

THE COPPER JOURNAL

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What Are The Markets Telling Us ?

There are certain phrases that stand the test of time. The newspaper headlines in October 1975, after President Ford denied Federal assistance to New York City when it was in danger of bankruptcy, 'Ford to City: Drop Dead'. Several years later in 1992, when Bill Clinton was campaigning for president, our economy was listing under the leadership of President Bush. The turning point hinged on 'It's the economy stupid'. Gaining fewer headlines, but having no less impact upon the copper industry, in September 1984, then President Reagan rejected a request by US copper producers that he impose quotas or tariffs to protect them from imports.

The common dominator among these events that became apparent only after the fact, was they all represented a turning point toward recovery. More recently, the 'Time to Change' message resonated enough with voters that president elect Barack Obama will be sworn into office very shortly to begin carrying out his plans for the future. Hopefully, this too will represent a turning point for our economy and indeed the global market as well. Ultimately, it is the state of the economy that rivets people's attention, particularly when they are out of work, and have no income. This is where we are today.

Last year, our economy lost some 2.6 million jobs, the largest such decline since 1945, thereby pushing the December unemployment rate up to a sixteen year high of 7.2%. Housing starts, a key barometer of our economy fell to a new low of 625,000 homes on an annualized basis during November, down 1.65 million, or 73% from the 2.27 million high set in January 2006. The automotive industry has seen production and sales fall 40% and 37% respectively from the year ago period, with the viability of the 'Big Three' seeming to be contingent now upon help from the federal government. It necessarily follows, given the serious downturn in these critical sectors of the economy, coupled with the structural flaws that have been revealed over the past several months, that our level of confidence has fallen as well.

Nevertheless, we remain optimistic. Downturns and setbacks, as deep and painful as they may be are temporary. The City of New York regained its vibrancy not only in the 1970's, but again following the aftermath of September 11, 2001. Our economy rebounded smartly during the 1990's under President Clinton, although one might argue that it came after the seeds of recovery were

already planted by the Bush administration. As for the copper industry, once it became apparent that support would not be coming from Washington, it reinvented itself from the ground up in order to be competitive in the global market and reaped enormous benefits from those efforts.

It is a tenet of market psychology that during a bear market, sentiment is focused acutely on bad news with expectations of worse to come, while any positive developments are virtually ignored. Bull markets, of course, reflect the exact opposite, as good times will only get better, while any bad news is shrugged off as an aberration. The current state of the economy certainly bears this out, as one has to look long and hard to see something positive in the wreckage. It is as if we have gotten to the point where it can only get better from here, or perhaps the other way of saying it is, there is nowhere else to go but up – despite warnings from some that we are headed for a repeat performance of the 1930's.

At the risk of repetition, fiscal and monetary policy is geared toward recovery on a global basis. Just as important, energy prices which were a major contributing factor to the downturn have fallen at record rates, thereby putting more money in consumer's pockets and bringing us back to levels consistent with growth rather than contraction. Also, the process is underway to eliminate toxic financial instruments from the system that should never have existed in the first place.

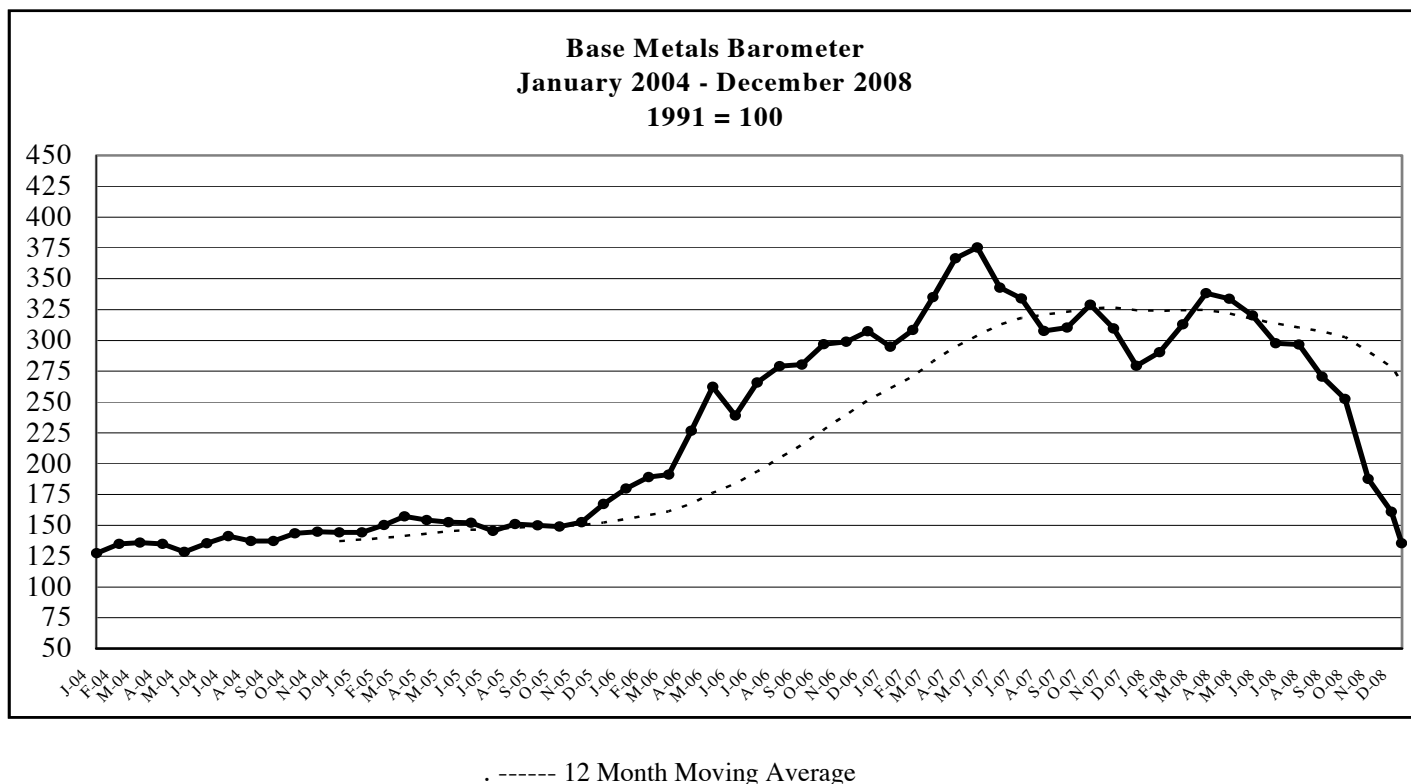
Could it be that forward looking markets are already signaling a turn? Although it is too premature to draw a conclusion, the evidence should not be ignored. After hitting new lows in November equity markets throughout the world have turned higher. Not just those of major industrial economies, but emerging markets as well. As relates to metals, although inventories have been rising, and undoubtedly more excess metal will find its way into warehouses, prices nevertheless have been also been rising. Whether these moves are simply a correction, or change in trend remains to be seen, but they too warrant our attention.

And finally, from a contrarian point of view, history has shown time and again, that when an economic problem has been identified, and significant resources are brought to bear to spark a recovery, inexplicable natural forces are already working to resolve the issues.

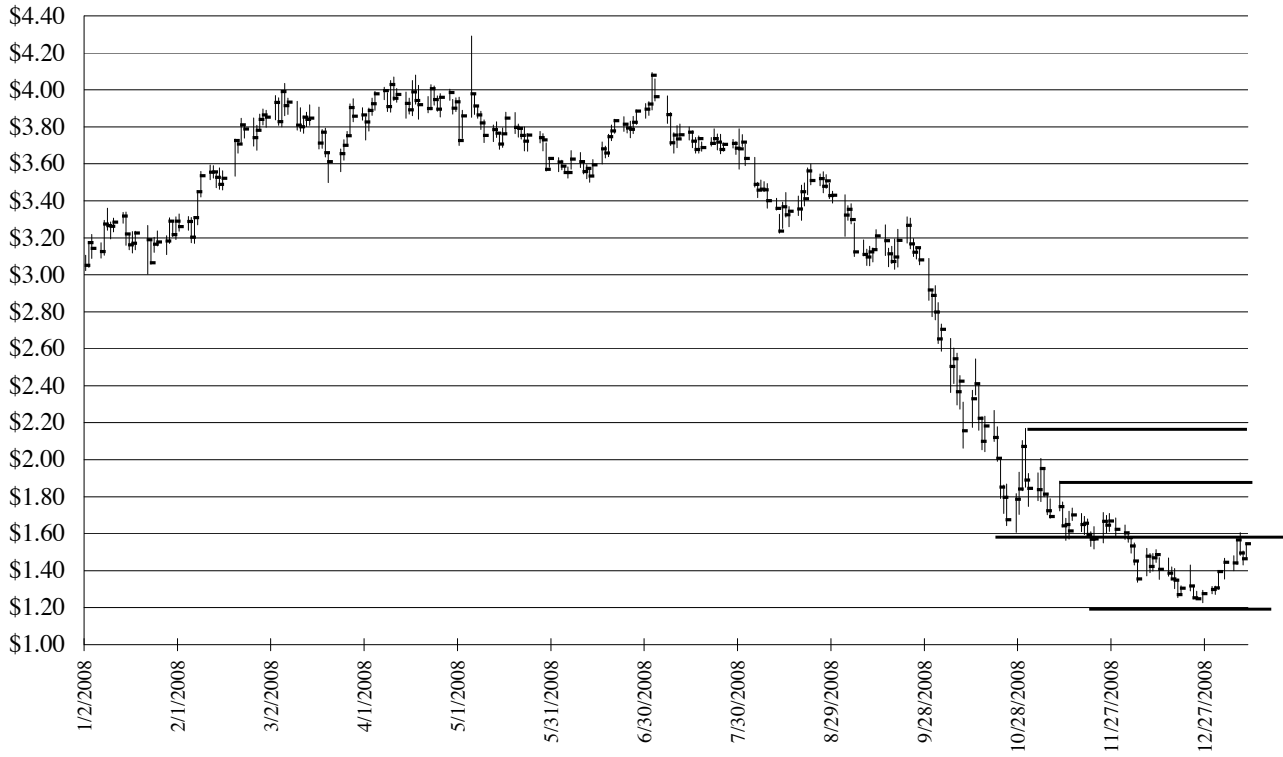
Where Do We Stand Now ?

- Spot copper averaged \$1.3880 on Comex during December, off 29.70¢, or 17.6% from \$1.6850 during November, and was down \$1.6337, or 54.1% from \$3.0217 last December. The 2008 annual average came in at \$3.1336, down 8.70¢, or 2.7% from \$3.2206 during 2007.
- Inventories held in Comex and LME warehouses rose 63,977 MT, or 20.8% during December to 370,850 MT, and were up 159,344 MT, or 75.3% from 211,506 MT at the end of 2007.
- The Base Metals Barometer fell to 135.5 during December, off 15.9% from November, and is down 51.5% from last December. This was the lowest reading since June 2004.
- Despite rising inventories, severe weakness in the global economy, and bearish sentiment to match, the base metals complex nevertheless moved higher across the board as the New Year got underway. Through January 9th, Copper is up 11%; aluminum +5%; lead +25%; tin +10% Nickel +5% and zinc +9%.
- **The Technical Corner:** After being beaten down to a four and one half year low, at \$1.2260 on December 26, 2008, Spot copper steadied itself in what appears to be the beginning of a technical correction. Over the past two weeks, the market has rebounded 32¢ from that low, enroute to test its first level of resistance at \$1.60.

