H 2006 (compared with 1H 2006) to 6.1 Moz.

Analysis

- Solid \$12/oz floor

Goldcorp said it had received all necessary permits to go ahead with construction of its \$882m Penasquito gold-silver-zinc-lead project in Zacatecas, Mexico, several months ahead of schedule. The mine will become Mexico's largest gold mine and also has estimated reserves of 575 Moz of silver. Annual silver production is expected to be 22.8 Moz. Hochschild Mining's full-year production in 2006 amounted to 11.6 Moz of silver and 196,000 ounces of gold; while its silver output rose 12%, gold production fell 10%. The company said production was in line with expectations except for a slower ramp up at its processing plant. In 2005, the group produced 10.5 Moz of silver and 232,000 oz of gold.

The London Bullion Market Association reported that the number of silver ounces transferred in December 2006 were slightly lower against the previous month, falling from a daily average of 108.8 Moz to 107.7 Moz. Based on an average fixing of \$13.36/oz, 43 cents higher than November, value rose to a daily average of \$1.44bn, and the number of transfers rose 6.5% to a daily average of 406. Year-on-year, silver statistics were mixed; in 2006 the number of ounces transferred fell 18%, while value was 27.4% higher.

Outlook

Silver meandered between \$12.21/oz (its low, on 8th Jan) and \$13.38/oz (its high, on 25th Jan) on the London daily fix last month, with little news to inspire a strong trend in either direction. But this is a very different picture from the same time last year; the high in Jan 2006 was a full \$3.47/oz lower than this year, while the low in Jan 2006 was \$3.38/oz lower. London daily fix short-term: \$12/oz-\$14/oz.

Market data (January unless stated)

Prices	c/oz	e/oz	p/oz	Imports	kg	Lease rates	1m	3m	6m	12m	Option volatility (end month, %)	
Average	1279.7	985.5	653.5	USA (Nov)	414,954	Average	0.13	0.39	0.72	1.37	1-month	30.00
High	1338.0	1034.6	681.4	Japan (Nov)	510,033	High	0.20	0.46	0.85	1.60	3-month	31.50
Low	1221.0	937.9	630.2	China (Dec)	363,829	Low	0.07	0.31	0.66	1.21	6-month	32.00
											12-month	33.00

Source: Prices: London Bullion Market Association, Others: Virtual Metals

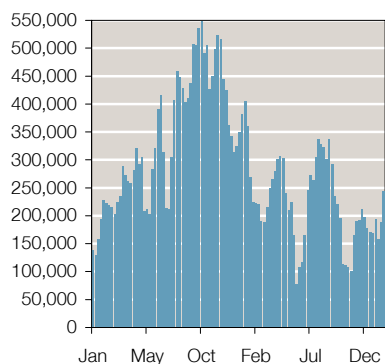
Platinum

Platinum price (\$/oz)



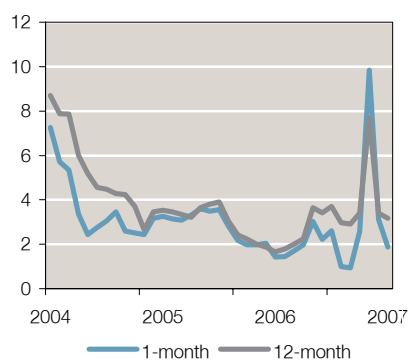
Source: London Platinum & Palladium Market

Nymex: Non-commercial net position (ounces)



Source: Nymex

Platinum lease rates



Source: Reuters Ecowin

News

- Jan 31st: Around 3,000 workers (out of a total workforce of 5,000) at South Africa’s Modikwa platinum mine were still on strike after a week. The mine is owned jointly by African Rainbow Minerals (ARM) and Anglo Platinum. Modikwa produced 293,313 oz of pgms during the financial year ended June 2006. ARM said output was continuing despite the strike.
- Jan 25th: Aquarius Platinum said production of pgms fell 2.4% in its Q2 due to lower output in Zimbabwe; attributable output was 136,928 oz to end-Dec 2006; production at its Mimosa mine in Zimbabwe, a joint venture with Impala Platinum fell 22% percent to 33,345 oz, half attributable to Aquarius.

Analysis

- Strong above \$1,000/oz

Lonmin, the world’s third biggest platinum producer, said it was still on track to deliver sales in 2007 of 980,000 oz to 1 Moz of platinum and announced a 10.9% rise in its Q1 output with 190,804 oz of platinum and 82,828 oz of palladium in a pgm total of 344,068 ounces, despite its number one furnace being shut for repairs from 18th December last year. Lonmin said in early January that it will spend around \$6.5m to rebuild the furnace and that work on this should be completed around 11th March. First-half platinum sales will thus be cut to around 300,000 oz-310,000 oz, up to 200,000 ounces fewer than normal.

Cold water was poured on the risk of greater substitution away from platinum and into palladium in diesel-engine autocatalysts by Roger Pitot, executive director of South Africa’s National Association of Automotive Component and Allied Manufacturers; South Africa produces about 15% of the world’s autocatalysts. He told the Miningmx website that: “People have been saying that [substitution of platinum with palladium] for a good two decades now and nothing has come of it. Every year you’ll hear of someone saying they’ve found a cheaper way to mop up these noxious gasses. But at the end of the day, platinum is still being used.” Diesel-engine vehicles are now in a position to conquer the USA market, and the impetus for them actually doing so might come from permanently higher crude oil prices, concerns about energy independence, and the recent smooth introduction of ultra-low sulphur diesel fuel in the USA, easing pollution concerns and forcing car-makers to develop much-improved diesel-engines. The easiest way to meet President Bush’s target of a 20% cut in gasoline usage by 2020 would be if diesel were to be adopted in a major way. JD Power, an auto industry consultant, expects diesel-engine light-vehicle sales in the USA to rise from 3.2% to 10%, by 2015, a figure we believe could be too conservative.

