

A FIVE-YEAR FORECAST OF GLOBAL CONSUMPTION: FACT OR FANTASY

by

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for ICSG Meeting in Lisbon

on 24th April, 2008



Presentation Divided into 4 Parts

- Economic Background
- Production
- Consumption
- Price Outlook



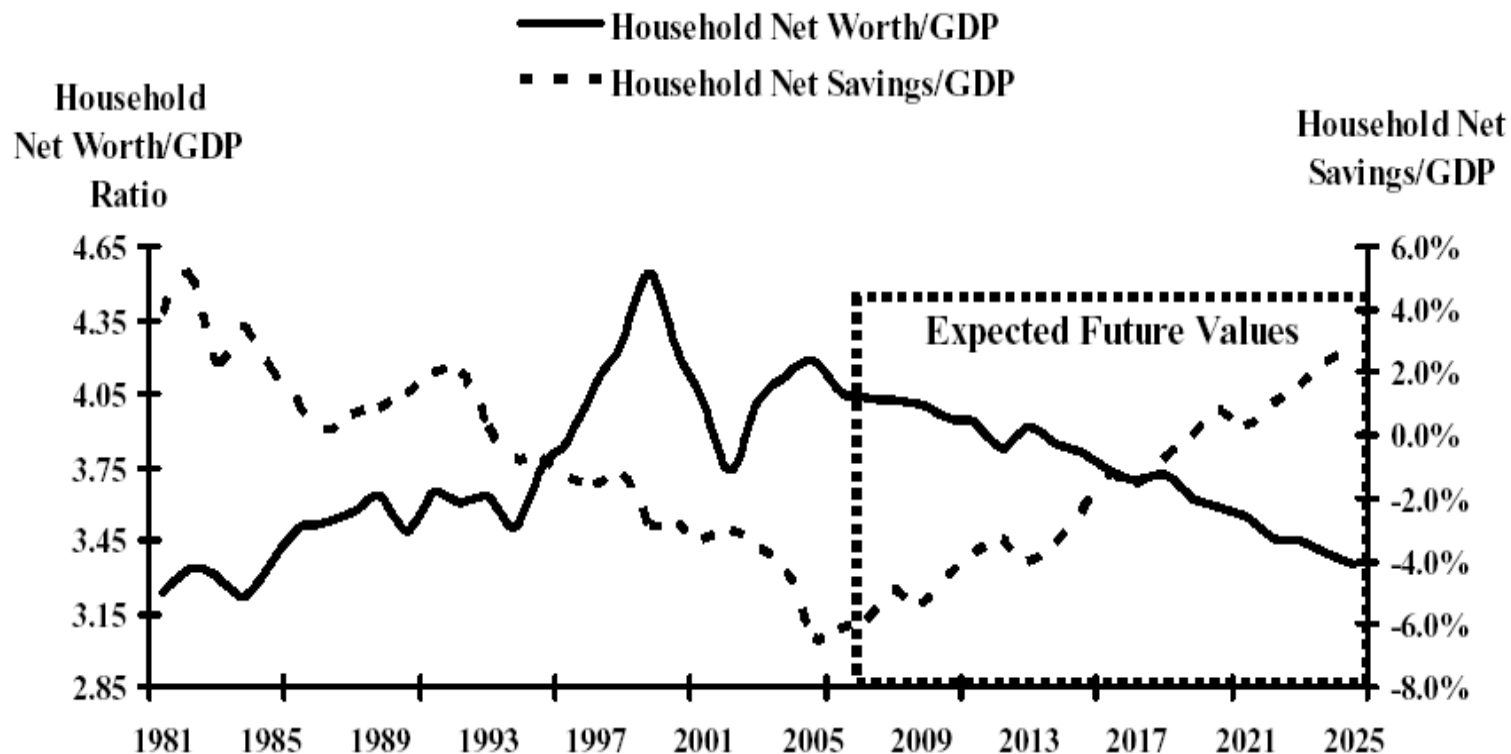
“... Taken together with possible declines in the prices of many assets from unusually elevated levels, and the risk of a sharp rise in household savings rates from unusually low levels in many countries, the potential for a substantial impact on global economic activity should not be under-estimated. Just as the real and financial sectors interacted on the way up, so they might well do so on the way back down.”

**William R White, Economic Advisor and
Head of Monetary and Economic Department
of the bank for International Settlements, Basle,
Switzerland**