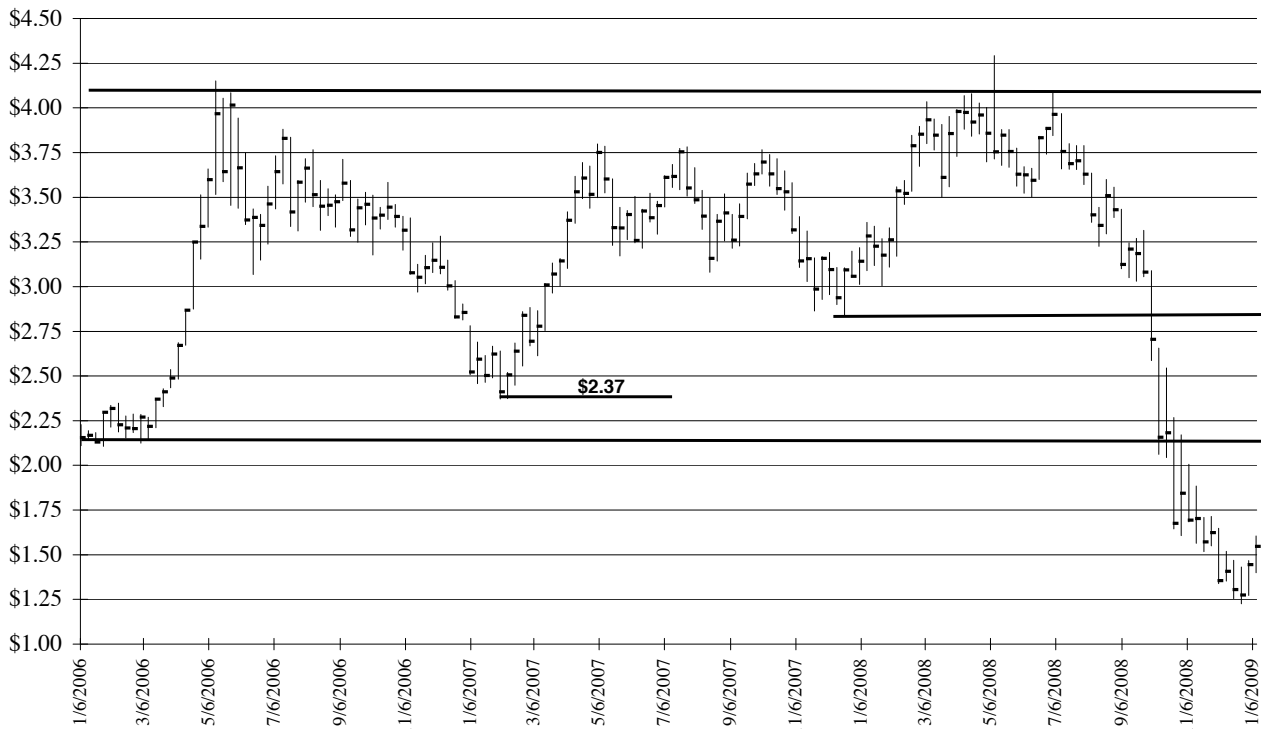
Clearly, neither the fundamentals, nor sentiment would suggest a serious move higher, but from a purely technical point of view, copper has the potential to advance further. On a very macro basis, we saw the market fall \$2.75 from July to December, in a near vertical freefall. A 50% correction of that drop targets a move to \$2.60. Without question, however, copper will encounter strong headwinds along the way, assuming it gets past the \$1.60 level first. If that line of resistance is surpassed, \$1.70 will be the next challenge, and at just about every 10¢ increment thereafter. Notice on the weekly chart that \$2.37 was the pivotal point in 2007. From where we sit, the market could hit this level and still be in nothing more than a technical correction. Conversely, if copper fails to move beyond \$1.60, we would expect to see a retracement back to the low, with the real test of whether that level holds. As odd as all of this sounds, the technical aspects of the market can not be ignored, as small moves have a way of becoming the base upon which larger moves are made.



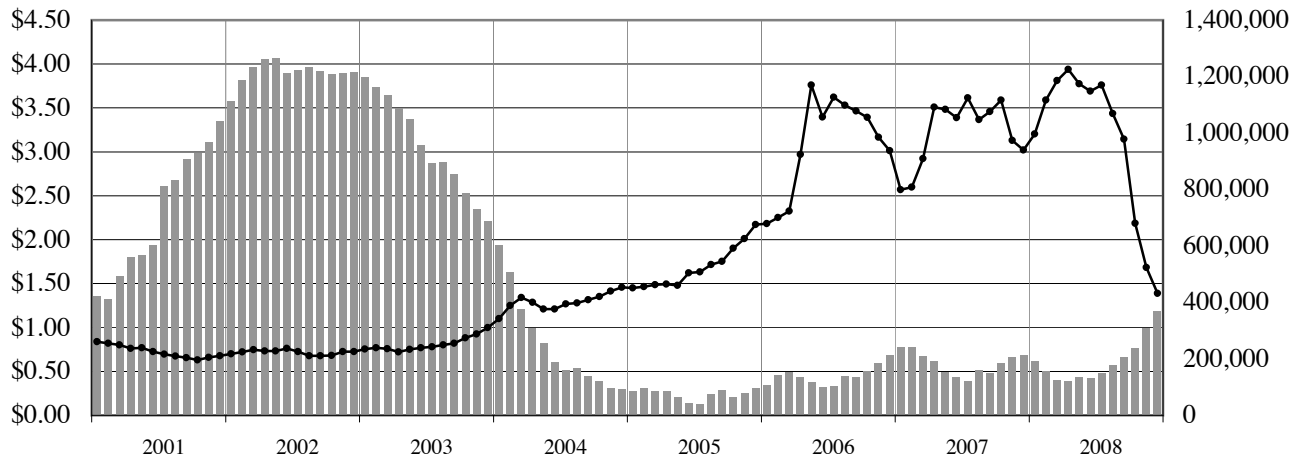
Comex Copper
Spot Daily Continuation
January 2008 - January 9, 2009



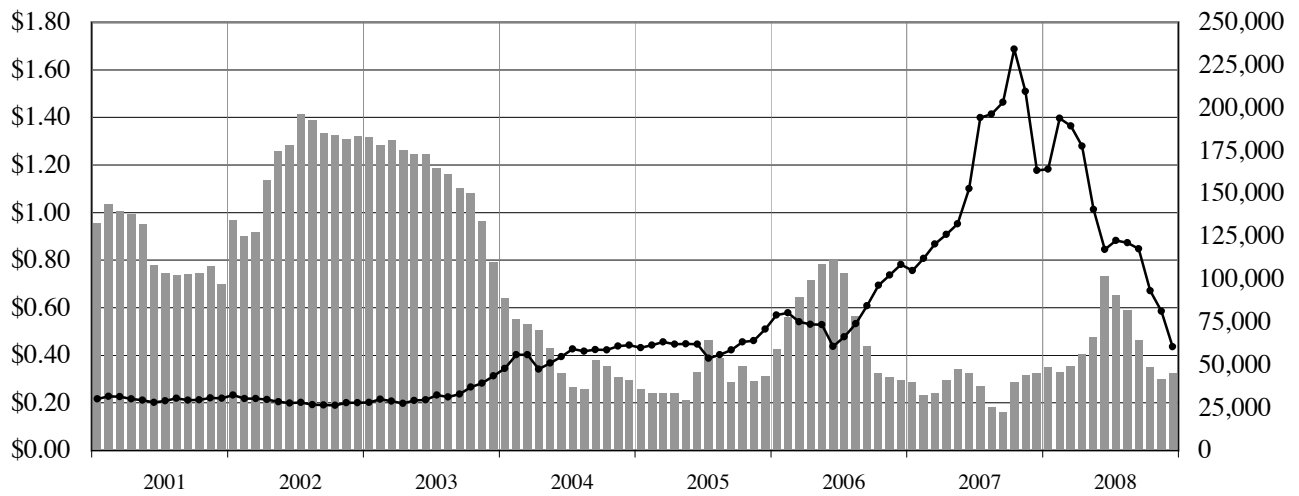
Comex Copper
Spot Weekly Continuation
January 2006 - January 9, 2009



