

January 2017

Economic Indicators and Comment:

The World Bank said global growth would accelerate slightly as recovering oil and commodity prices ease pressures on emerging-market commodity exporters and painful recessions in Brazil and Russia come to an end. In its latest Global Economic Prospects report, the Bank said it expected 2017 real GDP growth to rebound to 2.7% from a low of 2.3% last year. Growth in advanced economies is expected to edge up to 1.8% in 2017 from 1.6% in 2016, while emerging and developing economies will see growth accelerate to 4.2% this year from 3.4% last year. However, there was considerable uncertainty surrounding the forecasts, which did not incorporate the effects of various policy proposals from President Trump, which are expected to include increased fiscal stimulus from tax cuts and infrastructure spending, and a more protectionist trade stance. The World Bank forecasts 2017 U.S. growth at 2.2% versus 1.6% in 2016 but added that lingering uncertainty over the course of U.S. economic policy could weigh on global growth by keeping investment money on the side lines until there is more policy clarity. The Bank said China's growth would continue to slow, easing to 6.5% in 2017 from 6.7% in 2016, but growth would edge higher in some Southeast Asian economies, including Indonesia and Thailand. India's strong growth is expected to accelerate, rising to 7.6% in 2017 from 7% in 2016 as reforms ease domestic supply bottlenecks and increase productivity.

The Bank says that in Europe and Central Asia regional growth accelerated from 0.5% in 2015 to 1.2% in 2016, due mainly to an easing of the recession in Russia as oil prices stabilized. Excluding Russia, regional growth slowed to 2.4% in 2016 from 3.5% in 2015, reflecting a slowdown in Turkey. In the eastern part of the region performance was mixed: activity picked up in Ukraine after two years of deep recession, growth continued to slow in Kazakhstan, and output contracted in Azerbaijan. In the western part of the region overall growth remained robust, despite moderating in several major countries (Turkey, Poland, and Hungary). Regional growth is expected to rise to 2.8% on average in 2018-19, driven mainly by a recovery in commodity exporters and Turkey. Risks remain tilted to the downside.

Leading indicators released by the Organization for Economic Cooperation and Development suggest the global economy is on course for a pickup in growth this year, with only India showing signs of an impending slowdown. The OECD's gauges of future activity showed firmer signs of a pickup in growth in the U.S. and other developed economies, as well as large developing economies such as China and Brazil. The main exception to the global pickup signalled by the leading indicators is India, which the OECD said is "showing signs of easing growth momentum. By contrast, the leading indicators now point to a stabilization in Italy's economic growth, having pointed to a slowdown in October.

According to the US Commerce Department's first estimate of economic growth, the US economy grew at an annual pace of 1.9% in the fourth quarter of last year. That was slower than the 2.2% growth rate economists had been expecting and below third quarter growth of 3.5%. For the year, GDP rose by 1.6%, the slowest since 2011 and down on 2015 when the economy expanded by 2.6%. President Donald Trump has promised to lift GDP growth to 4%, through tax cuts and infrastructure spending - the last time that the economy grew at that rate was in 2000 when it expanded by 4.1%. While consumer spending rose in the quarter between October to December, there was a slowdown in exports and an increase in imports.

China's economy grew by 6.7% in 2016, compared with 6.9% a year earlier, according to official data, marking its slowest growth since 1990. The figure is in line with Beijing's growth target of between 6.5% and 7%. The official data showed that growth in the last three months of 2016 was at an annual rate of 6.8% - a slightly faster pace than the rest of the year.

Industrial output in the Eurozone in November 2016 was up 1.5% month on month from a disappointing 0.1% in October. Economists suggest that this acceleration could push the area's fourth quarter GDP above the 0.3% rise recorded in the third quarter. The 3.2% year on year rise was the highest since January 2016 with growth driven by pickups in France and

Spain where output increased 2.2% and 1.75% respectively, a substantial 16.3% rise in Ireland and a 4.6% increase in Denmark.

