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THE WORLD COPPER MARKET:
RECENT TRENDS AND PROSPECTS

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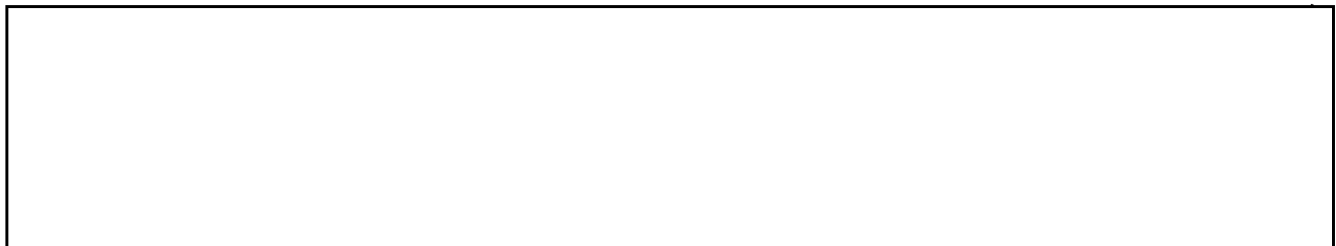
Some Market Characteristics



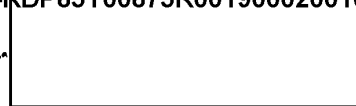
1. The world copper market has three fairly distinct components. One is the United States, which possesses about 30% of mine capacity of non-Communist countries and normally imports only 10% of its copper requirements. The other non-Communist countries constitute a second component, in which supplies move mainly to Western Europe and Japan from Chile, Peru, Zaire, and Zambia -- the members of CIPEC -- and from Canada. The CIPEC countries account for about 38% of mine capacity and 70% of exports in the non-Communist countries. Communist countries make up a relatively self-sufficient third component, with output approximating one-fourth of the non-Communist total. Traditionally, East-West copper trade has been limited to a small net outflow from non-Communist sources. This trend was reversed in 1973, however, when Communist countries exported some 210,000 metric tons to the West and China imported an estimated 160,000 metric tons from non-Communist sources.

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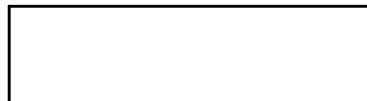


2. Because US copper producers maintain more stable prices than do other suppliers, the non-Communist countries have a two-tiered price system. Owing to price controls and other factors, the US posted price sometimes is slow to reflect changing supply-demand conditions. Most other transactions, although covered by long-term contracts, are priced at the LME cash quotation on the day of delivery. Because the LME actually handles only a small part of the world copper trade and is used for hedging, day-to-day price fluctuations are often sharp. Both US and LME prices have changed considerably over the long-term, mainly because the industry has had great difficulty adjusting supply to demand. The long leadtime required for new mines, typically large individual additions to capacity, and the tendency of producers to start expansion programs belatedly and at about the same time have all contributed to irregular growth of capacity and wide price swings.

Demand and Supply Trends in the Early 1970s

3. 1970-72 -- Non-Communist copper demand and supply generally were in better balance during 1970-72 than in the late 1960s. Consumption of refined copper continued to move erratically owing to the slowdown

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and subsequent pickup in economic activity in most industrialized countries. The US and LME prices nevertheless progressively converged and became more stable. Much of the earlier pressure on prices vanished because copper production ran ahead of demand each year, although not by a wide margin.*

4. The 5% increase in refined copper output in 1970 brought substantial price relief because consumption rose only slightly. Although consumption dropped in 1971, production declined even more, mainly because of a 90-day strike in US mines and refineries. To meet reviving demand in 1972, the industry drew heavily on scrap as well as ore supplies and boosted production by a strapping 9%, to 6.4 million metric tons. The increase overcompensated for recovery in demand, however, and LME inventories of refined copper reached an all-time high of some 190,000 tons in November.

5. Reflecting these developments LME, copper prices dropped from an average of \$0.80 per pound in March 1970 -- not far below the 1966 record monthly high of \$0.86 -- to \$0.46 in late 1971. Despite two brief subsequent periods of rising prices, the LME price in December 1972 still averaged only \$0.46. The US producer price, which reached \$0.60 per pound during

*See statistical appendix.

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mid-1970, generally remained above the LME price during 1971-72, amounting to \$0.51 in December 1972.

6. 1973-March 1974 -- These trends were sharply reversed in 1973 when consumption jumped by 10% to 6.9 million metric tons and refined copper production rose by 4% to 6.6 million tons. Japan led the consumption surge with a 26% increase; consumption in Europe rose by 7% and in the US by 6%. World mine output increased by 6% to nearly 6 million tons, but refineries were held to more moderate increases in part because of smelting capacity limitations. The 300,000 ton production deficit was mitigated somewhat by net imports of 50,000 tons from Communist countries. The remainder of the shortfall was covered by drawdowns on stocks, reducing them to their lowest level in years.