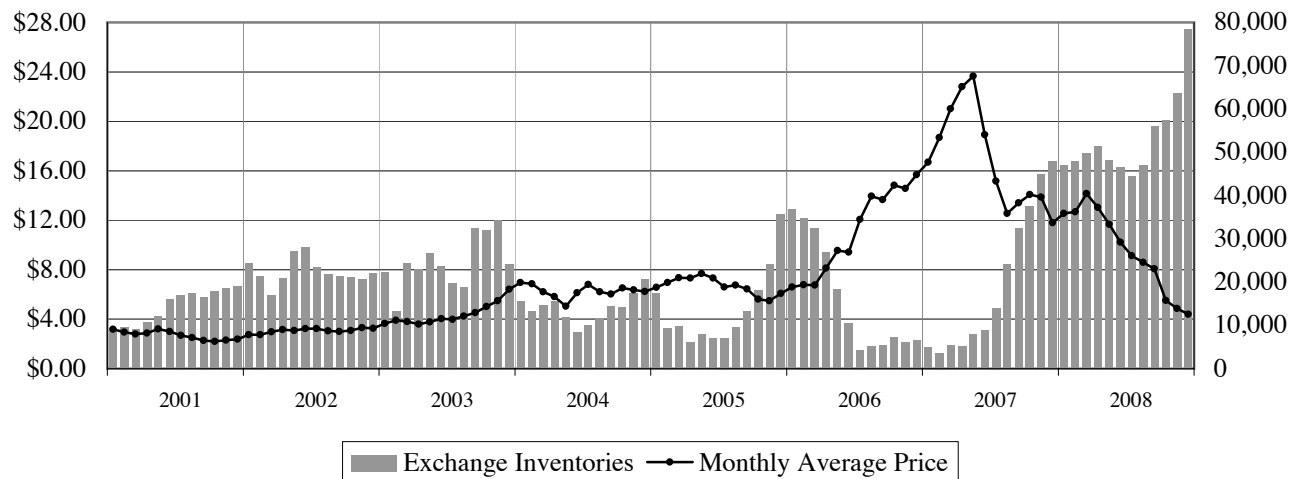
Copper



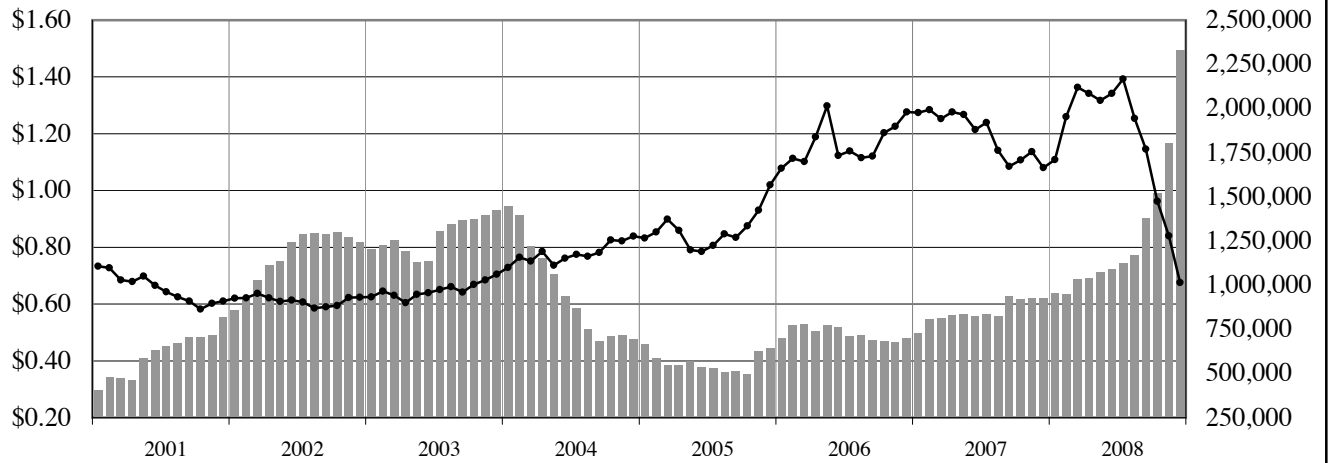
Lead



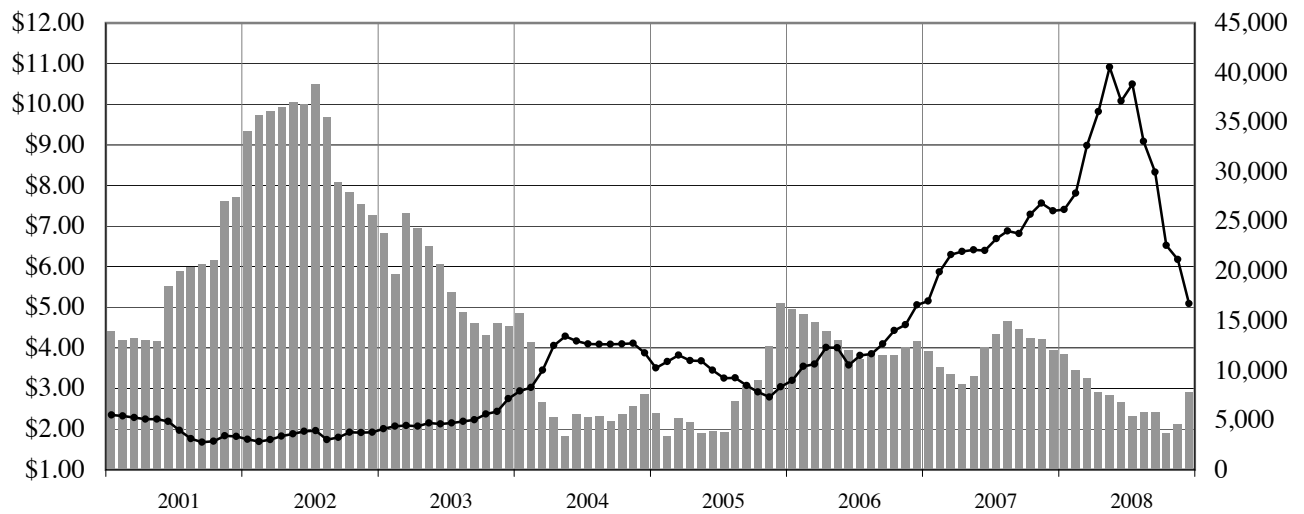
Nickel



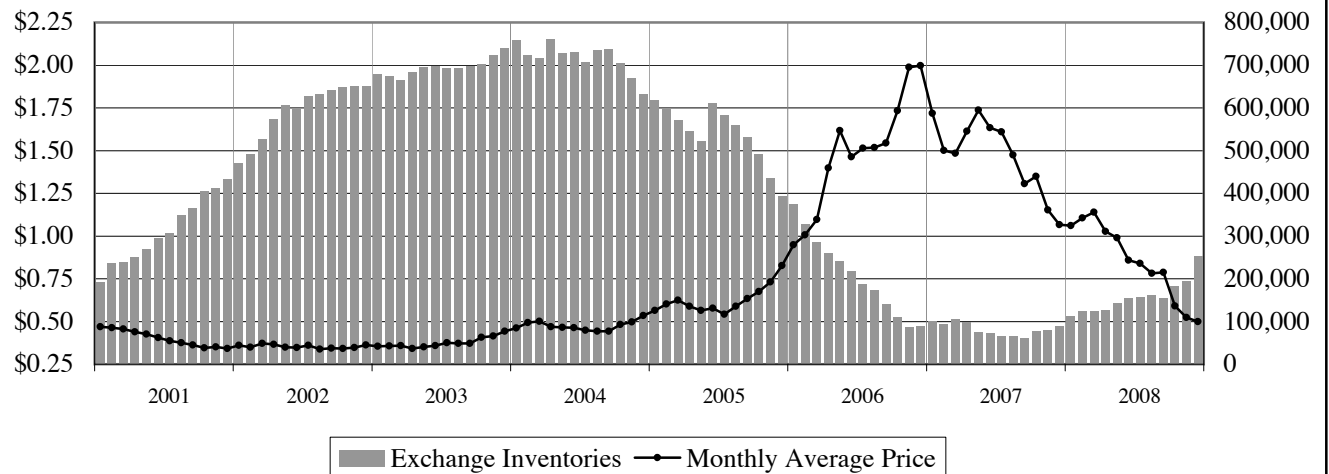
Aluminum



Tin



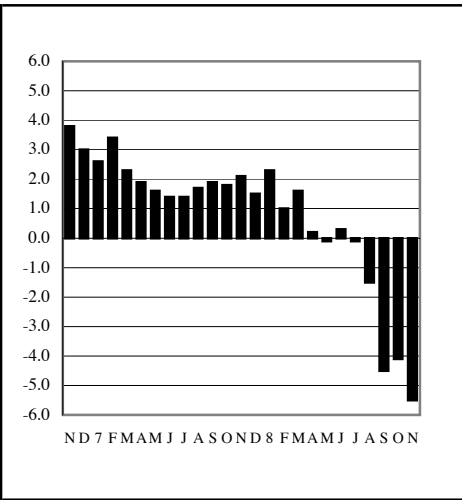
Zinc



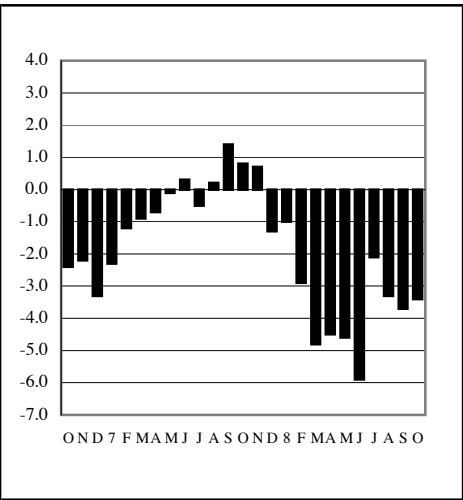
Exchange Inventories — Monthly Average Price

Industrial Production

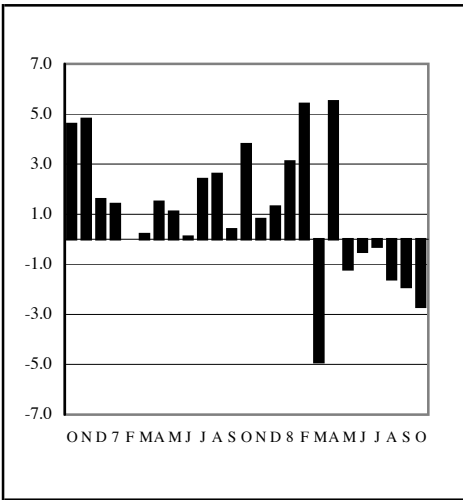
United States



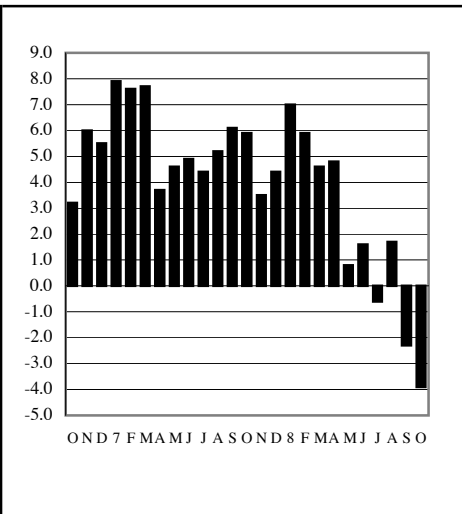
Canada



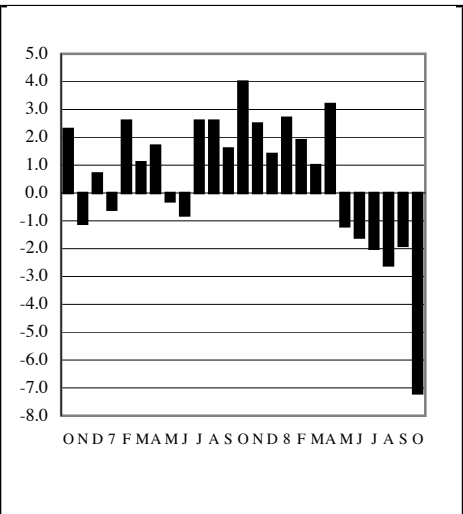
Mexico



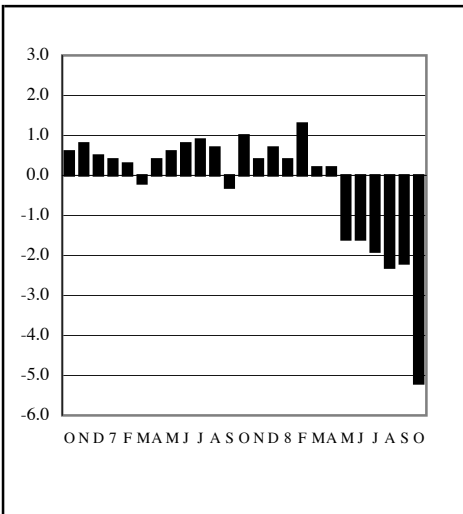
Germany



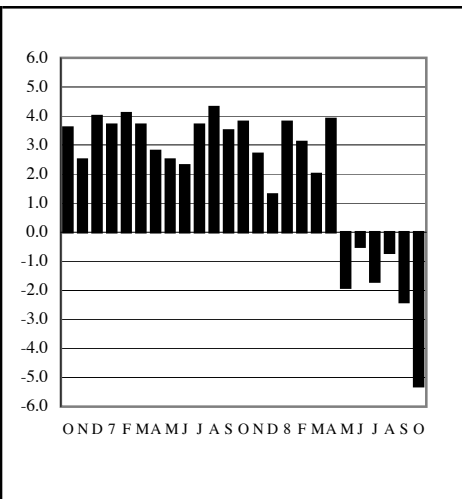
France



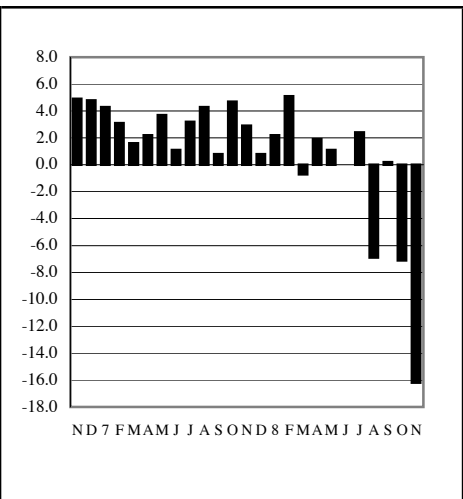
United Kingdom



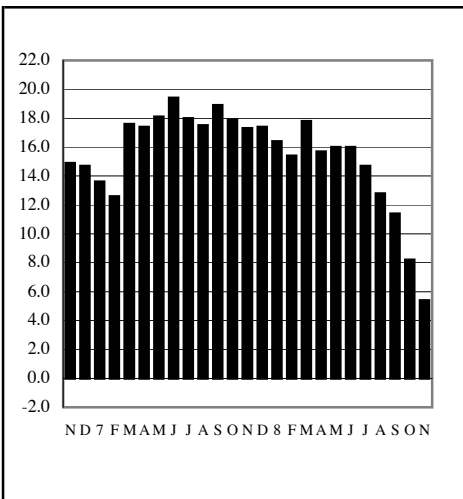
Euro Area



Japan



China



Percent Change From Year Ago Period

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REFINED COPPER
GLOBAL PRODUCTION AND CONSUMPTION

January - September 2007 Vs 2008

THOUSANDS OF METRIC TONES

PRODUCTION:	2007	2008	CHG	PCT
AFRICA	467	466	-1	-0.2%
NORTH AMERICA	1,609	1,600	-9	-0.6%
SOUTH AMERICA	2,684	2,771	87	3.2%
ASIA	5,646	5,861	215	3.8%
EUROPE	2,668	2,739	71	2.7%
OCEANIA	322	370	48	14.9%
TOTAL	13,396	13,807	411	3.1%
CONSUMPTION:				
AFRICA	197	202	5	2.5%
NORTH AMERICA	2,041	1,910	-131	-6.4%
SOUTH AMERICA	409	433	24	5.9%
ASIA	6,680	7,162	482	7.2%
EUROPE	3,896	3,856	-40	-1.0%
OCEANIA	101	124	23	22.8%
TOTAL	13,324	13,687	363	2.7%
NET	72	120		

