

May 2017

Economic Indicators and Comment:

The OECD's composite leading indicators (CLIs), designed to anticipate turning points in economic activity relative to trend, point to stable growth momentum going forward in the OECD area as a whole. Stable growth momentum is expected in the U.S., Japan, the UK and the euro area as a whole, including France and Italy. Growth is anticipated to gain momentum in Germany and Canada.

In its second estimate, the U.S. Commerce Department said economic growth slowed less sharply in the first quarter than initially thought, but the weakness was likely an aberration amid a strong labour market that is near full employment. GDP increased at a 1.2% annual rate instead of the 0.7% reported last month. That was the weakest performance since the first quarter of 2016 and followed a 2.1% expansion in the fourth quarter. US industrial production in April was up 1.1% month on month, matching the best monthly performance since May 2010.

China's growth took a step back in April after a strong start to the year, as factory output to investment to retail sales all declined as authorities clamped down on debt risks. To avoid the systemic threat posed by cheap credit-fuelled stimulus since the 2008-9 global financial crisis, Beijing has tightened the screws on speculative financing over the past several months and data released in May has highlighted the broad economic impact of these curbs, with below-forecast factory output in April and fixed-asset investment in the first four months of the year reinforcing evidence of a weakening manufacturing sector and slowing momentum. Factory output was up 6.5% in April from a year earlier, down from 7.6% in March, and fixed-asset investment rose 8.9% in the first four months of the year, off the 9.2% pace in Q4. Fixed asset investment in the manufacturing sector also slowed over January to April, with growth of 4.9% down from 5.8% in the first quarter. Infrastructure spending, however, continued to grow over 23% year-on-year in the same period. China's first quarter economic growth grew 6.9%, the quickest since 2015 but it has cut its full year growth target to 6.5%.

The EU's statistics office, Eurostat, said industrial production in the single currency bloc fell by 0.1% in March from February (mainly due to a 3.2% decline in energy production) but rose by 1.9% year-on-year. Both figures were lower than market expectations of increases of 0.3% in the month and of 2.3% from a year earlier. The unexpected fall is however, unlikely to change the growth outlook with preliminary estimates showing a 0.5% rise in the first quarter – the March drop was offset by upwardly revised data for February, when output dropped only by 0.1% instead of a previously estimated 0.3% fall. On the year, production went up by 1.4% in February, more than the 1.2% rise estimated by Eurostat in April.

The UK's Office for National Statistics in its updated estimate said GDP grew 0.2% in the first quarter of 2017, a marked change of pace from the 0.7% growth in the final three months of 2016. Statisticians had previously estimated that the economy grew by 0.3% in the first quarter. The ONS said; "UK GDP growth slowed in quarter one as consumer-facing industries such as retail and accommodation fell and household spending slowed. This was partly due to rising prices. Construction and manufacturing also showed little growth, while business services and finance continued to grow strongly."

Companies:

Nexans announced its 2017 first-quarter financial results. Sales for the first-quarter of 2017 amounted to €1,570 million (versus €1,433 million for first-quarter 2016). At constant metal prices the sales figure came to €1,137 million, representing organic growth of 1.2% year on year and 5.5% compared with the fourth-quarter of 2016. Commenting on the Group's performance, CEO Arnaud Poupart-Lafarge said: "Our business performance during the first-quarter of 2017 was globally in line with expectations. Against the backdrop of persistently weak low-voltage markets, the upturn we anticipated for our project-based business has started to materialize and to drive growth for the Group as a whole. We remain confident that the Group's operating margin will continue to improve in 2017, particularly in the second half of the year".

Prysmian S.P.A. also published its first quarter results. There was a 3.7% decline in organic sales due to energy projects phasing. Telecom showed a growth of 12.3% while there was a Solid order intake with €700M in new contracts awarded between January and April 2017. Adjusted EBITDA at €154 million was 2.5% up on last year and the guidance full year adj EBITDA is in the range of €710M to €750M (compared to €711M in 2016). CEO Valerio Battista said; "The Telecom business has delivered another excellent performance. Organic sales growth was slightly weaker essentially due to the timing of project execution; however, this is a temporary trend that we expect will be re-absorbed in coming quarters. Profitability was slightly up, driven by Telecom growth and a largely stable Energy Projects segment, whose drop-in sales was offset by growth in margins thanks to a more profitable mix. The outlook for 2017 as a whole is positive, albeit with some caution due to uncertainties in various markets and geographical areas.

