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***John Tumazos Very Independent Research, LLC registration as investment advisor effective in New Jersey on August 27, 2007. This report is complimentary as we transition to operational from developmental.***

#### SUMMER'S FINAL WEEK NO CAUSE FOR ALARM

- Last week's price action was quiet. Nickel, copper, gold and silver rose, but only nickel's \$1.10 price rise was greater than 1%. Steel scrap, aluminum and uranium were unchanged, and lead and zinc each fell slightly.
- Nickel, copper, aluminum and zinc inventories rose last week, while lead and tin fell. Nickel's 3,000 tonne and copper's 7,717 tonne rise were large and follow or confirm an increasing trend. This was nickel's third 3,000 tonne weekly rise in six weeks. LME copper stocks have risen almost 42,000 tonnes in seven weeks, although declines in Comex and Shanghai tempered the combined gain to only 17,453 tonnes from the early July low. Other than nickel, the July-August seasonal slow season inventory behavior is bullish.
- Stud lumber backlogs fell to 436 mm board feet, the lowest level of the past 5+ years except for last autumn's Sept. 25-December 11 period that bottomed at 382 mm board feet. The prices of stud lumber, OSB and plywood fell 2%-4% each at \$5, \$8 and \$16, respectively.
- The strong world economy outside of the U.S. and roughly \$0.5 trillion global central bank injections in August suggest an improving or bullish outlook. We attribute the uptick in gold and silver to these liquidity dynamics. The strike at Lihir Island does impact just about 1.3% of global gold mine output, which helps gold a bit, but the banking system issues benefit gold even more.

#### ALUMINUM EASES VERY SLIGHTLY

Aluminum prices fell \$0.001 to \$1.134 and combined exchange inventories rose 5,542 tonnes to 1,136,391 tonnes. Considering late summer it was not a large setback.

#### COPPER INVENTORIES RISE ONLY ON LME

Last week prices rose \$0.04 to \$3.41 in sympathy to the broader upswing in financial markets and global liquidity injections. Copper inventories rose 7,717 tonnes owing to increases in the LME partly offset by drops in Comex and Shanghai. LME copper stocks have risen almost 42,000 tonnes in seven weeks, although declines in Comex and Shanghai tempered the combined gain to only 17,453 tonnes from the early July low.

We are much more encouraged that WBMS reported consumption grew about 121,900 tonnes more than refined output and 73,800 tonnes more than mine output in the first-half. This reflects a reasonable seasonal strength in the first-half with demand about 1.5% more than refined output or 0.8% more than mine output, and leaves room for a minor supply buildup in the second-half. We estimate mine outages were in the 125,000-150,000 tonne vicinity in the first-half.

In August the WBMS published encouraging global copper demand data to June. It reports a 417,900 tonne or 4.8% global demand gain with a 685,400 tonne Chinese gain representing 40.3% Chinese growth and a 267,500 tonne decline for the rest of the world.

The U.S. fell 135,000 tonnes or 11.7%, Canada 45,000 tonnes, Chile 5,100 tonnes, the rest of Latin America 3,500 tonnes, Europe fell 33,000 tonnes, and Asia excluding China fell 57,600 tonnes. Within Europe demand appeared to move from west to east. Bulgaria gained 18,100, Poland 33,500, Germany 16,300 and Romania 11,400 tonnes while France lost 41,100, the UK 64,000 and Italy 26,000 tonnes. Within Asia India grew 11,100 tonnes while Iran lost 12,900 tonnes, Japan lost 16,900, South Korea lost 11,900, Thailand lost 35,000 and Turkey lost 14,600 tonnes.

In general, demand migrates from western to eastern Europe, to China from the rest of Asia and to China from the Americas, Europe or rest of the world. Demand grew 5,500 tonnes in Africa and 6,500 tonnes in Oceania.

#### NICKEL LARGE INVENTORY RISE DESPITE PRICE GAIN

The 3,000 tonne inventory rise to 24,126 conflicts with the \$1.10 price rise to \$13.52 per pound last week.

Distributors and consumers appear to be restocking nickel-bearing stainlesses after de-stocking for most of the year. Steel mill nickel procurement is not evident in the rising inventories, however.

There is some evidence that Chinese steel output could be constrained by iron ore deliveries. In our August 30 visit to Carajas the CVRD personnel explained that its single-track 892 km railroad with 62 bridges or overpasses and 56 sidings (roughly 2 km each to permit trains to pass) constrains deliveries. Other iron ore mines in other parts of the world have rail, port or ship availability delivery constraints.

