# Metals Newsletter

BCA
British Cables Association

## June 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 stable growth momentum in the OECD area as a whole. The CLIs continue to point to stable growth momentum in the U.S., Japan, the UK and the euro area as a whole, including in France and Italy. Stable growth momentum is now also expected in Canada, compared to last month's assessment of growth gaining momentum. In Germany, the CLI continues to point to growth gaining momentum. Amongst major emerging economies, the CLIs continue to point to growth gaining momentum in Brazil and Russia and stable growth momentum in China and India.

China's economy generally remained on solid footing in May, but tighter monetary policy, a cooling housing market and slowing investment reinforced views that it will gradually lose momentum in coming months, according to analysts. Beijing is expected to easily meet its annual 6.5% GDP growth target and China's fast start to the year has led the IMF to raise its 2017 growth outlook to 6.7% from its 6.6% forecast in April. Slower fixed asset investment growth in May and a sharp deceleration in housing starts point to some of the cooling economists have been expecting, though stable growth in factory output and retail sales, along with a pickup in exports, are cushioning the impact so far. Industrial output grew at a steady 6.5% in May from a year earlier, as government infrastructure spending continues to boost demand for building materials.

The U.S. Federal Reserve reported that industrial production was unchanged in May following a large increase in April and smaller increases in February and March. Manufacturing output declined 0.4% in May while the indices for mining and utilities posted gains of 1.6% and 0.4%, respectively. Total industrial production in May was 2.2% above its year-earlier level.

Industrial production in the Euro zone was 1.1% higher in April than in March. The figure inverts the negative trend started in February, when output decreased by 1.2% and continued in March which recorded a slightly upwardly revised 0.7% drop. Year-on-year, euro zone industrial output rose in April by 2%, much more than the 0.2% growth recorded the previous month. April monthly output increased mostly because of the output of consumer durable goods, such as cars and fridges, which rose 2.3% after a 0.8% drop the previous month. All other sectors recorded increases in production - capital goods went up by 1.9% and production of non-durable consumer goods increased 1.6%. The two largest economies in the zone saw a rebound in their April monthly output after two months of decline, with production in Germany growing by 1.1% and in France by 1.2%. Italian industrial production increased 0.5%, after a zero performance in March.

UK industrial growth slowed in April as manufacturing activity bounced back slowly from a fall the previous month, according to the ONS. Industrial production rose 0.2% mom in April which was short of the consensus forecast for a 0.7% rise as seen in March. Year on year, industrial production fell 0.8%, worse than the 0.3% drop expected and down from the 1.4% rise the month before. UK manufacturing production rebounded 0.2% mom in April from the drop of 0.6% the previous month. Manufacturing activity was flat on a yoy basis when a 0.7% increase was forecast after a revised previous improvement of 2.2% for March. Construction output declined by for the fourth month in a row, falling 1.6% mom, with weakness primarily driven by residential construction but with commercial construction and non-dwellings repair & maintenance both detracting too, partially offset by stronger infrastructure & public construction.

## Market Commentary and News:

The global world refined copper market showed a 5,000t deficit in March, compared with a 102,000t surplus in February, the International Copper Study Group (ICSG) said in its latest monthly bulletin. For the first 3 months of the year, the market was in a 164,000t surplus compared with a 12,000t deficit in the same period a year earlier, the ICSG said. World refined copper output in March was 2.01 million tonnes while consumption was 2.02 million tonnes. Bonded stocks of copper in China showed a 35,000t surplus in March compared with a 182,000t surplus in February.

Copper production at Chile's Escondida copper mine, the world's largest, fell 63% in the first quarter of 2017 from a year earlier amid a prolonged strike, a statement from the mine said. Escondida is controlled by BHP Billiton with minority interests held by Rio Tinto and Japanese companies including Mitsubishi Corp.

Mines in northern Chile suspended key operations at the start of the month after heavy rains hit the high-altitude desert region of Antofagasta. BHP Billiton's suspended operations at Escondida, the world's biggest copper mine while Codelco said mining activities at its Chuquicamata, Radomiro Tomic and Ministro Hales had been suspended as a preventative measure. Antofagasta said its operations at Centinela and Zaldivar had suffered intermittent interruptions. All the operations resumed normal production within 3 days.

Operations at the world's second largest copper mine in Indonesia are "running as normal", a spokesman for the local unit of Freeport-McMoRan Inc said, despite thousands of workers extending a strike for another month. The spokesman said that around 25,000 workers and contractors continued to work at the Grasberg mine.