7. Monetary uncertainties, which prompted speculators to load up on commodities as a hedge, exacerbated price pressures deriving from spiraling demand and lagging production. By mid-year, LME prices were pushed up to \$0.80 -- approximating earlier monthly records. Even though consumption growth thereafter declined, prices continued to climb as depleted stocks added to the buying fever. By November, LME spot quotations averaged \$1.03; after a brief decline,

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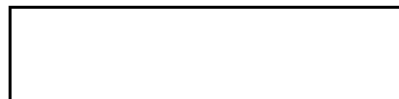
they rebounded to a new record high of \$1.16 during the first two weeks of March 1974. The US producer price also rose early in 1973 but then was frozen at \$0.60 during March-November. It currently stands at \$0.68.

Prospects for 1975-75

8. An increase in refined production of about 6% to 7% is forecast for 1974, boosting output to about 7.1 million tons. More than half of this growth is expected to take place in the United States and Chile, where smelting/refining bottlenecks are being lessened through pollution-control investments and an ambitious renovation program respectively. Chile and Zambia are largely responsible for the expected 6% hike in mining output.

9. Production estimates this year, however, are even shakier than usual because of the possibility of a US copper industry strike when labor contracts expire at the end of June. The last two times contract negotiations took place, there were prolonged strikes -- about 8 months in 1967-68 and 3 months in 1971. For each month the industry is partly shut down, the United States will incur a production loss of 120,000 tons or so. Thus, a strike lasting three or four months could wipe out the total anticipated increase in non-Communist output in 1974.

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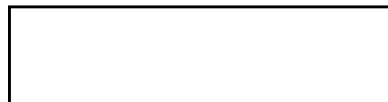
10. The demand side of the equation is even more uncertain because energy problems have made economic forecasting a riskier business than usual and monetary fluctuations have pushed speculators heavily into the commodities market. Forecasters generally agree, however, that there will be a pronounced slowdown in world industrial growth in 1974 with widespread stagnation -- or even a decline -- occurring in the first half of the year and some recovery in the second half. For the year as a whole, estimates of economic growth in Europe and the US generally fall in the 1% to 4% range, far below growth in 1973. Japan's economic growth rate is expected to be some 3% to 5%, down from about 11% in 1973.

11. Because copper consumption is closely related to industrial production, it also should level off in the first half of the year and then rise slowly in later months. Copper demand will nevertheless remain high, despite the industrial slowdown. Producers and consumers will want to rebuild their stocks to more normal levels. Moreover, they will be joined by market speculators in hedging against a possible strike in the US copper industry this summer.

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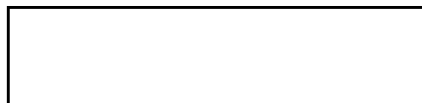
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12. On balance, it appears likely that copper will remain fairly tight in 1974, particularly during the first half of the year. Under the best conditions, output will grow by only some 6% to 7%. Since consumption exceeded production by 4% in 1973, the margin of supply over demand will be small, even if consumption stagnated in the first half as expected. In this event, consumers can be expected to take advantage of the slack to rebuild their stocks. Consumer stocks are at extremely low levels, and the prospect of labor strife in the United States and production difficulties elsewhere will stimulate hedge buying.

13. Assuming that there is no strike in the United States, the market situation in late 1974 and into 1975 will depend upon the timing and magnitude of the anticipated economic recovery. Copper output is expected to grow by a further 6% in 1975. If the pace of industrial expansion falls below that level, the copper market can be expected to weaken and prices would decline.

14. Consuming nations, particularly the European countries and Japan, will continue to be vulnerable to price-fixing by CIPEC producers. Effective concerted action

