## February 2017

### Economic Indicators and Comment:

The OECD's composite leading indicators (CLIs), designed to anticipate turning points in economic activity relative to trend six to nine months ahead, continue to point to growth gaining momentum in several advanced economies. Growth is anticipated to pick-up in the U.S., Canada, Japan as well as Germany and France. In the UK, there are tentative signs of growth gaining momentum, although the CLI remains below trend and uncertainty persists about the nature of the agreement the UK will eventually conclude with the EU. In the OECD area as a whole, as well as the in the euro area and in Italy, the CLIs indicate stable growth momentum. Amongst major emerging economies, growth is expected to gain momentum in China, Brazil and Russia. In India, the CLI points to easing growth momentum.

According to the Federal Reserve, industrial production in the U.S. fell 0.3% in January after increasing 0.6% in December. In January, manufacturing output moved up 0.2% and mining output increased 2.8%. The index for utilities fell 5.7%, largely because unseasonably warm weather reduced the demand for heating. Total industrial production in January was at about the same level as it was a year earlier. Capacity utilization for the industrial sector fell 0.3% point in January to 75.3%, a rate that is 4.6% points below its long-run (1972–2016) average.

The euro zone economy grew less than initially estimated in Q4 2016 as industrial output recorded the worst fall in more than 4 years in December, estimates from the European Union's statistics office Eurostat showed in February. GDP in the zone grew 0.4% quarter on quarter, revising down its earlier estimate released in January, of a 0.5% rise. It also revised down its estimate of GDP growth year-on-year to 1.7% in the fourth quarter from 1.8%. The revision was partly due to a large fall in industry output in December, which was 1.6% lower than in November, the steepest fall since September 2012 when it decreased by 1.9%. Economists polled by Reuters had expected a drop of 1.5%. Compared to a year earlier, euro zone industrial production rose 2%, slowing from a 3.2% year-on-year rise in November. The yearly increase was higher than market expectations of a 1.7% rise. The monthly output drop in December was mostly due to a 3.3% fall in the production of capital goods, like machineries, a sign of decreasing appetite for long-term investment. Output fell also in the energy sector, non-durable consumer goods and intermediate goods. Production of durable consumer goods, such as cars and refrigerators, was the only component of the indicator that went up. It recorded a 2.9% rise, in a sign of managers' confidence that consumers will spend more on durable goods.

### Companies:

German copper producer Aurubis AG confirmed its fiscal 2016/17 outlook and reported a higher-than-expected operating profit for the first quarter (Oct 16 to Dec 16 inclusive). Operating earnings before taxes halved to €18 million (US$19.1 million) in the quarter compared to the previous year at €36 million. The Group generated revenues of €2,462 million in the first three months of fiscal year 2016/17, similar to the prior-year level (€2,398 million) - primarily due to higher metal prices and slightly lower sales volumes. Copper rod output in the quarter fell 8% yoy from 1789Kt to 163Kt.

### Market Commentary and News:

The global world refined copper market showed a 9,000t deficit in November, compared with a 49,000t surplus in October, according to preliminary data released by the International Copper Study Group (ICSG) in its latest monthly bulletin. World refined copper output in November was 1.94 million tonnes, while consumption was 1.95 million tonnes. Bonded stocks of copper in China showed a 24,000t deficit in November compared with a 22,000t surplus in October. The refined global copper market recorded a 64,000t deficit between January and November compared with a deficit of 122,000t in the same period of 2015, and is up from a deficit of 64,000t for January to October reported last month. When making seasonal adjustments for world refined production and usage, the balance showed a 17,000t surplus for January to November, from

5,000t in the same period of 2015 and up from a 3,000t surplus for January-October. World mine production was shown to have increased by 5% in the first 11 months of 2016 to 18.4 million tonnes, primarily due to a 41% increase in Peruvian concentrate "that is benefitting from new and expanded capacity brought on stream in the last two years," the ICSG said. Production also increased in Canada, Indonesia and the US, as well as expanded capacity in Mexico, but fell by 4.3% in Chile and a 5.5% decline in the DRC. World mined production for November totalled 1.7Mt, down 1% from October. Refined production, including primary and secondary production, increased around 2.5% in the first 11 months of 2016 to 21.3Mt. World refined usage increased around 2% in the first 11 months of 2016 to 21.4Mt, due to an increase in Chinese apparent demand, with ex-China world demand largely unchanged. Chinese apparent demand (excluding changes in unreported stocks) increased by around 3.5% based mainly on 6% growth in refined production as in fact net imports of refined copper declined by 6%. “Net refined copper has been on a declining trend in 2016 with the monthly average in Jul-Nov 36% below that of the 1st half of the year," the ICSG said. Usage in the US and Japan, the next largest refined copper consuming countries, declined by 2% and 3%, respectively.

