MARKETS

Industrial Metals Slide From Their Peaks

Prices of the economic barometers falter as investors await end to central banks' stimulus

BY IRA IOSEBASHVILI

Prices for many industrial metals have tumbled to their lowest levels in weeks, as investors react to signs that central banks around the world are gearing up to unwind stimulus programs.

Copper prices have fallen 7.5% from their September high and are hovering near their lowest levels since early August. Nickel is off roughly 14% from its recent peak, while iron ore is down 17%.

The declines come at a particularly delicate time, as investors try to gauge how asset prices will respond when central banks dial back the easy-money policies that have helped support markets since the financial crisis. Many investors believe prices for metals, which are used extensively in manufacturing and construction, are a barometer for the global economy's health.

Some cracks are already apparent in China, where policy makers are unwinding stimulus measures that have boosted growth but also inflated asset bubbles and stoked speculation. Industrial production in China, the world's largest consumer of metals, fell last month to its lowest level since December, and fixed-asset investment grew at its slowest pace since 1999.

S&P Global Ratings earlier this month became the latest ratings firm to downgrade China, saying that "a prolonged period of strong credit growth has increased China's economic and financial risks."

The concerns about China come as investors prepare for tightening in the U.S. and abroad. The Federal Reserve signaled last week that it would begin shrinking its balance sheet in October and hinted that rates may rise again before year-end. The European Central Bank is likely to announce plans next month for phasing out the bond-buying program that has helped reinvigorate the eurozone economy, while U.K. policy makers said they may raise rates in coming months to combat inflation. Canada unexpectedly raised rates earlier this month.

Expectations of higher borrowing costs have sapped investors' enthusiasm for metals, after a summer rally lifted prices to their highest levels in years. Net bullish bets on copper prices in the futures markets hit their lowest level since July last week, while posting their second-consecutive week of declines, Commodity Futures Trading Commission data show. Meanwhile, the amount of copper held at warehouses registered with the London Metal Exchange has surged almost 50% in September to 305,150 metric tons, a sign that demand may be slackening.

"There may have been a little too much enthusiasm in markets earlier this year," said Bart Melek, head of commodity strategy at TD Securities.

A recent bounce in the dollar is also affecting metals prices. A rising dollar tends to weigh on metals, which are priced in the U.S. currency and become more expensive to foreign investors when the dollar rises. The WSJ Dollar Index is up 2% from its September lows.

Some investors and analysts believe the decline in metals is a temporary setback, rather than a reversal. Many are betting that an uptick in global growth this year is bound to support metals prices and note that central banks have said they will unwind their stimulus policies at a measured pace.

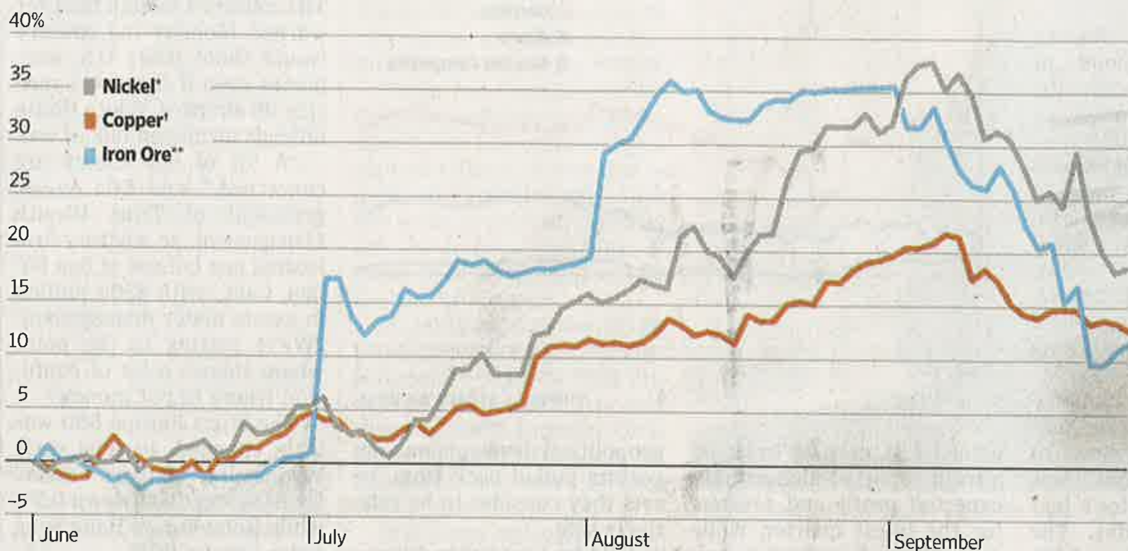
Others, however, believe metals have further to fall.