China's copper refiners will add 600,000t of capacity this year, 6% of their total at end-2016, on rising downstream demand, according to Bloomberg. The effect on output will start to show next year when this new capacity gradually comes online. Steadily rising refining capacity has increased China's demand for imported concentrate and its reliance on imported ore will climb to more than 40% this year from about 20% five years ago.

Zambia’s copper output will climb by about 4% to a record this year as operators near a resolution with government over power prices, according to the Chamber of Mines in Africa’s second-biggest producer of the metal. Production will increase to about 800,000t - higher than the 770,600t mined last year and exceed a previous record of 790,000t in 2013.

The Democratic Republic of Congo's chamber of mines said it expects the country to produce a record 1.05 million tonnes of copper in 2017, up 2.4% over last year. DRC produced a record of 1.03 million tonnes in 2014.

Russian aluminium producer Rusal said it plans to boost its production by 19% from 2016 levels to 4.4 million tonnes by 2021, amid rising global demand. Rusal said in a presentation it expected global demand for aluminium to grow by 4% to 5% per year until 2021 amid higher demand for "green" aluminium and advanced alloys.

China will launch a crackdown to curb illegal expansion of domestic aluminium capacity, the China Non-Ferrous Metals Industry Association said in the month. The National Energy Administration and state planner will inspect power stations owned by aluminium producers in the top six aluminium-producing regions of Xinjiang, Shandong, Gansu, Guangxi, Jiangsu and Shandong, the association said in a statement.

China has responded to charges by U.S. manufacturers and labour unions that it has flooded the market with cheap aluminium and put U.S. producers out of business, saying unilateral punitive trade measures should not be used to try to remedy a global glut of the metal. In a rare appearance at a U.S. government hearing by a Chinese official, Li Xie, director of China's export division at China's commerce ministry, called on the Trump administration to refrain from imposing curbs on Chinese aluminium imports.

U.S. aluminium industry executives will have their say in July on whether foreign imports into the U.S. pose a threat to the country's security. The Section 232 investigation was announced by the Department of Congress in April and follows hot on the heels of a similar probe into U.S. steel imports, the results of which are pending. Section 232 of the Trade Expansion Act of 1962, to give its full title, was last used in 2001 against imports of iron ore with a "no action necessary" outcome.

Russian aluminium exports outside the CIS decreased in the first four months of 2017, while copper exports increased, official customs data showed. The Federal Customs Service said copper exports of 185,900t compared with 183,000t in the previous year while aluminium exports of 1,085,800t compared with 1,116,000t.

*Produced by Neil Bootman of NGB Metal Services.*

Qatar's Qatalum aluminium plant is now exporting metals via ports in Kuwait and Oman, as well as a Qatari container port, following a diplomatic row with neighbours that had blocked shipments, Norsk Hydro reported in the month. Hydro, which owns 50% of the plant said new export routes had been established but declined to say which countries it would go through.

Japanese primary aluminium buyers will pay up to 8% less in premiums in the July to September quarter after a fall in spot premiums, sources said. The Japanese aluminium premium was set at US$118 to $119 per tonne for metal to be shipped in the third quarter, down 7% to 8% from US$128/t in the previous quarter. Other traders reported that at mid-June, physical premiums for LME primary were showing slight declines in the US region having dropped to US$195/t. While premiums stand at US$110 in East-Asia, the South-East Asian premium remains unchanged at US$115. The premium in Western Europe is static at US$85, according to the traders.

The growing number of electric vehicles hitting roads is set to fuel a nine-fold increase in copper demand from the sector over the coming decade, according to an industry report. Electric or hybrid cars and buses are expected to reach 27 million by 2027, up from 3 million this year, according to a report commissioned by the International Copper Association (ICA).

The LME's average daily volumes (ADVs) for May fell 5.1% year-on-year, as copper's ADV fell by over 15%. Copper's total ADV was 136,306 lots, down 16.5% year on year. This follows a year-on-year drop of 13.5% in April and 13.1% in March. Primary aluminium total ADV was 210,087 lots, down from 260,772 lots in April. Total exchange ADV in May was 577,103 lots, down from 591,001 the previous month.

The LME meanwhile, is expected to cut trading fees within months after two years of complaints but might only do so for a trial period of up to six months to see if volumes that moved to over-the-counter markets return to the exchange, sources report. A 31% average fee hike in January 2015 is cited as a major reason behind tumbling LME volumes. Three metal industry sources said cutting the fees would be the result of a discussion paper on market structure launched by the exchange in April.