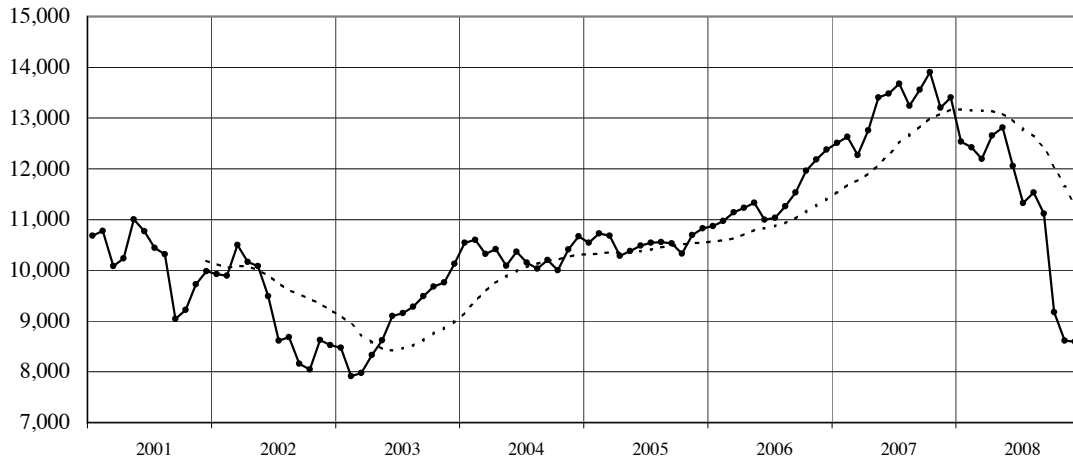
REFINED STOCK SUMMARY

	Dec 2007	Sept 2008		
PRODUCERS	1,050	1015	-35	-3.3%
MERCHANTS	10	10	0	0.0%
CONSUMERS	124	99	-25	-20.2%
GOVERNMENT	0	0	0	0.0%
EXCHANGES	238	224	-14	-5.9%
TOTAL	1,422	1,348	-74	-5.2%

SELECTED COUNTRIES

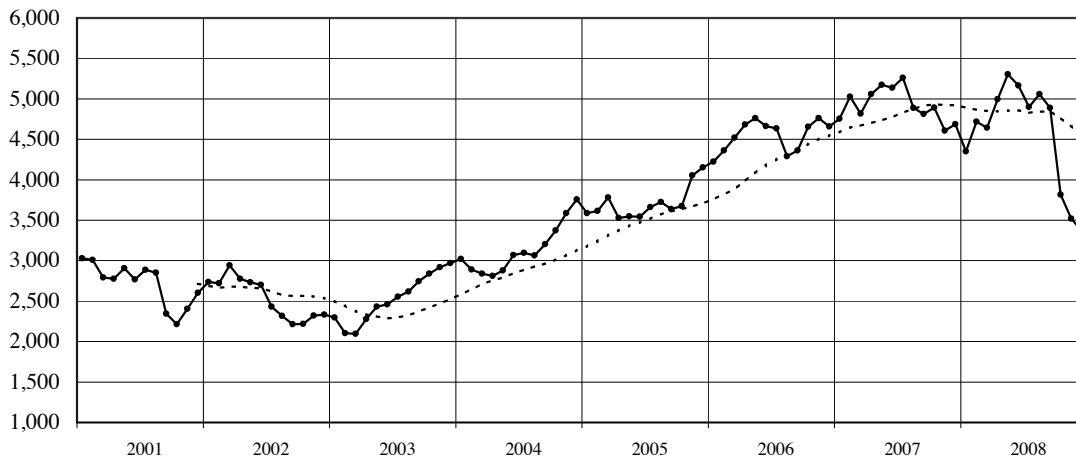
		2007	2008		
CHINA	PROD	2,538	2,886	348	13.7%
	CONS	3,357	3,785	428	12.7%
	NET	-819	-899		
US	PROD	1,003	953	-50	-5.0%
	CONS	1,655	1,505	-150	-9.1%
	NET	-652	-552		
JAPAN	PROD	1,192	1,148	-44	-3.7%
	CONS	922	908	-14	-1.5%
	NET	270	240		
GERMANY	PROD	502	520	18	3.6%
	CONS	1,050	1,083	33	3.1%
	NET	-548	-563		
CHILE	PROD	2,192	2,244	52	2.4%
	CONS	80	84	4	5.0%
	NET	2,112	2,160		

Dow Jones Industrials Monthly Average



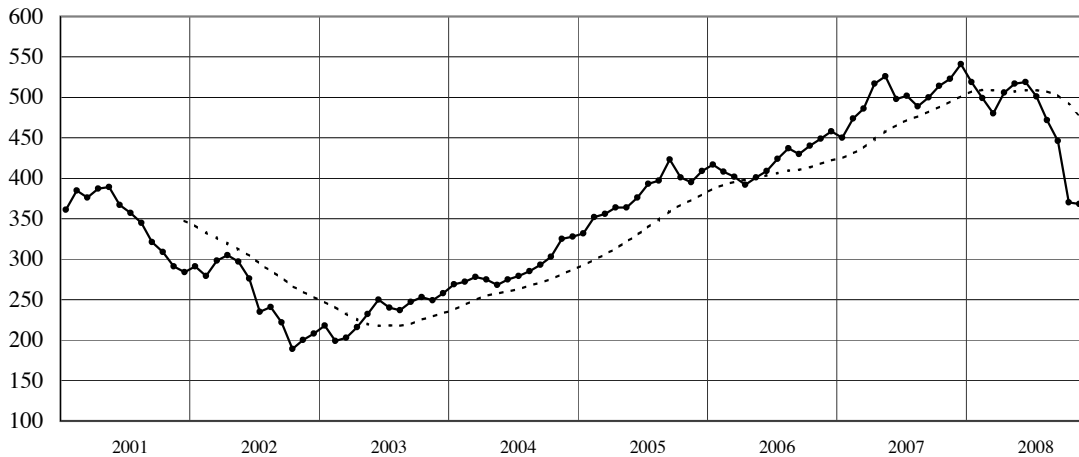
December: 8,596; -0.2% From November; -35.9% From December 2007

Dow Jones Transportation Monthly Average



December: 3,369; -4.2% From November; -28.1% From December 2007

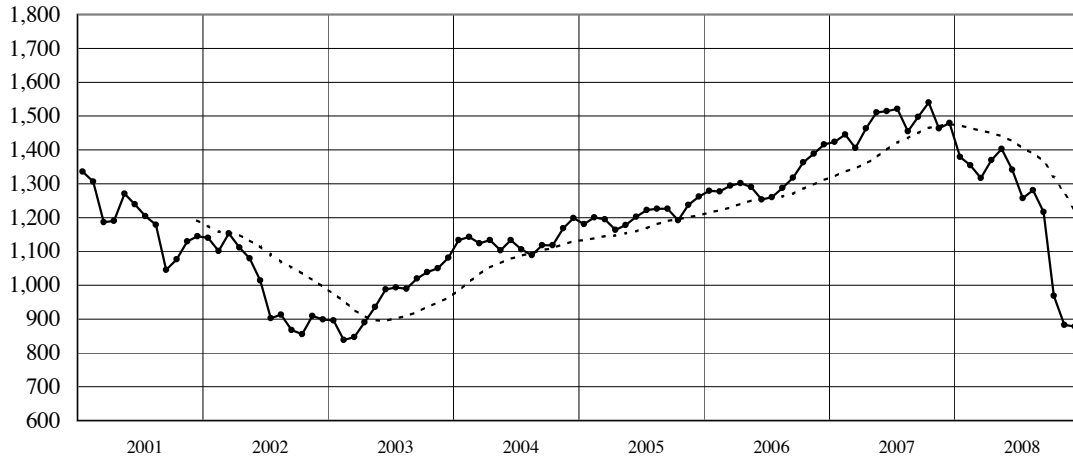
Dow Jones Utilities Monthly Average



December: 363; -1.4% From November; -32.9% From December 2007

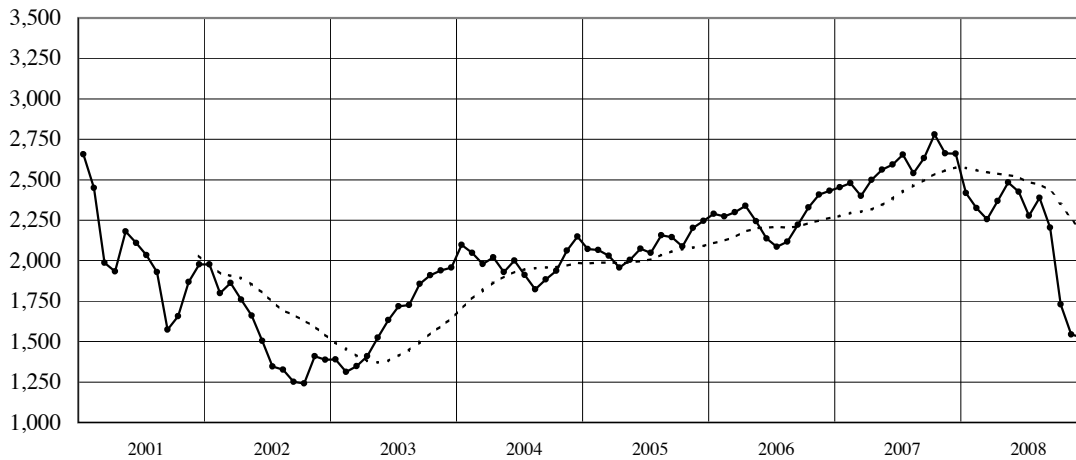
----- 12 Month Moving Average

S & P 500 Monthly Average



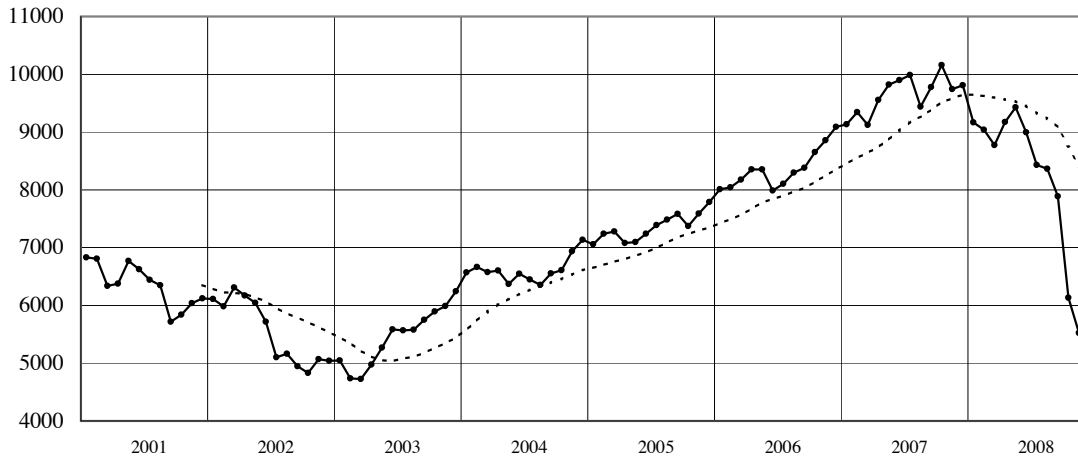
December: 878; -0.6% From November; -40.6% From December 2007