Mean Reverting Dynamics of Net Worth

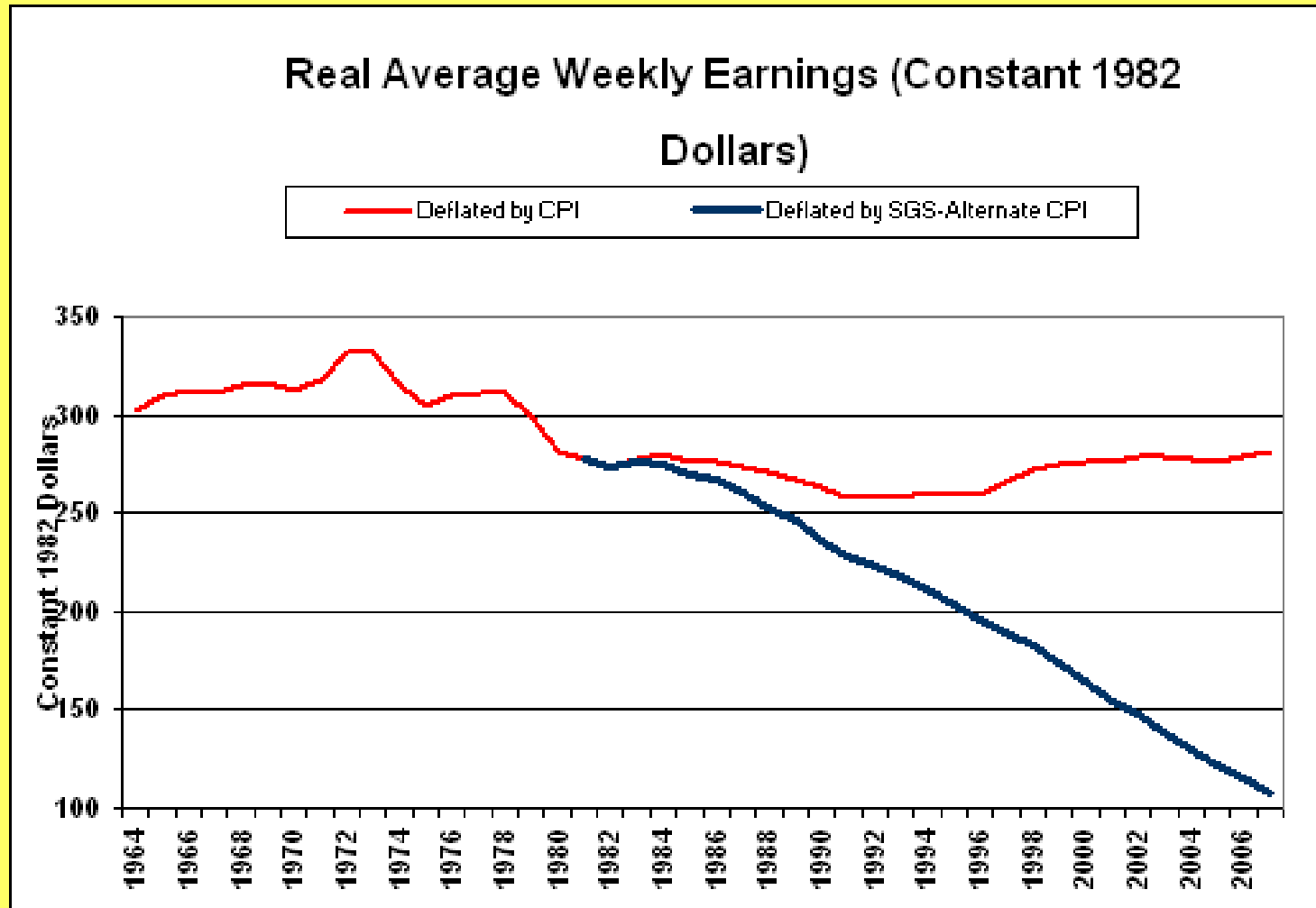
– Long-run Wealth Effect Impact –



Source: Federal Reserve Board, US household balance sheet data; SED



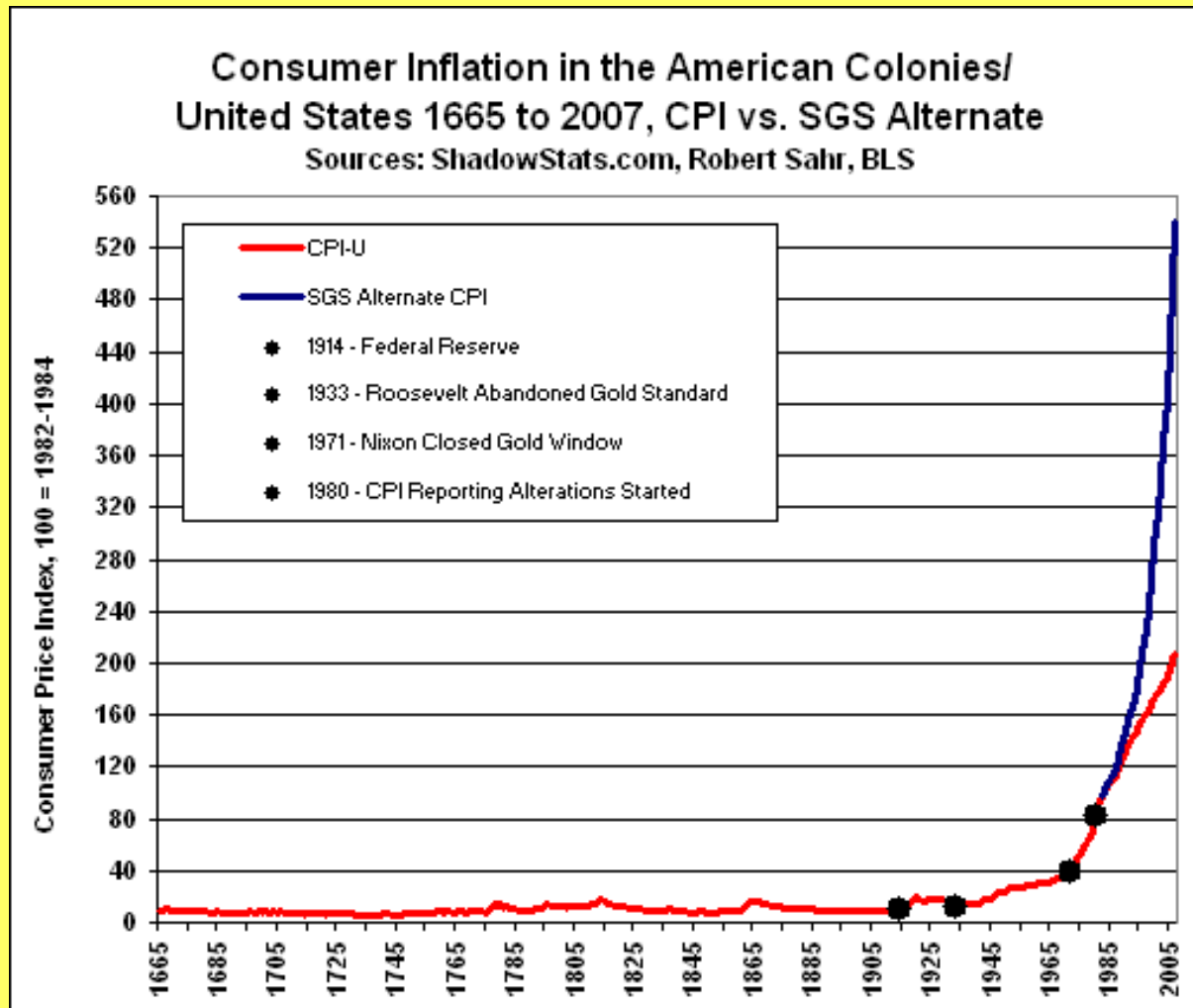