Outlook

Platinum never looked like slipping below \$1,100/oz in January – but nor did it seriously threaten \$1,200/oz. Lack of obvious trading signals kept the trading range very tight and we expect this scenario to endure for the current month. London daily pm fix short-term: \$1,100/oz-\$1,300/oz.

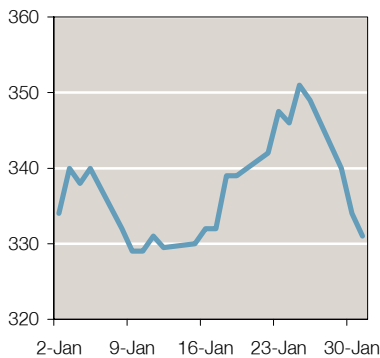
Market data (January unless stated)

Prices	US\$/oz	Lease rates	1m	3m	6m	12m	Trade (kg)	Imports	Exports	Option volatility (end month, %)
Average	1148	Average	1.9	2.5	3.2	3.7	USA (Nov)	6,029	13,155	1-month 21.5
High	1180	High	2.1	2.6	3.4	4.1	Japan (Nov)	4,398	1,763	3-month 24.5
Low	1118	Low	1.8	2.3	2.9	3.3	Hong Kong (Nov)	1,282	507	6-month 26.5
							Switzerland (Dec)	20,951	4,320	12-month 28.5
							China (Dec)	3,180	2,613	

Source Price: London Platinum and Palladium Market, Others: Virtual Metals

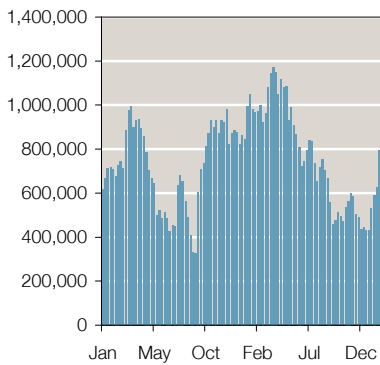
Palladium

Palladium price (\$/oz)



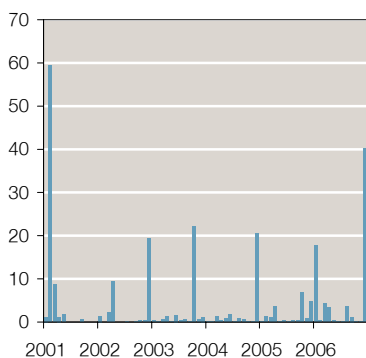
Source: London Platinum & Palladium Market

Nymex: Non-commercial net position (ounces)



Source: Nymex

Swiss imports of palladium from Russia (tonnes, monthly)



Source: Virtual Metals from TradeStats

News

- Jan 29th: Norilsk reported palladium production in 2006 (excluding production from its USA subsidiary Stillwater Mining) of 3.164 Moz, almost 1% higher year-on-year; it anticipated total production in 2007 of 3 Moz-3.05 Moz. Its platinum output rose 0.13%, to 752,000 oz.
- Jan 16th: North American Palladium's output in Q4 2006 almost doubled at 73,242 oz against the same quarter in 2005. In 2006 its total palladium production increased 34% to 237,338 ounces from 177,167 ounces in 2005.

Analysis

- Tight trading range anticipated

Russia's President Vladimir Putin in January signed a decree allowing unlimited exports of platinum group metals, as well as uncut diamonds and other precious metals and ores, subject to a licence from the economy ministry, thereby scrapping the previous system under which long-term quotas were set. The removal of precious metal export quotas should remove the threat of supply disruptions from Norilsk Nickel, the world's biggest palladium miner. This means that Norilsk is free to continue shipments after the expiry at the end of 2006 of a five-year quota on pgms, and it also removes a barrier to Russia's entry to the World Trade Organisation. Norilsk accounts for 12% of the world's mined platinum and more than 50% of its palladium. Swiss imports of palladium in December 2006 from Russia were 40.1t, the highest monthly figure since 59t in February 2001, just after the post-\$1000/oz peak in palladium's price. For the full year, imports from Russia were 71.6t, the highest since 2001. Total imports of palladium into Switzerland were 50.2t in December, taking the full year total to 124.5t. With Swiss exports at 39.6t, net imports were 84.9 tonnes, the highest since our records began. This huge import from Russia, 40.1t, or around 1.3 Moz, is in line with the higher estimates of Russian stock sales that have been made. On the other hand, with 10t more flowing into Switzerland from other sources, and given the possibility that more sales could show up in next month's Swiss customs' data, or in December US trade data (which is not out yet) then it suggests that there is still plenty of the metal around. Thus with a lot of palladium sloshing around, implied inventories in Switzerland (the difference over time between imports of palladium and net imports) are now well over 200t.

Outlook

Palladium traded in a tight \$24/oz range in January, peaking at \$350/oz and slipping to a low of \$326/oz. Anecdotal indications of a slackening interest in China's palladium jewellery innovation, slower car sales in the bigger markets, plus indications of plentiful Russian stocks should all concern palladium investors who, remarkably enough, still flock to the metal on Nymex, where by the third week of January had added to the net long positions by more than 300,000 oz since the start of the year. But currently a new car is sold in China every six seconds, mostly dependent on palladium autocatalysts; this provides a healthy underpinning for the metal's industrial consumption. London daily pm fix short-term: \$320/oz-\$365/oz.