Nasdaq Monthly Average



December: 1,526; -1.1% From November; -42.7% From December 2007

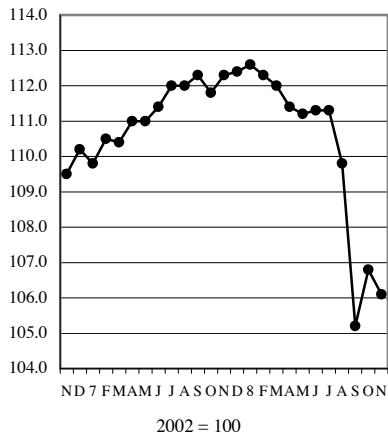
NYSE Composite Monthly Average



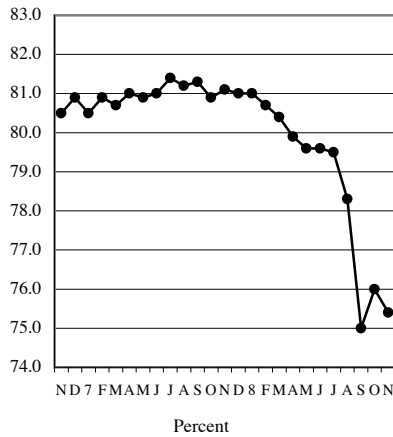
December: 5,524; Unchanged From November; -43.7% From December 2007

----- 12 Month Moving Average

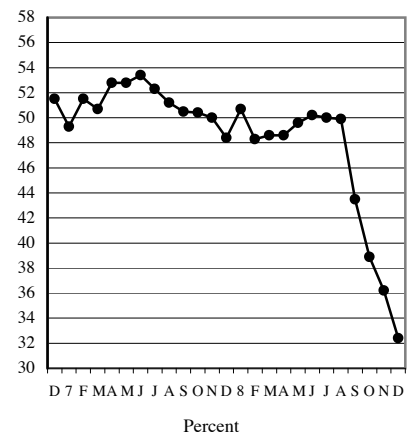
Industrial Production



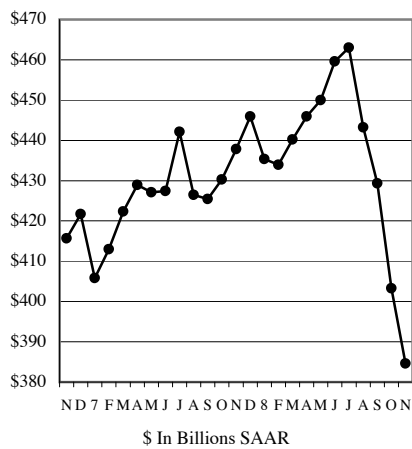
Capacity Utilization



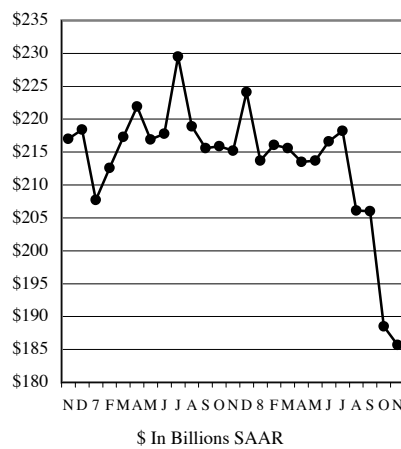
ISM Manufacturing Index



Factory Orders



Durable Goods Orders



ISM Non Manufacturing Index



↓ Industrial production fell 0.6% during November, and is down 5.5% from last November. Automotive production and manufacturing overall led the index lower.

↓ The capacity utilization rate fell to 75.4% during November from 76.0% in October, and is off from 81.1% last November. Manufacturing capacity usage fell to 72.3%, its lowest level since April 2002.

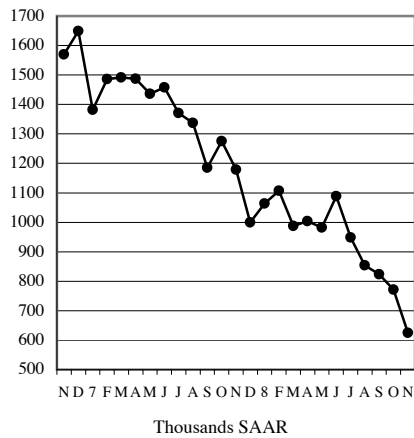
↓ The Institute for Supply Management reported that factory activity fell to a 28 year low of 32.4 during December. Economists were expecting it to come in at 35.5.

↓ Factory orders fell for the fourth consecutive month with November dropping 4.6% following a 6.0% decline in October. Shipments fell 5.3% and the backlog of orders declined 1.4%.

↓ Durable goods orders fell a revised 1.5% in November, following an 8.5% decline in October. Excluding transportation, durable goods orders rose 1.2%.

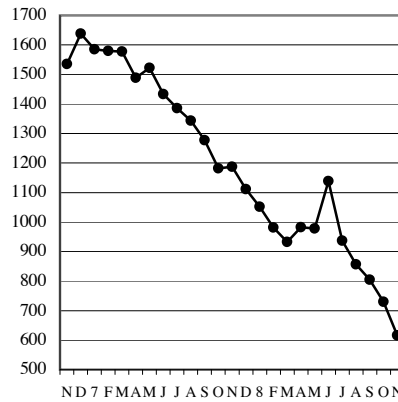
↑ The ISM Non Manufacturing Index rose to 40.6 in December from 37.3 during November. This indicator of the service sector represents some 80% of US economic activity.

Housing Starts



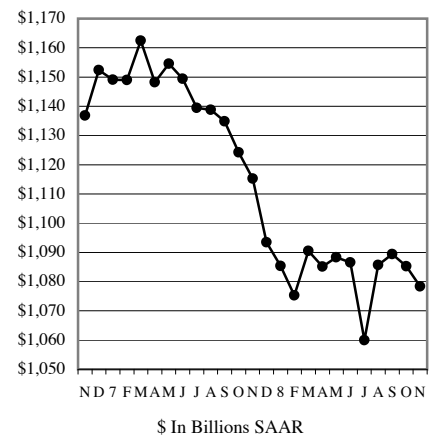
Thousands SAAR

Building Permits



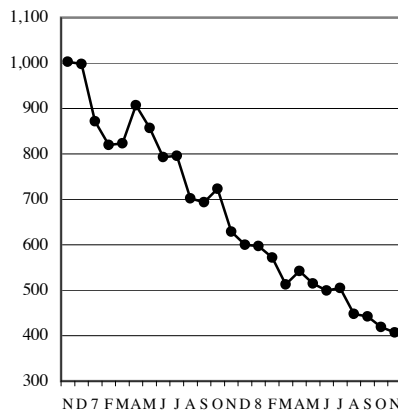
Thousands SAAR

Construction Spending



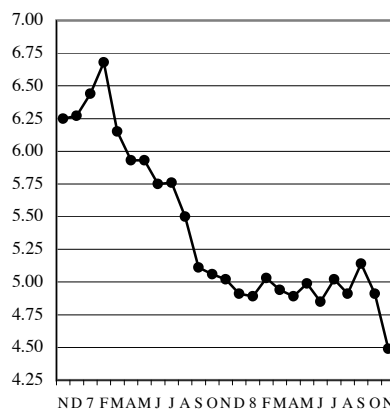
\$ In Billions SAAR

New Home Sales



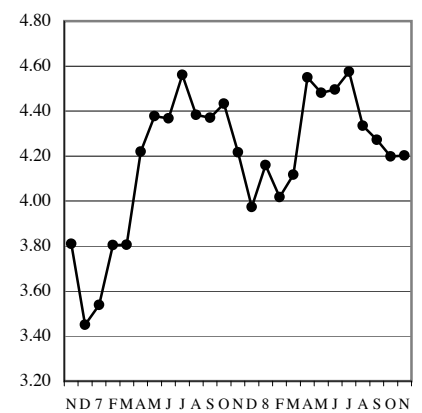
Thousands SAAR

Existing Home Sales



Millions SAAR

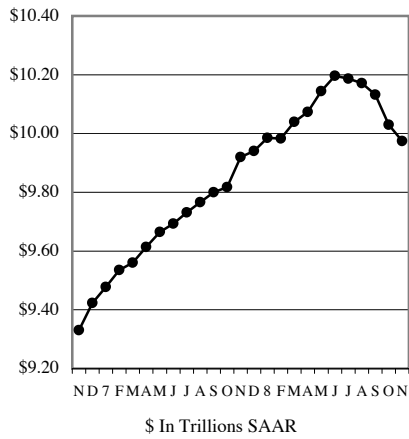
Inventory Of Homes For Sale



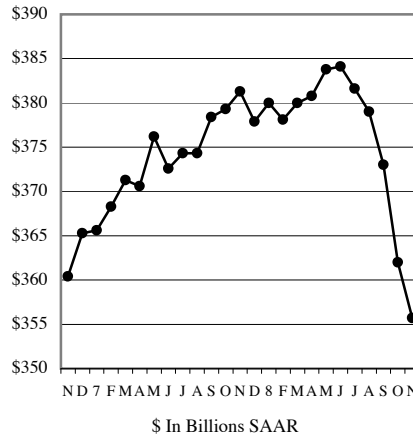
Millions

- ↓ Housing starts fell 18.9% to an annual rate of 625,000 units during November, and are off 47.0% from 1.179 million last November. From the peak of 2.273 million in January 2006, starts are down 72.5%.
- ↓ Building permits fell 15.6% to 616,000, during November, representing a decline of 48.1% from 1.187 million in the year ago period.
- ↓ Construction spending fell 0.6% in November to \$1.078 trillion following a 0.4% decline in October, and is down 3.3% from last November. Private spending is off 7.4% from last year, while public spending is up 7.9%.
- ↓ Sales of new single family homes fell 2.9% to an annualized rate of 407,000 homes during November, and are off 35.3% from 629,000 last year. From the peak of 1.389 million in July 2005, sales of new single family homes are down 982,000, or 70.7% from the high.
- ↓ Sales of existing homes declined 8.6% in November to an annual rate of 4.490 million homes, and are off 10.6% from 5.020 million last November.
- ↑ The inventory of existing homes available for sale rose 0.1% to 4.203 million, but is off 0.3% from 4.217 million last November. At the current selling pace, inventories represent 11.2 months of supply.