For the first quarter 2017, General Cable Corporation results reported operating income of US\$24 million and adjusted operating income of US\$45 million - up 16% and 7% respectively, on the same period last year. Adjusted operating income of US\$45 million benefited from strong performance in North America, substantial improvement in the Latin America business, and rising metal prices. Michael T. McDonnell, President and CEO, said, "First quarter adjusted operating income was above expectations. We continue to be encouraged with the progress of North America and we expect to see improvement in Europe through the remainder of 2017. Overall, we are moving our businesses forward despite declines in certain key end markets over the recent past, and we maintain a positive outlook on our ability to execute against our roadmap in 2017."

Market Commentary and News:

The copper market recorded a surplus of 148kt in January to March of this year, following a 199kt surplus in the whole of 2016, according to the World Bureau of Metal Statistics (WBMS). World mine production in the first three months of 2017 was 4.97Mt, 2.2% higher than a year ago. Meanwhile, global refined production for January-March was down 0.1% compared with the same period in 2016 at 5.76Mt. Global consumption for the period was 5.61Mt compared with 5.70Mt in the same three months of the previous year – a drop of 2.7%.

In its latest monthly bulletin, the International Copper Study Group said the global world refined copper market showed a 93kt surplus in February, compared with a 55kt surplus in January. For the first 2 months of the year, the market was in a 149kt surplus compared with a 44kt surplus in the same period a year earlier, the ICSG said. World refined copper output in February was 1.79Mt, while consumption was 1.69Mt. Bonded stocks of copper in China showed a 173kt surplus in February compared with an 80kt surplus in January.

According to industry participants at the LME Week Asia conference in Hong Kong, slowing growth in many economies and tightening credit in China are clouding the outlook for copper demand. While orders for copper have been moving at a decent pace, demand has failed to live up to the promise it showed after prices finally escaped a years-long downcycle in 2016. They noted that the U.S. economy grew at its weakest pace in three years in the first quarter and the nation is on track to hike interest rates this year, raising financing costs for metals users. Concern was also raised on whether President Trump would be able to follow-through on an infrastructure spending spree after he failed to pass a new healthcare bill. In China, analysts said demand for copper was being crimped by tighter credit and moves by regulators to curb the amount of U.S. dollars leaving the country. This is having a dampening effect on enthusiasm and optimism raising questions on whether Chinese demand is going to start to turn down in a real way or if it continues to be quite strong. China has started tightening policy and clamping down on some types of financing to contain the risks from years of debt-fuelled stimulus. Attendees at the event said bright spots for copper demand included the growing appetite for electric vehicles, which use far more copper than gasoline-powered cars and also use the metal in their charging stations.

Copper is on the verge of a demand-driven rally with the renewables sector set to provide a significant boost to consumption growth, according to US analysts Goehring & Rozencwajg Associates. The increasing adoption of renewables,

including electric vehicles, wind and photovoltaic solar farms, as an energy source will have a "vastly underestimated" impact on copper demand into the next decade. The International Energy Assn numbers on the penetration of electricity from renewables suggest an increase from around 5% currently to 10% within the next 10 years. This will add 600kt -700kt of additional copper demand, the company said in an interview with Metal Bulletin. Although more than 50% of copper demand is related to electricity generation and transmission, generating electricity from renewable sources such as wind and solar is much more copper-intensive than from traditional sources. According to the company's research, while a conventional power plant requires around one tonne of copper to generate one megawatt of electricity, an offshore wind farm requires 5.7 to 9.6 tonnes of copper to produce the same amount of power. On-shore wind farms meanwhile require 2.5 to 6.8 tonnes of installed copper per megawatt of power generated. Reduced capacities of renewable plants mean this figure is multiplied again in order to reliably generate the same amount of power. It is a scenario that led the company's recently-launched fund to place its portfolio exposure to copper at 16%.

