Copper sold off slightly on Friday, but still managed to wrap up one of its best weeks in decades, chalking up a 14% gain, and leading the rest of the metals higher as well. Optimism over initiatives taken last week to head off the Eurozone debt crisis, as well as escalating supply side threats at key copper mines prompted the surge, as did evidence that both the US and Chinese economies were moving away from any recession or slow-down type of scenarios.

Things are far different as we start the new week. We are seeing broad-based declines in most commodity complexes as well as in global equities. Markets have backed off after investors have apparently taken a closer look at the recently completed European debt accords and are realizing that there are several loose ends that need to be tied up. We discussed some of these in last week’s commentary, pointing out that a full "vetting" of the accord will likely take place in the European credit markets. Thus far, the reaction has not been that favorable. In auctions that took place in both Italy and Spain on Thursday and Friday for example, bond buyers demanded higher yields from both these countries. In Italy’s case, the country is now paying more than 6% on its new 10-year debt, higher than what it was paying a month ago and a rate that is clearly unsustainable over the long run. Under pressure, Italian Prime Minister Silvio Berlusconi has pledged to pass
measures aimed at rejuvenating the country's stalled economy, including reforms to Italy's labor market and pension system, but progress has been slow, and it is not at all certain that he can has the political muscle to push the reform votes through in Parliament.

Questions also remain about the composition of the European Financial Stability Facility and the fact that it would "backstop" countries that are unable to finance themselves. With €1.4 trillion at its disposal (and this amount is not fully raised yet either) investors are rightfully concerned about whether the fund is adequately capitalized for the task at hand. Investors also are skeptical of the plan to use the EFSF to insure losses on government debt. Under the agreement, the EFSF would absorb the first 10% of losses on debt issued with insurance, but if losses amount to 50%, which was the case with Greece, the guarantee will not be worth much.

Another unsettled issue is how to read the new incoming ECB chief Mario Draghi as he takes over the reins at the ECB this week, and to what extent will the European Central Bank be the buyer of last resort for sovereign debt? The ECB started buying bonds of European governments in mid-2010 and after an 18-week pause, it restarted the program in August. However, Germany definitely wants to end the program, but Draghi has not clarified his stance on the issue, although preliminary remarks he made this past week suggest that he will resist German pressure and continue the ECB's role of being a buyer of last resort.

Despite the misgivings that are surfacing, we suspect markets will likely hold most of their gains, as the recent accords are at least credible in that they have brought together a disparate group of politicians to coalesce around a program, questionable as some of its parts seem to be. Moreover, given how the talks evolved, it seems that broad areas of agreements were first reached among the EU leaders, while the details will likely follow later after junior officials have a stab at them. This "backwards" approach is perhaps what is causing some concern in the markets, but we suspect that the misgivings will not be enough to roll back the recent gains.

In the case of metals, the bulls can hang on their hat on the fact that macro numbers out of the US and China seem to have take a turn for the better lately, thus removing a major concern. We will see what we get later this week in terms of stats, but of the US later today we get we get Chicago October PMI (expected at 58.9 percent), to be followed on Tuesday by the October ISM index (expected at 52.1, slightly higher than last month). Tuesday also brings September construction spending (expected at .3%), while later in the day, November auto and truck sales follow. Wednesday brings us the ADP private payroll number (expected at +100,000), while the FOMC policy statement will come out later in the day. On Thursday, we get weekly initial claims readings (expected at 402,000, unchanged from the prior week), and third-quarter productivity readings (expected at +2.8%). We also get September factory orders on Thursday (expected at -.2%), as well as October ISM services readings (expected at 53.7, up slightly from the 53 reading seen last month). Finally, on Friday, we get October nonfarm payrolls (expected at 88,000), with the unemployment rate forecast to remain at 9.1%, unchanged from last month.

**COPPER**

**SUPPORT:** $7700  /  **RESISTANCE:** $8450

We are now at $7900, down $274; charts show that the recent advance seems to have stopped right at the downchannel, and we could come off a little more over the days ahead after the strong run we have had.
Output from Chile's Escondida copper mine dropped 25.3% in the January-September period to 599,522 tons, due to lower ore grades, a two-week strike and bad weather, its operator said. Profit from the mine during the same period fell 27% from a year earlier to $2.109 billion. Escondida had previously stated that the strike did not have a significant impact on output, but the talk now is that the strike will cost owner BHP Billiton more than 40,000 tons of copper production and likely lead to a copper concentrate deficit later this year.

A group of around 250 workers at Chile's Collahuasi mine refused to begin their morning shift in protest over a bonus payment, union leader Manuel Munoz said, however, it was unclear whether the move would affect output at the mine.

Zambia's copper production slipped 0.8% year-on-year to 622,449 ton in the nine months to September, causing worry that the country will not meet its 2011 target of 900,000 tons. The drop in output was attributed to problems including high electricity costs and a prolonged rainy season in Zambia.

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ALUMINUM SUPPORT: $2077 / RESISTANCE: $2273

Ali is at $2210, down $32. We see resistance at $2273, which is the top end of the trading range that has been in place since mid-September.
**ZINC**  
**SUPPORT:** $1718  /  **RESISTANCE:** $1970

Zinc is at $1932, down $53; we did breach resistance at $1970 twice last week, but have been unable to close above it keeping resistance at this level intact for now.

**LEAD**  
**SUPPORT:** $1800  /  **RESISTANCE:** $2065

Lead is at $2009, down $80. There is some resistance at $2065, which was never taken out on a two-day closing basis. Even if we do take this level out, lead need to get to at least $2300 before some of the recent chart damage is repaired.
NICKEL  
**SUPPORT: $19,500 / RESISTANCE: $20,200**

Nickel is at $19,325, down $375. We still look somewhat toppy around the $20,000 mark.

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TIN  
**SUPPORT: $19,500 / RESISTANCE: $23,100**

Tin is at $21,900, down $110, and where we were at this time on Friday.

* Tin smelters in Indonesia have decided to extend their self imposed export stoppage to the end of the year, in an attempt to boost benchmark prices to between $23,000 and $25,000 a ton, an industry official said.

* China announced that it will set its 2012 tin export quota at 15,400 tons.
STEEL (3-Months)

LME billet prices are at $520-$545, and holding steady.

* China's spot iron ore market hit its lowest level in almost 16 months, market participants said, as the price for 63.5% Fe Indian fines fell $6 to $134-137 per ton cfr on Thursday. "We're all standing to the side because we have no idea where the bottom is," a senior iron ore trader in Shanghai said, commenting on the consistent decline of spot iron ore prices since the beginning of the month. China's daily production of crude steel fell to 1.7998 million tons during the second ten days of October, down 2.9% compared with revised data from earlier in the month.