US Real Average Weekly Earnings



Source: www.shadows.com



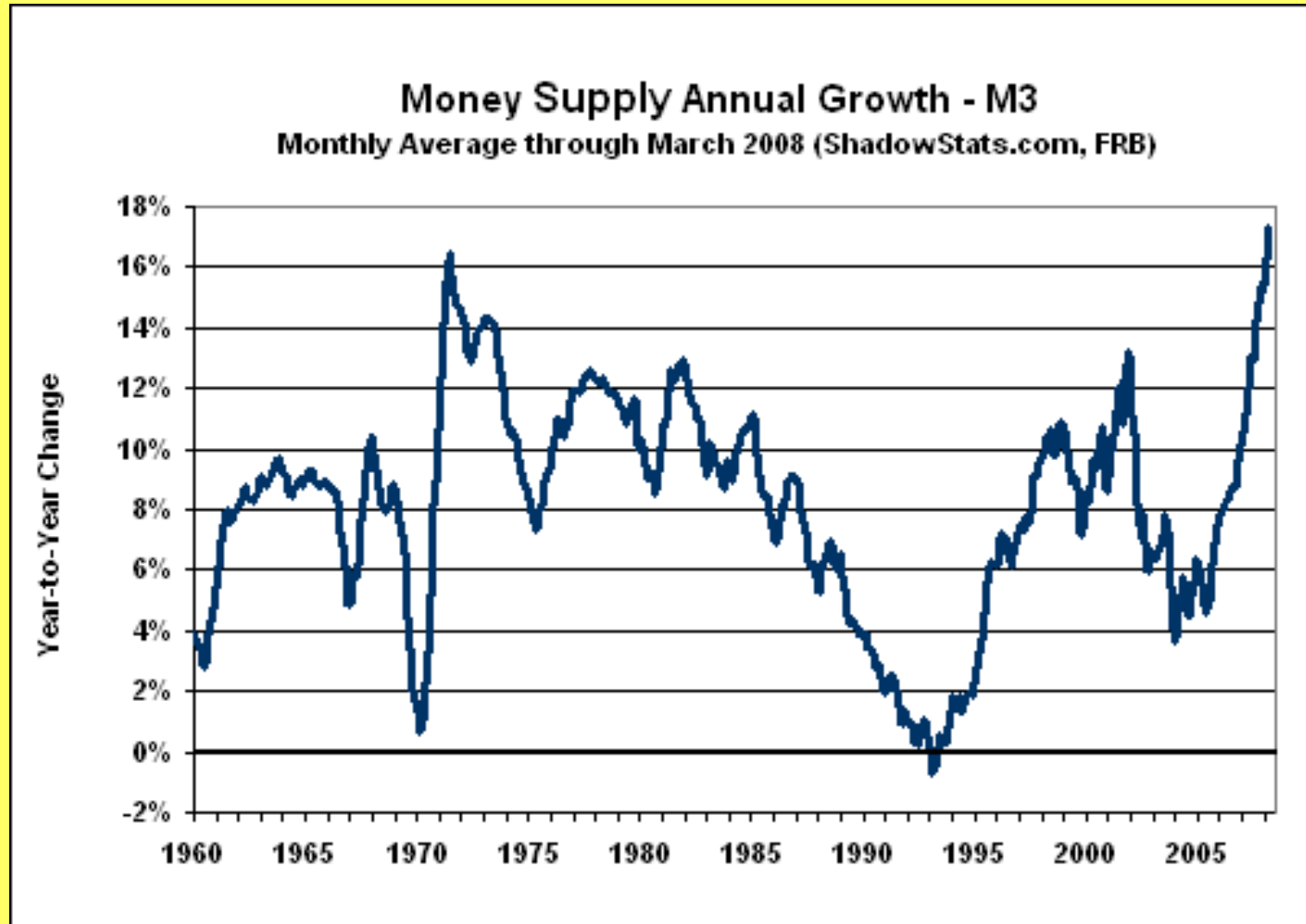
Consumer Inflation in the American Colonies/ United States 1665 to 2007, CPI vs. SGS Alternate