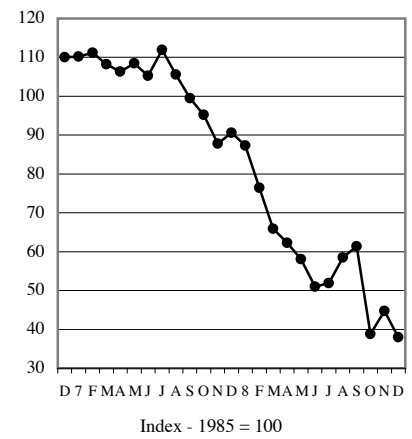
Consumer Spending



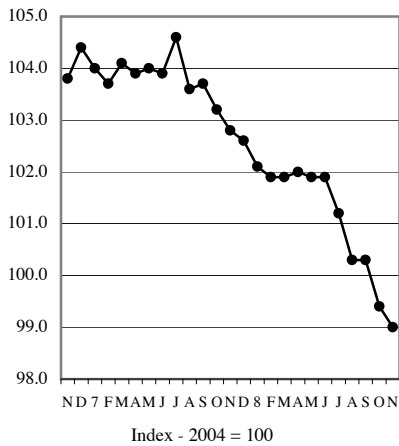
Retail Sales



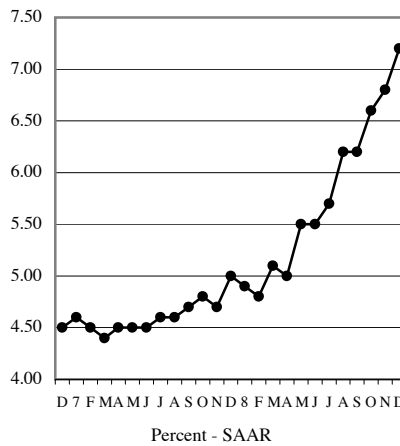
Consumer Confidence



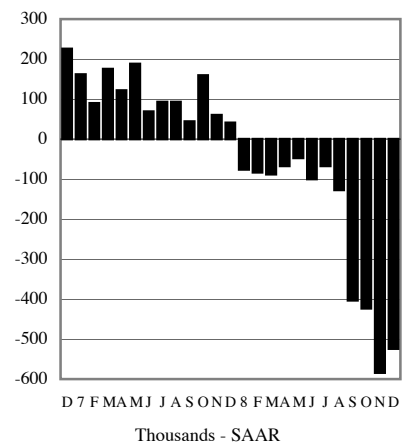
Leading Indicators



Unemployment Rate

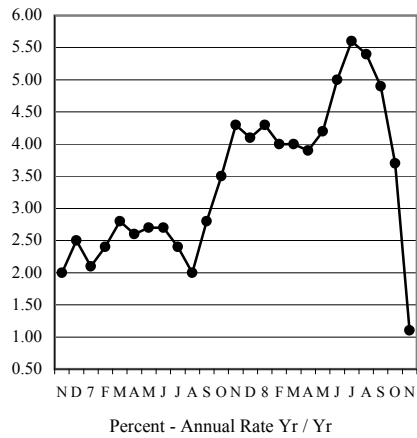


New Jobs Added

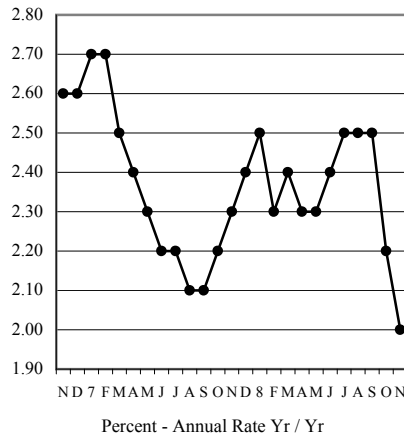


- ↓ Consumer spending fell for the fifth consecutive month as November contracted by 0.6%, following a 1.0% decline in October. The personal savings rate rose 2.8% following a 2.4% increase in October.
- ↓ Retail sales fell 1.8% in November following a revised loss of 2.9% in October, originally reported as a 2.8% decline. On a year over year basis, retail sales are down 7.4%.
- ↓ The Conference Board reported a record low reading for consumer confidence at 38.0 during December, down from 44.7 in November and 90.6 last December. The Reuters / University of Michigan survey showed December rising to 60.1 from 55.3 in November.
- ↓ The index of leading economic indicators fell 0.4% to a four year low in November, following a 0.9% decline in October. Falling stock prices, building permits and job losses led the index lower.
- ↑ Our unemployment rate rose to a sixteen year high of 7.2% during December from 6.8% in November and 5.0% last December.
- ↓ 524,000 jobs were lost during December following a loss of 584,000 in November, originally reported as a 533,000 decline. For the full year, 2.59 million jobs were lost, representing the worst annual pullback since 1945.

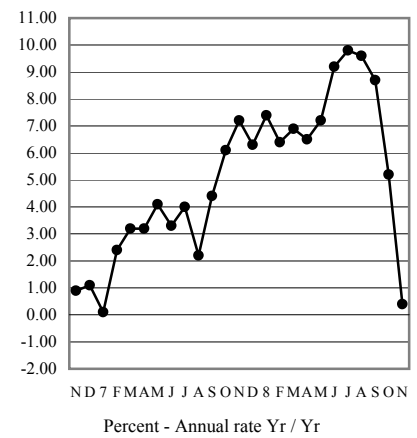
Consumer Price Index



CPI Core Rate



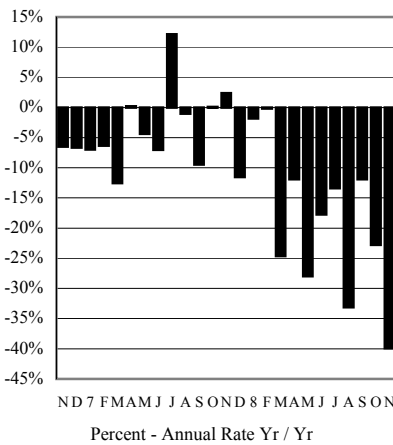
Producer Price Index



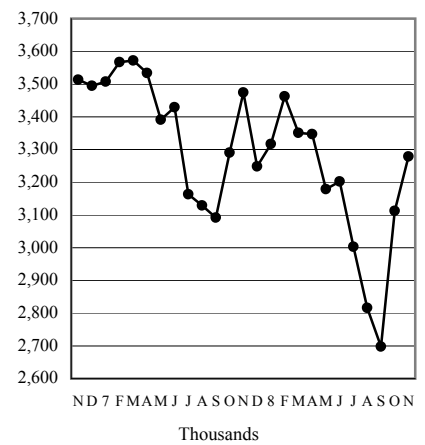
Automotive Sales



Automotive Production



Automotive Inventories



↓ Consumer prices fell a record 1.7% during November, with the year over year rate up just 1.1%. For the month, gasoline fell 29.5%; home utilities fell 1.6% and transportation costs declined 9.8%.

↑ The core rate of consumer prices which excludes food and energy was unchanged during November and is up 2.0% from November 2007. Energy prices overall fell 13.3% from the year ago period, while food prices rose 6.0%.

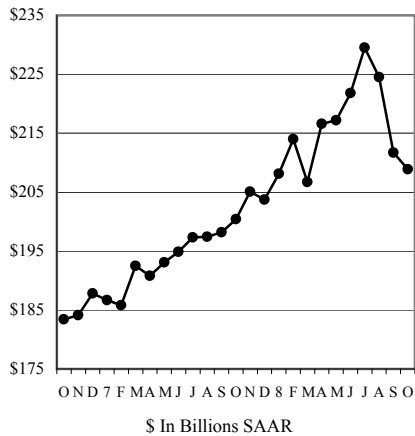
↓ Producer Prices fell 2.2% during November following a 2.8% decrease during October. Year over year, producer prices are up just 0.4%. The core rate of producer prices is up 4.2% from last year.

↓ Automotive sales fell to 747.5K vehicles during November, off 10.9% from October and down 36.7% from 1.180 million last November. Through the first eleven months, sales stand at 12.352 million, down 16.3% from 14.764 million in the comparable year ago period.

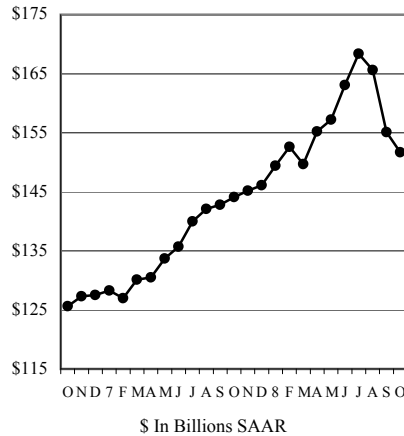
↓ Production of cars and trucks fell 29.6% to 540.5K in November from October, and is off 39.9% from last November. Year to date production stands at 8.247 million, off 19.2% from 10.212 million during the first eleven months of 2007.

↓ Inventories of cars and trucks rose to a seven month high of 3.278 million, representing a 110 day supply at the current selling pace. Inventories of cars rose to 113 days from 91, while trucks inventories fell to 106 days from 111 in October.