Atul Lele, chief investment officer at Deltec International Group, said he is betting on declines in the stocks of mining companies such as **BHP Billiton** Ltd., **Rio Tinto** PLC and **Vale** SA, convinced that tightening monetary conditions and falling metals demand will eventually hit their shares. "Everyone is tightening, and Chinese stimulus is fading," he said. "This will negatively impact metals prices."

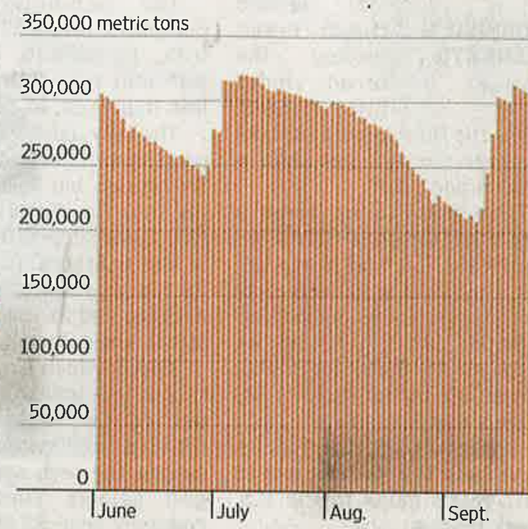
Back to Earth

Prices for copper and other base metals have dropped in recent weeks after a sharp summer rally.

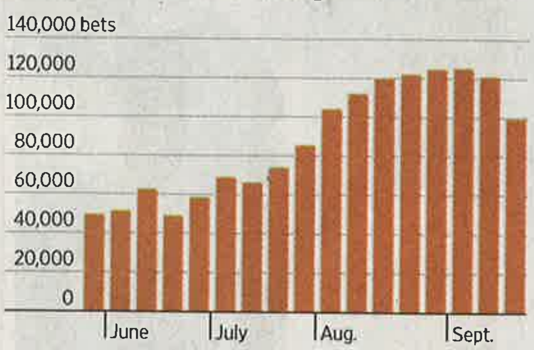
Commodities-price performance



Copper stockpiles have risen at LME warehouses, indicating growing supply.



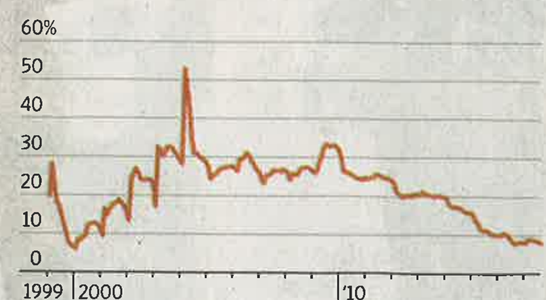
Net futures bets on copper fell for the second time since July, after hitting record levels.



The declines come amid a slowdown in Chinese economic data, such as a drop in industrial production and investment in fixed assets.

China industrial output, change from a year earlier

Investment in fixed assets, change from a year earlier



*LME 3-month contract †Continuous most-active contract **62% continuous most-active contract
Sources: FactSet (copper and iron ore); London Metal Exchange (nickel); Thomson Reuters (warehouse stockpiles, bets, output, investment)

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