While copper prices surged to USD 21-month highs above $6,200/t - a gain of more than 40% since January 2015 - due to worries about supplies after disruptions in Chile, Indonesia and Peru, market commentators have been keen to point out that the following wage negotiations are also due to take place in 2017;
- March 2017 - Rio Tinto's Bingham Canyon expected to produce around 180,000t in 2017.
- July 2017 - Zaldivar copper mine in Chile owned by Antofagasta and Barrick Gold Corp, expected to produce roughly 125,000t this year.
- September 2017 -- Freeport's Grasberg copper mine in Indonesia, which produced nearly 600,000t last year.
- H2 2017 -- Chilean state-owned copper producer Codelco's El Teniente, expected to produce around 400,000t this year.
- October 2017 -- Glencore and Anglo American's Collahuasi in Chile, expected to produce more than 450,000t of copper this year.

On 9th February, BHP stopped operations at its Escondida copper mine (the world's largest), in northern Chile, as workers went out on strike. Escondida produced 1.15Mt of copper in 2015, about 6% of the world's total. Subsequently, the company declared force majeure on shipments and while the two sides briefly returned to the table for government-mediated talks, the two sides were no nearer agreement as February came to a close.

On 14th February, Freeport-McMoRan Inc (FMI) halted production of concentrate at its Grasberg operation in Indonesia - the world's second-largest copper mine - due to labour unrest and an ongoing dispute with the government concerning the granting of export licences. In January, the Indonesian government introduced rules restricting copper concentrate exports in a bid to boost its domestic smelting industry. Analysts say that a one-month delay in receipt of an export permit would cause lost output of almost 100,000t. FMI subsequently declared force majeure on shipments while company president and CEO said it was preparing to go to arbitration to fight what he described as ‘the attempted expropriation of its copper-gold mining assets in Indonesia’.

Chinese customs authorities reported that China imported 278,240t of refined copper in January, down 14.09% on January last year.

The Democratic Republic of Congo's Chamber of Mines expects the country, Africa's largest copper producer, to mine about 1.5Mt of the metal in 2018, up from roughly 1Mt in 2016. This is based on the expected resumption of Glencore's Katanga Mining project in 2018, which has been suspended since September 2015.

Peru’s copper production reached a record high in 2016, boosted by the ramp-up of new projects and the expansion of the Cerro Verde mine, according to the country’s energy and mines ministry, MEM. The country produced a total of 2.35Mt of fine copper last year, up by 38.2% from 2015, when production reached 1.70Mt.

Russian aluminium exports increased in 2016, while nickel and copper exports decreased, official customs data showed. The Federal Customs Service provided the following data:

| | **Jan - Dec 2016** | **Jan - Dec 2015** | **Difference** | |
|---|---|---|---|---|
| | tonnes | tonnes | tonnes | % |
| **Aluminium** | 3,481,400 | 3,461,100 | +20,300 | +0.6 |
| **Copper** | 511,100 | 563,200 | -52,100 | -9.3 |
| **Nickel** | 185,700 | 226,200 | -40,500 | -17.9 |

*Produced by Neil Bootman of NGB Metal Services.*

Global aluminium output was running at an annualised pace of 62Mt in January, a new all-time record. While primary metal production in the rest of the world fell by 182,500t on an annualised basis over the course of December and January, it surged in China. There have been however, growing signs of public anger in China about pollution – residents in a north-eastern city protested against the building of an aluminium processing plant. This came after Reuters reported that a draft policy showed that the central government was considering forcing steel and aluminium producers to cut output.

Russia is proposing the creation of an OPEC-like organisation for the global aluminium industry, TASS news agency quoted Russian Industry and Trade Minister Denis Manturov as saying in the month.

Russian aluminium giant Rusal said its 2016 production rose 1% year-on-year to 3.685Mt and was on track to remain stable in 2017. Hong-Kong listed Rusal was overtaken by China's Hongqiao as the world's top aluminium producer several years ago, as it reduced its production capacity due to a fall in prices for aluminium.