The UK economy advanced 0.6% quarter on quarter in the fourth quarter of 2016, the same pace as in the previous period and better than market expectations of a 0.5% expansion, preliminary estimates showed. Services industries were the main drivers of growth, with a strong contribution from retail sales and travel agency services. Meanwhile, construction grew slightly by 0.1% while production industries showed no growth, as a sharp contraction in mining and oil production offset a rebound in manufacturing and utilities. Looking at 2016 as a whole, growth slowed modestly to 2% from 2.2% in 2015 and 3.1% in 2014.

Companies:

Alcoa Corp reported higher-than-expected revenue in its first quarterly results after the metals company split into two in November, helped partly by a rise in alumina (ore) prices. The company reported a net loss of US\$125 million as a result of costs to streamline the portfolio. For the 2016 full year, Alcoa reported a net loss of US\$400 million. Adjusted EBITDA excluding special items for 2016 was US\$1.1 billion, compared to US\$1.8 billion in 2015 due to lower alumina and aluminium prices. The producer also said it expects a 4% growth in global aluminium demand in 2017 even as the market remains modestly oversupplied.

Market Commentary and News:

China's imports of refined copper in December were 359,838t, down 15% from one of the highest levels on record in the same month a year ago, with full-year shipments easing off all-time highs set in 2015, customs data showed. Imports in 2016 totalled 3.63 million tonnes, down 1.33% from 2015's record of 3.68 million tonnes, data from the General Administration of Customs showed.

World top copper exporter Chile is seen producing 5.79 million tonnes in 2017, a 4.3% increase versus a year earlier, due to increased output at BHP Billiton's massive Escondida mine, state copper commission Cochilco said. Copper production in Chile is forecast to grow by an additional 3.4% in 2018, reaching nearly 6 million tonnes.

Chilean mining firm Antofagasta stuck by its 2017 copper production target. The London-listed company produced 709,400t of copper in the year ended Dec. 31, 2016 - 12.5% higher than a year earlier but just short of the 710,000-740,000t guidance it had given at the start of last year. The company reported a 13.8% production rise in the fourth quarter.

Unionized workers at BHP Billiton-run Escondida, the world's biggest copper mine, said at month end that they had rejected the company's latest wage offer and asked workers to vote for a strike and prepare for an extended conflict. The Escondida workers' union, which represents about 2,500 workers at the Chilean mine, has been in collective wage talks with the company since December to replace the current contract which expires at the end of January.

The chairman of Codelco, Oscar Landerretche, vowed that his company won't be pressured into changing policies after an explosion at his home in Santiago that left him with minor injuries. A group calling itself "Individualists with Wild Tendencies," or ITS, claimed responsibility for what it called "an indiscriminate eco-extremist attack" undertaken as payback for environmental damage caused by Codelco's mining activity. The mining giant has been enmeshed in a series of disputes with indigenous communities over a planned \$18 billion expansion of its mining operations through 2020.

Peru will likely produce between 2.6 million to 2.7 million tonnes of copper this year, up from an estimated 2.2 million tonnes in all of 2016, the government reported. Peru probably surpassed China as the world's second biggest copper producer last year, though final data is still outstanding, according to the Ministry of Mines.

Poland's KGHM, one of the world's biggest copper producers, should not sell its foreign assets, Polish minister Henryk Kowalczyk said in the month. The state-run company invested overseas for the first time in 2011 when it bought Canada's Quadra FNX, for C\$2.87 billion (US\$2.14 billion), the largest ever foreign acquisition by a Polish company.

The latest data from the International Aluminium Association shows that China produced 31.6 million tonnes of primary aluminium in 2016 almost unchanged from the previous year. This represents 54.4% of world output – up from around 30% in 2006. Chinese output in November and December was running at annualised 34 million tonnes.

Extracts from IAI data show primary aluminium production as:

000's tonnes	Africa	North America	South America	Asia (ex China)	West Europe	East & Central Europe	Oceania	GCC	China	ROW Unreported	Total
Total 2016	1,691	4,027	1,361	3,442	3,778	3,982	1,971	5,194	31,641	1,080	58,167
% of Total	2.9	6.9	2.3	5.9	6.5	6.8	3.4	8.9	54.4	1.9	
Total 2015	1,687	4,469	1,325	3,001	3,745	3,829	1,978	5,104	31,672	1,080	57,890
% of Total	2.9	7.7	2.3	5.2	6.5	6.6	3.4	8.8	54.7	1.9	
2016 to 2015 Delta (tonnes)	+4	-442	+36	+441	+33	+153	-7	+90	-31	+0	+277
2016 to 2015 Delta (%)	+0.2	-9.9	+2.7	+14.7	+0.9	+4.0	-0.4	+1.8	-0.1	+0.0	+0.5