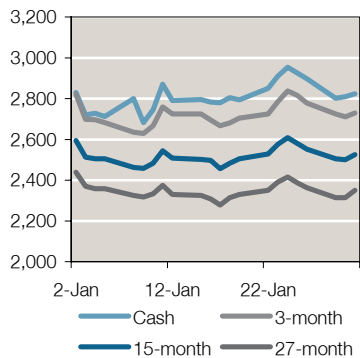
Market data (January unless stated)

Prices	US\$/oz	Lease rates	1m	3m	6m	12m	Trades (kg)	Imports	Exports	Option volatility (end month, %)	
Average	337.3	Average	0.03	0.11	0.26	0.36	USA (Nov)	7,633	8,954	1-month	24.0
High	351.0	High	0.07	0.11	0.35	0.60	Japan (Nov)	295	1,680	3-month	31.0
Low	329.0	Low	- 0.03	0.10	0.10	-	Hong Kong (Nov)	2,181	96	6-month	36.0
							Switzerland (Dec)	50,218	1,288	12-month	40.3
							China (Dec)	1,176	60	24-month	43.3

Source: London Platinum and Palladium Market, Others: Virtual Metals

Aluminium

Aluminium price (\$/tonne)



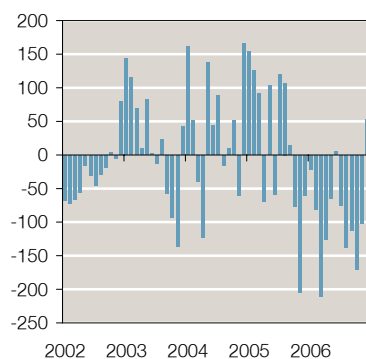
Source: London Metal Exchange

Aluminium stocks (tonnes)



Source: London Metal Exchange

Rolling quarterly change in global aluminium stocks (Kt)



Source: Reuters Ecowin

News

- Jan 30th: Rusal said its total output in 2006 was 2.77 Mt, 2% higher yoy.
- Jan 22nd: Alcan revised upwards its estimated costs for expanding its Gove alumina refinery in Australia, from an original \$1.5bn to \$2.3bn. The expansion – about 95% complete – will increase output to 3.8 Mt/year.
- Jan 17th: Russia's anti-trust agency said it had approved in principle the planned merger between the country's two biggest aluminium producers, Rusal and Sual, with 66% and 22% shares respectively, and in which the Swiss-based commodities trading company Glencore will hold a 12% share.
- Jan 17th: The U.S. annual rate of primary aluminum production fell 5.7% to 2,303,998t in December, down from 2,444,005t for the same month in 2005, according to the Aluminum Association.
- Jan 16th: Brazil produced a record quantity of aluminium in 2006, 1.6 Mt, up 7.1% year-on-year. Companhia Brasileira de Alumínio (CBA) opened at the end of January a new expansion of its smelter, with capacity of 475,000t/year by 2008.

Analysis

- Alumina prices bottom out

Chalco (China Aluminium Corporation) sprang a surprise on the market on 1st February by announcing a 50% rise in spot prices for alumina, with immediate effect. This seems to signal the bottom of the alumina price; last year Chalco cut its spot prices four times in line with depressed international prices. China's changed tax regime severely dented its exports of primary aluminium in 2006, which dropped 26%, to 838,286t, while those of aluminium products rose 74% to 1.24 Mt. Its primary aluminium imports also fell, by 32%, to 289,855 tonnes. Despite its lowered exports China's primary aluminium production rose 20% in 2006, to 9.12 Mt, with total aluminium smelting capacity now approximately 11.5 Mt, against official estimates of 10.3 Mt at the end of 2005. China's aluminium smelters are continuing to build capacity despite government efforts to induce a slowdown in the sector; 2007 could see another 3 Mt capacity added, and China's National Development and Reform Commission now expects the country's smelting capacity to exceed demand by 1 Mt by the end of 2007.

Peter Finimore, global head of primary metal sales for Rusal, the world's third-biggest primary metal producer, told Reuters on 2nd February that in his view the outlook for the aluminium market in 2007 "is kind of boring" as he anticipates almost complete balance between supply and demand, with demand being "firm" and supply rising to meet that demand.

Outlook

Talk of an unnamed hedge fund building up call options amounting to 90% of available LME stocks kept the market fizzing in an otherwise dull January, with suspicions this large exposure might help drive prices higher. LME 3-month short-term: \$2,600/t-\$2,900/t.

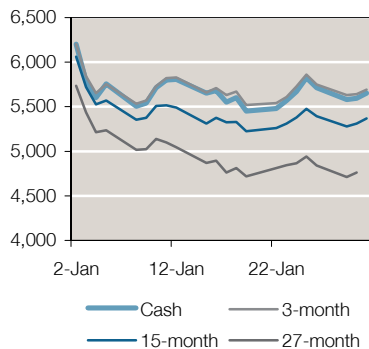
Market data (January unless stated)

Prices (\$/t)	Cash	3-month	15-month	27-month	LME stocks	Tonnes	Prod (kt)	Nov	Dec	LME Open Interest (contracts)	
Average	2,802	2,722	2,518	2,347	Dec-06	699,325	Europe	692	719	Aluminium	775,491
High	2,952	2,837	2,608	2,440	Jan-07	736,875	Americas	646	670		
Low	2,664	2,629	2,457	2,278			Asia	297	309		
							Other	344	358		
							Total	1,979	2,056		

Source: London Metal Exchange, except Production: International Aluminium Association