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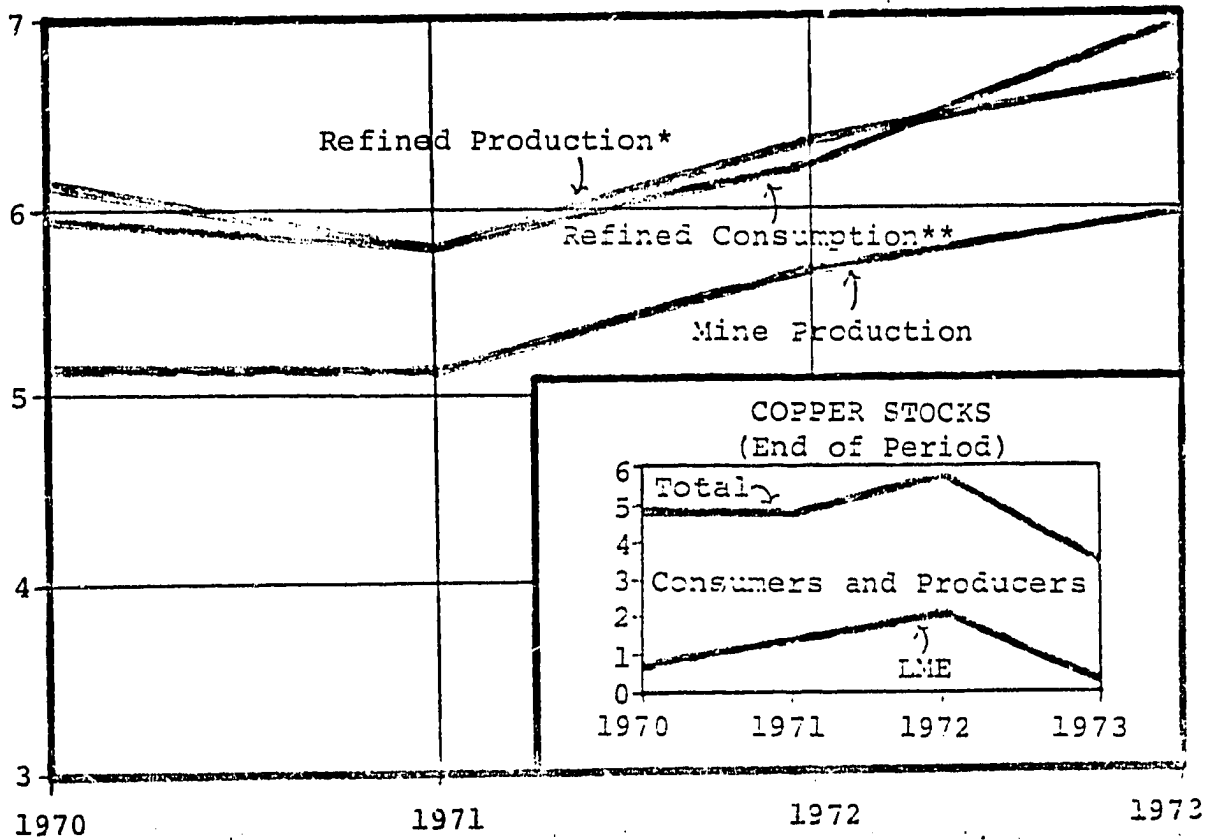
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to raise copper prices appears even less likely now, however, than in previous years. Chile reportedly has been resisting pressures from its partners to force prices up by withholding supplies. Santiago apparently is loathe to risk the good will of the US and European nations, on which it depends for financial and technical assistance, investment, and capital goods. Moreover, if copper prices remain high because of supply and demand factors, there will be less incentive for CIPEC action. And, if the market weakens, price-raising measures will be considerably more costly to enact.

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COPPER PRODUCTION AND CONSUMPTION IN FREE WORLD COUNTRIES



*Includes net imports from Communist countries in 1973.

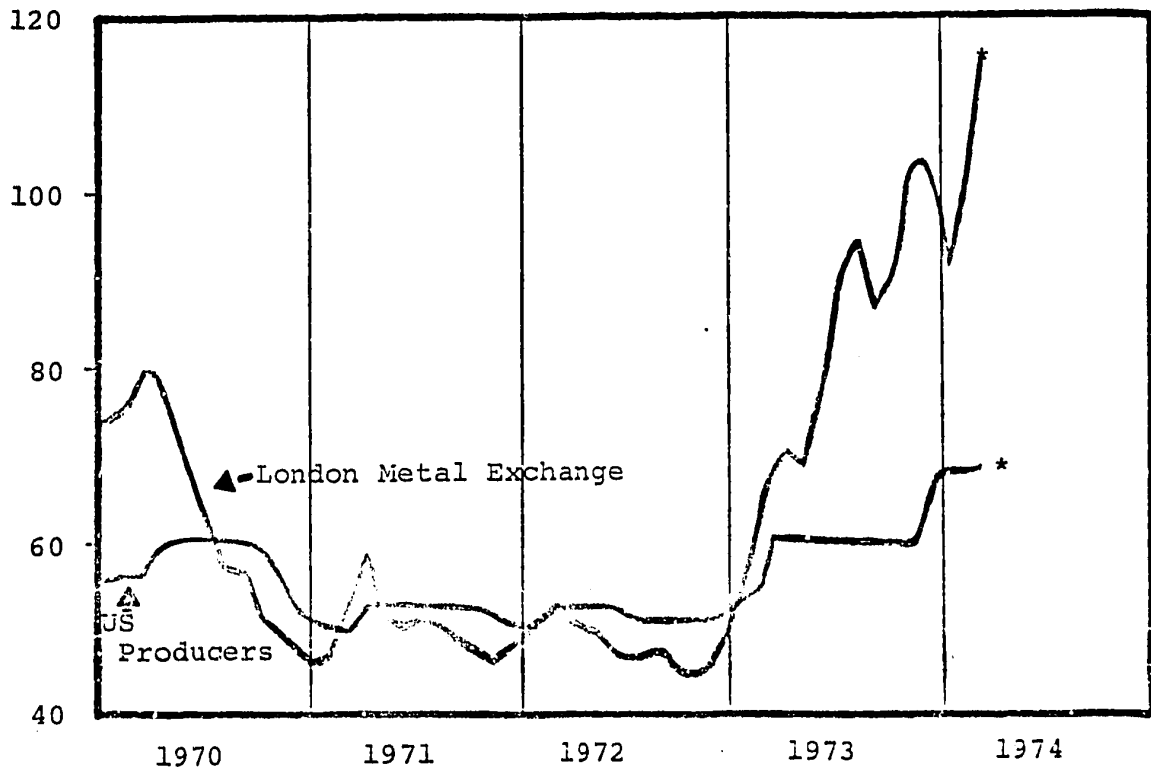
**Includes net exports to Communist countries 1970-72.

