

COMMODITIES CORNER

Copper Combos Cooling Off

By MATT WHITTAKER

Credit squeeze quashes bargain-buying.

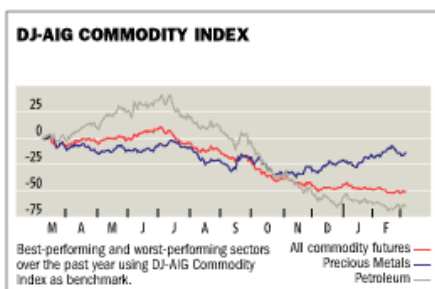
DJ-AIG Commodity Indexes

TIGHT CREDIT IS DAMPENING COPPER-INDUSTRY consolidation, even though some companies could be had cheaply right now.

Comex May copper closed at \$1.6890 a pound, up nearly 10% for the week on Chinese-demand optimism and inventory declines. However, with the metal's price off about 60% from last year's record high, some producers may be feeling the squeeze enough to sell, quite likely at bargain values.

But the companies that might otherwise be in a position to buy are more focused on shoring up balance sheets, as the global economic downturn dents demand for their product. The credit-market crunch means few companies have money to spend on acquisitions, says Charles Bradford, equity analyst at Soleil-Bradford Research. And those that do have the cash are hoarding it.

To be sure, there are flutters of consolidation activity. Low copper prices are leading **Norddeutsche Affinerie** (ticker: NDA.Germany), Europe's biggest copper producer, to consider acquisitions in the European copper-fabrication market, as well as potential buys in South America and China, says Chief Executive Bernd Drouven. Sherwood Copper and Vancouver-based copper producer **Capstone Mining** (CS.Canada) merged in September. **Frontera Copper** (FCC.Canada) last month recommended that its shareholders accept an acquisition bid from Mexican investment firm Invecture Group, which bettered a competing offer from **Grupo México** (GMEXICO.Mexico).



Among other factors crimping mergers and acquisitions is that producers are still eking out profits despite lowered prices. Falling input costs, such as oil and sulfuric acid, have helped. Still, "there is probably going to be some consolidation of the sector," says Thomas Winmill, portfolio manager of the **Midas Fund** (MIDSX). For those acquisitions that do happen, bigger players would be more able to pay cash. Smaller-company activity would probably take the form of mergers of equals, Winmill says. He adds that he wouldn't be surprised if **Anvil Mining** (AVM.Australia) -- which in September had to scrap a private capital-raising because of poor market conditions -- agreed to be acquired by a larger company. He says Capstone may be open to more corporate activity, and

Equinox Minerals (EQN.Canada) might be attractive for a major.

Companies with relatively strong balance sheets are probably willing to wait out the lower prices, while those with weaker balance sheets and cash flow might be more open to being acquired, said Brian Hicks, co-manager of U.S. Global Investors' **Global**

[Resources](#) Fund (PSPFX). But they may have a hard time finding buyers. Mining companies are taking into consideration weak copper demand, multiyear lows for equities and swooning manufacturing. They aren't looking to stretch their balance sheets on acquisitions, and will probably sit on the sidelines until the economy perks up and stronger prices emerge.

With this backdrop, large miners like [Rio Tinto](#) (RTO) and **Xstrata** (XTA.U.K.) aren't likely to be shopping anytime soon, Hicks says. M&A activity probably won't pick up until the second half of this year at the earliest.

"A lot of the large mining companies, like everyone else, are trying to pick themselves up off the mat," Hicks says.

RUMINATION THAT RECENT OPEC CUTS are tightening supplies lifted Nymex crude-oil; the April contract settled at \$45.52 a barrel, up 1.7% on the week. Some also speculated that next week's OPEC meeting would bring more cuts.
