

Market Overview

as of: 3 August 2015






- Copper:** Copper drifted lower, falling 4.5%, and reached levels previously seen in 2009. The focus of the market has recently been centred on condition of the Chinese economy, and particularly on strong swings of local equity markets. However, news on the fundamentals side for copper has been quite supportive (*page 2*).
- EURUSD:** As the Greek debt crisis is still in the spotlight, the euro-dollar's implied volatility has eased since. However, in comparison to 2014 levels the volatility implied by the market (indicated by the FX options) is still elevated, showing investors uncertainty towards the potential path of the most traded currency pair on the financial market (*page 4*).

Key market prices

	Close price	2w chng.
LME (USD/t)		
▼ Copper	5 220.00	-4.5%
▼ Nickel	10 925.00	-4.4%
LBMA (USD/troz)		
▼ Silver	14.56	-3.0%
▼ Gold (PM)	1 098.40	-3.0%
FX		
▲ EUR/USD	1.0967	0.7%
▲ EUR/PLN	4.1488	1.1%
▲ USD/PLN	3.7929	0.7%
▲ USD/CAD	1.3047	0.4%
▲ USD/CLP	672.19	4.5%
Stocks		
▼ KGHM	95.00	-6.8%

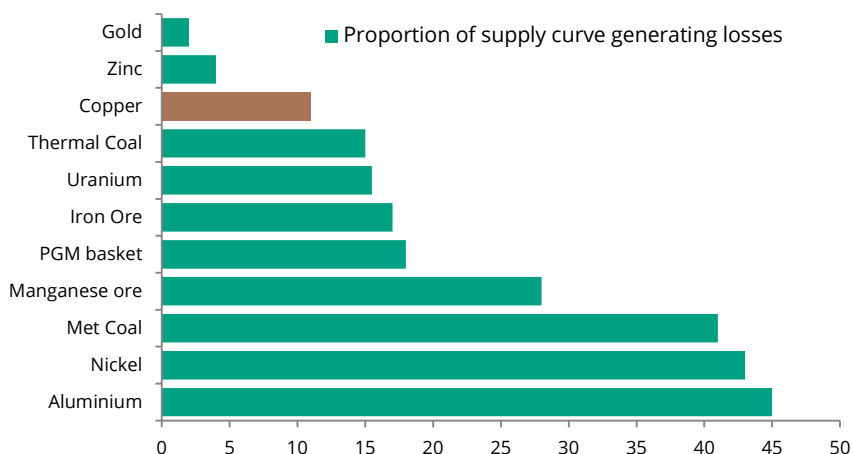
 Source: Bloomberg, KGHM; (*more on page 7*)

Important macroeconomic data

Release	For		
 GDP (annlzd., qoq)	2Q	2.3%	▲
 Official manuf. PMI	Jul	50.0	▼
 Durable goods orders	Jun	3.4%	▲
 Manufacturing PMI	Jul	52.2	▼
 Manufacturing (yoy)	Jun	1.7%	▲

 Source: Bloomberg, KGHM; (*more on page 5*)

Many miners are under water: in copper more than one in ten producers is losing money



Source: Wood Mackenzie, KGHM

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Base and precious metals | Other commodities