Chinese blast furnace operators could be tempted to dump some lateritic nickel ores into blast furnaces if they cannot obtain sufficient volumes of conventional ferrous feeds.

#### LEAD INVENTORIES FALL

While lead prices fell \$0.02 last week to \$1.48, the LME inventories fell 750 more tonnes to 25,375. Inventories are at a multiyear low and the lead price is \$0.10 below a record and almost \$1 above the level seen in May 2006 when some other commodities like copper and aluminum made records. The lead price exceeds aluminum and for the past two weeks zinc as well, which virtually never happened before.

#### ZINC INVENTORIES RISE FOR THE FIRST TIME IN TEN WEEKS

LME zinc prices fell \$0.01 to \$1.42 per pound last week and combined LME and Shanghai inventories rose 1,249 tonnes to 97,312 tonnes. While this was the first weekly inventory rise in ten weeks, these past ten weeks were usually strong for the summer season and we view a one week rise as no cause for alarm unless reconfirmed with several more rises after Labor Day.

While the inventory trend has been generally encouraging, the LME zinc spot price peaked near \$2.10 in late-November of 2006. Prices are off over 30%.

#### GOLD AND SILVER RISE

Last week gold rose \$5 and silver \$0.13 per oz to \$673 and \$12.06, respectively. These almost 1% gains are better than declines, but we are disappointed that the dollar has been reasonably stable or strong and gold and silver have not risen much more given the chaos in mortgage, bond and U.S., EU and Japanese money injection policies.

#### WOOD SOFTENS SUGGESTING MORE SAWMILL IDLINGS TO COME

Normally wood markets peak in May and bottom between Halloween and Christmas. Builders and distributors may have drawn down inventory too much in 2006, and wood prices have been gradually improving throughout 2007 with plywood especially strong. In general wood prices fell severely from May 2004 until the end of 2006, and reflected housing's turmoil long ahead of recent headlines about mortgage market chaos.

Stud lumber and plywood have fallen two straight weeks and OSB just this past week to \$285, \$367.50 and \$177 per 000 each, respectively. This is in line with seasonal patterns and well above 12-month lows of \$269 (Oct 9 and Nov 13, 2006) for lumber, \$225 for plywood (Sept 25 and Oct 2, 2006) and \$137 for OSB (May 7, 2007). It is noteworthy that plywood is \$132.50 or over 50% above its cycle low, while stud lumber and OSB are not dramatically above lows.

Lumber shipments have been more than orders for four of the past five weeks, which contributed to the erosion in backlogs. Sawmills clearly need to cut output more as winter approaches and mortgage finance dries up for most subprime, alt 1A and jumbo mortgages. Soft lumber orders impact Weyerhaeuser and Temple-Inland most among the U.S. forest products companies.

#### CHANGE IN THIS RESEARCH OPERATION

This report reflects research coverage by JTVIR, LLC. In no way shape or form should it be misconstrued as involving Prudential Equities Group (PEG), which shut down on June 6, 2007 as noted. The continuation of that same quarterly or full year earnings estimate for 2007 as JTVIR, LLC should not be construed or mistaken to involve PEG, which shut down on June 6, 2007. Certain data, such as the logic of the earnings model, are similar owing to the same primary author, but this coverage initiation herein involves a different entity and no employment or affiliation with the former Prudential Equity Group, LLC.

## DISCLOSURES

“John Tumazos Very Independent Research, LLC” (JTVIR) is a Delaware Corporation with registration effective on August 27, 2007 as an investment advisor in the state of New Jersey owing to our place of business in New Jersey.

JTVIR is not a broker-dealer, and conducts no trades. Its primary business is to provide “unbundled” metals and paper industry securities and market research to institutions or corporations in a zero commission, electronic execution, electronic dissemination, unbundled format for a specified annual fee structure.

Our investment rating system for securities recommendations is Overweight, Neutral Weight or Underweight. Overweight or Underweight recommendations are estimated to vary from the relative performance of the S&P 500 by more than 10% annually, and the intended time horizon is up to 24 months. Our securities research is intended for institutional investors that might buy up to 10% of a given company, and as such focuses more towards longer-term dynamics impacting the net present value of future cash flows rather than “day trading” sorts of near-term issues.

Neither JTVIR, its members or its employees own or have a financial interest in any securities discussed in this report. Our policy is full disclosure.

Our policy permits personal trading in the metals or paper industries, though no positions were taken in companies within regular research coverage after July 2001 after joining Prudential Financial and until after one month of completed New Jersey registration of JTVIR. Our policy is that any personal trading must be consistent with our recommendation, made two business days or more AFTER a recommendation or change in recommendation and held for a minimum of 30 days or one month. We believe it is virtuous for a securities analyst to “put his or her money where his mouth is” to invest consistent with the recommendation to clients after such recommendation has been made, and we disagree with some restrictions made upon broker-dealer employees after 2000 era scandals.