Norsk Hydro posted an update for the fourth quarter of 2016, with underlying EBIT of NOK 1.83bn as a result of higher realised aluminium and alumina prices. "Demand for aluminium remains firm and prices have increased, contributing to a solid quarter for Hydro," said president and CEO Svein Richard Brandtzæg. "I am particularly pleased to see more and more car producers choosing aluminium for light-weighting and climate purposes".

Traders report that Rusal has made an indicative offer of a premium of US$125/t to Japanese buyers for primary aluminium shipments in April-June, up 32% from the last quarter. The offer comes as premiums climb in the U.S. and Europe, and as some Japanese buyers face lower inventories due to healthy local demand.

Revenue from the LME fell 10% to HK$1.56 billion ($201 million) in 2016 amid a decline in trading fees, according to Hong Kong Exchanges and Clearing's (HKEX) financial report. Trading fees – which are the largest contributor to revenue for the LME - fell 12% to HK$1.23 billion last year due to an 8% drop in average daily volume of metals contracts traded, increased market making incentive rebates, new member incentive rebates introduced in the third quarter of 2015 and fee reductions. Average daily volume of metals contracts traded on the LME fell 8% to 618,627 lots in 2016 amid a "continuation of 2015's challenging market conditions", HKEX said. The LME's Ebitda was down 19% to HK$963 million, while operating expenses rose 9% to HK$597 million. The increase in expenses was principally due to increased headcount for strategic initiatives - including product development and the establishment of a commodities trading platform in China - higher premises costs for new offices in London and China, and also higher legal and professional fees incurred on strategic projects. The increase in expenses was partly offset by savings on IT costs and savings on LME operating costs. Market open interest (MOI), showing long-term position holders, at the end of December 2016 registered a year-on-year decline of 4% to 2.21 million lots.

LME volumes continued their downward trend in January, with average daily volumes (ADVs) dropping 6.2% year-on-year and copper's ADV declining by 12.1%. Total ADV was 619,524 lots, with aluminium the most traded contract at 241,406 lots on an ADV basis despite a 7.9% drop in the metal's daily trading volumes in January. Data showed that 138,409 lots of copper were traded in January. This is another disappointing performance for the LME, which has faced a strong challenge from CME Group and Shanghai Futures Exchange in terms of copper trading volumes. The LME argues that the difference in core users of the various exchanges – financial market participants on Comex and retail participants for SHFE – means a comparison is inappropriate.

The LME was warned by the UK's financial regulator of shortcomings in its surveillance systems for analysing suspicious trades months before the departure of two top executives. The criticism from the Financial Conduct Authority was, allegedly, one of the factors that led to the departure of the LME's chief operating officer Stuart Sloan in December and added to the pressure on the exchange's chief executive Garry Jones, who resigned abruptly last month. The problem occurred in the summer after the LME was forced to leave its new headquarters in the City to its disaster recovery site, a business park in Chelmsford, Essex. While the surveillance system, known as the Suspicious Transaction and Order Reports (STOR) regime, was working correctly, reports were not being properly reviewed by LME staff before they were passed on to the regulator.

New York-listed Intercontinental Exchange (ICE) is looking into setting up a London-based metals trading system, according to industry sources, more than four years after its failed attempt to buy the LME. The sources said ICE is in discussion with former LME CEO Martin Abbott. Abbott held talks with trading houses and brokers last year about launching a new trading platform for metals in a direct challenge to the LME, a move prompted by discontent over rising trading fees. Sources say any new platform would have to cater for industrial users such as consumers and producers who want physical delivery of metals, requiring a global network of warehouses such as those registered with the LME. Exactly how metals might be traded on any new platform has yet to be determined. Metal bought or sold using over-the-counter (OTC) trade contracts however could be delivered from or into these warehouses.