Source: www.shadows.com



US Money Supply M3

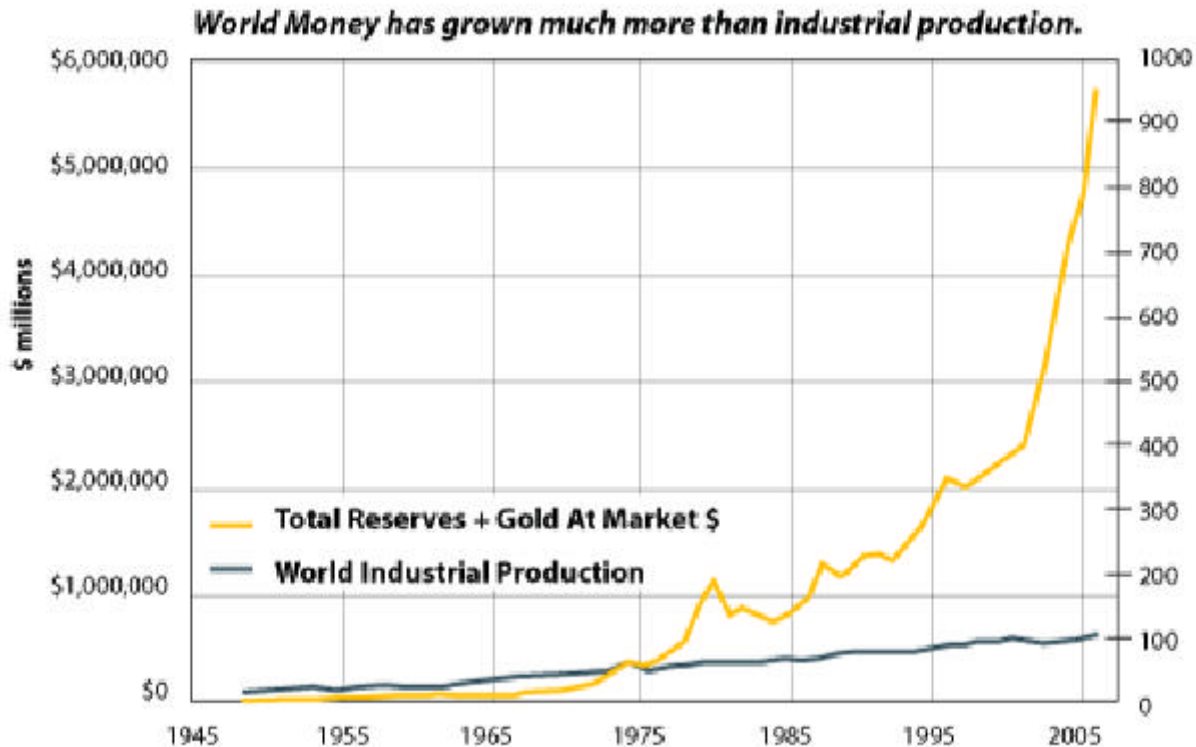


Source: www.shadows.com



More Money, Less Wealth

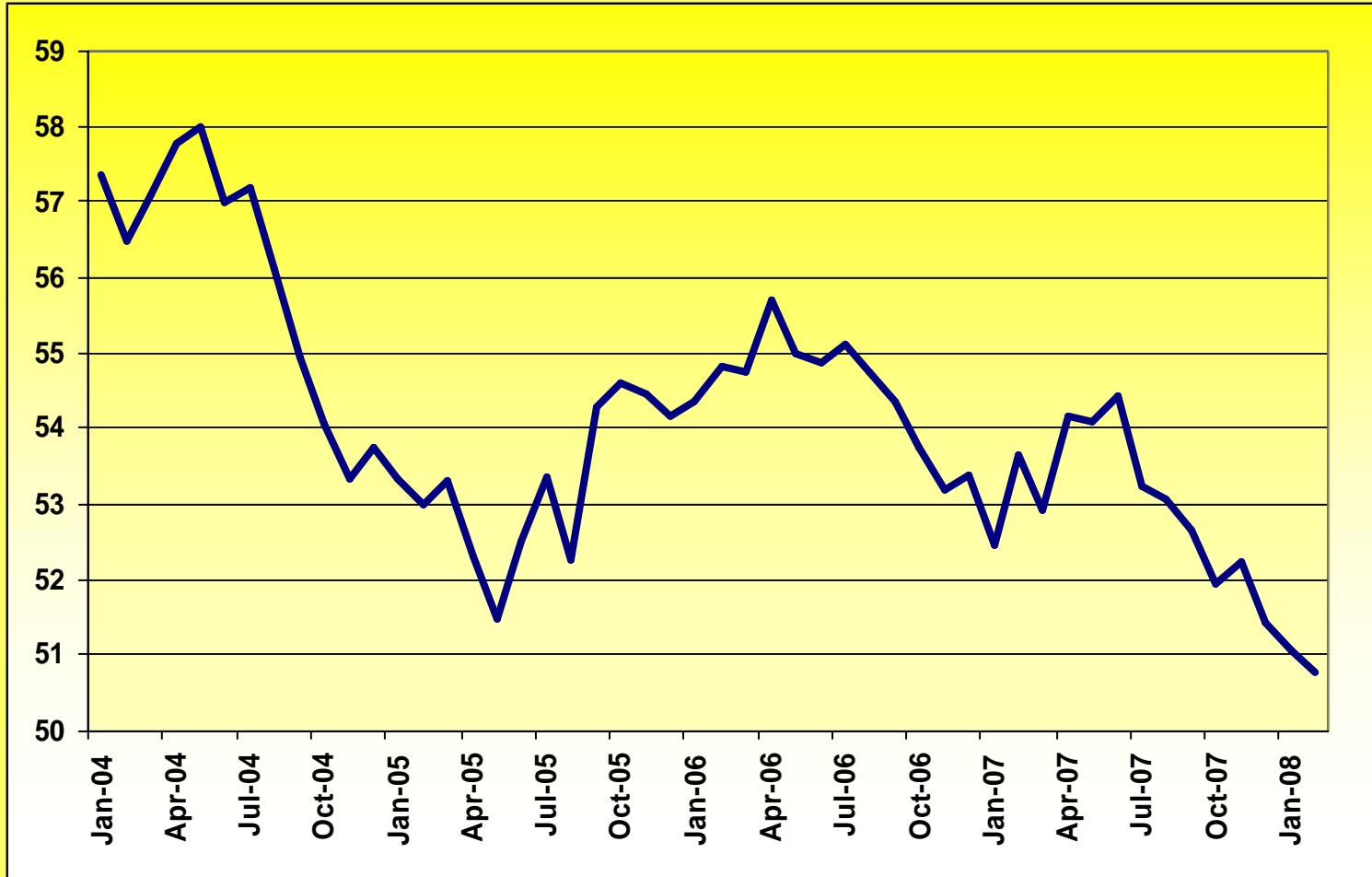
More Money, Less Wealth



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J P Morgan Global PMI Index

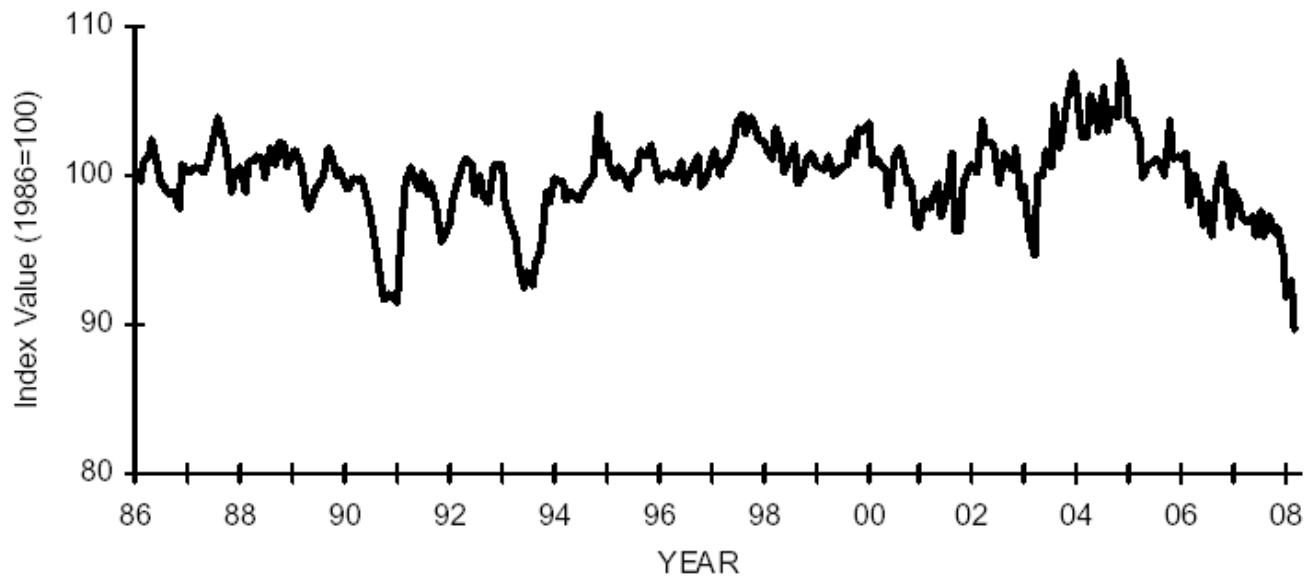


NFIB Optimism Index

OVERVIEW - SMALL BUSINESS OPTIMISM

OPTIMISM INDEX

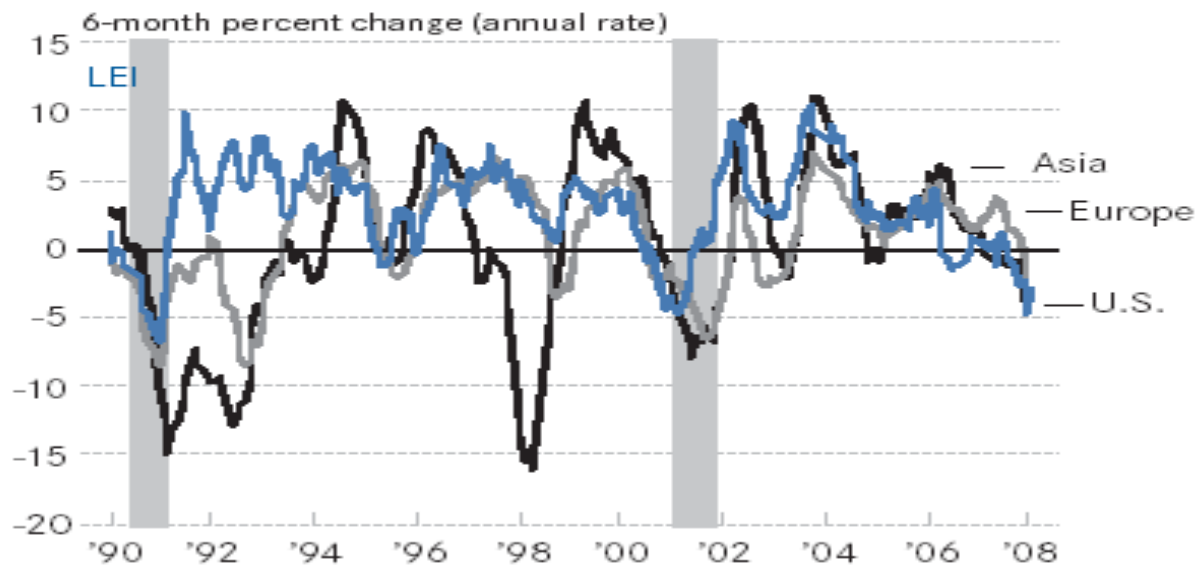
Based on Ten Survey Indicators