Copper

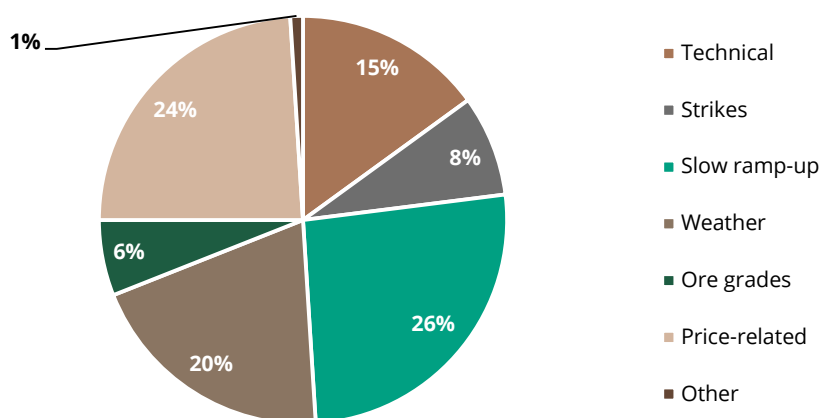
Copper drifted lower, falling 4.5%, and reached levels previously seen in 2009. The focus of the market has recently been centred on condition of the Chinese economy, and particularly on strong swings of local equity markets. However, news on the fundamentals side for copper has been quite supportive.

Annualised disruptions year-to-date at 5.5%

The focus of copper market has recently been centred on the condition of Chinese economy, and particularly on strong swings of local equity markets. However, news on the fundamentals side for copper has been quite supportive, as 2Q production reports begin to come in revealing a few downgrades and disruption stories in Chile, China, Zambia and Papua New Guinea:

- First Quantum Minerals announced reduced supply of energy due to low rainfall hampering hydropower performance, and warned that Sentinel and Kansanshi mines are currently operating at reduced capacities. Macquarie Research estimates that it may translate into 25 kt lower output that adds to their previous 20 kt disruption assumption for other Zambian mines.
- In China, this year's price development might have forced some producers to scale down their operations removing roughly 20 kt.
- Ok Tedi Mining Ltd., a state-owned miner in Papua New Guinea, announced a temporary shutdown due to problems with river shipments caused by low rainfall. The stoppage may last a few weeks and remove 10kt of mine's production.
- In Chile, Codelco faces some violent protests: first at smaller El Salvador mine, then at much larger Chuquicamata site. According to Macquarie, the full effect of these events is hard to be estimated at this point, but for now they may be amount to 5 kt.
- One of the sources of further output cuts in the near future may be Freeport McMoran. The company announced "comprehensive review of operating plans" which will "incorporate potential adjustments to mine plans and future copper and molybdenum production volumes to reduce costs and preserve valuable resources for anticipated improved market conditions in the future".
- Another big miner on watch will be Anglo American. The company struggles with lack of water at Los Bronces site, and although it had made allowances for this in 2015 guidance, further escalation for harsh weather condition may result in production write downs.

2015 copper mine disruptions now at 600 kt ytd (5.5% of production, annualised)



Source: Macquarie Research, KGHM

Other important information on copper market:

- Barrick Gold Corp., the world's largest producer of the metal, agreed to sell a 50 percent interest in its Zaldívar copper mine in Chile to Antofagasta Plc for USD 1.01bn. The transaction is expected to close in late 2015.
- London-based Armajaro Asset Management LLP has decided to close its USD 450mn commodities fund at the end of July following the departure of its lead manager and after the fund lost money.
- The global world refined copper market showed a 81kt deficit in April, compared with a 4kt surplus in March, according to the International Copper Study Group (ICSG). For the first four months of the year, the market was in a 62kt surplus compared with a 436kt deficit in the same period in 2014. World refined copper output in April was 1.83mn tonnes, while consumption was 1.91mn tonnes.
- China had a 130kt refined copper surplus in May on lackluster consumption, Chinese metals consultancy Beijing Antaïke announced. Despite March-June being China's traditional boom season for copper consumption, demand in May was below expectations. Antaïke figures showed that China's refined copper supply in May was 890kt against consumption of 760kt.

Global economies | Foreign exchange markets

EUR/USD: forget QE, think QT

As the Greek debt crisis is still in the spotlight, the eurodollar's implied volatility has eased since. However, in comparison to 2014 levels the volatility implied by the market (indicated by the FX options) is still elevated, showing investors uncertainty towards the potential path of the most traded currency pair on the financial market.

