

John Tumazos Very Independent Research, LLC  
11 Yellow Brook Road, Holmdel, NJ 07733  
732 444 1083 or 732 740 3574 (cellular)  
[john@veryindependentresearch.com](mailto:john@veryindependentresearch.com) or  
[johntumazos@comcast.net](mailto:johntumazos@comcast.net) or [tumazos@monmouth.com](mailto:tumazos@monmouth.com)

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### ***Registration Effective August 27<sup>th</sup> and Now Operational***

*We hope to resume the publication of detailed graphics or data backup in coming weeks. On September 4<sup>th</sup> Joseph Reagor joined our team, and on October 1<sup>st</sup> another research addition should report. We contemplate an office manager as well.*

#### **MOST PRICES RISE, BUT MANY INVENTORIES RISE TOO**

- This was the third straight week of metals price rises and the fifth out of sixth good week since the credit crunch lows around August 19<sup>th</sup>. Most percentage gains were in the 1%-3% range.
- Zinc rose almost 7% to \$1.39, lead matched the record levels seen in July, and gold, silver, platinum, copper and aluminum rose while nickel fell and steel scrap and uranium were steady.
- Inventories of copper and zinc made new 2007 lows, while aluminum and nickel made a high and lead and tin inventories rose.
- Copper, lead and zinc appear most encouraging as prices rise with physical exchange inventories generally moving down, and gold and silver appear to be rising.
- Aluminum appears to be in a bear phase with exchange inventories up over 123,000 tonnes in six weeks to the highest level seen since July 2004.
- We had hoped nickel would reverse the adverse trend seen since May 2007 as stainless surcharge formula will swing to a price rise in November owing to average LME prices in September having been about \$0.95 per pound above August averages. However, the pace of inventory rises rose to 2,550 tonnes as the total reached the March 2006 crest, and the weight of inventories pulled prices down \$0.72 per pound last week.
- Wood prices fell again, and despite restrained output lumber inventories rose. Dimension framing lumber, such as 2" x 4" studs, fell to \$271 per 000 board feet almost duplicating their October 9, 2006 cycle low at \$269. OSB is \$19 above its March 2007 and plywood \$106 per 000 sq ft above its November 2006 cycle low.

#### **ALUMINUM PRICES GAIN WHILE INVENTORIES SURGE**

Prices rose \$0.043 per pound to \$1.11 per pound in general sympathy to the weak dollar and money stimulus and rises in other commodities, but supply data was adverse. Inventories on the three exchanges now have risen 166,000 tonnes since June 2007 to 1,253,203 tonnes or the highest level since July 2004. This past week exchange inventories rose 22,824 tonnes after the prior week's rise of 20,554 tonnes to 1.23 mmt, now the sixth straight weekly rise. The data suggests that output is rising 1.0 mmt more than demand WITHOUT seasonal adjustment, and perhaps half as badly considering moderately slower demand in the second-half.

Monthly International Aluminum Institute data was slightly bearish. Chinese output set another record for August at 1.111 mmt, the rest of the world's output set another record at 2.120 mmt and producer inventories aside from commodities exchange stocks rose 42,000 tonnes. These data points were 31,000 tonnes more output and 42,000 tonnes more inventory than expected.

Output cuts may begin to appear, but \$1.11 per pound is too high to prompt very many yet. We expect a price bottom somewhere between \$0.75 and \$1.00 per pound, and estimate LME prices at \$1.19 in 2007, \$1.12 in 2008 and \$0.95 in 2009.

#### COPPER INVENTORY BEHAVIOR ENCOURAGING

Prices rose \$0.06 and inventories fell 9,990 tonnes to 196,815 tonnes, which is the lowest exchange inventory since October 2006. We infer that either a key producer, perhaps state-owned, has undisclosed output shortfalls or else global demand is up much more than the World Bureau of Metals Statistics 4.6% reported gain through July or BOTH.

In the prior week prices rose \$0.18 to \$3.57 per pound. Two weeks ago inventories fell slightly on each of the three regional exchanges to drop a combined 5,270 to 206,805 tonnes, the lowest level of the year. Developments are highly encouraging.

Copper inventories have not risen in this seasonally slower third-quarter, and the WBMS reported 4.6% global demand growth to July even as a 182,000 tonne demand decline outside China and the U.S. offset part of the 38.60% Chinese gain. While we raised our 2008 copper price basis to \$3.25 from \$2.75 and 2009 to \$3.00 from \$2.00, current \$3.50+ prices suggest more upward revisions could happen.

The September 19<sup>th</sup> 6 am email from the World Bureau of Metals Statistics reported global consumption to July up 469,300 tonnes or 4.6%, mine output 254,900 tonnes or 3.0% (heap leach up 54,300 tonnes), and refined output up 236,700 tonnes or 2.4%. Consumption in China rose 768,100 tonnes or 38.6%, the U.S. fell 118,000 tonnes and the world other than the U.S. and China fell 182,000 tonnes.

We question the degree of decline outside the U.S. and China at 182,000 tonnes, since other markets such as steel or aluminum suggest very brisk growth. Future demand revisions could be upwards towards a 5%-6% global demand growth rate.