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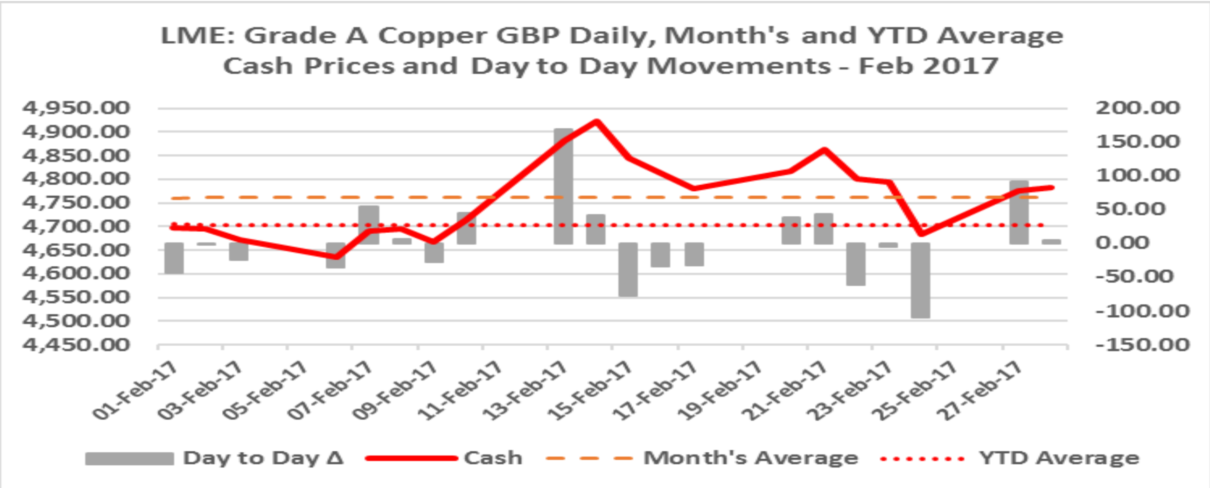
Financial technology firm Autilla Inc. has developed a trading platform for base metals in a bid to grab the growing levels of volumes executed off market exchanges. The platform would bring another way to trade base metals in London, which is dominated by the LME. Separately, Autilla is testing a gold-trading venue that's part of a broader plan to increase openness in the London. According to Chief Executive Officer Mike Greenacre. "Autilla, has developed a platform for matching the growing OTC base metals volumes".

## LME Commentary:

Copper and primary aluminium LME cash prices both in USD and GBP equivalents continued to climb higher in February achieving multi month highs. Copper peaked at £4923.05/t mid-month – its highest since May 2013 - as news of the Escondida and Grasberg shutdowns were confirmed. The primary aluminium GBP cash price equivalent peaked at £1537.59/t at month end – its highest since August 2011 as fears about Chinese production cutbacks, tighter supplies in Asia and news of higher premiums boosted investor buying. Commodities generally were helped by investor bets on improving global economic growth while copper and aluminium in particular were boosted in volatile trading ahead of the March options expiry date at month end.

## LME Statistics and Charts: February 2017:

| February 2017 | Copper | | | Aluminium | | | USD:GBP |
|---|---|---|---|---|---|---|---|
| | Cash £/t | 3M £/t | Stocks | Cash $/t | Cash £/t | Stocks | |
| **Opening** | 4698.19 | 4692.49 | 260,850 | 1818.00 | 1440.11 | 2,269,900 | 1.2624 |
| **Average** | 4761.28 | 4760.26 | | 1856.80 | 1487.99 | | 1.2479 |
| **High** | 4923.09 | 4922.04 | | 1908.00 | 0.00 | | 1.2624 |
| **Low** | 4635.48 | 4632.24 | | 1808.50 | 0.00 | | 1.2372 |
| **Range** | 287.61 | 289.80 | | 99.50 | 0.00 | | |
| **Closing** | 4781.70 | 4774.54 | 200,725 | 1895.00 | 1526.50 | 2,188,400 | 1.2414 |
| **Opening:Closing Δ** | +83.51 | +82.05 | -60,125 | +77.00 | +86.39 | -81,500 | |