EURUSD driven by two factors

In one of the latest FX reports, Deutsche Bank (DB) reviewed two forces driving EURUSD pair in the recent months, namely Euroglut and upcoming Fed tightening.

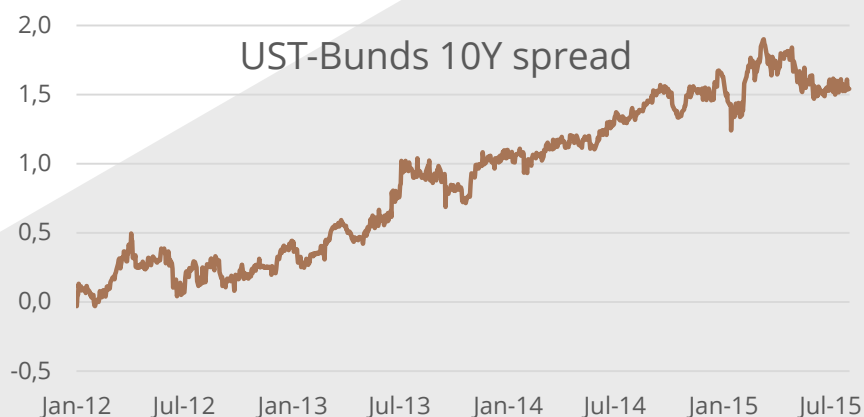
Euroglut remains fully on track

According to the DB analyst, large-scale European capital outflows (Euroglut), which is the first driver, remains fully on track. Recently released balance of payments (BoP) data showed another month of strong outflows, bringing European purchases of foreign assets close to all-time record highs. The recent BoP trends matter more than higher Bunds' yields. The UST-German spread remains wide and, according to Deutsche Bank, unprecedented bond market volatility has further reduced the risk-adjusted attractiveness of Euro fixed income.

Fed tightening is becoming multi-dimensional

Regarding the second driver – Fed tightening – the market remains entirely focused on the exact timing of the first rate hike. However, there seems to be bigger forces at play. One of the most important is Fed's reinvestment policy on QE assets which might turn into QT, so quantitative tightening. Next year, half a trillion dollars matures, which is equivalent to full QE programme in reverse. Deutsche Bank says the key point is that Fed tightening is multi-dimensional and likely to steadily reinforce a persistent shift away from the dollar as the world's major funding currency.