Our policy permits up to three directorships and up to five consulting projects, advisory assignments or financial advice to corporations that might supplement, backcheck or substitute for certain services of a large investment banking firm. For example, we would accept an engagement to evaluate investment banking advice on behalf of a

manufacturing company concerned whether advice is sincere or intended to maximize fees. Currently no such relationships exist.

Our policy is full disclosure of any advisory relationship or conflict going back three years. None currently exist.

Numerous prior investment banking relationships existed prior to three years history to the pre-1997 time frame under the employment of Donaldson, Lufkin and Jenrette or Oppenheimer & Co., Inc. Some of these we can recollect included 14 different gold mine valuations or sales for Barrick Gold, LAC Minerals (later acquired by Barrick), Addington Resources (gold assets in Montana acquired by Canyon Resources), Westworld Industries (Bolivian assets acquired by Battle Mountain Gold later acquired by Newmont Mining), Coeur d'Alene Mines, Crown Resources (acquired by Kinross Gold), Freeport-McMoRan Gold (acquired by Minorco later AngloGold later Queenstake Resources), FMC Gold (later renamed Meridian Gold) and others. Sole managed initial public offerings included Reliance Steel & Aluminum and Huntco. Lead-managed initial public offerings included American Steel & Wire (later acquired by Birmingham Steel) and lead-managed underwritings included Quanex. Co-managed underwritings included the IPO of Century Aluminum and offerings for AK Steel, Kaiser Aluminum, Agnico-Eagle Mines, Cameco and others. Asset sales or purchase advisories, fairness opinion or trusteeships were done for Thypin Steel (sold to Ryerson Tull), Cyclops Corp. (sold to Armco later sold to AK Steel), Allegheny Corp., Bethlehem Steel, the U.S. Dept. of Justice pursuant to the June 1984 merger of LTV and Republic Steel to sell the Gadsden, AL integrated flat-rolled mill, Cobre Copper, and others. Typically more than five investment banking assignments were evaluated, partly executed or "due diligenced" for any completed transaction. Some examples we can recall for which a prospectus was either drafted or partly drafted indicating much work included stock underwritings not completed for Wheeling-Pittsburgh Steel, Steel Dynamics, Atlas Corp., Webco, Sharon Steel, IPSCO, Co-Steel Inc., and others.

#### **ANALYST UNIVERSE COVERAGE:**

John C. Tumazos, CFA: Rio Tinto, Louisiana-Pacific, Nucor Corp., Newmont Mining, U.S. Steel, International Paper, BHP Billiton, MeadWestvaco Corp., Antofagasta PLC, Allegheny Technologies, Alcoa Inc., Inco Limited, Bowater, Inc., Temple-Inland, Barrick Gold, Abitibi-Consolidated, Weyerhaeuser Co., Alcan Inc., Smurfit-Stone Container, Plum Creek Timber, Worthington Industries, Goldcorp Inc., AngloGold Ashanti, Freeport McMoRan Copper & Gold, Novelis Inc., FNX Mining.

Dynatec is a company not continued in the research coverage of JTVIR, LLC that was previously included in the prior June 6, 2007 Prudential Equities Group universe owing to a pending takeover by Sherritt International.

In accordance with applicable rules and regulations, we note above parenthetically that our stock ratings of "Overweight," "Neutral Weight," and "Underweight" most closely correspond with the more traditional ratings of "Buy," "Hold," and "Sell," respectively; however, please note that their meanings are not the same. (See the definitions above.) We believe that an investor's decision to buy or sell a security should always take into account, among other things, that the

investor's particular investment objectives and experience, risk tolerance, and financial circumstances. Rather than being based on an expected deviation from a given benchmark (as buy, hold and sell recommendations often are), our stock ratings are determined on a relative basis (see the foregoing definitions).

There is no intention to "balance" the number of Overweight or Underweight ratings, as instances of broad over- or under-performance among basic industrials may occur. JTVIR makes each investment judgment in a "bottoms up" manner based on the assets of each individual company.

### **Price Target – Methods/Risks**

The methods used to determine the price target generally are based on future earning estimates, product performance expectations, cash flow methodology, historical and/or relative valuation multiples. The risks associated with achieving the price target generally include customer spending, industry competition and overall market conditions.

Additional risk factors as they pertain to the analyst's specific investment thesis can be found within the report.

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