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COPPER PRICES



*Through 15 March

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Copper Prices

Monthly averages	London Metal Exchange (LME)				US Producer Price			
	1970	1971	1972	1973	1970	1971	1972	1973
					(US cents per pound)			
January	73.72	45.8	48.81	50.7	55.92	51.48	50.35	53.25
February	75.12	46.25	50.43	57.8	56.12	50.37	50.25	54.00
March	79.51	51.87	52.57	68.4	56.12	50.58	52.63	60.25
April	78.95	56.74	51.32	71.9	59.74	52.87	52.63	60.25
May	72.48	50.52	50.16	70.2	60.12	52.87	52.63	60.25
June	66.09	48.69	48.22	80.0	60.12	52.87	52.63	60.25
July	61.81	50.56	46.90	91.7	60.12	52.87	50.63	60.25
August	57.42	49.71	47.45	94.8	60.12	52.87	50.63	60.25
September	56.53	47.9	48.08	87.8	60.12	52.87	50.63	60.25
October	51.79	47.20	46.59	93.6	59.03	52.87	50.63	60.25
November	49.19	45.96	45.74	103.0	56.12	52.19	50.63	60.25
December	47.39	47.05	46.35	100.97	53.12	50.37	50.63	66.6
Annual averages	64.17	49.02	48.56	73.30	58.07	52.09	51.24	59.68

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NON-COMMUNIST COPPER MINE OUTPUT
(Thousand Metric Tons)

	1970	1971	1972	1973	Estimated 1974	Estimated 1975
TOTAL	<u>5,166</u>	<u>5,148</u>	<u>5,633</u>	<u>5,987</u>	<u>6,350</u>	<u>6,750</u>
CIPEC Countries						
Chile	692	708	717	736	850	950
Peru	212	213	217	225	225	225
Zaire	387	406	437	490	525	575
Zambia	<u>684</u>	<u>651</u>	<u>718</u>	<u>709</u>	<u>775</u>	<u>780</u>
Total	1,975	1,978	2,089	2,160	2,375	2,530
Other Countries						
Australia	158	177	180	293	205	235
Canada	610	654	709	783	790	800
Bougainville (Papua New Guinea)	--	--	124	178	180	185
United States:	1,560	1,381	1,510	1,560	1,600	1,700
Other	<u>863</u>	<u>957</u>	<u>1,021</u>	<u>1,103</u>	<u>1,200</u>	<u>1,300</u>
Total	3,191	3,170	3,544	3,827	3,975	4,220

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NON-COMMUNIST REFINED COPPER PRODUCTION
(Thousand Metric Tons)

	1970	1971	1972	1973	Estimated 1974	Estimated 1975
TOTAL	<u>6,152</u>	<u>5,823</u>	<u>6,370</u>	<u>6,600</u>	<u>7,100</u>	<u>7,500</u>
<u>CIPEC Countries</u>						
Chile	465	468	462	411	510	560
Peru	36	33	39	40	40	40
Zaire	189	208	216	224	240	260
Zambia	<u>581</u>	<u>534</u>	<u>615</u>	<u>640</u>	<u>650</u>	<u>675</u>
Total	1,271	1,243	1,332	1,315	1,440	1,535
<u>Other Countries</u>						
Australia	146	162	174	164	170	185
Canada	493	477	496	489	510	530
Bougainville (Papua New Guinea)	--	--	--	--	--	--
United States	2,034	1,780	2,047	2,082	2,250	2,300
Other	<u>2,208</u>	<u>2,161</u>	<u>2,321</u>	<u>2,550</u>	<u>2,730</u>	<u>2,950</u>
Total	4,881	4,580	5,038	5,285	5,660	5,965

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