10Y yields spread is widening in favour of the U.S. bonds



Source: Bloomberg, KGHM

Macroeconomic calendar

Important macroeconomic data releases

Weight	Date	Event	For	Reading ¹	Previous	Consensus ²	
China							
⊕	20-Jul	New yuan loans (CNY bn)	Jun	1 279 ▲	901	1 050	▲
⊕⊕⊕	24-Jul	HSBC's manufacturing PMI - preliminary data	Jul	--	49.4	49.7	▲
⊕⊕	27-Jul	Industrial profits (yoy)	Jun	-0.3% ▼	0.6%	--	▲
⊕⊕⊕	01-Aug	Official manufacturing PMI	Jul	50.0 ▼	50.2	50.1	▲
Poland							
⊕⊕	23-Jul	Unemployment rate	Jun	10.3% ▼	10.8%	10.4%	▲
⊕	31-Jul	NBP inflation expectations	Jul	0.2% -	0.2%	0.2%	○
US							
⊕⊕⊕	24-Jul	Manufacturing PMI - preliminary data	Jul	53.8 ▲	53.6	53.6	▲
⊕⊕	27-Jul	Durable goods orders ‡	Jun	3.4% ▲	-2.1%	3.2%	▲
⊕	27-Jul	Dallas Fed manufacturing activity	Jul	-4.6 ▲	-7.0	-3.5	▲
⊕	28-Jul	S&P/CaseShiller home price index ‡	May	179 ▲	177	180	▲
⊕⊕⊕	28-Jul	Composite PMI - preliminary data	Jul	55.2 ▲	54.6	--	▲
⊕⊕⊕	28-Jul	PMI services - preliminary data	Jul	55.2 ▲	54.8	55.0	▲
⊕	28-Jul	Richmond Fed manufacturing index ‡	Jul	13.0 ▲	7.0	7.0	▲
⊕⊕⊕⊕⊕	29-Jul	FOMC base rate decision - upper bound (Fed)	Jul	0.25% -	0.25%	0.25%	○
⊕⊕⊕⊕⊕	29-Jul	FOMC base rate decision - lower bound (Fed)	Jul	0.00% -	0.00%	0.00%	○
⊕⊕⊕⊕⊕	30-Jul	GDP (annualized, qoq) - estimation ‡	2Q	2.3% ▲	0.6%	2.5%	▲
⊕⊕	31-Jul	University of Michigan confidence index - final data	Jul	93.1 ▼	93.3	94.0	▲
Eurozone							
⊕	23-Jul	Consumer confidence - estimation	Jul	-7.1 ▼	-5.6	-5.8	▲
⊕⊕⊕	24-Jul	Composite PMI - preliminary data	Jul	53.7 ▼	54.2	54.0	▲
⊕⊕⊕	24-Jul	Manufacturing PMI - preliminary data	Jul	52.2 ▼	52.5	52.5	▲
⊕⊕⊕	24-Jul	Services PMI - preliminary data	Jul	53.8 ▼	54.4	54.2	▲
⊕	27-Jul	M3 money supply (yoy)	Jun	5.0% -	5.0%	5.1%	▲
⊕	30-Jul	Economic confidence	Jul	104 ▲	104	103	▲
⊕	30-Jul	Industrial confidence	Jul	-2.9 ▲	-3.4	-3.4	▲
⊕	30-Jul	Consumer confidence - final data	Jul	-7.1 -	-7.1	-7.1	○
⊕	30-Jul	Business climate indicator	Jul	0.4 ▲	0.1	0.2	▲
⊕⊕⊕⊕	31-Jul	Core CPI (yoy) - estimation	Jul	1.0% ▲	0.8%	0.8%	▲
⊕⊕⊕⊕	31-Jul	CPI estimate (yoy)	Jul	0.2% -	0.2%	0.2%	○
⊕⊕	31-Jul	Unemployment rate	Jun	11.1% -	11.1%	11.0%	▲
Germany							
⊕⊕⊕	24-Jul	Composite PMI - preliminary data	Jul	53.4 ▼	53.7	53.9	▲
⊕⊕⊕	24-Jul	Manufacturing PMI - preliminary data	Jul	51.5 ▼	51.9	51.9	▲
⊕⊕	27-Jul	IFO business climate ‡	Jul	108 ▲	108	107	▲
⊕⊕	29-Jul	GfK consumer confidence	Aug	10.1 -	10.1	10.1	○
⊕⊕	30-Jul	Unemployment rate	Jul	6.4% -	6.4%	6.4%	○
⊕⊕⊕⊕	30-Jul	Harmonized consumer inflation HICP (yoy) - preliminary data	Jul	0.1% -	0.1%	0.1%	○
⊕⊕⊕⊕	30-Jul	Consumer inflation CPI (yoy) - preliminary data	Jul	0.2% ▼	0.3%	0.3%	▲
⊕⊕⊕	31-Jul	Retail sales (yoy) ‡	Jun	5.1% ▲	-1.0%	4.0%	▲
France							
⊕⊕⊕	24-Jul	Composite PMI - preliminary data	Jul	51.5 ▼	53.3	53.3	▲
⊕⊕⊕	24-Jul	Manufacturing PMI - preliminary data	Jul	49.6 ▼	50.7	50.8	▲