Germany's Aurubis, in its second quarter fiscal 2016 – 2017 results, said that demand for copper wire rod since the beginning of the fiscal year has remained below expectations. This was primarily attributable to the increase in the copper price at the beginning of November, a change to an EU standard and the consequent temporary corrections to inventories in the energy cable area. Another factor is the continued weak demand from the Middle East, it said, adding that the enamelled wire industry and the automotive industry continue to show "largely stable high demand." In the face of weaker demand, wire rod production for the quarter was 192Kt compared with 204Kt (down 6%) in the corresponding period last year. Rod output in the first half of fiscal 2016 – 17 was 355kt compared with 382kt (down 7%) on the previous year. "We expect rising sales of copper wire rod and constant high demand for shapes in the next few months," Aurubis said. The company produced 157kt of copper cathode from its primary metals operations in the quarter up to March 31, up 3% from the year-earlier period. Output for the first half of the fiscal year reached 309kt, up 2% from 303kt in H1 2015-16. Cathode production from the company's recycling operations was 131kt for the quarter and 260,000t for the half-year, up 6% and 2%, respectively, from the year earlier periods. Increased metal prices at the start of the half-year period had a positive impact on the availability of copper scrap, Aurubis noted, while the market for copper cathodes was characterized by a high level of supply with lower spot premiums.

China's largest aluminium maker said that the Chinese government is serious about forcing aluminium producers in 28 cities to cut output during winter, potentially cutting production by 1 to 1.5 million tonnes. China, which supplies more than half the world's aluminum, has been accused by the U.S. and European countries of government-sanctioned dumping of the metal and other industrial materials. This is seen as a factor undermining global commodities prices. But investors now see signs that Beijing - motivated by its notorious air pollution and excess capacity problems - is extending its commitment to supply-side reforms into the aluminum industry this year. Local reports on the suspension of three mining projects in the western Xinjiang Uighur Autonomous Region, over violations of a production cut order in mid-April, appear to support that notion. China said it would force smelters in four provinces surrounding Beijing to cut output by 30% over the winter heating season to battle pollution.

A recent Reuters poll showed that aluminium's global surplus will fall sharply this year due to the environmental crackdown in China and move to a deficit in 2018, although the market has largely priced in the impact. The poll showed analysts have reduced their estimates of a global aluminum surplus this year by 74% from their January estimate. This year, they are looking for a global surplus of 82kt. For 2018 the market is expected to swing into a deficit, with the shortfall pegged at 200kt.

Goldman Sachs sees aluminum prices trading at US \$2,000/t in six months and US\$2,100/t in a year. The company believes the outlook for base metals is mixed but expectations for aluminum are positive with its analysts estimating that the market's surplus is shrinking.

Representatives of the U.S. aluminium industry are speaking to EU counterparts and have written to Theresa May urging action against what they say are "massive illegal subsidies" in China that threaten Western jobs. Trade lawyers and some governments accuse China of unfairly subsidising major industries in breach of the rules of the World Trade Organization (WTO), which it joined in 2001. In response, a Chinese metals industry body said it was concerned about the fairness of a U.S. probe into aluminium imports, following earlier concerns raised by the country's Commerce Ministry. "Our association is highly concerned about this, and worried about the fairness of the probe and its results," China's Non-Ferrous Metals Industry Association said in a statement.

One global aluminium producer has offered Japanese buyers a premium of US\$123/t for July-September primary metal shipments, down 4% from the current quarter, according to industry sources. Another seller has sought premiums of US\$128/t for shipments over April-June, the sources said.

Russian aluminium and copper exports increased in the first three months of 2017, official customs data showed. Aluminium exports of 859,400t compare with 852,300t last year, while copper exports of 147,900t compare with 136,500t.

The head of Hong Kong Exchanges and Clearing (HKEx) rebuffed criticism of its handling of the LME but pledged to listen to core users of the market. In his first speech since a major management reshuffle last month, Charles Li reinforced his message that a major overhaul was needed at the LME but acknowledged that upset among physical users had hurt turnover. A hike in trading fees precipitated a 7.7% fall in trading volumes last year and 4.3% drop the year before, forcing the exchange to consider its future. HKEx is in the next phase of overhauling the LME into an efficient, profitable marketplace, Li said at the LME Week Asia conference. The LME still dominates the trading of metals but initiatives from rivals such as the Shanghai Futures Exchange (ShFE) and CME Group have seen its share of overall copper trading fall to nearly 60% from 80% in 2008. Li appealed to HKEx shareholders and traditional physical users as the LME's new CEO Matt Chamberlain aims to attract funds and reverse dwindling trading volumes. "You can trust we're trying and we're trying very hard," he said.

The LME's average daily volumes (ADVs) for April fell 7% year-on-year despite volume increases for nickel and zinc. This follows a 13.1% year-on-year decline in March where copper's ADV fell by over 20%. In April, copper's ADV was 205,829 lots, a decline of 13.5% compared to the previous year. Aluminium had the highest ADV with 205,892 lots but this was still 13.5% lower compared with the same month last year. Aluminium alloy's ADV dropped 44.7% year-on-year to 229 lots, while the ADV for the North American special aluminium alloy declined by 32.6% to 1,381 lots.