A Fintech firm has launched a new base metals trading platform at the beginning of June under the name Non-Ferrous Exchange Markets (NFEx Markets), with a live date aimed for the first quarter of 2018. The project is now fully funded by independent sources but may be opened to further third-party investment in the future. It will first focus on base metals but could expand into other areas later on thanks to fully configurable cloud-based technology, according to its new CEO Mark Bradley. NFEx will be a multilateral trading facility (MTF) able to provide a cost-efficient centrally-cleared venue to capture some of the over-the-counter [OTC] base metals business volume that wants to be centrally cleared and which has migrated away from exchanges in recent years, according to Bradley. Former LME CEO Martin Abbott is part of the development team. NFEx will replicate a prompt date structure and maintain access to market based on the member-broker model – this means high-frequency traders will not be accepted as members. "The product has been built for the physical industry, so it makes sense for us to ascribe to physical industry norms," Bradley said. Base metals contracts will be cash-settled, but NEFx has not disclosed what index they will be settled against. There is no plan to move into physical delivery.

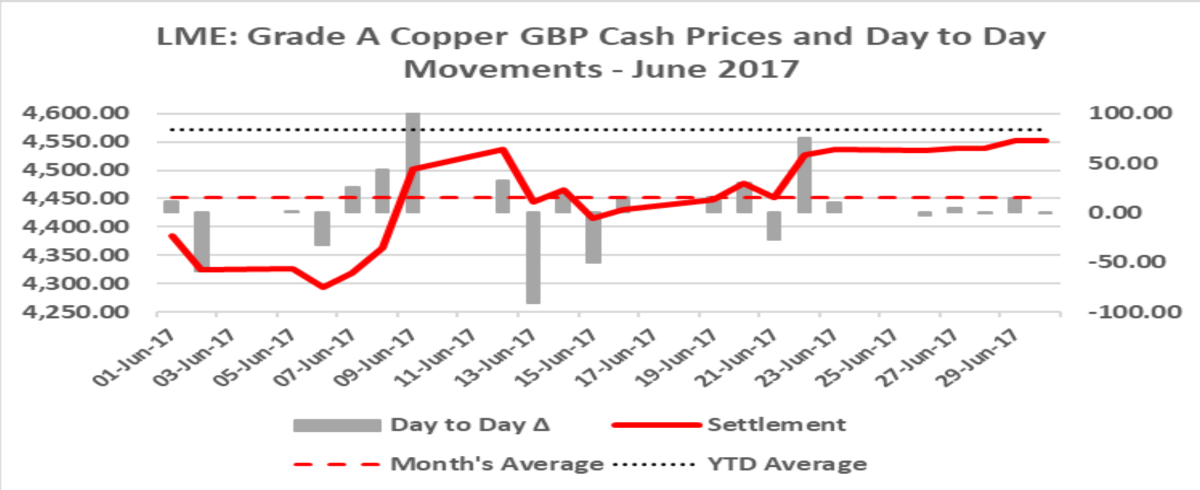
## LME Commentary:

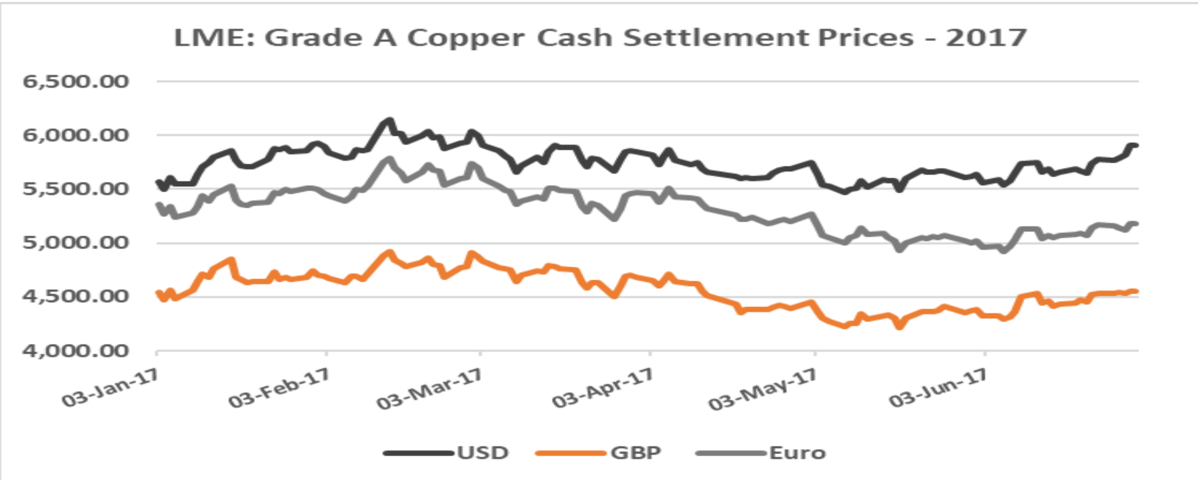
The LME primary aluminium price, the best price performer of 2017 year to date, failed to maintain its upward direction in June as improved physical supply and failing confidence in Chinese supply reform (with data showing there had been no slowdown in Chinese output) eroded market and investor confidence. Weakening crude oil and coal/coke prices – meaning lower aluminium production costs and the greater likelihood of increased production – further undermined sentiment. The Sterling cash price was unable to hold above the £1500/t level seen at the start of the month and traded the rest of the month below the YTD average of £1493.71. Exchange stocks closed the month at 1,409,775t, down 57,600t in the month and 796,150t or 36% in the year.