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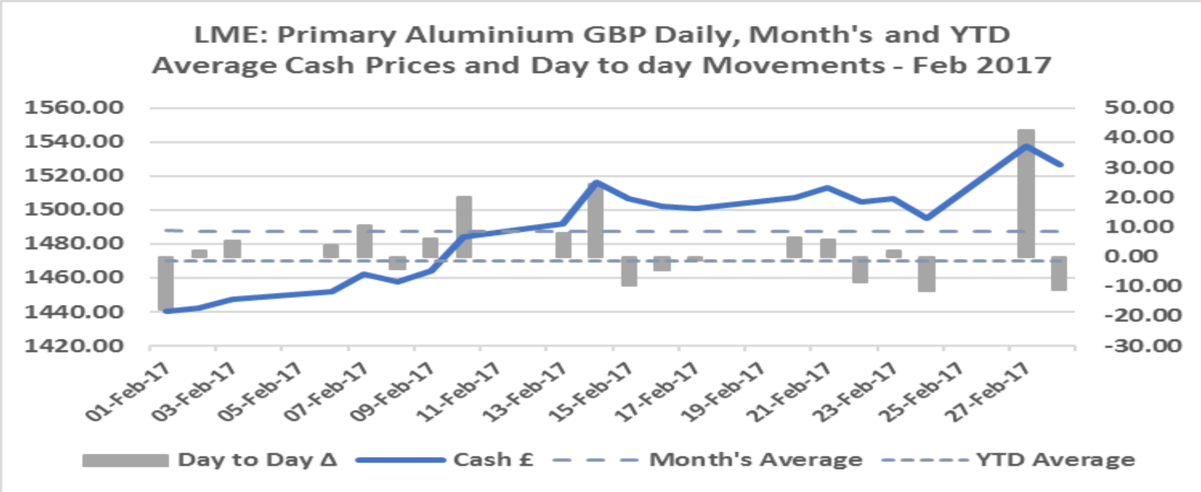