Weight	Date	Event	For	Reading ¹	Previous	Consensus ²	
Italy							
☆☆	31-Jul	Unemployment rate - preliminary data‡	Jun	12.7% ▲	12.5%	12.3%	▲
☆☆☆☆	31-Jul	Harmonized consumer inflation HICP (yoy) - preliminary data	Jul	0.4% ▲	0.2%	0.3%	▲
UK							
☆☆☆☆☆	28-Jul	GDP (yoy) - estimation	2Q	2.6% ▼	2.9%	2.6%	○
☆☆☆☆☆	28-Jul	GDP (qoq) - estimation	2Q	0.7% ▲	0.4%	0.7%	○
Japan							
☆☆☆	24-Jul	Manufacturing PMI - preliminary data	Jul	--	50.1	50.5	○
☆☆☆☆	30-Jul	Industrial production (yoy) - preliminary data	Jun	2.0% ▲	-3.9%	1.3%	▲
☆☆☆☆	31-Jul	Consumer inflation CPI (yoy)	Jun	0.4% ▼	0.5%	0.3%	▲
Chile							
☆☆☆	30-Jul	Total copper production (metric tons)	Jun	513 791 ▲	508 245	--	○
☆☆☆	30-Jul	Manufacturing (yoy)‡	Jun	1.7% ▲	-3.2%	-1.9%	▲
Canada							
☆☆☆☆☆	31-Jul	GDP (yoy)	May	0.5% ▼	1.2%	0.8%	▼

¹ Reading difference to previous release: ▲ = higher than previous; ▼ = lower than previous; == equal to previous.

² Reading difference to consensus: ▲ = higher than consensus; ▼ = lower than consensus; ○ = equal to consensus.

mom = month-on-month; yoy = year-on-year; qoq = quarter on quarter; ytd year-to-date; sa = seasonally adjusted; wda = working days adjusted; ‡ = previous data after revision.

Source: Bloomberg, KGHM

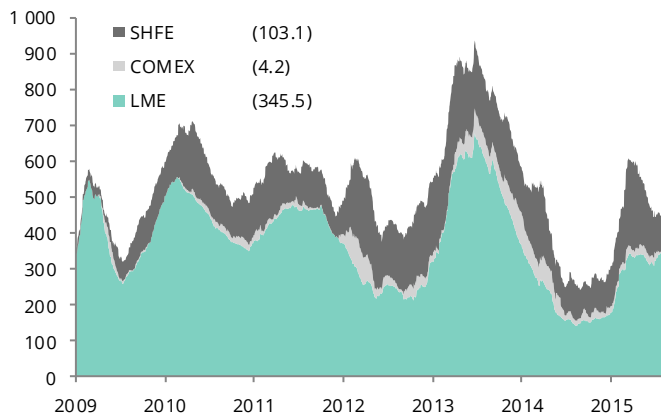
Key market data

Key base & precious metal prices, exchange rates and other important market factors