Amid quiet trading, copper prices saw higher levels in June as expectations of tighter supply boosted investor confidence. ICSG figures showing a shift to a global supply deficit, the ongoing strike at FMI's Indonesian Grasberg mine, a weakening US Dollar and falling exchange stocks saw Grade A copper sterling prices peak at £4552.50/t at month end – an 11-week high while the underlying US Dollar price achieved 15-week high at US$5907/t. Exchange stocks closed the month at 278,275t, down 29,725t in the month and 43,950t or 14% in the year.

## LME Statistics and Charts: June 2017:

| | Copper | | | Aluminium | | | USD:GBP |
|---|---|---|---|---|---|---|---|
| | Cash £/t | 3M £/t | Stocks | Cash $/t | Cash £/t | Stocks | |
| **Opening** | 4383.99 | 4391.53 | 308,000 | 1930.00 | 1501.13 | 1,467,375 | 1.2857 |
| **Average** | 4452.77 | 4459.95 | | 1886.61 | 1473.86 | | 1.2801 |
| **High** | 4552.50 | 4554.54 | | 1930.00 | 1501.13 | | 1.2979 |
| **Low** | 4293.30 | 4304.15 | | 1855.00 | 1455.78 | | 1.2671 |
| **Range** | 259.20 | 250.39 | | 75.00 | 45.35 | | |
| **Closing** | 4551.58 | 4546.71 | 278,275 | 1908.50 | 1470.45 | 1,409,775 | 1.2979 |
| **Opening:Closing Δ** | +167.59 | +155.18 | -29,725 | -21.50 | -30.68 | -57,600 | |
| **YTD Average** | 4571.14 | 4577.24 | | 1879.50 | 1493.71 | | |

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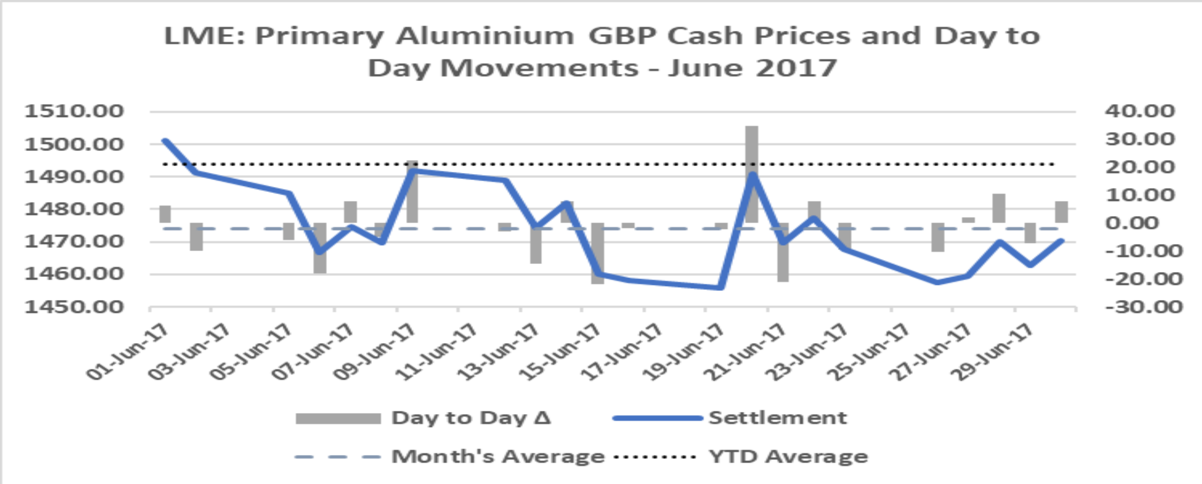