(Seasonally Adjusted 1986=100)



Leading indicators

Leading indicators for all major regions are down

These trends suggest a slowdown in global growth but not a recession.



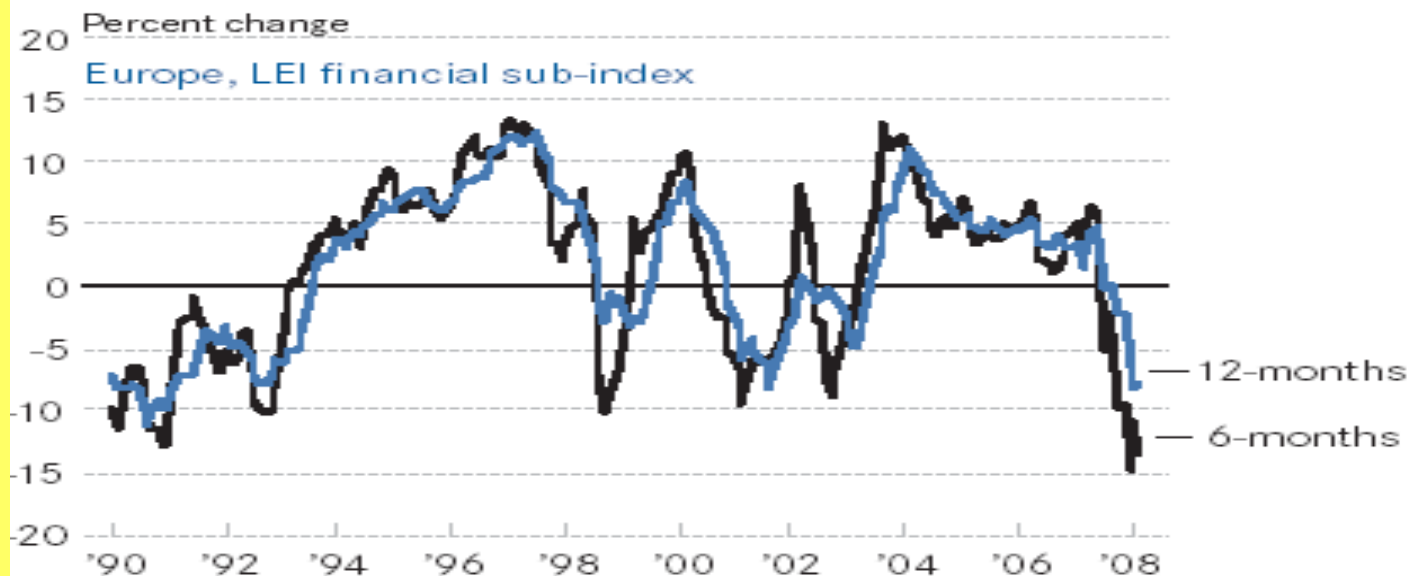
Note: Shaded areas represent U.S. recessions.

Source: The Conference Board

Financial and sentiment indicators

Financial and sentiment indicators plummet in Europe

These forces are not particularly recessionary, but they do suggest a period of “stagflation” is ahead for Europe.

