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THE COPPER INDUSTRY

Industry performance in 1975 was in stark contrast to the euphoria that existed in 1973 and early 1974 when there were expectations of scarcity and prices rocketed up to $1.40 per lb. Last year free world refined copper production declined over 9%. U.S. output was off 16% and Canada's 5%. Consumption of copper in the free world continued the decline which began in 1974, dipping about 16% with the U.S. absorbing a 32% decrease. This trend resulted in a substantial build-up in inventories despite production cutbacks. Prices bottomed late in 1974 and remained stable throughout 1975 in the face of listless demand. L.M.E. prices averaged 56c a lb. last year while the U.S. Producer Price held steady at 63c per lb.

COPPER PRICES

(c per pound)

Date	LME (1)	U.S. Producers (2) in U.S.	Canadian Producers (2) in U.S.	Canadian Producers (2) in Canada
June, 1976	70.3	70.0	74.6	69.8
January, 1976	54.1	63.0	63.0	63.4
January, 1975	54.9	69.0	63.6	63.4
April, 1974	137.5	68.5	80.0	77.5
May, 1973	70.4	60.0	60.0	60.0

1. Monthly Average Price
2. End of Month Price

In March and April, L.M.E. prices staged a strong rally aided in part by political unrest in Africa which caused concern about production in Zambia and Zaire. Hedge buying against the British pound was also a factor and it must be stressed that the strength in prices was not due to any strong acceleration in demand. The L.M.E. recovery enabled two quick advances in the producer price which was badly needed to compensate for rising costs. This month Canadian producers again raised their domestic prices. Further substantial price advances are unlikely until 1977 although L.M.E. trading reflects speculation and a sharp deterioration in the African situation could trigger gains.

Demand is difficult to assess but remains the key to any significant rise in prices. Copper in the past has tended to be cyclical, swinging with the ebb and flow of the economy and the recent improvement in North America should prove a positive stimulus although some weak sectors persist. Copper has long been a central part of the electrical industry and this market now accounts for about one-half of all consumption. Other major areas of usage include construction, industrial equipment, transportation, communications and consumer products.

Automobile sales have made a strong recovery with Detroit enjoying its best year since 1973. Surprisingly, the larger models have been selling well but it appears that the longer term trend is definitely to smaller cars which use less copper per unit. It is possible that the auto industry could be closed by strikes this fall which would certainly dampen the copper recovery. We would normally expect construction to be in the forefront of the economic advance but performance has been far from buoyant, reflecting high interest and mortgage rates and lingering uncertainty regarding inflation. Forecasts of good growth in generation of electrical power are a healthy sign for the future.

Looking to export markets, demand is forecast to be relatively weak this year in Europe as many nations are plagued with labor, political and currency strife. Although its domestic market is recovering well, Japan has been forced to cut copper production in response to rising inventories and poor export markets for its manufactured products.

Record high inventories continue to attract attention. Despite a significant reduction in production, world copper stocks have continued to climb to unprecedented levels and were recently estimated at 1.8 million metric tons. This large supply overhanging the market will serve to delay any major upward move in prices. Indications are that inventories have stabilized with recent reports noting some decline in world stocks. The drawdown is expected to be slow, aggravated by the traditionally slack summer period when many plants shut down completely.

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Since a number of marginal producers have ceased operations, it was generally expected that production would be lower again in 1976 but this is now far from certain. The Intergovernmental Council of Copper Exporting Countries (CIPEC) appears on the verge of resuming full operations after cutting back last spring to support prices.

For the balance of the year, we expect steady, slow improvement in consumption as the world economies gather momentum, but large inventory positions will hold back price advances. Longer term, the outlook is good as most companies are finding it difficult to generate profits and eventually prices must escalate to reflect the inflationary conditions of the past few years. New mines have become increasingly hard to justify on a rate of return basis and many projects have been put aside.

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FALCONBRIDGE COPPER ($8) — Copper operations suffered in 1975 as the average price received dropped to 55c per lb. from 82c in 1974 and 78c in 1973.

The two new mineralized zones being developed will not be contributing to earnings until 1978. Underground extension is progressing at Opemiska's Cooke Mine where operations are scheduled to start in 1978 at 300 tons per day. Shaft sinking at the new Corbet Mine is now down about 1,000 feet although no production decision has been announced. The company's share in output from Sturgeon Lake Mines will drop to 13.4% after financing expenditures are recovered. First quarter earnings were level at 5c per share versus 6c. **Hold.**

HUDSON BAY MINING ($18¾) — The company has been diversifying and base metals contributed 49% of sales in 1975.

Rising costs during depressed market conditions have caused problems and base metals operated at a loss last year. The LaVerde Mexican open pit copper project (16% interest) has been postponed. The most important factor affecting Hudson Bay's current outlook is the possible takeover of the potash division. In the first quarter earnings per share were down to 8c from 73c. **Hold.**

INCO ($34) — The world's leader in nickel is also a major producer of copper, which accounted for 16% of metal product sales in 1975. A refinery is maintained at Sudbury, Ontario. Proven reserves increased slightly to 4.3 million tons. Copper deliveries at 335 million pounds with a value of $194 million, were down 9% from 367 million pounds in 1974 having a value of $318 million. The company is believed to sell half of its production at L.M.E. prices and received only 59c per lb. in 1975 compared with 88c the year previous.

The 1976 earnings contribution from copper will likely be improved. INCO increased its prices this spring and first quarter deliveries were up by 19%. Reported earnings in the quarter declined to 31c per share from 76c and **the stock is classified as a hold.**

NORANDA ($38¼) — Despite diversification, mining and metallurgy accounted for the largest portion of 1975 earnings and copper remains a major product.

The company has some basic strengths. Its operations are fully integrated through to the manufacturing stage. It is a custom smelter and refiner for more than 25 other mines. In addition, all of its own production is sold at the producer price while it has access to L.M.E. price leverage through associated companies. Net income for the three months ended March 31 dropped 80% to 16c per share from 78c. Noranda with a number of important projects coming on-stream represents a strong recovery candidate and **we continue to recommend purchase.**

TEXASGULF ($36) — This diversified natural resources company is also an important copper producer selling three-quarters of its output in North America at the Producer Price. The Kidd Creek Mine has massive resources and as yet total reserves are unknown. At the 1975 year-end, 86 million tons were classified as proven and probable ore containing an estimated 2.70% copper, 0.21% lead, 5.92% zinc and 2.31 ounces of silver per ton. In the deeper zones, the copper grade increases. The expansion of the Kidd Creek Mine and the new copper smelter and refinery will substantially boost copper production when completed in 1978.

The recent 20% equity interest obtained in the massive Cerro Colorado Panamanian copper deposit appears to offer good potential. Exploration oriented, the company has a number of other promising prospects. First quarter earnings were 52c per share compared with $1.00. **We recommend purchases at these levels.**

COMPARATIVE STATISTICS

	Recent Price	Earnings Per Share 1974	1975	1976 (Est.)	P/E Ratio (1976 Est.)	Indicated Dividend	Yield	Price Range 1976
Falconbridge Copper	$8	$ .72	$ .05	$ .35	22.8	Omitted	—	$ 9 - 6
Hudson Bay M&S	18¾	4.52	1.49	1.75	10.7	$ .80	4.3%	22 - 15⅛
INCO	34	4.01	2.51	2.80	12.1	1.60	4.7	35⅞ - 25½
Noranda	38¼	6.59	2.14	3.00	12.7	1.20	3.1	39 - 29⅜
Texasgulf	36	4.83	3.37	3.55	10.1	1.20	3.3	36⅝ - 28¾