

# Jitters hit metals market but demand still strong

**James McCullough**

COMMODITY prices are heading for a roller-coaster ride after record prices came off the boil early this week but the underlying trend remains upward.

Hefty falls on the London Metals Exchange have spread jitters through the base and precious metals market although most analysts describe the slump as nothing more than a healthy correction inspired by the major international hedge funds.

"A lot of the hedge fund money has been pumped into the commodity sector over the past few months and now they are taking profits at the record

high levels," said the chairman of Xanadu Mining and director of Gateway Mining, Brian Thornton.

"It is hot money and money that wants to make a quick profit and as soon as they see a turn in the market they jump ship and liquidate positions," he said.

CommSec economist Craig James described this week's fall in commodity prices as a healthy correction driven by speculators unwinding their overbought positions.

"Most metal and energy markets are fundamentally well supported but speculative activity had driven prices to unsustainable levels," he said.

Mr James forecast further falls in commodity prices but maintained the fundamental

position had not alternated with domestic and global economies remaining in strong shape and supply still struggling to keep up with demand.

Mr Thornton, whose Zanadu is exploring for gold and copper in Mongolia, said huge demand from India, China and Brazil would continue to fuel prices.

"They now want the things that we want and that translates into industrial demand for copper and nickel and iron ore," Mr Thornton said.

Evidence of a resurgence in demand came this week when the large Brazilian iron ore company CVRD negotiated a 19 per cent increase in price with the Chinese Government.

Mr James said this week's slump was "clearly the correc-

tion we had to have".

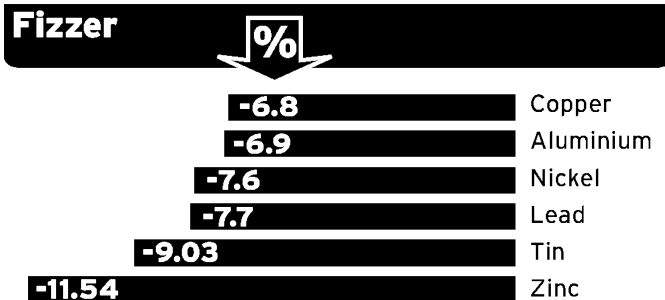
"This is a correction in commodity prices and not a meltdown," he said.

Simon Guzowski, analyst at Wise-owl.com, said economists had become concerned that the high prices for commodities would prove to be inflationary and trigger a slowdown in economic growth.

Secondly, he said it was natural for markets to have a breather after a strong run.

Citigroup believes the bull run will continue after the latest correction, saying long-term commodity prices had been upgraded to reflect higher costs, declining grades, and capex cost pressures.

**Iron ore spike» P41**



Source London Metals Exchange/IRESS