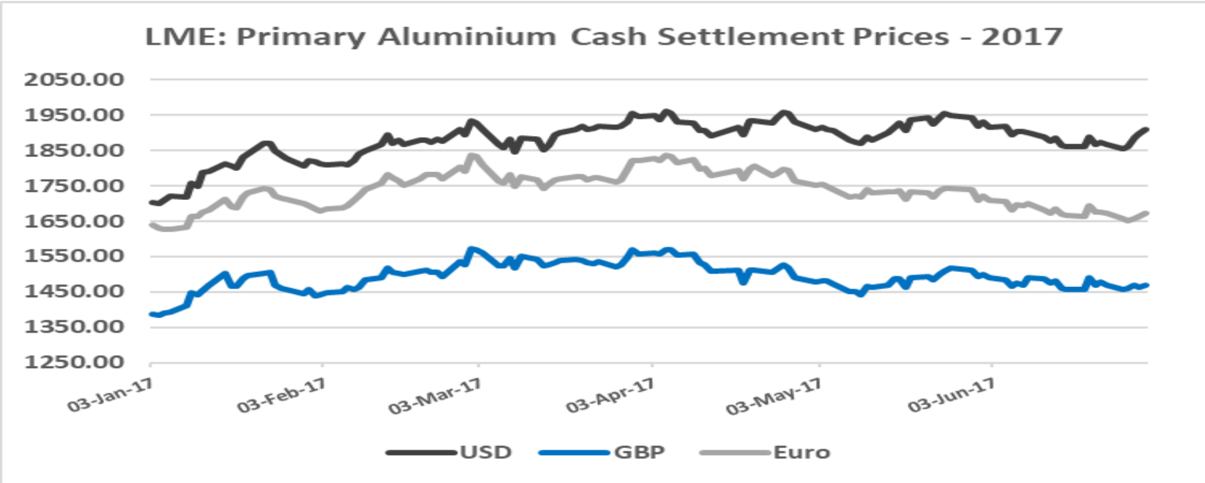


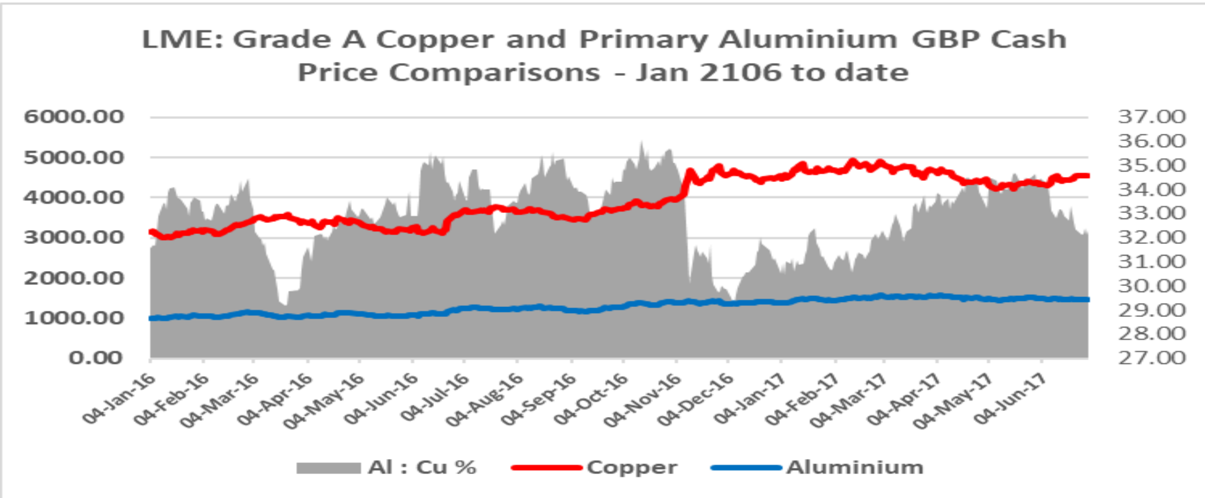


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