## NICKEL INVENTORIES GROW, AND NOVEMBER STAINLESS SURCHARGE REVERSAL VISIBLE AT \$0.95 PER POUND OR ABOUT \$152 PER TON FOR 304

Nickel prices fell \$0.72 per pound last week to \$13.59 or \$1.98 per pound above the August 19<sup>th</sup> low of \$11.61. The September average price appears about \$0.95 above August, or \$152 per ton higher for 8% ni type 304 which should drive the November surcharges up about that much assuming chrome and scrap iron are near the same.

Inventories rose more than expected. We had hoped nickel would reverse the adverse trend seen since May 2007 as stainless surcharge formula will swing to a price rise in November owing to average LME prices in September having been about \$0.95 per pound above August averages. However, the pace of inventory rises rose to 2,550 tonnes as the total reached the March 2006 crest, and the weight of inventories pulled prices down \$0.72 per pound last week.

In the second prior week inventories rose rapidly by 3,258 tonnes to 29,190 tonnes, which had been the fourth week in which LME inventories rose over 3,000 tonnes including September 16<sup>th</sup>, September 2<sup>nd</sup>, August 12<sup>th</sup>, and almost that much July 29<sup>th</sup>. There is no evidence that steelmakers have enough confidence in stainless restocking among distributors or end users to buy nickel.

## GOLD AND SILVER RISE AGAIN AND AGAIN

Gold closed above \$700 for the FOURTH straight week and the FIFTH individual week other than May 15, 2006 since January 1980. The 1.5% rise to \$742.80 from after rising to \$731.40 from \$709.60 and silver's \$0.32 rise to \$13.7 after last week's \$0.48 rise to \$13.47 after second prior week's \$0.40 rise to \$12.99 per oz were encouraging.

Platinum made a record at \$1,395 per oz.

Continued upward moves are conceivable given the size of the monetary injections from several of the world's largest central banks. It is conceivable that the U.S. Fed cuts interest rates another time in the months ahead, although it is also possible that market forces push them up too if bond buyers disappointed from the past year's event postpone purchases to force better yields.

## LEAD INVENTORIES DECLINE EVEN MORE

Lead remains reasonably close to the July 22<sup>nd</sup> weekly record near \$1.58 per pound, and has exceeded aluminum and zinc for the first times in history for almost three months for aluminum and one month for zinc by now. Lead rose \$0.02 per pound to \$1.57, and a \$0.02 Friday selloff prevented a record weekly close at \$1.59.

Inventories rose 950 tonnes to 22,150 after last week inventories had fallen 2,225 tonnes on the LME to 21,200 tonnes. It is inevitable that lead inventory declines slow down as there is not too much inventory left to draw down.

## ZINC INVENTORIES REVERSE TREND TO DROP AFTER THREE STRAIGHT PRIOR WEEKLY RISES

Zinc prices rose \$0.09 to \$1.39 per pound and inventories fell 6,986 this week after falling 7,736 tonnes last week to the lowest level in many years. The 89,119 combined LME and Shanghai zinc inventory level is modest and represents about 3 days of world use.

## STEEL SCRAP

Steel scrap was steady at \$265 per ton for #1 heavy melt. The decline in distributor inventories to 13.0 million tons in the U.S. and steady output gains both in the U.S. last week and a 5.3% August IISI output gain all suggest continued gradual growth.

## URANIUM STEADY

Uranium spot prices were \$85 for the second straight week after four weeks in which they held constant near \$90 per pound for almost a month after their sudden plunge from \$136 highs.

We do not know of any reason for electric utilities around the world to change their uranium procurement patterns. World growth and electricity demand appears brisk, and climate change and carbon regulations should bias utilities towards nuclear when they have a choice.

We conclude by process of elimination that investor/speculative behavior must account for the \$51 per pound uranium selloff from peak levels.

## LUMBER INVENTORY BUILD SUGGESTS OUTPUT CUTS NOT ENOUGH AS PRICES FALL AGAIN

Normal seasonal behavior would see wood prices continue to fall every week through October, and make a bottom sometime between Halloween and Xmas. Prices have now fallen 5 or 6 straight weeks. Despite record energy and a 32 year C\$ high, nominal wood prices threaten new five year lows suggesting a bleak profit outlook for wood-oriented companies like Weyerhaeuser, Louisiana-Pacific or Canadian public or private sawmills.

Wood prices fell again, and despite restrained output lumber inventories rose. Dimension framing lumber, such as 2" x 4" studs, fell to \$271 per 000 board feet almost duplicating their October 9, 2006 cycle low at \$269. OSB at \$157 is \$19 above its March 2007 and plywood at \$333.50 is \$106 per 000 sq ft above its November 2006 cycle low.

Lumber output was 32 mm board feet above orders, and shipments were 8 mm board feet above the subdued 281 mm board feet order level. These trends suggest dwindling backlogs or rising inventories.

We do not have collective data for OSB, plywood, other composite panels or other product classes, but our hunch is that across-the-board producers have not quite cut production enough.

A combination of the seasonal slowdown in activity as winter approaches and the tighter loan standard's potential to further depress demand appears to be creating a sort of downside climax. On the other hand, high energy and the strong Canadian dollar adversely impact the costs, which rise even more owing to diseconomies of scale as output contracts. More output cuts loom.

#### 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.

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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.

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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

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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.

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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.

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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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