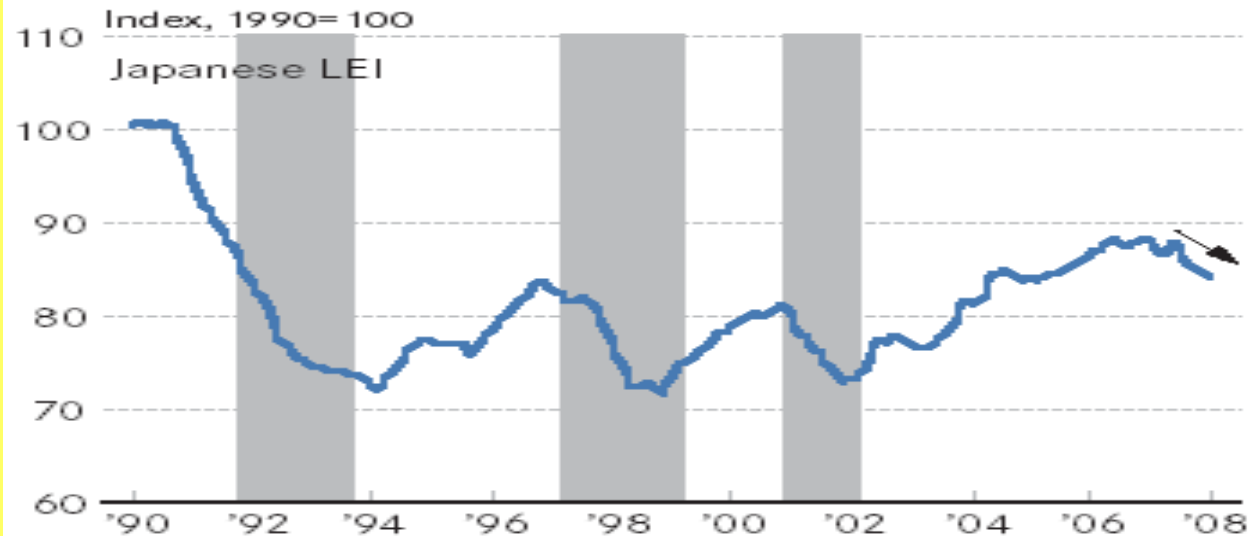


Source: The Conference Board

Japan's LEI has turned down

Japan's LEI has turned down...

The probability of a recession in Japan may be at least as high as it is in the United States, if not higher.



Note: The shaded areas represent Japanese business cycle recessions. The peaks and troughs are designated by The Conference Board based on the coincident index and real GDP.

Source: The Conference Board

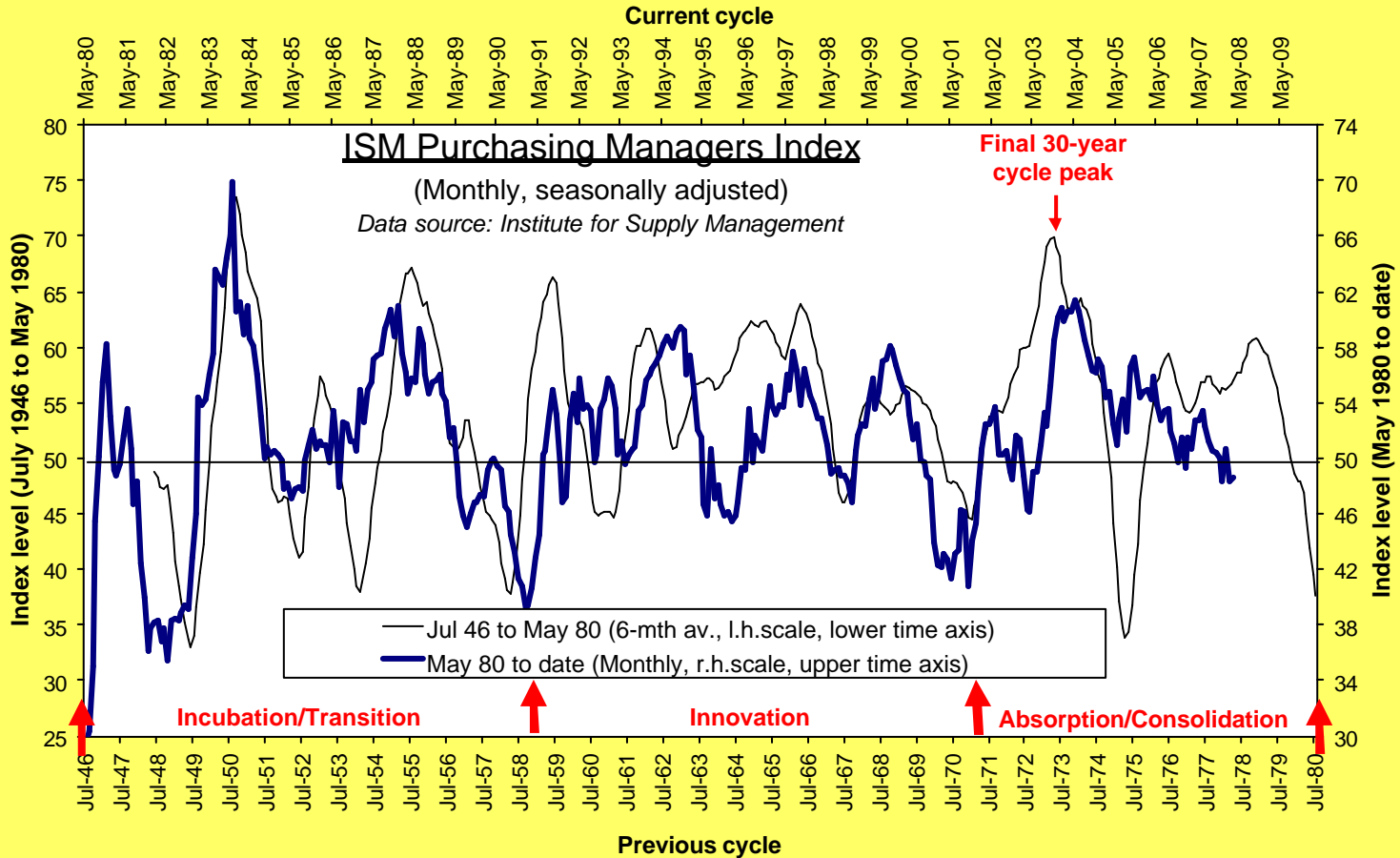
Turning Points at End of Decades

US Industrial Production Index

	Index	% Change
1960	26.0	Flat
1961	26.1	
1969	43.3	-3.2%
1970	41.9	
1979	57.7	-7.8
1980	56.2	
1990	69.4	-1.3
1991	68.5	
2000	103.6	
2001	99.9	-3.6
2009 – 2012		?



