

# Globe Investor

## U.S. homes data boosts copper

But analysts warn metal's price may be getting ahead of fundamentals

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Improving home sales data from the United States helped copper (HG-FT 279.75 2.70 0.97%) climb to a fresh nine-month high on Thursday, but analysts warned the recent price strength has exceeded a still-uncertain fundamental backdrop.

"The real estate data is starting to look a little more encouraging and that spells good things for copper," said Matthew Zeman, head of trading with LaSalle Futures Group in Chicago, referring to data showing U.S. existing home sales up for the third straight month in June.

"But a lot of this optimism is priced into the market. The concern does remain that perhaps the market has gotten ahead of itself in terms of the fundamentals and could be vulnerable to a decent correction," he said.

Copper for September delivery on the New York Mercantile Exchange's Comex division eased 0.15 cent (U.S.) to end at \$2.5240 a pound, after hitting its highest level since Oct. 7, at \$2.5385.

At the last open outcry, copper for delivery in three months on the London Metal Exchange floor was up \$30 at \$5,530 a tonne. It touched a high of \$5,565 a tonne in afternoon dealing, its highest since mid-October.

Supply concerns this week from electrical problems at Anglo American's Chilean Collahuasi copper mine to more violence at Freeport-McMoRan Copper & Gold Inc.'s huge Grasberg mine in Indonesia helped drive the market to successive highs.

Investor optimism for economic recovery added to the bullish momentum.

"Three green shoots," said Mo Ahmadzadeh, president at Mitsui Bussan Commodities in New York. "The green shoots are hardly that surprising given the long period of fallow field of construction. Everybody is really keen to see some of these indicators break out from bubbling along the bottom."

Reminding investors that an uncertain economic picture could yet puncture the demand outlook, stocks of copper rose 3,225 tonnes to 271,725 tonnes to their highest level in a month.

Benchmark copper has gained almost 80 per cent this year on hefty buying from China, the world's top consumer.

Copper traded in a contango of \$10.50 a tonne – a discount for cash copper over the three-month contract – which compares to a discount of \$24.50 in mid-June. The metal recently traded in backwardation, the opposite of contango, as traders voiced concern about potential tightness in the market.

Data also shows two entities controlling 30 to 40 per cent of copper at LME warehouses. Earlier this week one entity held 30 to 40 per cent and another held 50 to 80 per cent, indicating that between them they could have been holding the entire stockpile.

Aluminum (AL-FT 0.87 -- --%) last traded at \$1,777 from \$1,744 and hit a session high of \$1,788, its highest since the end of November.

Inventories of the metal fell 1,825 tonnes but hovered just below a record high closing on 4.6 million tonnes.

Cancelled warrants on aluminum rose to 181,250 tonnes from 171,900 tonnes. Analysts said recent rises in material tagged for delivery have supported the demand outlook for aluminum.

"A lack of aluminum combined with stronger demand from car makers is likely to push up prices of the metal over coming weeks, even though stocks in London Metal Exchange warehouses are at record highs," RBC Capital Markets said in a note.

Zinc closed up at \$1,699 from \$1,686, having hit a session high of \$1,705.50, its strongest since early June. Lead traded at \$1,745, up from \$1,704.

Tin was at \$14,490 from \$13,975. Tin traded in backwardation of \$232, a premium for cash tin over the three-month contract.

This compares to a backwardation of \$93 the session before. Traders remain concerned about the scale of long positions in the tin market, compared with the amount of available metal in LME warehouses.

Nickel was at \$16,400 from \$16,250. It hit a session high of \$16,600, last matched on July 1.

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