The US government launched a new complaint against Chinese aluminium subsidies at the World Trade Organization, accusing Beijing of artificially expanding its global market share through cheap state-directed loans and subsidized energy. The complaint, which seeks consultations with Beijing over the matter, will add to rising trade tensions between the world's two largest economies as President Trump takes office with pledges to reduce U.S. trade deficits with China as a top priority.

The LME primary aluminium cash price hit a high of \$1870 mid-month on speculation about potential for capacity closures in China. The source was the publication of a policy document from the Chinese Ministry of Environmental Protection with a plan to close one third of all aluminium smelting capacity in 4 provinces during the winter months to help cut emissions and mitigate the pollution problems recently experienced in Beijing. According to the Shanghai Futures Exchange, up to 15 to 16 million tonnes could be affected. Goldman Sachs analysts suggest that if 30% capacity were cut, it would result in losses of around 2.5 million tonnes of annualised production, shifting the global market from Sach's forecast of a balanced market in 2017 into at least a deficit of 1.5 to 2.5 million tonnes. Market excitement was later tempered as it was revealed the policy document would be subject to further discussion and debate with input from the production industry.

Rio Tinto's Boyne Smelters Ltd (BSL), the largest aluminium smelter in Australia said that it will cut production and shed jobs due to higher power prices. BSL is in the process of reducing production by around 8% which could result in a potential loss of around 45,000t of aluminium production for 2017. The smelter in central Queensland has the capacity to produce more than 570,000tpa of aluminium.

China plans to spend 800 billion yuan (\$115.09 billion) on building railways this year, the same budget as last year, to grow its network to 150,000 kilometres, state news agency Xinhua reported. China plans to add 2,100 kilometres of track this year, mostly in its central and western regions, and electrify 4,000 kilometres of railways, Xinhua reported, citing a statement released by national operator China Railway Corporation. The country, which had set an annual spending target of 800 billion yuan for the last three years, used 801.5 billion yuan on railway construction in 2016, according to the national operator. It plans to spend 3.5 trillion yuan on building railway tracks over 2016-2020, Xinhua said. Railway spending was at a high of 840 billion yuan in 2010 before a high-speed rail crash that led to the arrest of numerous officials on corruption charges and the breakup of the railway ministry. In recent months, the government sped up approvals of construction projects including railways to support slowing economic growth, adding to China Railway's debt burden which stood at 4.21 trillion yuan at the end of June.

LME volumes fell 7.7% in 2016 from the previous year, data published by the exchange showed. Turnover last year fell to 156.5 million lots, equivalent to \$10.3 trillion and 3.5 billion tonnes of material, which the exchange attributed to difficult market conditions. "The second half of 2016 saw particularly low volatility and underlying market activity, which are likely to be the main causes for lower trading volumes," an LME representative reported. Aluminium volumes fell 10.3% to 56,082,746 lots from last year. This metal was also the hardest hit by falling carry volumes, including in the 'Tom'/next spread. LME registered warehouses held 2,269,900t of aluminium at the end of 2016, considerably lower than more than five million tonnes in 2014. Volumes traded in the other base metals also fell last year. Lead volumes fell 15.7% to 10,936,361 lots while zinc volumes fell 6.4% to 28,123,804 lots and tin fell 7.4% to 1,360,010 lots. Nickel volumes of 20,690,179 lots last year compares with 20,699,745 lots in 2015. Traders have blamed the drop in volumes on the 2015 fee increases which pushed business onto other exchanges such as the CME. Copper business fell 5.6% year-on-year to 38,739,654 lots in 2016. Against this backdrop, LME executives faced questions from disgruntled participants over why its volumes were falling while those of its competitors were growing. Tension between the exchange and its members

reached a peak in the summer when talk of a rival member-backed platform surfaced. But while the proposed new platform has not been completely shelved, relations between the exchange and its members are reported as improving.