Copper volumes in the first four months of 2017 on the CME Group leapt 21% over the same period last year. This is partly because many funds prefer the CME's copper contract as it can be bought, sold and settled in one day. One fund manager said, "We use the LME because it has liquidity and while the structure is not a problem, the accounting aspects are. I have to carry all positions to maturity on my balance sheet, it ties up capital." Growth in the physical market peaked some years ago, so the exchange needs to look elsewhere to boost volumes. To facilitate this, the LME last month published a discussion paper listing alternatives to the status quo. LME CEO Matt Chamberlain favours the option of extrapolating prices for three-month contracts and carry trades to populate the monthly contracts on its electronic system. It hopes this can spread liquidity from its rolling three-month contracts to monthly dates that fund investors find easier to trade. This would mean a loss of volume on the three-month contract and risks the benchmark status of the three-months price. Brokers also believe that the option of going to monthly dates would mean the carries market disappears and decimates volumes. An LME spokeswoman said the exchange was aware of a broad spectrum of views in the market on the subject of monthly electronic liquidity and the exchange was looking forward to receiving feedback from all segments of the market on this topic and formulating a clear strategy that takes account of the views of its user base.

LME Commentary:

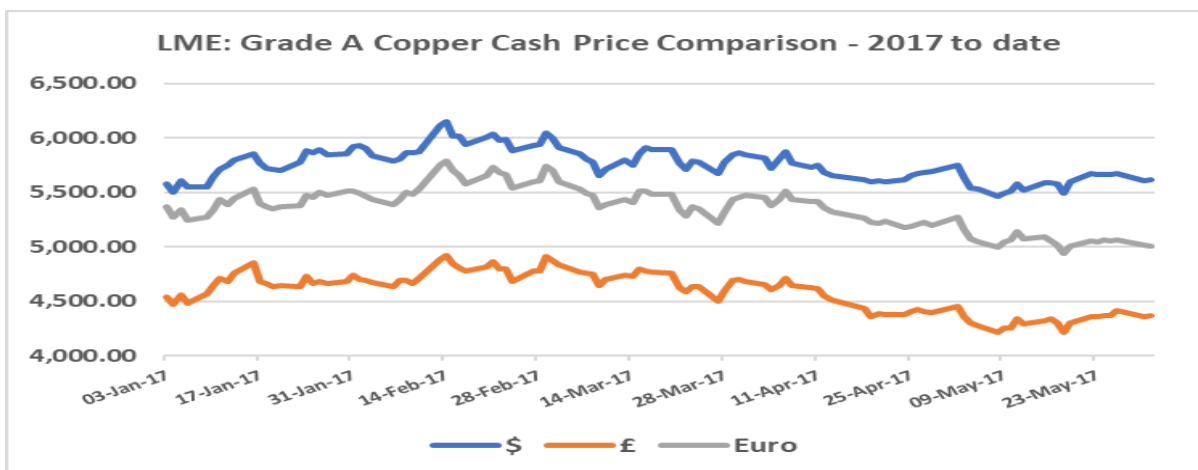
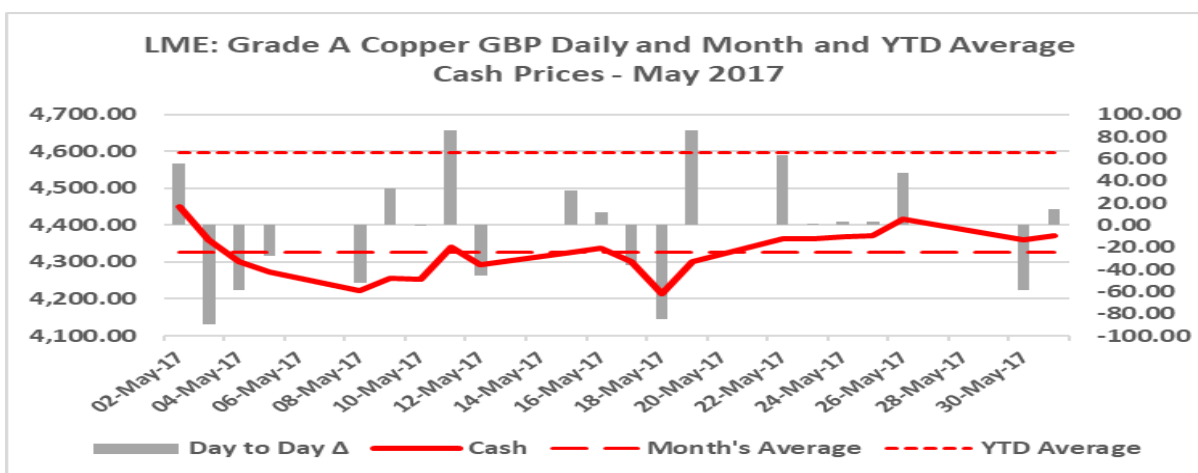
LME copper prices continued to fall during the month, pressured by concerns about waning demand in China and a huge influx of stocks into LME registered warehouses - copper stocks increased by almost 98,000 tonnes in the first week of the month. While some of those stocks would be withdrawn over the remainder of the month - stocks still closed the month 54,325t up – both GBP and USD copper cash prices hit their year's low in the month. The GBP low of £4215.29/t was the lowest since November last year while the USD cash price touched \$5466/t, the lowest since December 2016. In the context of the year to date, May's GBP average price of £4326.03 is £270.40/t below the 2017 YTD average of £4596.43 and £597.06/t below the year's high of £4923.09 achieved on 14.02.17.