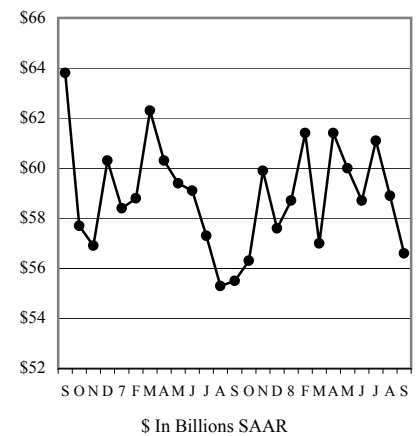
Imports



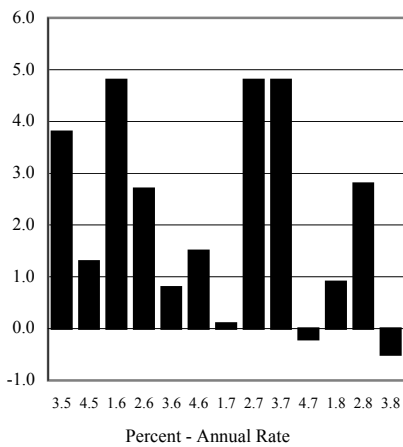
Exports



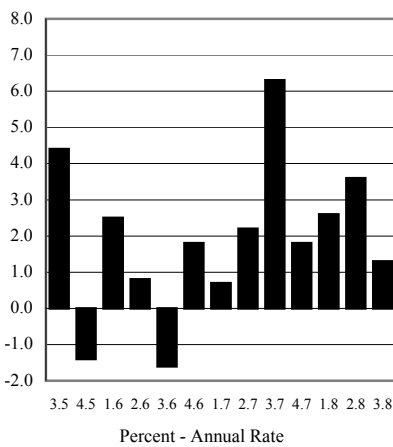
Trade Deficit



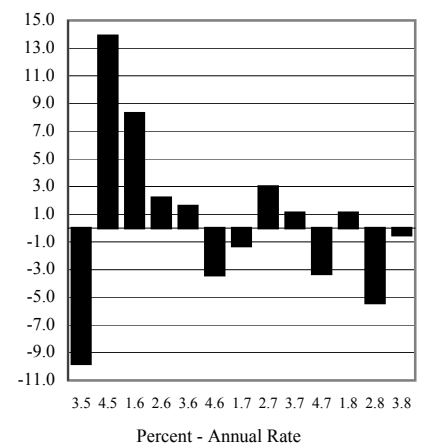
Gross Domestic Product



Productivity

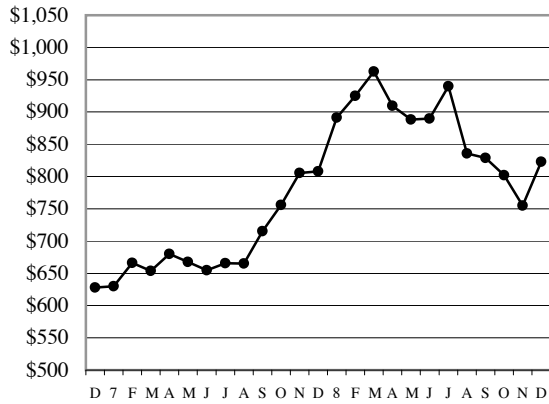


Corporate Profits After Tax



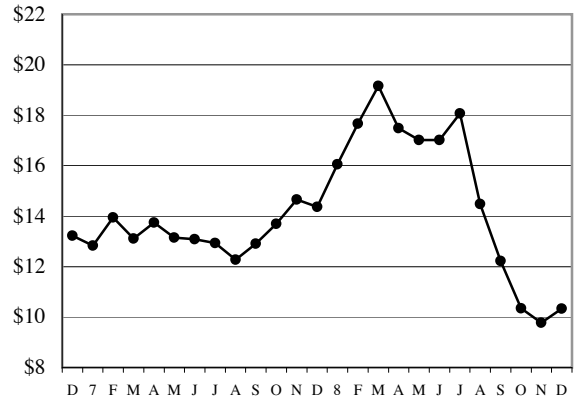
- ↓ Imports of goods and services fell 1.3% during October to \$208.9 billion, but were up 4.2% from \$200.4 billion last October. Through the first ten months, imports rose 11.4% to \$2.159 trillion.
- ↓ Exports fell 2.2% to \$151.7 billion, but are up 5.3% from \$144.1 billion last October. Cumulatively, exports are running 15.8% ahead of 2007 at \$1.568 trillion.
- ↑ Our trade deficit rose 1.1%, or \$630 million during October to \$57.2 billion from September, and putting it 1.5% over October 2007. Through the first ten months, the trade deficit rose 1.4% to \$591 billion from \$583 billion during the comparable 2007 period.
- ↓ The final reading on third quarter GDP was unchanged at -0.5% following a 2.8% increase during the second quarter. Consumer spending was revised down to -3.8% from -3.7%, and business investments down to -1.7% from -1.5%.
- ↑ Non farm productivity rose a revised 1.3% during the third quarter, originally reported as a 1.1% gain. Year over year productivity increased 2.1%.
- ↓ Corporate profits after taxes fell a revised 0.5% during the third quarter, originally reported a 0.4% decline.

Gold



Dec: \$822.67; +9.0% From Nov; +1.8% From Dec 2007

Silver



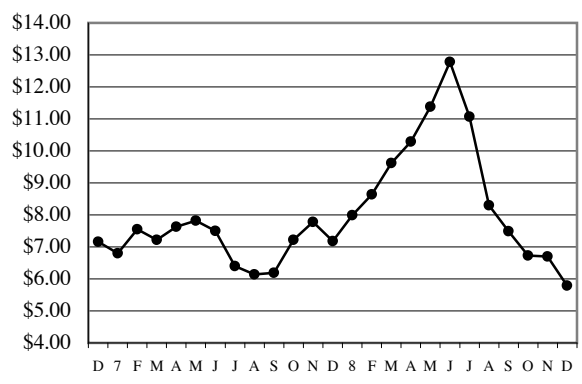
Dec: \$10.33; +5.6% From Nov; -28.1% From Dec 2007

Crude Oil



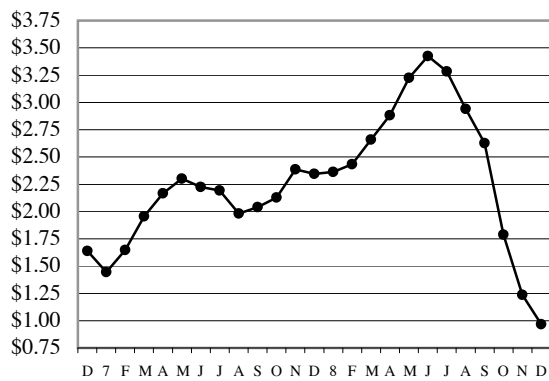
Dec: \$42.04; -26.8% From Nov; -54.2% From Dec 2007

Natural Gas



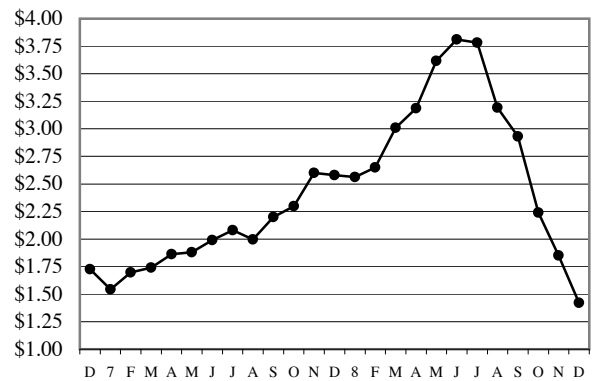
Dec: \$5.79; -13.6% From Nov; -19.4% From Dec 2007

Gasoline



Dec: \$.9667; -21.9% From Nov; -58.8% From Dec 2007

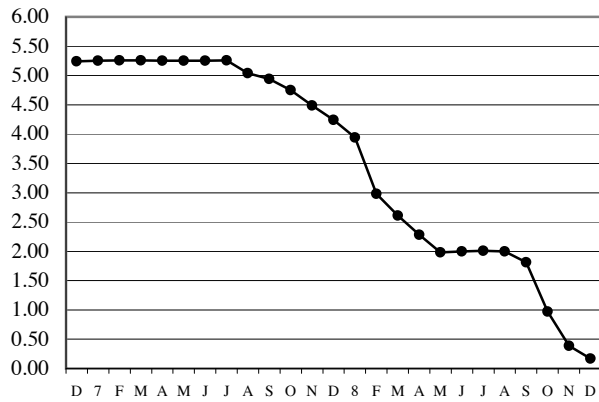
Heating Oil



Dec: \$1.42; -23.2% From Nov; -44.9% From Dec 2007

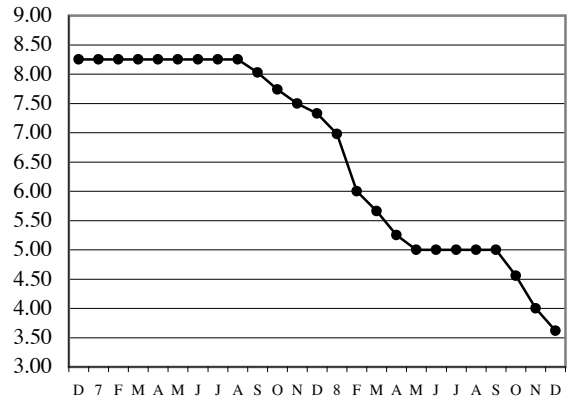
Interest Rates

Federal Funds



Dec 2008: 0.17%; Nov 2008: 0.39%; Dec 2007: 4.24%

Prime Rate



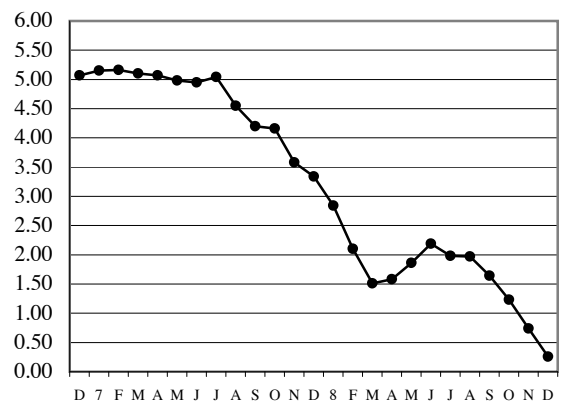
Dec 2008: 3.62%; Nov 2008: 4.00%; Dec 2007: 7.33%

3 Month Bills



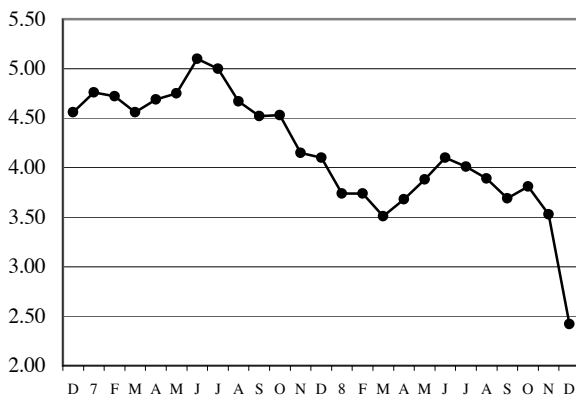
Dec 2008: 0.04%; Nov 2008: 0.19%; Dec 2007: 3.07%

6 Month Bills



Dec 2008: 0.26%; Nov 2008: 0.74%; Dec 2007: 3.34%

10 Year Bonds



Dec 2008: 2.42%; Nov 2008: 3.53%; Dec 2007: 4.10%

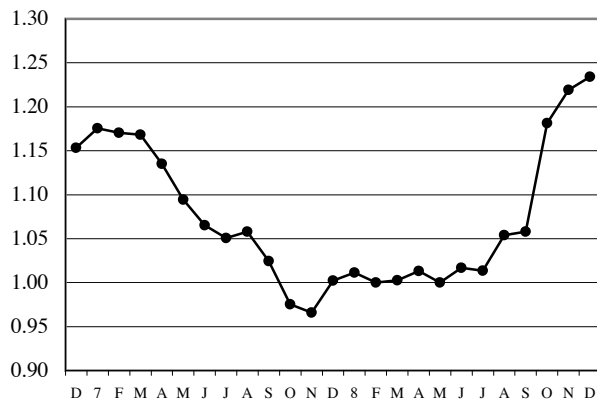
30 Year Conventional Mortgage



Dec 2008: 5.33%; Nov 2008: 6.09%; Dec 2007: 6.10%

Foreign Exchange

Canadian Dollar



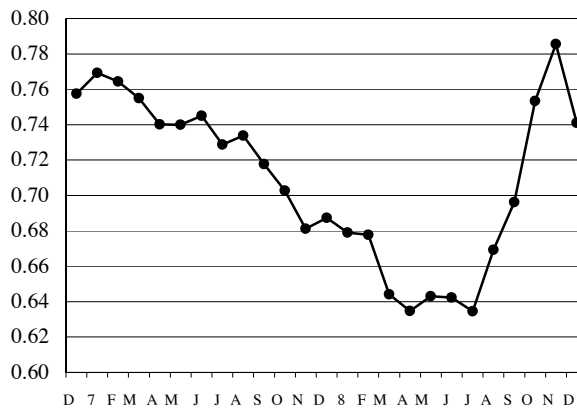
Dec: 1.2342; +1.2% From Nov; +23.1% From Dec 2007

Mexican Peso



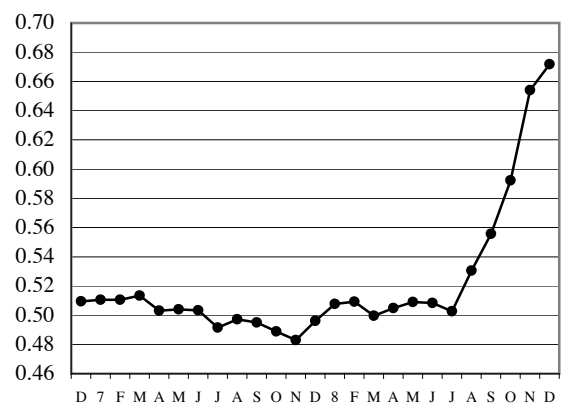
Dec: 13.4295; +2.3% From Nov; +23.8% From Dec 2007