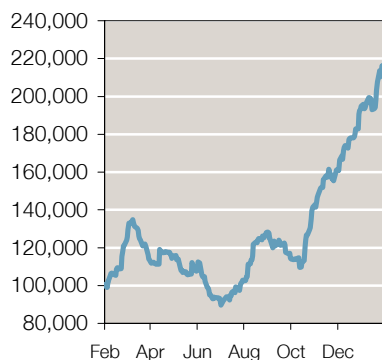
Copper

Copper price (\$/tonne)



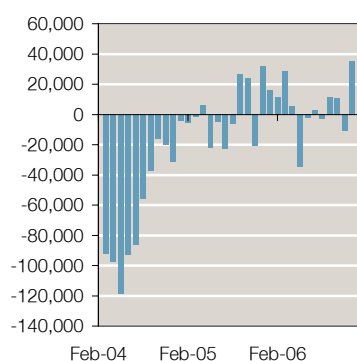
Source: London Metal Exchange

Copper stocks (tonnes)



Source: London Metal Exchange

Monthly change in exchange copper stocks, tonnes



Source: Virtual Metals

News

- Jan 30th: Chile's copper production in 2006 rose 0.8% year-on-year to 5.374 Mt, although December 2006 output fell 4.5% (to 528,591t) against the same month in 2005. Cochilco, the state copper commission, reduced estimates for Chilean production in 2007 to 5.63 Mt from a previous estimate of 5.7 Mt; 2006 total output was 5.374 Mt, 0.8% up year-on-year.
- Jan 26th: Output in 2006 at Escondida, the world's largest copper mine which accounts for almost 20% of Chilean production, fell 1.25% due to a 25-day strike. Owned by BHP Billiton, Escondida's total production was almost 1.256 Mt against more than 1.271 Mt in 2005.
- Jan 26th: Southern Copper Corporation said output in 2007 would recover from last year's strike-affected levels to almost 700,000t, against 605,000t in 2006.

Analysis

- The China question

How much copper will China need to (or choose to) import this year? This question dominates all others in copper right now. China's inventories are now widely reckoned to be very low but there were no signs of a dramatic upsurge in Chinese buying, despite the price slump. China's leading copper producer, Jiangxi Copper, said in late January that its stocks were very low and it was unable to supply material to the spot market. China's own production of refined copper rose 17.8% (2.93 Mt) in 2006 but its refined copper imports rose even higher, in percentage terms, in December, by almost 60% (to 95,831), compared to the same month of 2005, although for 2006 as a whole its imports of refined copper fell 32.3%. China's State Reserves Bureau sold more than 130,000t of copper stocks last year as well as taking 26,544t of stocks monitored by the Shanghai Futures Exchange. One of the core consumers of copper, China's power generating sector, saw its total installed capacity rise to a record high of 622 GW in 2006, up 20.3% percent from the previous year. This kind of growth rate in electricity generation is likely to continue this year and next, and should mean a continued healthy demand growth for copper of at least 8%/year. Nevertheless, China's own production is fast rising and is helping to offset import demand.

The International Copper Study Group reported that world refined copper production exceeded consumption by 128,000t between Jan-Oct in 2006, against a 298,000t deficit for the same period of 2005.

Outlook

Latest data from the International Copper Study Group (ICSG) shows a rise in mine capacity utilisation to 92.7% in Oct 2006, against 84.2% in Sept 2006. Copper miners are significantly stepping up their output from existing mines as well as racing to bring new capacity to fruition. LME warehouse stocks are now more than double that of one year ago, a rising trend that looks likely to endure for Q1 2007. It should be no surprise therefore that copper prices have lost 10% this year and are down 35% from the high of May 2006. But the recent weakness may reverse after the Chinese New year holiday period. LME 3-month short-term: \$5,000/t-\$5,600/t.

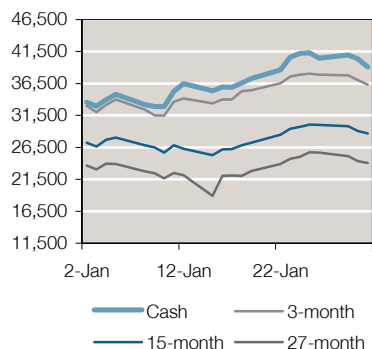
Market data (January unless stated)

Prices (\$/t)	Cash	3-month	15-month	27-month	LME stocks	Tonnes	LME Open Interest (contracts)
Average	5,670	5,709	5,430	4,981	Dec-06	182,800	Copper 372,222
High	6,201	6,102	6,060	5,735	Jan-07	211,825	
Low	5,450	5,510	5,225	4,710			

Source: London Metal Exchange

Nickel

Nickel price (\$/tonne)



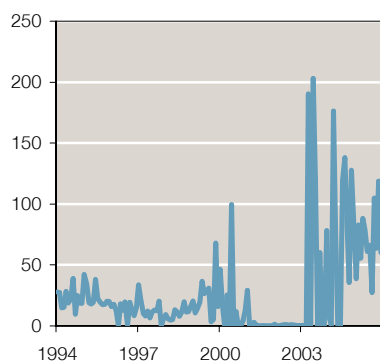
Source: London Metal Exchange

Nickel stocks (tonnes)



Source: London Metal Exchange

Indonesia nickel exports (\$m)



Source: Reuters Ecowin

News

- Feb 2nd: The Paris Court of Appeal ruled that CVRD Inco could resume full operations in constructing its Goro nickel project in New Caledonia.
- Feb 1st: Workers and management at Xstrata's Sudbury operation in Canada agreed a deal at the last moment, thus averting a threatened strike that could have affected output at the plant, which accounts for 4% of global refined nickel supply.
- Feb 1st: Posco of South Korea (the world's third biggest steel producer) plans to build its own ferronickel refinery with annual capacity of 150,000t in collaboration with Société Minière du Sud Pacifique in New Caledonia, from which it will source the nickel from a new mine.
- Jan 29th: Norilsk's production in 2006 totalled 244,000t, 0.41% higher year-on-year; it forecast output in 2007 of 240,000-245,000t.
- Jan 25th: China's nickel imports in 2006 totalled 97,324t, 7.8% higher year-on-year, and were up 9.8% in December 2006 at 10,415t.

