

We may have seen the price low; we still lack ingredients for the rally to get too far

1 Aluminum increased again today and closed at a 5-week high of \$1,390 per mton (63 cent/lb). Fear in the Western World continues to fall (the Fear/VIX index fell to a 7-week low of 38.9), funds are starting to cover short positions and add long positions, and the US dollar continues to weaken vs the euro (down today 3.8% to \$1.34). LME market reports showed one dominant player controlling 30-40% of LME inventories which could be a strong bullish bet. For the first time since July, technical indicators are no longer in bearish mode for aluminum or for the CRB index, copper and oil. We believe we have bottomed and probably seen the low for aluminum prices. We now see potential price weakness could be limited to \$1,280 per mton. (58 cent/lb). In the last weeks we have advised buying a portion of IVQ '09, '10 and '11 needs as we believe we are in buying zone. Nevertheless, we don't have yet all ingredients needed for the rally to get that far. We plan to buy more aggressively once we see them.

2 Aiding prices was UC Rusal commenting that "the market has touched the bottom, because there were no sharp price drops at the nonferrous metals market over the past two months". Furthermore, China's Guangxi government bought 50,000 tons of aluminum for strategic reasons. Also supporting aluminum and the entire commodity complex was a weaker US dollar vs the euro (3.4% to \$1.35) after the US Federal Reserve said it will buy up to \$300 billion of longer-term US government debt and that it plans to leave US interest rates low "for an extended period time".

3 There's hedge fund interest in aluminum. Some aluminum traders were reported commenting today that "Hedge funds are interested in aluminum as it can still be bought cheaply in comparison with copper". Furthermore, traders said that today's large inflow of 65,850 tons in LME aluminum inventories, with the bulk reported at US locations, didn't had an impact on prices as the market had already factored in a surge in LME stocks.

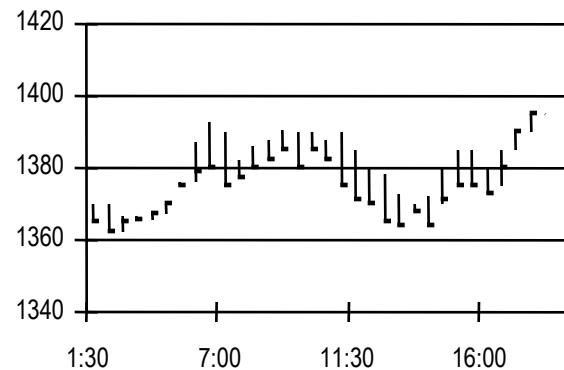
4 LME 3M aluminum prices closed the official session at \$1,375 per mton or 62 cents/lb (cash closed at \$1,339 per mton or 61 cents/lb) and closed the day at \$1,395 per mton (63 cents/lb). The cash-3M contango fell to \$36 per mton from \$53 per mton. SHFE aluminum prices rose to \$1,815 per mton (82 cent/lb) from \$1,791 per mton (81 cent/lb). The SHFE/LME price spread rose slightly to +476 per mton from +475 per mton. The VIX index (fear index) fell to 40.6 from 40.8. LME aluminum stocks rose by 65,850 tons with inflows at US warehouses. The Baltic Dry index remained unchanged at 2,122. According to most recent LME reports, there's one dominant player in the market controlling 30-40% of LME aluminum inventories.

5 The gap is closing. Global aluminum demand bottomed last December (lead by China and now followed by Taiwan and South Korea), global aluminum inventories peaked last month in terms of weeks of consumption, US aluminum demand could bottom any time within the next three months, and there is a significant chance that the daily oversupply could be over before April ends if aluminum output cuts occur as expected and Fear readings continue to be stable/fall.

6 Aluminum prices offer the best value in many decades under any metric (prices in real terms, nominal terms, vs output costs, vs consensus forecasts, vs most bearish forecast, vs long term consensus forecasts, vs substitute materials). Global demand bottomed last December, global aluminum inventories peaked last month in terms of weeks of consumption (9.1 weeks), the daily nominal oversupply is expected to be over as soon as late next month, there is supply side damage that will cripple output growth for a while, we face the sharpest downside deviation of demand ever vs long term trend, there is unprecedented fiscal, monetary and financial stimulus planted, and we have a real story of strong underlying demand growth from emerging markets.

>> harboraluminum.com

Today's LME 3M Aluminum Prices
(intraday basis)



Mar 18
(Official prices)
(mtons)

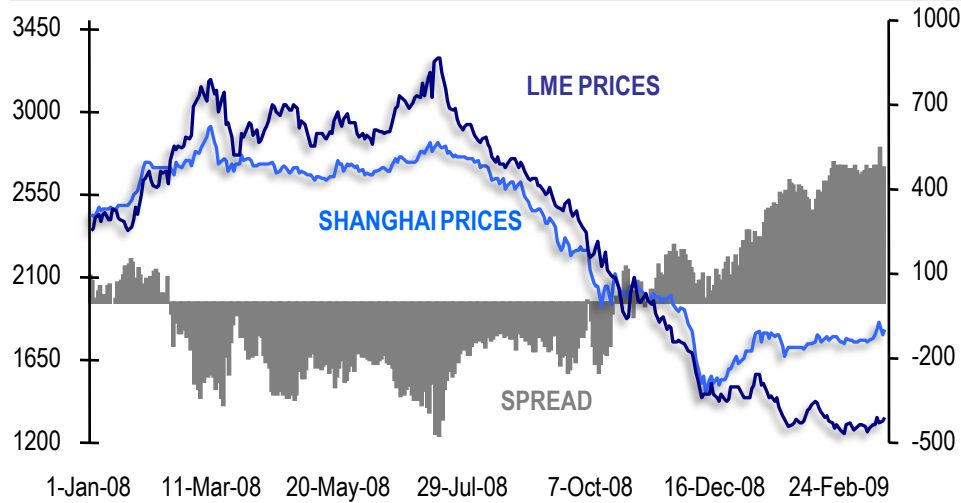
| | |
|-------|-----|
| Cash | d/d |
| 1,339 | 23 |
| 3M | d/d |
| 1,375 | 6 |
| 15M | d/d |
| 1,513 | 8 |
| 27M | d/d |
| 1,633 | 10 |

Historical LME 3M Aluminum Prices
(daily close basis)



LME CASH ALUMINUM PRICES VS SHFE ALUMINUM PRICES AND SPREAD

(daily data, USD/mton)



SHFE ALUMINUM PRICES VS CASH LME PRICES DATA TABLE

| Date | SHFE (yuans) | SHFE (USD) | LME (USD) | Spread (USD) |
|-----------|--------------|------------|-----------|--------------|
| 18-Mar-09 | 12,415 | 1,815 | 1,339 | 476 |
| 17-Mar-09 | 12,250 | 1,791 | 1,316 | 475 |
| 16-Mar-09 | 12,705 | 1,858 | 1,310 | 548 |
| 13-Mar-09 | 12,430 | 1,817 | 1,334 | 483 |
| 12-Mar-09 | 12,230 | 1,788 | 1,302 | 486 |

>> harboraluminum.com

CASH SHANGHAI ALUMINUM PRICES IN YUANS

(daily data, yuans/mton)

