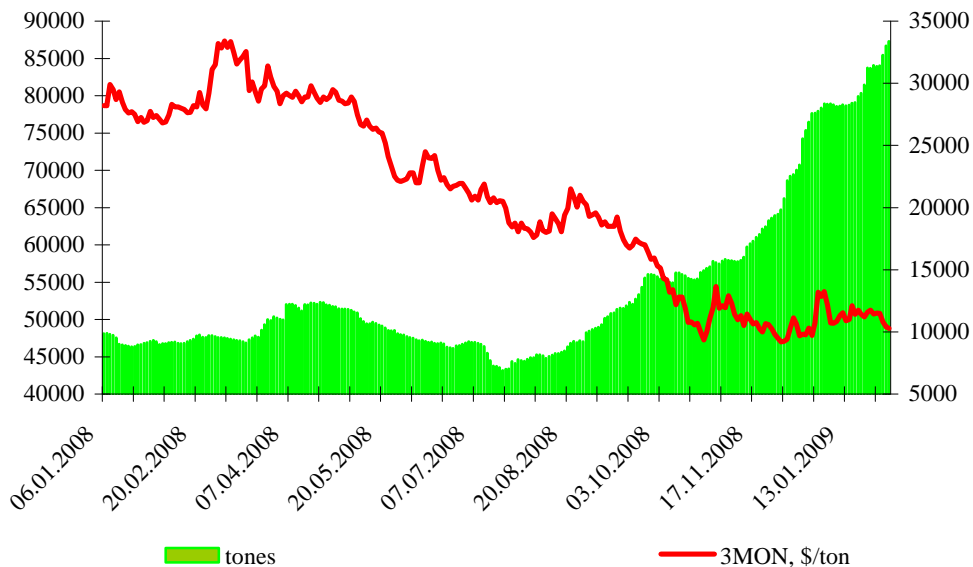


## NON-FERROUS METAL MARKET SLUMPS

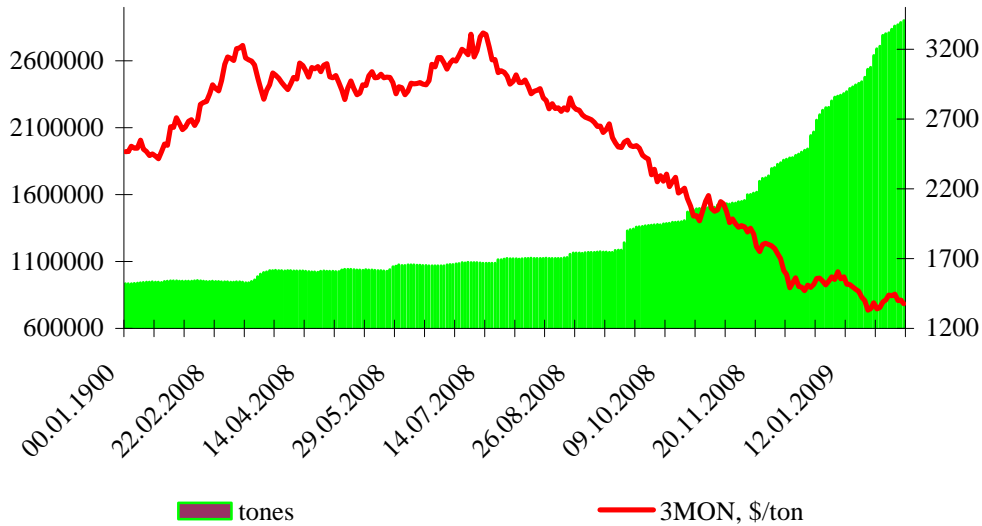
BY GALINA KOVALISHINA, HEAD OF THE IFS CORPORATE FINANCE DEPARTMENT,  
16 FEBRUARY, 2009

Non-ferrous metal market faced a drastic drop last year as prices halved for practically all metals. Nickel prices fell 64%, aluminum prices – 44%, copper – 50% (see Figures 1-3). A three-year-long rally on commodity markets ended as the financial crisis hit the world.

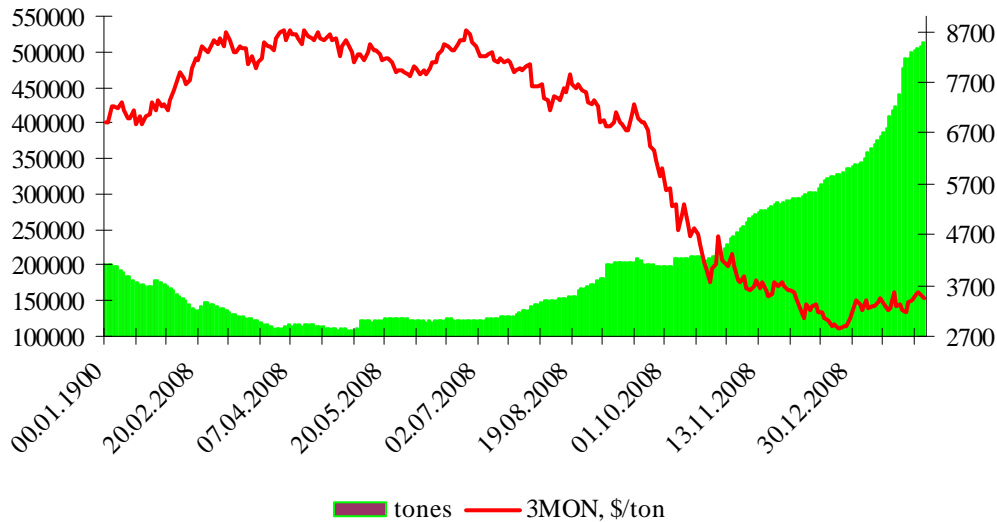
**Figure 1. Nickel price and stockpile movements on LME**



**Figure 2. Aluminum price and stockpile movements on LME**



**Figure 3. Copper price and stockpile movements on LME**



Source: LME

Impacted by several negative factors, commodity markets faced yet tougher economic turbulence than financial markets. Firstly, the crisis pushed down the demand for non-ferrous metals from major consumers, mainly China. It reported copper consumption growth of 7% in 2008 – 29% down year-on-year.

Secondly, the number of speculators and hedge funds has fallen drastically. In early 2008, capital continued to flow towards commodity markets amid sharper negative trends in the USA. The subprime mortgage crisis grew into global downturn with the key emerging economies such as

China and India facing a deep recession. Commodities traded at the exchange ceased to be a safety asset for institutional investors and a source of income for speculators.

Mid-term prospects for the global economy are highly important for the market, and investors are most concerned with forecasts for major consuming economies. Although China and India are expected to buy non-ferrous metals in 2009, consumption growth rates will slump.

In the wake of the global economic slowdown, demand for non-ferrous metals is not likely to recover quickly. Measures to step up state orders for metals and state guarantees may become a good support for metal trade. This, however, will take as long as two to three years.