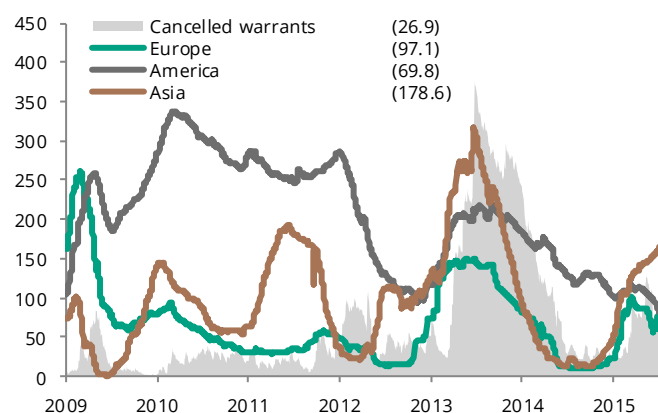
<i>(as of: 31-Jul-15)</i>		Price change °					From year beginning ²		
	Price	2W	QTD	YTD	1Y	Average	Min	Max	
LME (USD/t)									
Copper	5 220.00	▼ -4.5%	▼ -8.8%	▼ -17.9%	▼ -26.8%	5 854.91	5 190.00	6 448.00	
Molybdenum	13 500.00	▲ 5.5%	▼ -1.8%	▼ -35.7%	▼ -53.4%	16 974.49	9 250.00	21 500.00	
Nickel	10 925.00	▼ -4.4%	▼ -6.5%	▼ -26.8%	▼ -41.8%	13 324.08	10 900.00	15 455.00	
Aluminum	1 594.00	▼ -4.2%	▼ -3.2%	▼ -13.0%	▼ -21.0%	1 760.14	1 594.00	1 919.00	
Tin	16 360.00	▲ 4.4%	▲ 17.0%	▼ -16.1%	▼ -28.7%	16 691.05	13 980.00	19 750.00	
Zinc	1 920.00	▼ -6.5%	▼ -3.7%	▼ -11.4%	▼ -20.0%	2 113.18	1 920.00	2 405.00	
Lead	1 688.00	▼ -7.5%	▼ -3.8%	▼ -8.9%	▼ -24.5%	1 855.63	1 688.00	2 140.00	
LBMA (USD/troz)									
Silver	14.56	▼ -3.0%	▼ -7.3%	▼ -8.8%	▼ -29.6%	16.32	14.49	18.23	
Gold ¹	1 098.40	▼ -3.0%	▼ -6.2%	▼ -8.4%	▼ -14.5%	1 193.79	1 080.80	1 295.75	
LPPM (USD/troz)									
Platinum ¹	979.00	▼ -1.9%	▼ -9.2%	▼ -19.1%	▼ -33.5%	1 136.20	964.00	1 285.00	
Palladium ¹	610.00	▼ -1.8%	▼ -9.9%	▼ -23.6%	▼ -30.7%	751.99	609.00	831.00	
FX ³									
EUR/USD	1.0967	▲ 0.7%	▼ -2.0%	▼ -9.7%	▼ -18.0%	1.1133	1.0552	1.2043	
EUR/PLN	4.1488	▲ 1.1%	▼ -1.1%	▼ -2.7%	▼ -0.4%	4.1432	3.9822	4.3335	
USD/PLN	3.7929	▲ 0.7%	▲ 0.8%	▲ 8.1%	▲ 22.0%	3.7243	3.5550	3.9260	
USD/CAD	1.3047	▲ 0.4%	▲ 4.6%	▲ 12.5%	▲ 19.8%	1.2430	1.1728	1.3060	
USD/CNY	6.2097	▲ 0.0%	▲ 0.1%	▲ 0.1%	▲ 0.6%	6.2187	6.1883	6.2747	
USD/CLP	672.19	▲ 4.5%	▲ 5.9%	▲ 10.7%	▲ 17.8%	625.39	597.10	672.19	
Money market									
3m LIBOR USD	0.309	▲ 0.06	▲ 0.09	▲ 0.21	▲ 0.29	0.273	0.251	0.309	
3m EURIBOR	-0.023	▲ 0.21	▲ 0.64	▼ -1.29	▼ -1.11	0.014	-0.023	0.076	
3m WIBOR	1.720	- 0.00	- 0.00	▼ -0.17	▼ -0.36	1.762	1.650	2.060	
5y USD interest rate swap	1.667	▼ -0.07	▼ -0.07	▼ -0.06	▼ -0.12	1.653	1.313	1.909	
5y EUR interest rate swap	0.399	▼ -0.11	▼ -0.20	▲ 0.11	▼ -0.38	0.357	0.176	0.590	
5y PLN interest rate swap	2.240	▲ 0.03	▼ -0.11	▲ 0.15	▼ -0.23	2.060	1.563	2.643	
Fuel									
WTI Cushing	47.12	▼ -7.4%	▼ -20.8%	▼ -11.5%	▼ -52.0%	52.89	43.46	61.43	
Brent	50.57	▼ -10.2%	▼ -17.6%	▼ -9.3%	▼ -51.3%	57.71	45.25	66.37	
Diesel NY (ULSD)	158.40	▼ -4.3%	▼ -15.7%	▼ -13.2%	▼ -45.0%	183.73	158.40	233.64	
Others									
VIX	12.12	▲ 0.01	▼ -0.34	▼ -0.37	▼ -0.28	15.01	11.95	22.39	
BBG Commodity Index	91.78	▼ -5.9%	▼ -10.6%	▼ -12.0%	▼ -28.2%	100.83	91.78	105.49	
S&P500	2 103.84	▼ -1.1%	▲ 2.0%	▲ 2.2%	▲ 9.0%	2 084.74	1 992.67	2 130.82	
DAX	11 308.99	▼ -3.1%	▲ 3.3%	▲ 15.3%	▲ 20.2%	11 279.24	9 469.66	12 374.73	
Shanghai Composite	3 663.73	▼ -7.4%	▼ -14.3%	▲ 13.3%	▲ 66.4%	3 921.54	3 075.91	5 166.35	
WIG 20	2 227.51	▼ -2.5%	▼ -3.9%	▼ -3.8%	▼ -4.0%	2 367.64	2 185.83	2 549.40	
KGHM	95.00	▼ -6.8%	▼ -10.8%	▼ -12.7%	▼ -26.0%	113.69	89.00	131.00	

