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CHILEAN COPPER COMMISSION
COCHILCO Press Release

29 January 2010

WORLD COPPER MARKET REVIEW

(Week of 25-29 January)

In January copper traded in the London Metal Exchange (LME) at a monthly average of 335.035 ¢/lb., up 5.8 percent over December and its best showing since September 2008. In spite of robust price gains, holdings rose some 48.6 kMT (7%) over the month before, including inflows into the LME (38.7 kMT), the Shanghai Futures Exchange (5.9 kMT) and Comex (4.1 kMT).

Copper closed the week trading at 310.892 ¢/lb., down 5.3 percent over its previous weekly closing. Metal exchanges rose 1.7 percent, closing at 736.2 kMT or 2.1 weeks' global consumption.

Prices trended down throughout the week, closing on Friday at a yearly low. Following strong gains through the first three weeks of January, the trend slumped as investors left risky positions amidst fears that China's tighter money policy may hurt the global recovery.

These fears, which have pushed both commodities and variable income instruments downward, were triggered by reports that China will be tightening the flexible money policy instituted to deal with the crisis -a global lifesaver at the time. The China credit crunch involves increasing reserve requirements for the country's largest banks.

The move away from riskier assets gathered speed after the Obama administration announced new regulations designed to modulate banking sector risk. The potential commodity market impact of these measures led to a state of uncertainty with deleterious effects on nearly all base metals. These posted losses throughout the week, notably zinc (down 8.7%) and lead (down 7.7%). Precious metals were no exception, as silver lost 5.7 percent and gold 1.3 percent.

Copper prices took yet another hit from widespread concerns about the impact on demand of the 26 percent spending cut announced for 2010 by the State Grid, China's largest power transmission and distribution company.

In spite of the large market footprint of the above developments, the IMF's World Economic Outlook report revised global growth estimates for 2010 to 3.9 percent, a 0.8 percent increase over its October prediction. Back in the U.S., the Fed kept interest rates within the 0-0.25 percent range in order to help consolidate the so-far lukewarm recovery. To facilitate the transition, the Fed plans to gradually slow down purchases of mortgage-related securities. This announcement helped the U.S. dollar spring back all the way to July 2009 levels, closing yesterday at US$1.362/€1 and further compounding the adverse effect on copper prices.

Metal Exchange Inventories

Metal exchange Inventories rose 12.4 kMT to close at 736.2 kMT, the highest since January 2004.

Weekly inflows were up at all leading exchanges. While deliveries to the LME -which sports the largest inventories- have slowed down in recent weeks, these still stood at a respectable 6.9 kMT this week. Across regions, most deliveries went to the U.S. with 10.3 kMT, partly offset by outflows from warehouses in both Asia and Europe.

As to expected trends going forward, cancelled warrants at the LME have risen slightly (to 1.7 percent of total inventories) over the practically zero activity reported in the new year. This suggests few chances of new developments in the coming week.

The Shanghai Futures Exchange (SHFE) and Comex reported inflows of 3.9 and 1.6 kMT, respectively.

Metal Exchange Activity

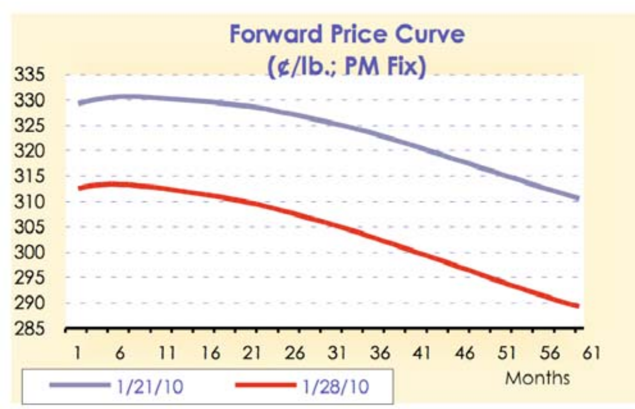
As of Thursday, the fundamentals accounting for lower prices led traders to continue opening short positions, suggesting that prices are seen as more likely to remain on the weak side.

The Thursday forward price curve was down across the board, with prices in lower contango through terms of up to 6 months and higher backwardation thereafter. The spot-3M price contango also moderated, in line with weekly outflows and expectations of increased market activity going forward.

Exchange Inventories (Metric Tons, Weekly Closings)

Market	Final	± MT	± %
Asia	**142,300**	**(2,550)**	**(1.8%)**
Dubai	500	+0	
South Korea	106,925	(2,450)	
Malaysia	8,275	+1,700	
Singapore	26,600	(1,800)	
United States	**315,475**	**+10,250**	**+3.4%**
Baltimore	-	+0	
Chicago	26,675	+0	
California	-	+0	
Mobile	9,875	+0	
New Orleans	200,175	+10,500	
St. Louis	78,750	(250)	
Europe	**83,275**	**(850)**	**(1.0%)**
Germany	12,025	+0	
Belgium	2,325	+0	
Spain	12,700	(500)	
Netherlands	36,725	(700)	
Italy	8,625	+400	
United Kingdom	10,875	(50)	
Sweden	-	+0	
TOTAL LME	**541,050**	**+6,850**	**+1.3%**
COMEX	**93,903**	**+1,628**	**+1.8%**
SHFE	**101,210**	**+3,902**	**+4.0%**
TOTAL	**736,163**	**+12,380**	**+1.7%**

N.B.: LME data to 1/29/2010; COMEX & SHFE data to 1/28/2010



LME Average Weekly Prices

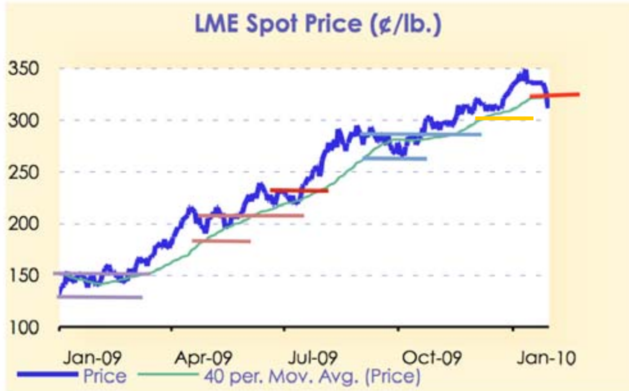
Spot		¢/lb.	± %
Spot		325.271	-3.0%
3 Mos.		326.205	-3.1%
3 Mos. - Spot	*(contango)*	0.934	-12.0%

Week of 25-29 January 2010

Technical Analysis

The expected price downswing finally materialized this week -stronger than expected, as prices slipped to pre-Christmas levels. Based on these fundamentals, the transaction range is expected to stand at within $3.04 and $3.14/lb.

As to the price outlook, short-term indicators remain overbought, accounting for the temporary rebound. The uptrend has continued to lose steam, even showing signs that the price slump may linger for some time.



Expected Price Trends for the Coming Week	
Short Term (ST)	Technical Rebound/Down
Medium Term (MT)	Down

Chief among developments expected next week are the European Central Bank's regular rates meeting and reports on EU retail sales and WPI. The U.S. will post car sales, manufacturing orders and employment figures. Also expected is the PMI Index for the U.S., the European Union and China.

LME Daily Copper Prices (¢/lb.)

Date	Price
25 January	336.067
26 January	331.395
27 January	328.582
28 January	319.420
29 January	310.892

Month	2008	2009	2010
January	320.283	146.088	335.035 (1)
Annual Average	**315.316**	**234.217**	**335.035 (1)**

Average to 29 January 2010.