Euro Dollar



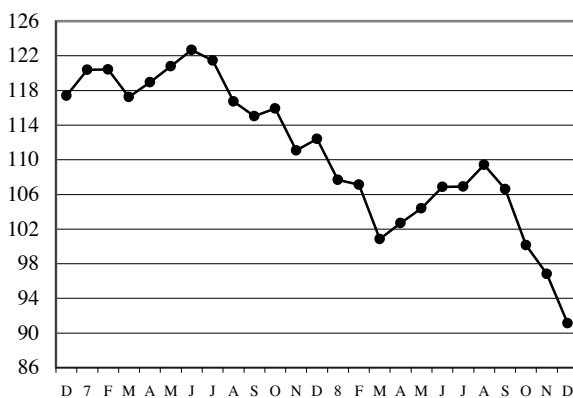
Dec: .7410; -5.7% From Nov; +7.8% From Dec 2007

British Pound



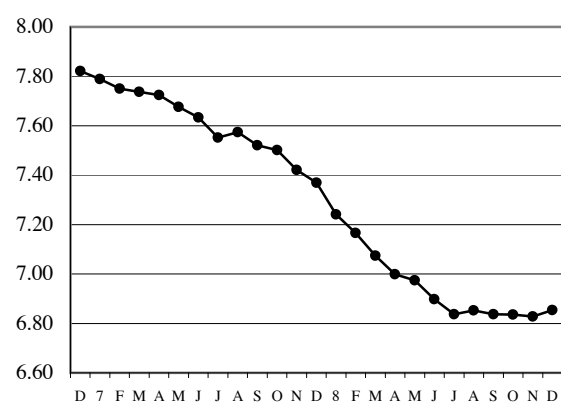
Dec: .6717; +2.7% From Nov; +35.4% From Dec 2007

Japanese Yen



Dec: 91.12; -5.9% From Nov; -18.9% From Dec 2007

Chinese Yuan



Dec: 6.8540; +0.4% From Nov; -7.0% From Dec 2007

Corn



Dec: \$3.62; -3.1% From Nov; -14.5% From Dec 2007

Wheat



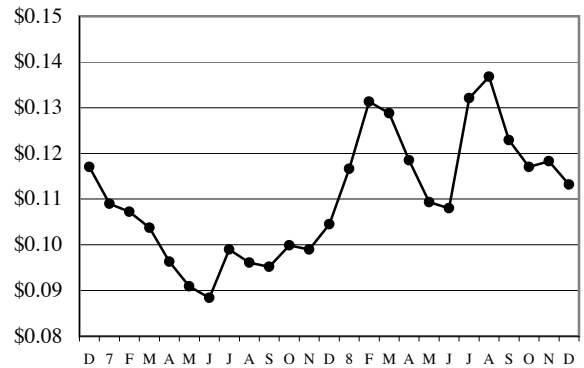
Dec: \$5.35; +0.3% From Nov; -41.6% From Dec 2007

Soybeans



Dec: \$8.68; -3.1% From Nov; -24.6% From Dec 2007

Sugar



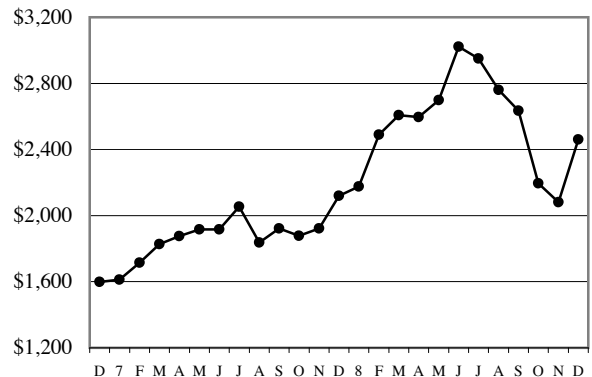
Dec: \$.1132; -4.3% From Nov; +8.3% From Dec 2007

Coffee



Dec: \$1.09; -3.0% From Nov; -16.9% From Dec 2007

Cocoa

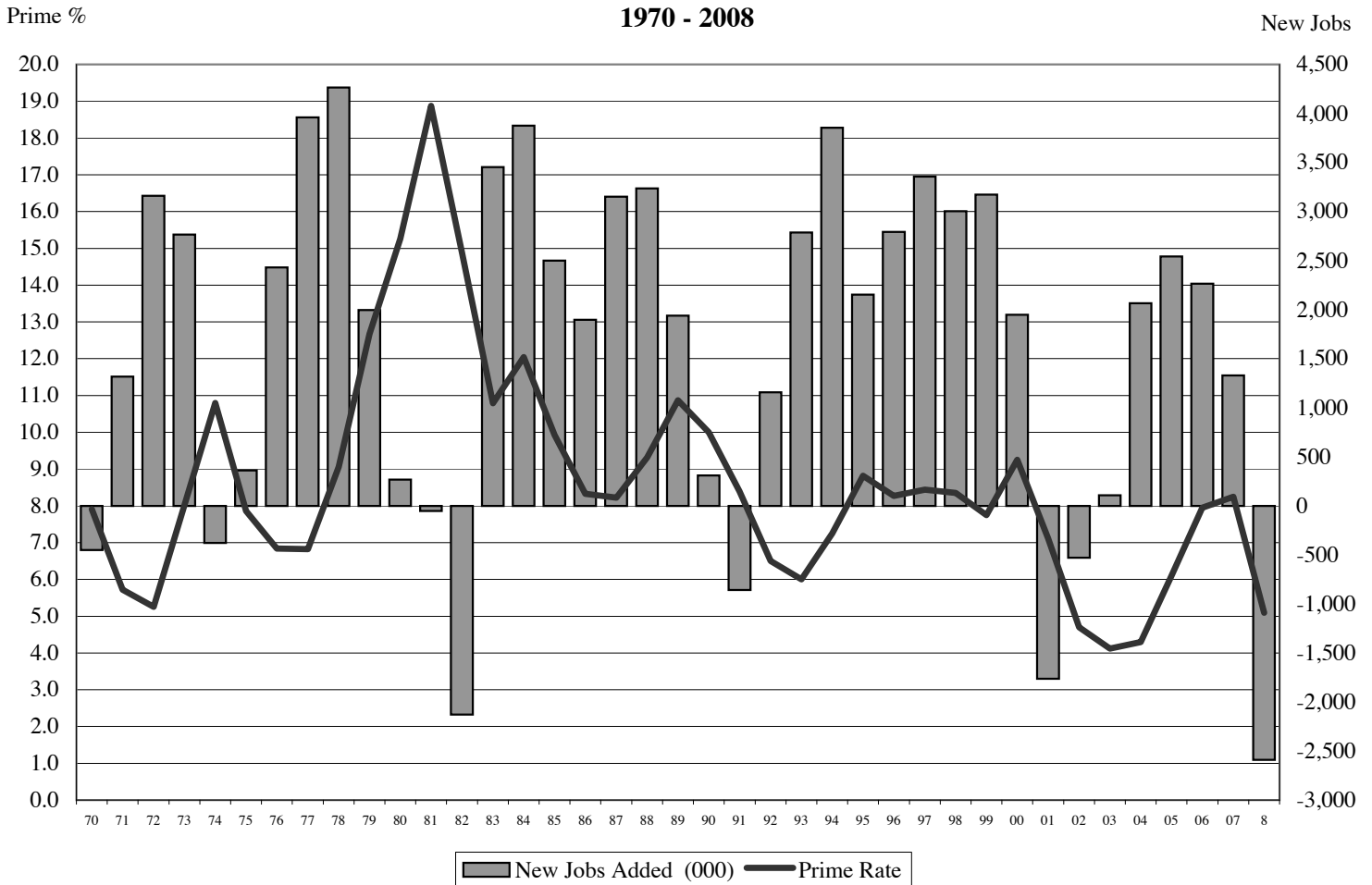


Dec: \$2461; +18.2% From Nov; +16.1% From Dec 2007

MARKET DATA

Monthly Average Prices	% Change From:			November 2008	December 2007
	Last Month	Last Year	December 2008		
Copper Spot (CMX)	-17.6%	-54.1%	1.3880	1.6850	3.0217
Arbitrage: Comex - LME			(0.0052)	(0.0007)	0.0341
Copper LME Cash	-17.4%	-53.4%	1.3932	1.6857	2.9876
LME 3 Mo.	-17.3%	-53.3%	1.4097	1.7043	3.0164
Cash - 3 Mo.			0.0166	0.0186	0.0288
Copper LME Cash In Euro \$	-22.0%	-49.7%	1.0323	1.3243	2.0534
Aluminum LME Cash	-19.5%	-37.4%	.6759	.8401	1.0801
LME 3 Mo.	-19.4%	-37.0%	.6965	.8641	1.1049
Cash - 3 Mo.			0.0206	0.0240	0.0248
Lead LME Cash	-25.4%	-62.9%	.4363	.5852	1.1772
LME 3 Mo.	-26.0%	-62.8%	.4371	.5907	1.1744
Cash - 3 Mo.			0.0008	0.0055	(0.0028)
Tin LME Cash	-17.6%	-30.9%	5.0928	6.1808	7.3718
LME 3 Mo.	-17.4%	-32.8%	5.0108	6.0695	7.4544
Cash - 3 Mo.			(0.0820)	(0.1114)	0.0826
Nickel LME Cash	-9.5%	-62.7%	4.3918	4.8525	11.7839
LME 3 Mo.	-9.8%	-62.5%	4.4602	4.9421	11.9074
Cash - 3 Mo.			0.0685	0.0896	0.1235
Zinc LME Cash	-4.5%	-53.2%	.4990	.5226	1.0670
LME 3 Mo.	-4.1%	-52.8%	.5074	.5291	1.0751
Cash - 3 Mo.			0.0085	0.0065	0.0082
Base Metals Barometer	-15.9%	-51.5%	135.5	161.1	279.4
Precious Metals					
Silver (CMX)	5.6%	-28.1%	10.33	9.78	14.36
Gold (CMX)	9.0%	1.8%	822.67	754.89	807.96
Platinum (NYM)	0.8%	-43.3%	849.89	842.73	1498.49
Palladium (NYM)	-14.2%	-50.5%	177.61	207.06	358.73
Energy					
Crude Oil (NYM)	-26.8%	-54.2%	42.04	57.44	91.74
Heating Oil (NYM)	-23.2%	-44.9%	1.4212	1.8513	2.5788
Gasoline (NYM)	-21.9%	-58.8%	0.9667	1.2380	2.3453
Natural Gas (NYM)	-13.6%	-19.4%	5.7878	6.6989	7.1788
Warehouse Stocks (EOM MT):					
Copper (Cx & LME)	20.8%	75.3%	370,850	306,873	211,506
Aluminum (LME)	29.2%	150.4%	2,328,900	1,802,950	930,025
Lead (LME)	8.5%	-0.7%	45,150	41,600	45,475
Tin (LME)	72.0%	-35.6%	7,790	4,530	12,100
Nickel (LME)	23.2%	63.5%	78,390	63,606	47,946
Zinc (LME)	31.3%	184.4%	253,500	193,100	89,150
Foreign Exchange					
\$1 U.S. Will Buy:					
British Pound	2.7%	35.4%	0.6717	0.6540	0.4961
Canadian Dollar	1.2%	23.1%	1.2342	1.2193	1.0022
Chinese Yuan	0.4%	-7.0%	6.8540	6.8281	7.3697
Euro Dollar	-5.7%	7.8%	0.7410	0.7856	0.6873
Japanese Yen	-5.9%	-18.9%	91.12	96.84	112.39
Mexican Peso	2.3%	23.8%	13.4295	13.1258	10.8514

New Jobs Added Annually Vs Prime Lending Rate 1970 - 2008



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