° change over: 2W = two weeks; QTD = quarter-to-day; YTD = year-to-date; 1Y = one year. ¹ based on daily closing prices. ² latest quoted price. ³ central banks' fixing rates (Bank of China HK for USD/CNY). ⁴

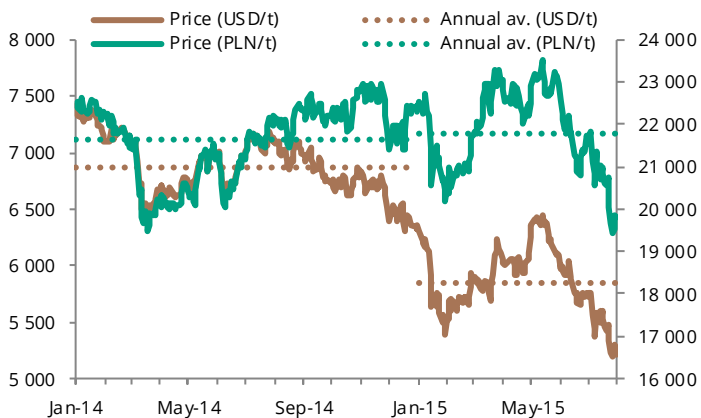
Source: Bloomberg, KGHM

Copper: official exchange stocks (thousand tonnes)


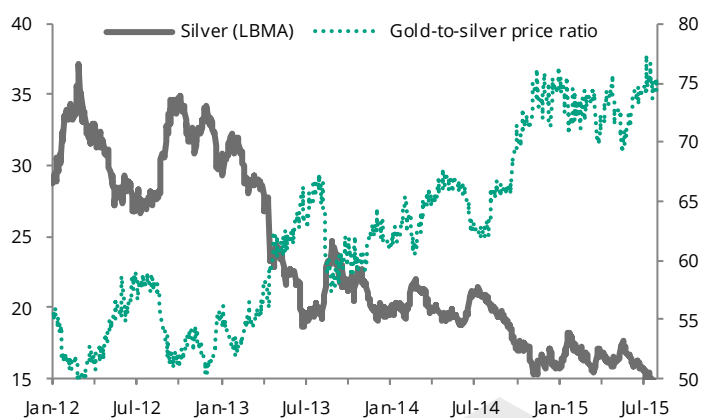
Note: Latest values in brackets. Source: Bloomberg, KGHM

Copper: official LME stocks (thousand tonnes)