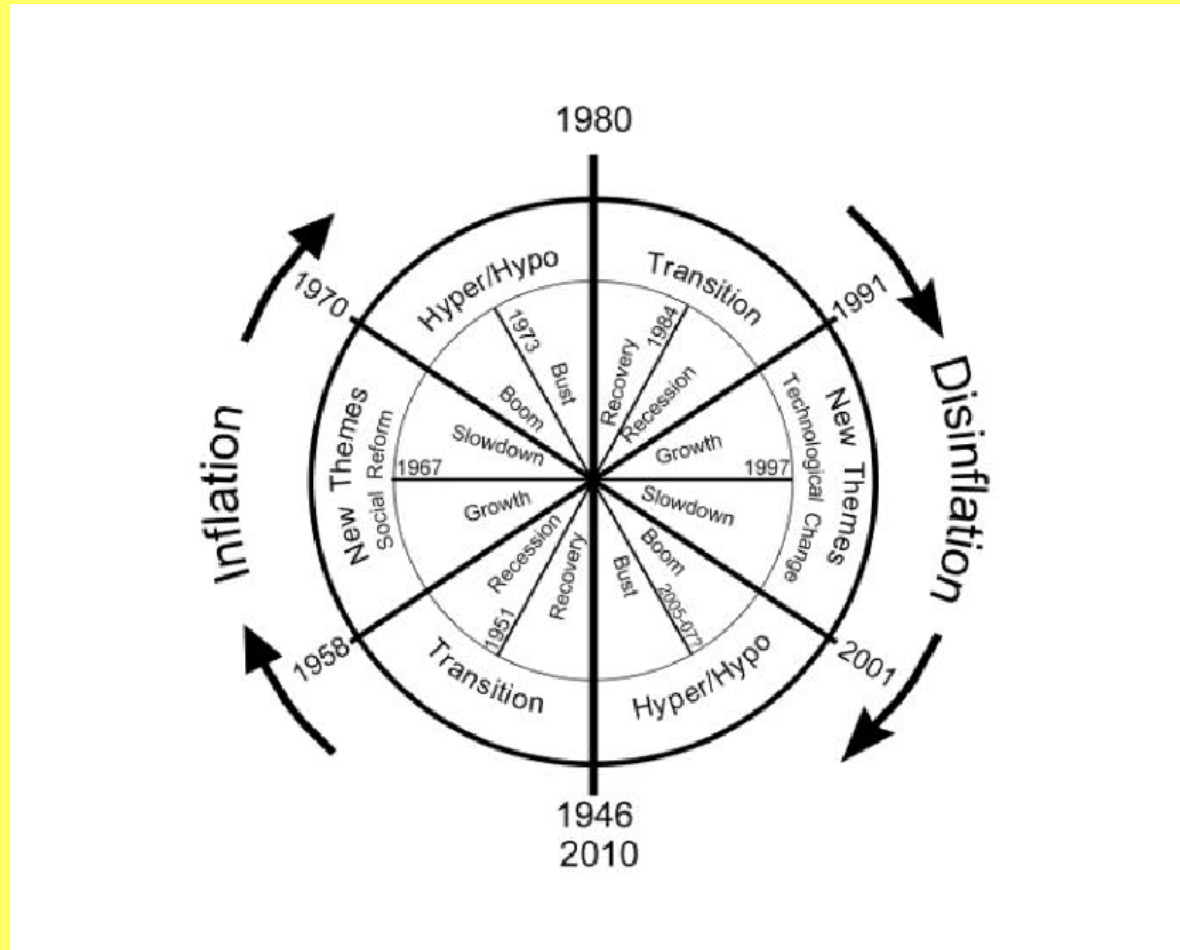
30 Year Berry Cycle



Source: Tony Plummer



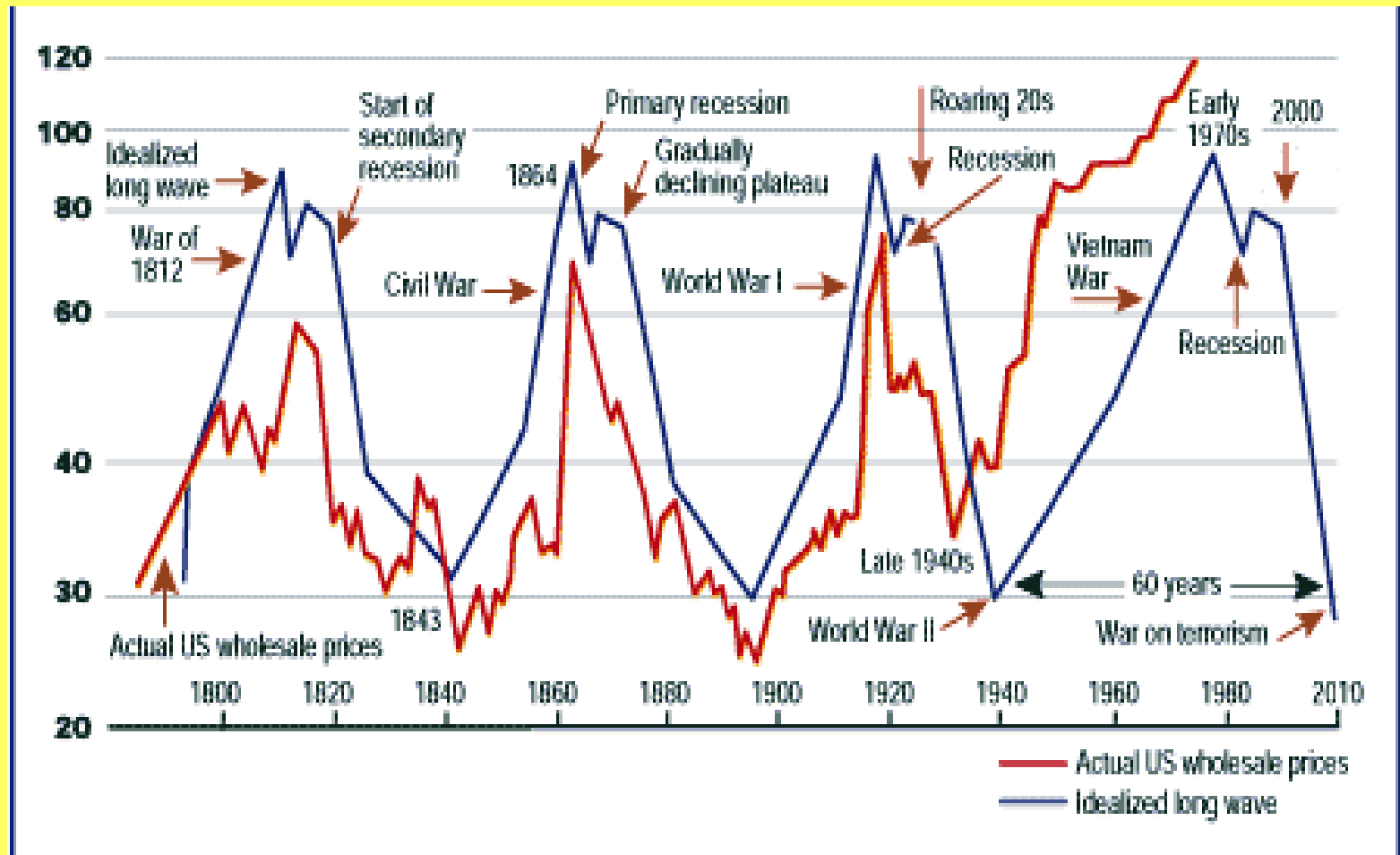
Market Cycle Review



Tony Plummer
28th September 2006



The Kondratieff Wave



US & World GDP 2007-2015

% Change Per Year

	2007	2008	2009	2010	2011	2012	2013	2014	2015
USA	2.2	0.5-1.0	-1.0	-2.0	-0.5	0.0	1.0	2.5	3.0
WORLD	3.6	3.0	2.0	1.0	-0.5	1.5	3.0	3.5	4.0



