



December 1, 2010

Markets began the month focused on the US Elections. After a short-lived rally in copper and gold, on the heels of the republicans gaining control of the house, both commodities retreated slightly. We flat lined during the middle weeks of November until things heated up in Asia. Copper and Gold rallied 6% and 4.5% respectively after North Korea launched a mortar attack on a South Korean island. The event had a larger affect on metals as we saw the reverse correlation between US denominated commodities and the US\$ breakdown. Commodities rallied with a rallying dollar breaking a trend that existed most of 2010.

Copper Arb ranged from \$15 to \$35 Comex premium, as signs of an improving US economy emerged with lower then expected initial claims and uptick in domestic manufacturer. The uncertainty in Europe, largely Ireland, also added to the pendulum swinging to a sizable Comex premium. Unfortunately the Index rolls didn't have as large of an impact on the calendar spreads as we anticipated but with fresh longs coming into the market (open interest increased 8.5%) as copper prices appreciated we expect the rolls to be more dramatic in the coming months.

Outlook going forward

All eyes and ears are fixed on China as economists and traders increasingly converse about the pending rate hike. Consensus is that china will raise their rates to slow down growth and curb inflation. A dominant position holder in warrants on the LME has caused many to question whether their motives are directional or if the holder plans to put the metal into pending copper ETF as we discuss in our October note. All these uncertainties bring intraday reversals, panic driven decisions by long or short PM's and more interest the copper and gold markets which should result in many opportunities for Aetonian well into 2011. Happy Holidays!!

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