Later in the month, LME parent company Hong Kong Exchanges and Clearing Ltd (HKEx) announced without explanation that Chief Executive Garry Jones was leaving the company after three years at the helm. Market sources believed the sudden resignation was due to lower trading volumes and a lack of strategy.

Warehouse firms in the LME's network of more than 600 warehouses in 37 locations have announced significantly lower rent rises for the year starting in April 2017, the exchange said in a statement at the beginning of January. The LME said this year it would freeze the maximum rate for five years to curb surging costs, the final reform in a three-year series of changes which have also included tough rules to slash delivery backlogs.

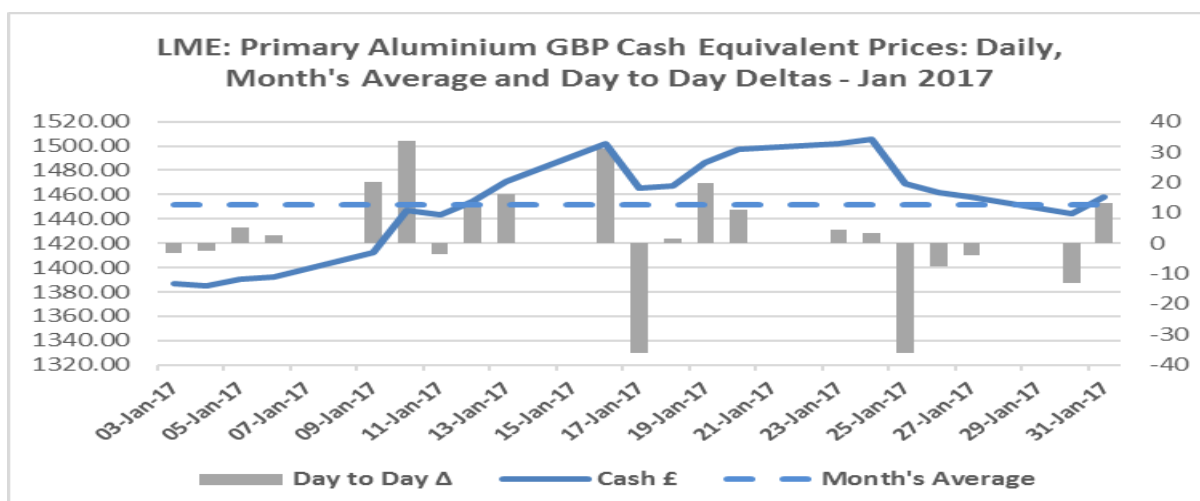
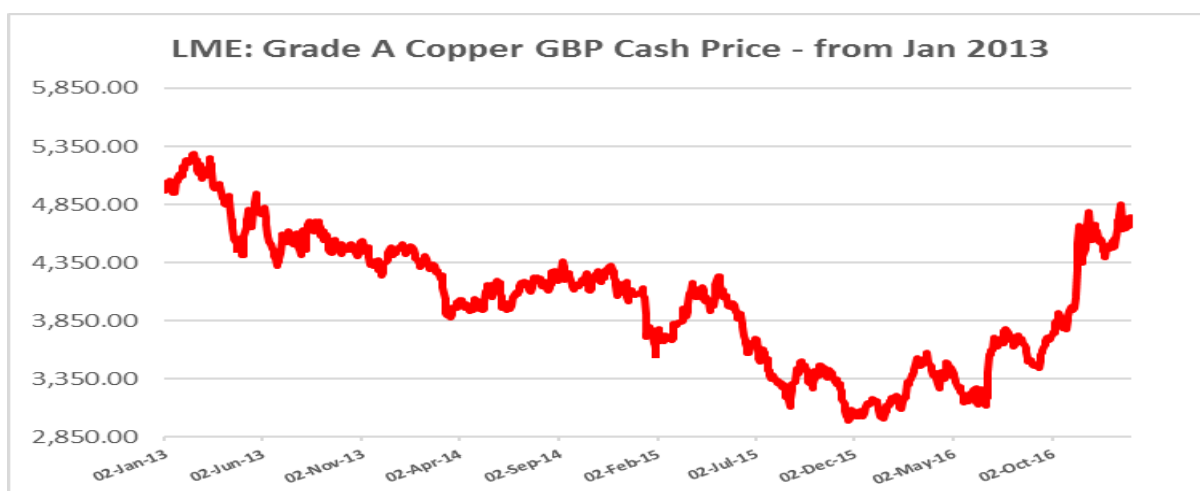
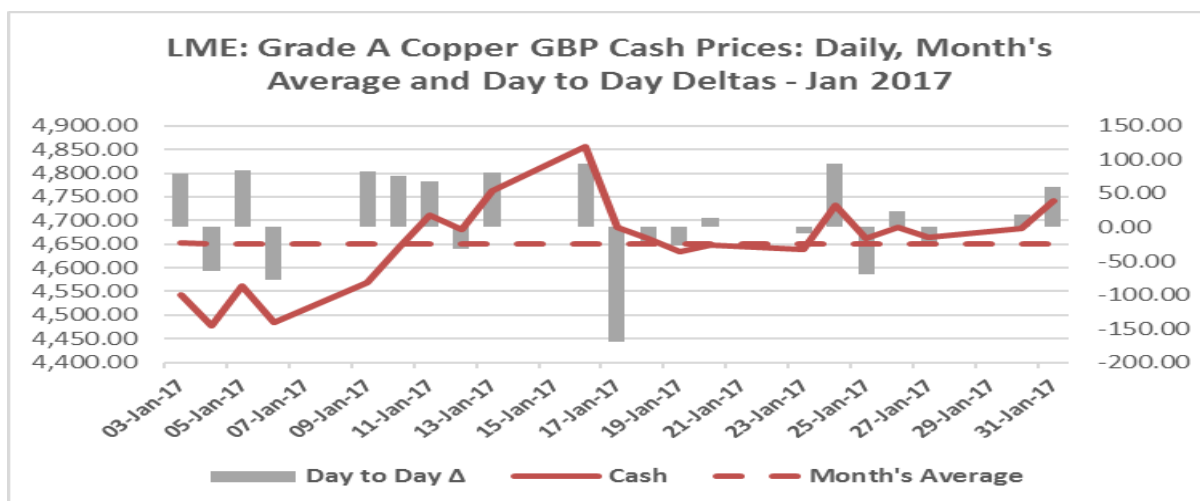
LME Commentary:

Market fears earlier in the month that metal prices were likely to fall - as Chinese speculators appeared to have abandoned the market since the November peaks and growing uncertainty over the new US administration's economic policy - were dispelled later in the month as both copper and aluminium LME prices achieved recent highs. Prices rose sharply as data showed China's economy grew slightly faster than expected while copper imports into China in 2016 were only marginally lower than the record levels in 2015. The market was further supported by better than forecast US GDP growth and President Trump reiteration of his plans to spend big on infrastructure and generate improved demand. In the event, the dollar weakened during the month over concerns about the new administration's protectionist policies. The growing threat of a strike at Chile's Escondida copper mine and the threat of primary aluminium capacity closures in China consolidated the earlier strength.

Copper peaked at £4854.94/t on 16.01.2017, its highest since May 2013, while the underlying USD cash price peaked at \$5921/t, its highest since June 2015. A day later, the primary aluminium GBP cash equivalent price hit £1505.39/t, the first time it had breached the £1500/t level since August 2011 while the underlying USD cash price peaked at \$1870/t, its highest since May 2015.

LME Statistics and Charts: January 2017:

January 2017	Copper			Aluminium			USD:GBP
	Cash £/t	3M £/t	Stocks	Cash \$/t	Cash £/t	Stocks	
Opening	4542.79	4540.94	322,225	1702.00	1387.12	2,205,925	1.2270
Average	4653.55	4661.14		1790.79	1452.50		1.2329
High	4854.94	4867.27		1870.00	1505.39		1.2584
Low	4477.78	4482.17		1701.00	1384.73		1.2064
Range	377.16	385.10		169.00	120.67		
Closing	4741.35	4738.31	260,850	1820.50	1457.80	2,269,900	1.2488
Opening:Closing Δ	198.56	197.37	-61,375	118.50	70.68	+63,975	



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