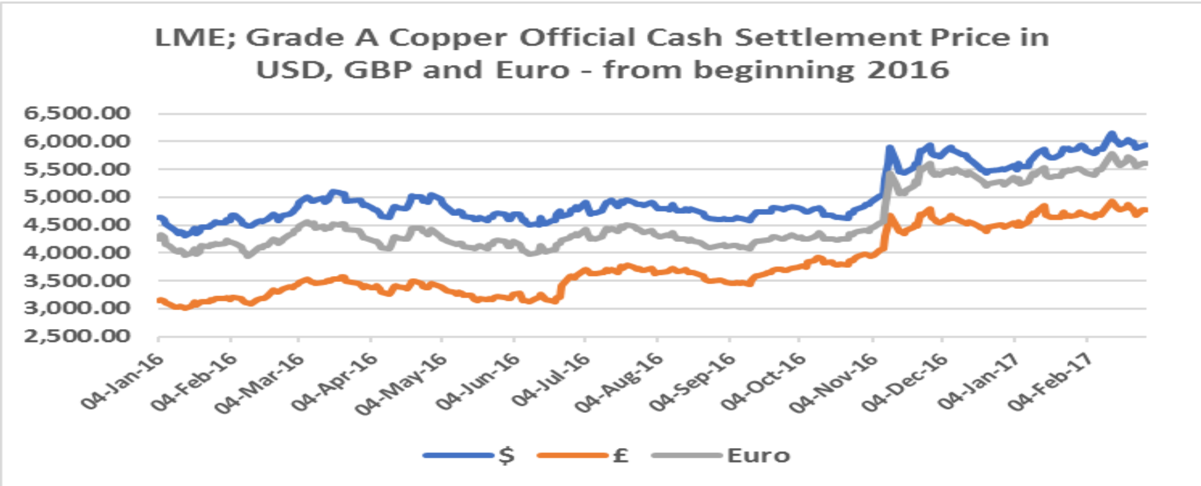


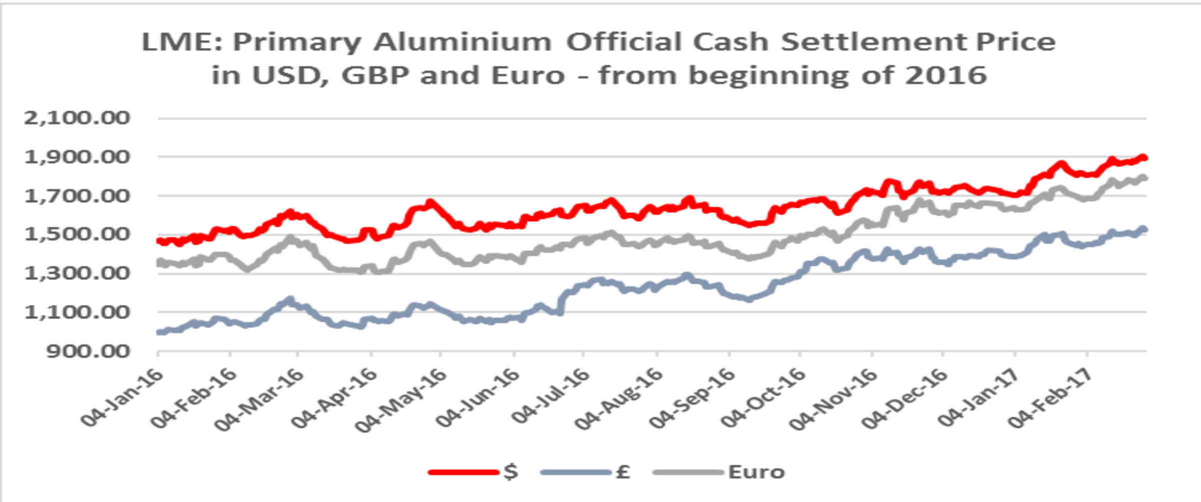


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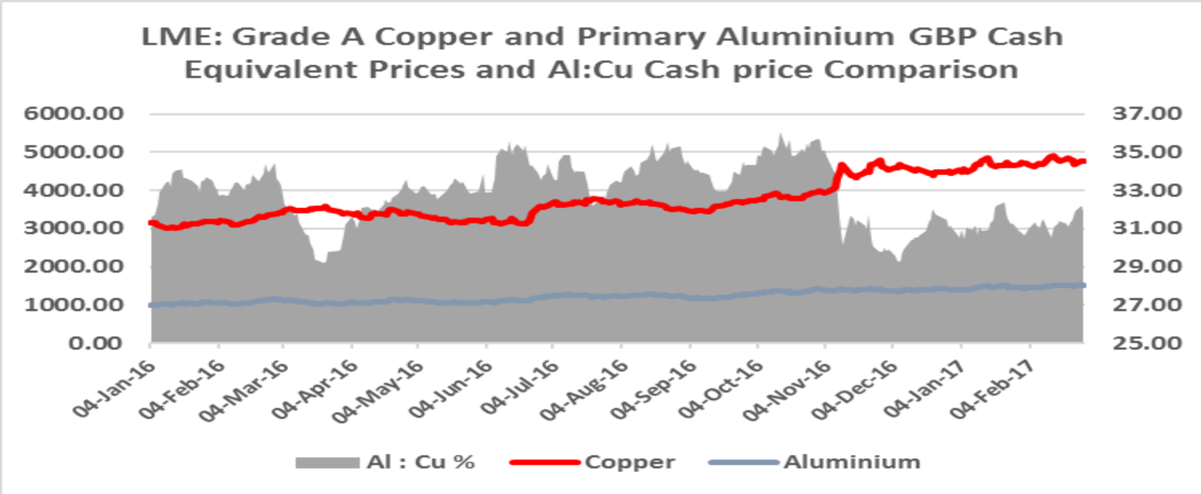


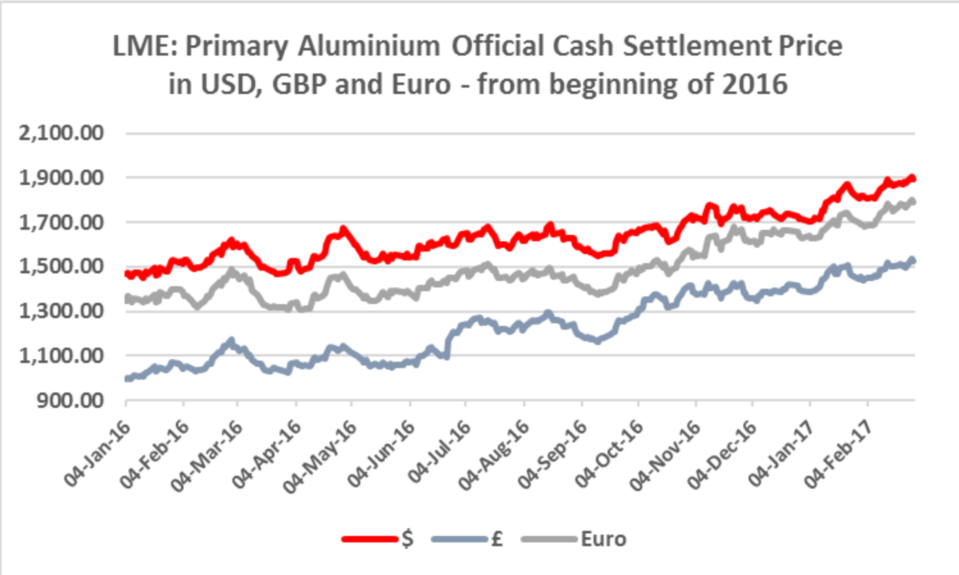


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