Primary aluminium prices however, continue to weather the downward pressure in the metals sector as China threatens to cut output, analysts are predicting a reduction in this year's surplus and a bigger deficit in 2018, LME stocks continue to decline and physical premiums remain strong. The underlying USD aluminium cash price hit the month's high at \$1956/t, only \$16 less than the year's high of \$1972/t achieved on 5.04.17. May's GBP cash equivalent price achieved a high of £1518.93/t, some way off the year's high of £1571.72/t achieved in early March. The month's average of £1480.92 compares with the 2017 YTD average of £1497.95. LME stocks closed the month at 1,467,375t, down 165,950t in the month and down 738,550t in the year.

Sterling equivalent metal prices were softened in the month as the US Dollar fell against other currencies. Against the Pound it averaged 1.2926 in May and the month's high of 1.3024 was the highest since September last year.

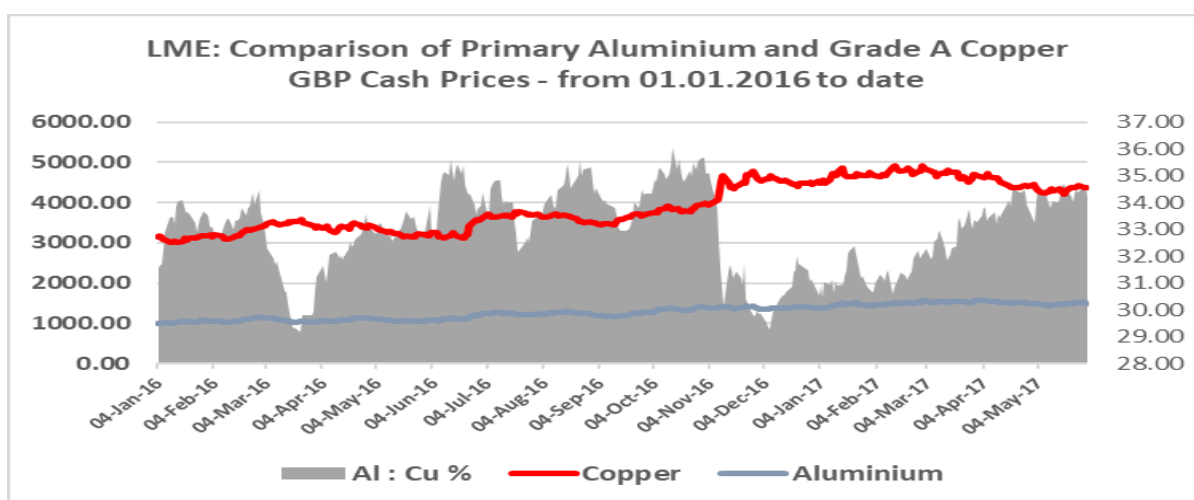
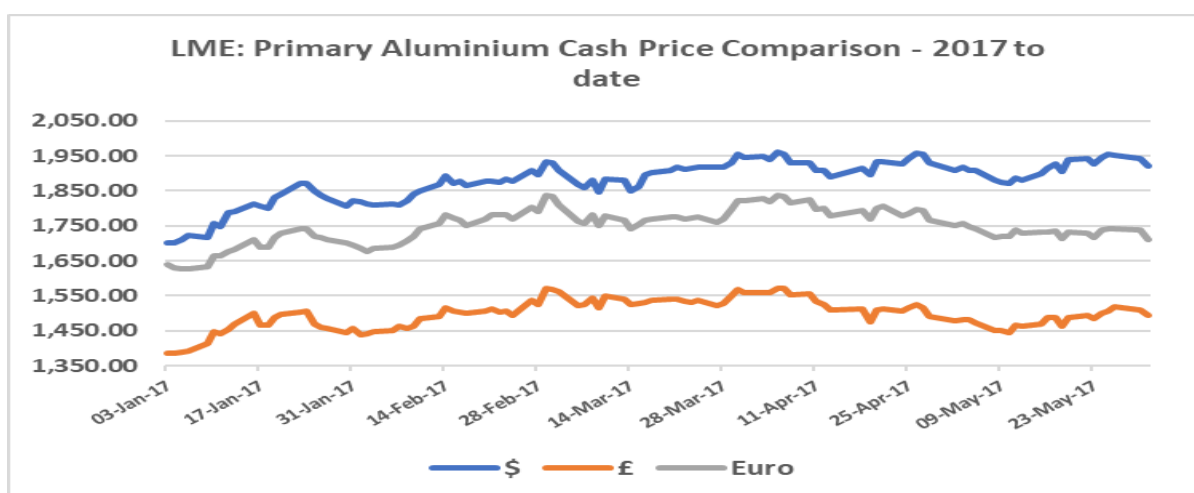
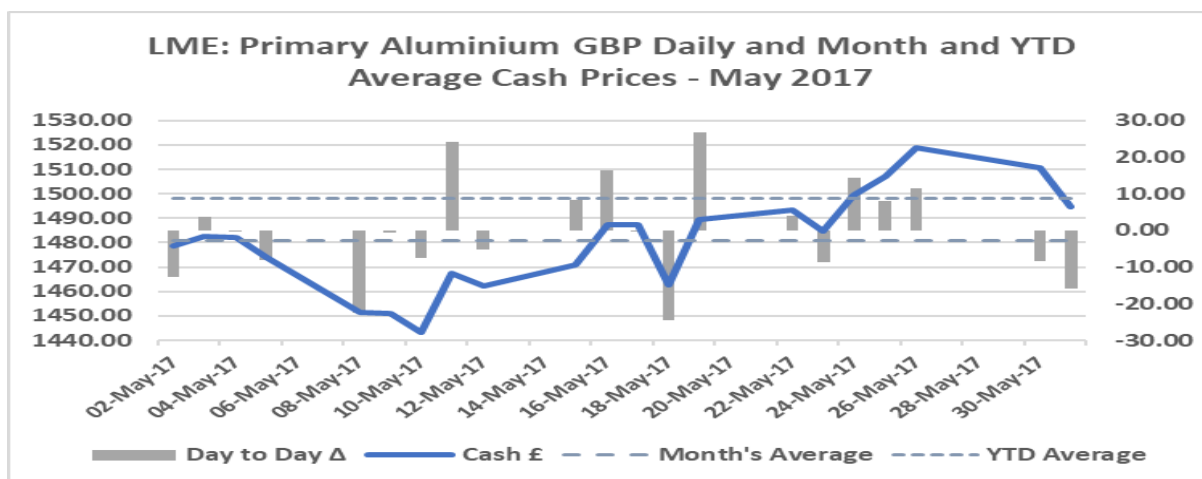
LME Statistics and Charts: May 2017:

	Copper			Aluminium			USD:GBP
	Cash £/t	3M £/t	Stocks	Cash \$/t	Cash £/t	Stocks	
Opening	4450.86	4465.04	253,675	1909.00	1478.58	1,633,325	1.2911
Average	5591.50	5614.38		1914.14	1518.93		1.2926
High	5746.50	5780.00		1954.00	1443.35		1.3024
Low	5466.00	5491.00		1870.00	1497.95		1.2838
Range	280.50	289.00		84.00	-54.60		
Closing	4372.76	4379.22	308,000	1919.50	1494.70	1,467,375	1.2943
Opening:Closing Δ	-78.1	-85.8	+54,325	+10.50	+16.12	-165,950	



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