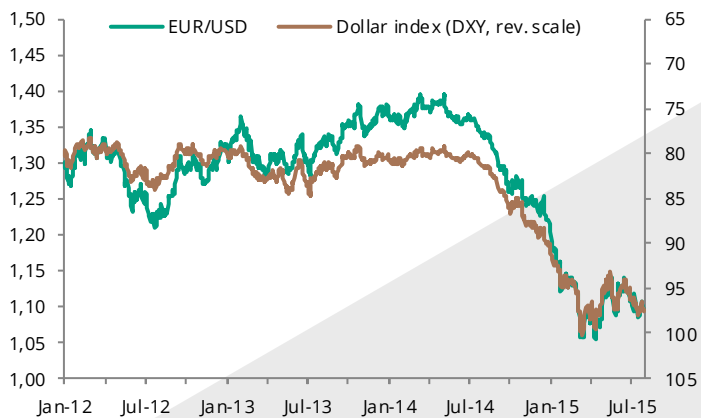
Note: Latest values in brackets. Source: Bloomberg, KGHM

Copper: price in USD (lhs) and PLN (rhs) per tonne


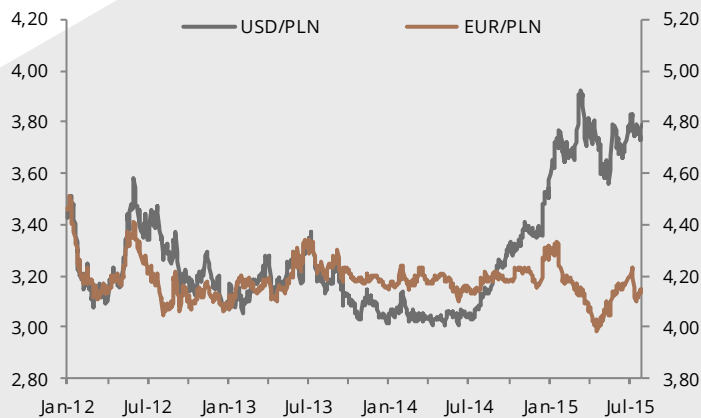
Source: Bloomberg, KGHM

Silver: price (lhs) and gold ratio (rhs)


Source: Bloomberg, KGHM

USD: dollar index (lhs) and ECB-based EUR/USD (rhs)


Source: Bloomberg, KGHM

PLN: NBP-fixing based rate vs. USD (lhs) and EUR (rhs)


Source: Bloomberg, KGHM

Legal note

This document has been prepared based on the below listed reports, among others, published in the following period:
20 July – 2 August 2015.

- “Commodities Comment” Macquarie Research Metals and Mining, ▪ “Commodities Daily” Standard Bank, ▪ “Commodities Weekly” Barclays Capital Research, ▪ “Metals Market Update” Morgan Stanley, ▪ “Daily Copper Wrap” Mitsui, ▪ “Base and Precious Metals Daily” JPMorgan, ▪ „Codziennik” BZ WBK, ▪ „Tygodnik Ekonomiczny” BZ WBK, ▪ „Raport dzienny” mBank, ▪ „Biuletyn Dzienny” Bank PEKAO S.A., ▪ „Dragonomics: China Research” Gavekal

Moreover, additional information published here was acquired in direct conversations with market dealers, from financial institution reports and from the following websites: ▪ lme.co.uk, ▪ lbma.org.uk, ▪ economy.com/dismal, ▪ thebulliondesk.com, ▪ lbma.org.uk/stats, ▪ crumonitor.com, ▪ metalbulletin.com, ▪ nbportal.pl, ▪ nbp.pl, as well as data providing systems: Thomson Reuters and Bloomberg.

Official metals prices are available on following websites:

- base metals: www.lme.com/dataprices_products.asp (charge-free logging)
- silver and gold: www.lbma.org.uk/pricing-and-statistics
- platinum and palladium: www.lppm.com/statistics.aspx

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