Analysis

- Fresh nominal highs on the LME

The LME's 3-month nickel contract closed at a fresh nominal high on 22nd Jan of \$37,300/t as available stocks at LME warehouses shrank to some 4,000t, fractionally more than one day's global consumption and against 36,000t one year ago. The immediate spur for the sharp rise higher was the threat of a strike at the Sudbury operation, but the fundamental background picture remains strong, with stainless steel demand likely to grow by more than 7% in 2007 – about two-thirds of nickel is used in stainless steel production. The Sudbury settlement is interesting partly because it is the first time in years that the contract negotiations resulted in a deal without workers downing tools; Xstrata acquired Sudbury when it bought Falconbridge last year and if this sets a precedent then one of the regular disruptions to the nickel market might disappear. Nickel prices on the LME dropped 3% on news of the averted strike, with the 3-month contract down \$1,300/t at \$35,900/t in early trading on 1st February, recovering to close at \$36,100/t on 7th February.

Mikhail Prokhorov, the Russian billionaire and co-owner of Norilsk Nickel along with Vladimir Potanin (each with 54.78%) is leaving the company in 2008 and will sell his shares to Potanin. The move is being seen by some observers in Russia as a preliminary step to the Russian state taking control over Norilsk and its future development, as Potanin – a former deputy prime minister – is regarded as being much closer to the Kremlin.

Outlook

Chinese stainless steel producers argue that nickel now accounts for more than 85% of their production costs against 60% in early 2006; the risk for nickel is they will turn increasingly to carbon rather than stainless steel, and also switch to producing lower-grade 400 and 200 stainless. But with the Goro project given the green light by the French judiciary some heat has been taken out of the prospects for supply-side fears – for now at least. LME 3-month short-term: \$35,000/t-\$40,000/t.

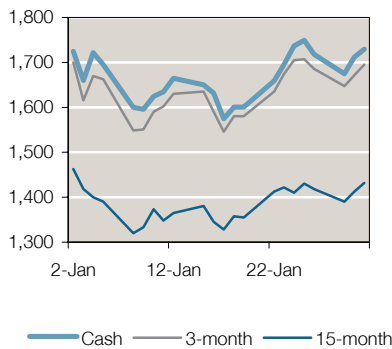
Market data (January unless stated)

Prices (\$/t)	Cash	3-month	15-month	27-month	LME stocks	Tonnes	LME Open Interest (contracts)
Average	36,811	34,775	27,673	23,300	Dec-06	6,648	Nickel 65,397
High	41,305	38,000	30,075	25,725	Jan-07	3,972	
Low	32,900	30,450	25,300	18,900			

Source: London Metal Exchange except Option volatility: Virtual Metals

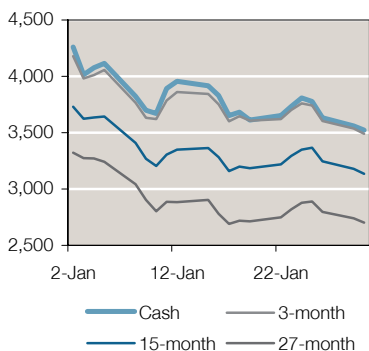
Lead and zinc

Lead price (\$/tonne)



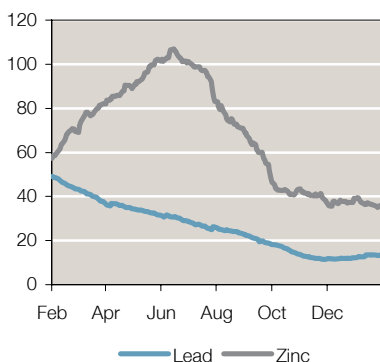
Source: London Metal Exchange

Zinc price (\$/tonne)



Source: London Metal Exchange

Stocks on LME (Jan 1st 2004 = 100)



Source: Virtual Metals from LME

News

- Jan 31st: Mexico's lead production in November 2006 was 7,505t and its zinc output 26,571t, down 41.8% and 32.1% respectively compared with the same month in 2005.
- Jan 26th: Dalpolimetall, Russia's largest lead and zinc miner, plans to produce nearly 20% more zinc-in-concentrate in 2007. Dalpolimetall will sell its entire output of zinc concentrates, more than 21,000t, to Chelyabinsk Zinc, Russia's largest producer of the metal.
- Jan 24th: Lundin Mining aims to double zinc production at its Neves-Corvo mine in Portugal from a probable output in 2007 of 25,000t.

Analysis

- Supply fears over?