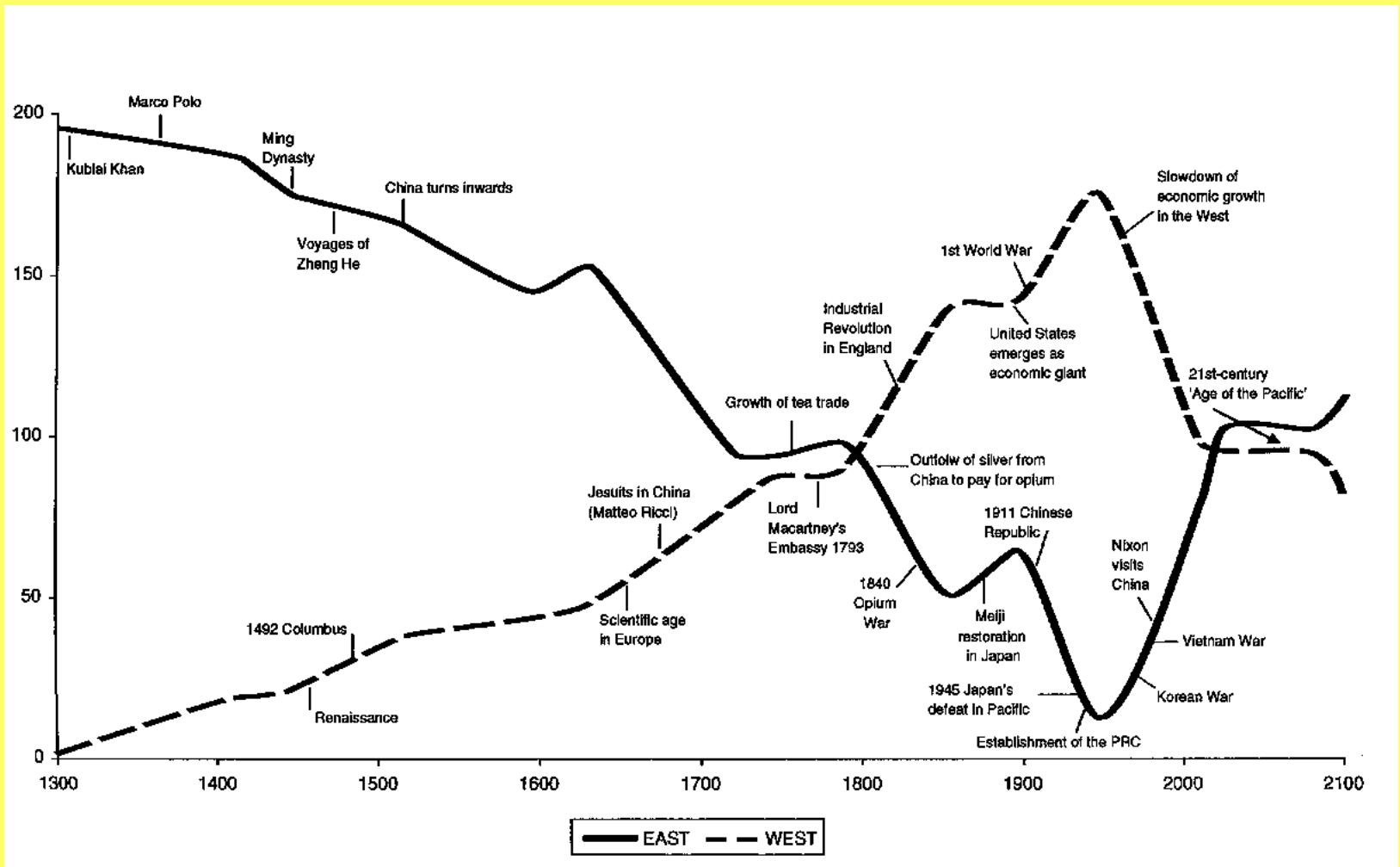
Copper



Asia's Consumption



East-West Index



Source: Lloyd George Management



Asia's Copper Consumption Kt-cu

	2000	2006	2007	2008	2009	2010	2015
Total Asia	5406	7646	8313	8620	9020	9396	10920
Ex China, Japan	2271	2614	3098	2698	2730	2790	3480

China



China's Intensity of Use (ITU) Real GDP/Refined Consumption

	Average
1990s	1.03
2000-2006	1.45
2004-2006	0.69

China's Refined Consumption by Sector – Kt-cu

	2006	2007	2008	2009	2010
Construction	710	826	780	770	830
Infrastructure	1430	1653	1900	2200	2600
Industrial Equipment	225	260	275	290	305
Consumer Goods	1050	1218	1300	1350	1400
Rest	110	130	130	130	140
Total	3750	4350	4610	5030	5275



Global Trends

1. Illogical Consumption Growth Rates Being Used
2. How China & India will NOT Save the World
3. What Actually Do We Mean by Consumption?



World Trend Growth Rate

Refined Copper Consumption 1960 - 2006

% Change Per Year	
1960s	4.8%
1970s	3.5%
1980s	1.2%
1990s	2.7%
2000 – 2006	2.7%

Source: ICSG



World Intensity of Use (Using GDP)

1960s	0.85
1970s	0.97
1980s	0.16
1990s	1.04
2000-2006	0.72

Old World versus China+India: Share of Global Consumption

	2000	2006	2010	2015
Old World	58%	44%	36%	33%
China + India	14%	25%	33%	34%



China 2007 Copper Balance Kt-cu

	NBS	SHSS
Refined Production	3441	3500
Refined Consumption	3991	4350
Net Imports	1368	1368
Balance	818	518

Forecasts



Substitution Cumulative Annual Losses 2006 – 2012 Kt-cu

2006	2007	2008	2009	2010	2011	2012
150	400	600	1000	1500	1600	1700



Three Forecasts for World Refined Copper Consumption

1. Mechanical
2. Trend Growth less Substitution
3. SHSS GDP Forecast less Substitution



Forecasts of Refined Consumption 2007 – 2012 % Change Per Year

Method 1	1.6%
Method 2	1.2%
Method 3	-1.0%