The Australian-based zinc producer Zinifex called an end to the supply-side shortages of zinc concentrates and the market listened. Greig Gailey, Zinifex's CEO, said in January: "Zinc concentrate is more readily available than it was at this time last year" and added that "for 2007 we do not expect to see a repeat of the large zinc market deficit which occurred in 2006." As if in response Hindustan Zinc, India's biggest producer, said on 1st February that it had cut its zinc price with immediate effect by 5.6%. Yet while last year's substantial deficit (approximately 400,000t) is easing, it's an open question how rapidly the market will return to surplus. Output is certainly rising from established producers; Kazakhmys, primarily known for its copper production, said in January that its refined zinc output rose 17% in 2006 and zinc concentrate production by 36%. The central conundrum is China, whose own zinc consumption will rise in 2007 by some 5%, to significantly above 3 Mt; it might still be premature to suggest the market will return to a significant surplus this year. Global refined zinc consumption rose to 10.154 Mt during Jan-Nov 2006, against 9.709 Mt for the same period in 2005, according to the International Lead and Zinc Study Group (ILZSG), while global refined zinc output rose to 9.777 Mt from 9.318 Mt for the same 11 months in 2005. November 2006 producer stocks fell to 281,000t from 282,000t in October, against 290,000t at the end of 2005. Global refined lead consumption was 7.353 Mt in the first 11 months of 2006, up from 7.088 Mt a year earlier, said the ILZSG. Refined lead output rose to 7.351 Mt in the same period, from 6.920 Mt a year ago. November producer lead stocks rose to 134,000t from 129,000t in October, against 145,000t at the end of 2005.

Outlook

Zinc prices on the LME are down some 25% since the start of the year as rising exchange stocks (97,475t by 7th Feb, more than 7,000t higher than the start of the year) suggest an easing of 2006's physical tightness. But are the LME stock increases a real change of trend, and will China (which turned into a net exporter of zinc late 2006, totalling just 7,000t) sustain and grow its exports for the rest of the year? LME 3-month short term zinc: \$2,900/t-\$3,300/t, lead: \$1,600-\$1,700/t.

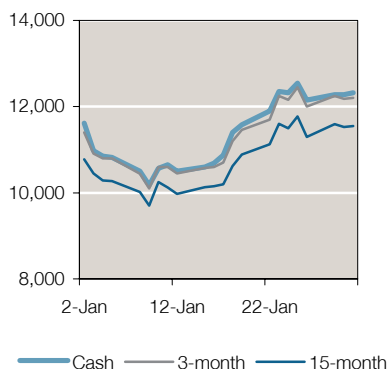
Market data (January unless stated)

Prices (\$/t)	Cash	Cash	3-month	3-month	LME stocks	LME Open Interest (contracts)			
	Lead	Zinc	Lead	Zinc		Lead	Zinc		
Average	1,633	3,787	1,633	3,738	Dec-06	41,125	88,450	Lead	78,643
High	1,707	4,259	1,707	4,180	Jan-07	39,050	97,675	Zinc	195,447
Low	1,546	3,440	1,546	3,450					

Source: London Metal Exchange

Tin

Tin price (\$/tonne)



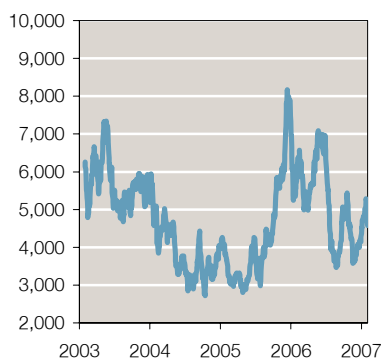
Source: London Metal Exchange

Tin stocks (tonnes)



Source: London Metal Exchange

Tin, LME, contracts volume traded (monthly moving average)



Source: LME

News

- Feb 8th: The UK-based ITRI tin research agency said world tin consumption rose in 2006 by almost 9% to 360,000t, year-on-year.
- Feb 7th: Indonesia issued licences for five small smelters to resume operations on the island of Bangka; a total of 16 small smelters have applied to be licensed, following last year's crackdown on illegal smelting.
- Jan 23rd: Indonesia banned unregistered companies from exporting refined tin in an effort to crack down on illegal tin-mining.

Analysis

- Tighter rules for Indonesian exports

Tight global physical stocks are helping to underpin high prices; uncertainty over future Indonesian supply is adding to this volatile scenario. As from 23rd February any Indonesian company wishing to export tin must register with the Ministry of Trade. Only those mining companies with the correct licences and who have paid royalties will be allowed to export tin, according to Diah Maulida, the director general of foreign trade at the Ministry. The Indonesian authorities have been engaged in a battle of wills with the country's small-scale tin smelters on the Bangka-Belitung islands, which deliver nearly half of the country's refined tin exports, since October 2006. Indonesia accounts for one-third of the world's tin output in a market estimated at some 350,000t annually.

While there is a question mark over the quality of non-branded Indonesian refined tin sold abroad, which usually has a purity level of below 99.85%, and which typically is sold to neighbouring countries at a discount of around \$200-\$300/t, the crackdown is as much about the Indonesian authorities' determination to maximise revenues levied on tin exports as quality assurance. The smaller smelters which are the target of the new regime are reckoned collectively to produce about 60,000t of refined tin a year, about the same as the combined efforts of Timah and Koba. As part of the crackdown police said they had seized 500t of refined tin owned by Koba Tin, but the company was still allowed to run its smelter. Koba Tin is 25% owned by state-owned PT Timah and the rest by Malaysia Smelting Corporation. Tin ore collected from small miners would account for 45% of Koba Tin's 2007 output, which may be some 17,000t. Koba's mining contract expires at the end of 2013, it added.

Outlook

Prices for the LME's 3-month contract climbed to \$12,500/t as a consequence of fears over Indonesian supply. The knock-on effects have already begun to be felt: Singapore Tin Industries will cut its 2007 output target by about a third to 12,000t due to supply constraints in Indonesia. The new regime about to be imposed in Indonesia might see the global market lose as much as 60,000t of tin/year. LME 3-month short-term: \$11,800/t-\$12,500/t.

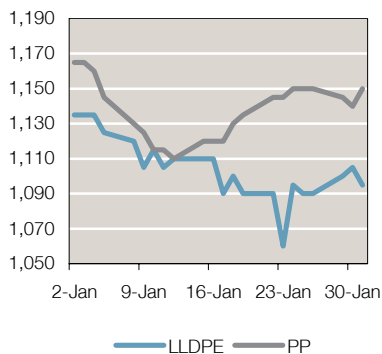
Market data (January unless stated)

Prices (\$/t)	Cash	3-month	15-month	LME stocks	Tonnes	LME Open Interest (contracts)
Average	11,362	11,265	10,719	Dec-06	12,970	Tin 19,305
High	12,545	12,450	11,775	Jan-07	11,400	
Low	10,175	10,105	9,700			

Source: London Metal Exchange except Option volatility: Virtual Metals

Plastics

Plastics prices, nearest contract, LME
(\$/tonne)



Source: Virtual Metals from LME

Plastics prices, various contracts, LME
(\$/tonne)



Source: Virtual Metals from LME

News

- Jan 30th: The Dubai Multi Commodities Centre (DMCC) said it plans to launch plastics futures trading. The contracts would be regional, covering the Middle East, North Africa and Asia. DMCC is looking to include HDPE, LDPE, LLDPE and PET. The contracts would be launched on the Dubai Gold and Commodities Exchange (DGCX) in the coming months.
- Jan 29th: Dow Chemical reported a Q4 2006 11% fall in net income to \$975m despite record net sales of \$12.2bn, against \$11.9bn for the same period of 2005. The decline was largely attributed to poorer results from its Basic Plastics division; Dow said the prices for polyethylene had fallen by 25% in the North American market.
- Jan 18th: Ineos Polyolefins revealed plans for a three-year €150m investment in Europe; it will expand PP capacity at its facilities in Geel, Belgium (by 220,000t/year to 500,000t) and Grangemouth, Scotland (by 30,000t/year to 280,000t). Ineos is also expanding HDPE capacity at its Lillo plant in Belgium, from 200,000t/year to 630,000t by 2009.
- Jan 8th: General Electric said it had put the for sale sign up over its plastics unit, with a potential value of \$10bn; in December 2006 the company's CEO, Jeffrey Immelt, said the unit was "in a difficult spot".

Analysis

- Lower oil prices hold down plastics

The LME announced (5th February) a re-launch of its plastics contracts by introducing, as expected, regional contracts and spot trading. From 25th June this year there will be separate contracts for Europe, north America and Asia, trading alongside its existing PP and LLDPE contracts. Contract specifications and delivery centres for each regional contract will be the same as those for their existing global contract equivalent. The LME acknowledged that trading volumes of the existing contracts had been much less than expected.

The move by the DGCX to launch its own plastics futures' contracts before the end of 2007 might tap into a bigger receptive local market than the LME has so far managed to capture. The Gulf Petrochemicals and Chemicals Association reckons that 50% of the world's petrochemical projects are located in the region. One of China's three futures exchanges hopes to launch a plastic futures contract as early as the first half of this year to offer a hedging tool for domestic traders and fabricators, industry sources said. Meanwhile in China, the Dalian Commodity Exchange has also submitted an application to regulators to trade LLDPE futures.

Outlook

The lower crude oil price kept a tight lid on plastics' prices throughout January. Trading was again very quiet on the LME with the daily volumes rarely getting into three digits; given that the LME's plastics' contracts will soon be two years old, much hinges on their re-launch. The mere fact that a re-launch is planned implies that these contracts have so far under-performed initial promise, largely as a result of end-user and producer indifference. Without that support these extra contracts could be equally lacklustre, LME front-month LLDPE and PP contracts: \$1,000-\$1,100/t.

Market data (January unless stated)

Average prices Contract	Average prices		Volumes (December)		Open Interest (contracts)		
	LLDPE	PP	LLDPE	PP	LLDPE	PP	
First position	1,105.00	1,137.73	Daily average	32	54	489	702

Source: London Metal Exchange

Indices

Precious and base metal prices

(1999 Avg.=base 100) 31 st January 2007	Current	Change from					
		1 M	1 Yr	5 Yr			
Gold (spot)	233	3% ↑	227	14% ↑	204	131% ↑	101
Silver (spot)	256	4% ↑	247	35% ↑	190	196% ↑	87
Platinum (spot)	309	5% ↑	295	9% ↑	283	146% ↑	125
Palladium (spot)	91	2% ↑	89	14% ↑	80	-20% ↓	114
Aluminium (cash)	207	-1% ↓	209	13% ↑	183	106% ↑	101
Aluminium (3m)	197	-3% ↓	202	9% ↑	181	97% ↑	100
Aluminium (15m)	176	-3% ↓	180	5% ↑	167	76% ↑	100
Aluminium (27m)	161	-3% ↓	166	2% ↑	157	61% ↑	100
Copper (cash)	359	-10% ↓	400	15% ↑	313	276% ↑	96
Copper (3m)	355	-10% ↓	394	18% ↑	302	272% ↑	95
Copper (15m)	320	-13% ↓	369	25% ↑	257	237% ↑	95
Copper (27m)	280	-18% ↓	341	25% ↑	224	194% ↑	95
Nickel (cash)	650	14% ↑	569	157% ↑	253	547% ↑	101
Nickel (3m)	599	9% ↑	548	138% ↑	252	522% ↑	96
Nickel (15m)	485	3% ↑	472	95% ↑	249	391% ↑	99
Nickel (27m)	414	0% i	415	74% ↑	238	311% ↑	101
Zinc (cash)	320	-21% ↓	402	48% ↑	215	334% ↑	74
Zinc (3m)	316	-19% ↓	389	48% ↑	213	324% ↑	74
Zinc (15m)	285	-18% ↓	348	41% ↑	202	258% ↑	80
Zinc (27m)	245	-20% ↓	308	34% ↑	183	198% ↑	82
Lead (cash)	344	-3% ↓	353	23% ↑	281	237% ↑	102
Lead (3m)	333	1% ↑	331	26% ↑	265	232% ↑	100
Lead (15m)	272	-2% ↓	277	16% ↑	235	179% ↑	97
Tin (cash)	228	4% ↑	220	60% ↑	142	219% ↑	71
Tin (3m)	225	3% ↑	218	59% ↑	142	213% ↑	72
Tin (15m)	213	3% ↑	207	52% ↑	140	187% ↑	74

LME base metals stocks

(1999 Avg.=base 100) 31 st January 2007	Current	Change from					
		1 M	1 Yr	5 Yr			
Aluminium	94	5% ↑	89	4% ↑	91	-14% ↓	109
Copper	28	16% ↑	24	121% ↑	13	-75% ↓	113
Lead	29	-5% ↓	30	-35% ↓	44	-71% ↓	99
Nickel	7	-40% ↓	12	-89% ↓	68	-84% ↓	45
Tin	123	-12% ↓	140	-29% ↓	173	-67% ↓	368
Zinc	33	10% ↑	30	-74% ↓	126	-79% ↓	159

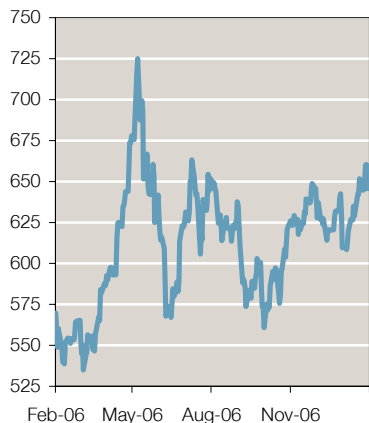
USD exchange rates

(1999 Avg.=base 100) 31 st January 2007	Current	Change from					
		1 M	1 Yr	5 Yr			
European euro	82	1%	81	-7% ↓	89	-32% ↓	121
Canadian dollar	79	1% ↑	78	3%	77	-26% ↓	108
Great British pound	83	0%	83	-9% ↓	91	-27% ↓	113
Japanese yen	106	1% ↑	104	3% ↑	103	-9% ↓	117
South African rand	121	4% ↑	117	19% ↑	102	-36% ↓	190
Australian dollar	84	2%	82	-2% ↓	86	-33% ↓	125

Source: Virtual Metals & London Metal Exchange

Prices

Gold (\$/oz)



Source: London Bullion Market Association

Silver (cents/oz)



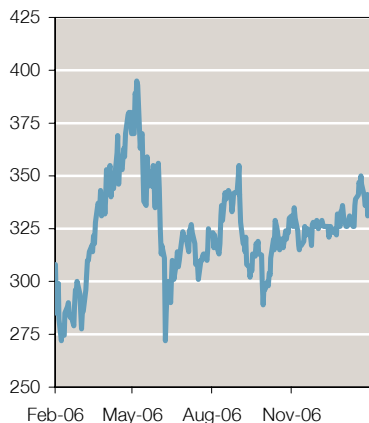
Source: London Bullion Market Association

Platinum (\$/oz)



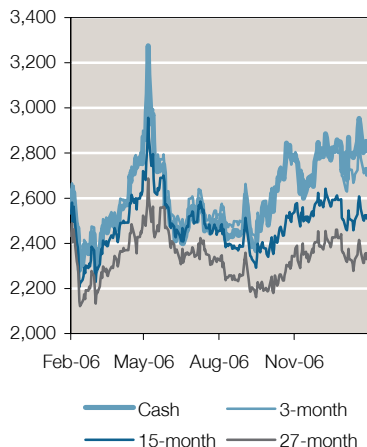
Source: London Platinum & Palladium Market

Palladium (\$/oz)



Source: London Platinum & Palladium Market

Aluminium (\$/tonne)



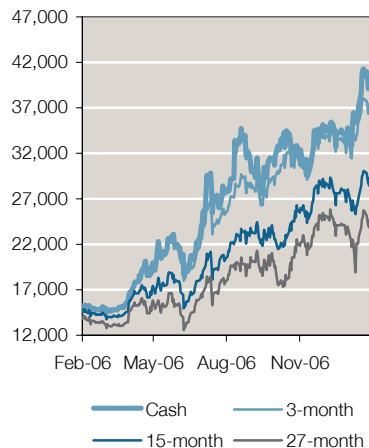
Source: London Metal Exchange

Copper (\$/tonne)



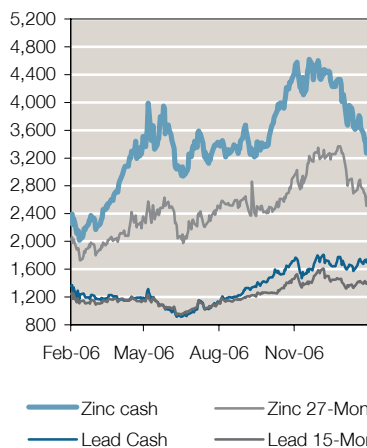
Source: London Metal Exchange

Nickel (\$/tonne)



Source: London Metal Exchange

Lead & zinc (\$/tonne)



Source: London Metal Exchange

Tin (\$/tonne)



Source: London Metal Exchange

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