# Metals Newsletter

Energy Cables Sector (Inc. Super-Tension Cables and Power Cable Accessories)
Communication Cables Sector, Winding Wires Sector
Health and Safety and Environmental Committees
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### Economic Indicators and Comment:

The OECD's composite leading indicators (CLIs), continue to point to signs of easing growth in the OECD area as a whole. The CLIs continue to point to easing growth in the U.S., the UK and Japan, with a similar outlook now expected in Germany and Italy. The outlook is for stable growth momentum in the Euro area as a whole. In India and France, growth momentum is stabilising. Signs of growth stabilisation are also emerging in China and Canada. In Russia and Brazil, the CLIs continue to point to a loss in growth momentum.

The pace of US economic growth slowed in the first quarter of 2016 as a strong dollar and a sluggish global economy hit exports and business investment and a rise in consumer spending eased. The economy expanded at an annualised rate of 0.5% in the first quarter – its weakest quarterly performance in two years - and down from a 1.4% increase in the final three months of 2015. U.S. industrial output fell 0.6% month on month in March while March auto sales dropped sharply to 16.46 million vehicles (annualised). U.S. factory orders were down 1.7% month on month in February.

China's economy grew at an annual rate of 6.7% in the first quarter of the year, according to government statistics. It is the slowest quarterly growth in the Chinese economy in seven years, but in line with expectations and China's own growth targets. In the final quarter of last year, the economy expanded by 6.8%.

Eurozone industrial production in February on a year on year basis expanded at a pace of only 0.8%, growing at a slower annualized rate than it had in January and below market expectations (a Thomson Reuters poll showed analysts on average were looking for growth to moderate from the 2.9% in January to 1.2% in February. The biggest boost came from the 3% rise in production of capital goods, while energy production remained the biggest drag, falling by 5.2%. The EU's largest and most important economy, Germany, saw the industrial production growth rate year on year move lower from 1.9% in January to 0.9% in February.

The UK's economic growth slowed in the first quarter of the year, hit by a drop in manufacturing and construction output, official figures have shown. GDP grew by 0.4% between January and March, down from 0.6% in the fourth quarter, the Office for National Statistics (ONS) said. On an annual basis, growth was 2.1%. The 0.4% rate was in line with economists' expectations, and marks the 13th consecutive quarter of positive growth for the UK. Part of the slowdown was due to a sharp fall in construction output, which dropped 0.9% in the first quarter. Industrial output, which includes manufacturing, declined by 0.4%. The service sector, the biggest part of the economy, grew by 0.6%.

### Market Commentary and News:

According to the World Bureau of Metal Statistics (WBMS), the copper market recorded a surplus of 120kt in January to February 2016 which follows a surplus of 463kt in the whole of 2015. Reported stocks rose during February and closed 107kt higher than at the end of December 2015. No allowance is made in the consumption calculation for unreported stock changes, particularly in the Chinese government stockpile. World mine production in January to February 2016 was 3.27 million tonnes which was 7.9% higher than in the same period in 2015. Global refined production rose to 3.97 million tonnes up 8.3% compared with the previous year with a significant increase recorded in China (up 203kt) and Chile (up 15kt). Global consumption for January to February 2016 was 3850kt compared with 3434kt for the same months of 2015. Chinese apparent consumption in January to February 2016 rose by 483kt to 2033kt compared to the same months of 2015 which represented 53% of global demand. EU28 production fell by 0.4% and demand was 493kt, 5.5% below the January to February 2015 total. In February 2016, refined copper production was 1973.9kt and consumption was 1929.2kt.
The global refined copper market showed a production surplus of 56kt in January, according to preliminary data released by the International Copper Study Group. At the same time, apparent demand for the base metal from China shot up 16%, based on a spike in imports. The data also show that, when seasonal adjustments for production and usage were included,

the January surplus totalled 50Kt. On the demand side, the ICSG numbers showed that world apparent usage for refined copper rose by about 4.5% year on year or 90kt. That increase was led by China, which saw its apparent demand jump 16% year on year in January, based on a 15.5% increase in net imports of refined copper. However, outside of China, global consumption dropped roughly 5%. On a regional basis, refined copper usage rose by 9% in Asia, but when excluding China, Asian usage also fell by 5%, and was down 7% in the Americas and down 3% in Europe. The ICSG data also show global copper mine production increased about 2% year on year or 30kt, while concentrate production climbed 2.5% year on year, while solvent extraction electrowinning was essentially flat. On the refined production side, the data show global refined copper production grew about 7% or 130kt year on year in January, with primary production up 7% and secondary production from scrap registering a 6% increase.

The annual CESCO dinner/week held in Santiago, Chile in the early part of April provided the platform for a series of producer's statements and announcements;

Cochilco, the Chilean Copper Commission said global copper demand will grow by 1.8% this year to 23.151Mt, compared with global growth of 2.3% forecast three months ago. Weaker Chinese demand explains much of the drop - Chinese copper demand growth for 2016 and 2017 has been cut from 3% to 2.5%. Global demand next year is expected to rise 2.1% to 23.645Mt against 2.6% forecast in January. Meanwhile, global mine production is expected to rise 5.1% this year to 20.25Mt and will grow by another 2.9% next year. However, rising mine output, particularly in Peru, Mexico and Indonesia, will be offset by a 4% drop in secondary copper production from scrap to around 3.6Mt. As a result, Cochilco reduced its global refined copper surplus for 2016 to 140kt from 198kt forecast in January, and to 92kt for 2017, from 168kt previously.

Chilean copper production will start growing again next year as new mines and processing plants ramp up, Cochilco reported. Chile will produce 5.77Mt of copper this year, barely changed from 2015, as producers shut loss-making capacity in the face of low prices. However, the government body sees production rising 3% next year to 5.95Mt as production increases at BHP Billiton's Escondida mine, the world's largest, following the completion of a new concentrator plant.

Chile's state copper producer Codelco is slashing spending by US$6 billion over the next five years in the wake of a steep fall in the price of copper, significantly reducing its targeted output. The world largest copper miner has previously said it would trim some US$4 billion of budgeted spending from its key investment plan. The cumulative effect of those cuts would likely lead the market to a deficit from 2018, the company said. Although the price slide had hit some small mining operations in Chile, the larger outfits could easily survive at the current market level. Codelco's spending cuts would mean 70,000 fewer tonnes of refined copper between 2015 and 2019, rising to 600kt less in the next five years. Over 25 years, that would add up to 4Mt, about 13% of the 44Mt it had planned. Last year Chile overall produced around 5.76Mt of copper.

Chile's Codelco will meet its copper production target for the year, despite heavy rains which affected operations at its divisions earlier this month. The company is the world's largest producer of copper, with an output of 1.732Mt last year. Codelco halted all operations at El Teniente on April 15 as the area received 350mm of rain in just three days. In comparison, the mountainous area received 500mm in the whole of 2015. Codelco only restarted production at the mine on April 21.

Production at Escondida, the world's largest copper mine, fell 1.1% to 1.152Mt last year, from 1.165Mt in 2014, the BHP Billiton-controlled operation said. The mine, in northern Chile, produced 826,220t of copper in concentrate, down 4.4% from 863,884t in 2014, and 326,390t of copper cathode, up 8.2% from 301,529t a year earlier.

Cochilco, the Chilean Copper Commission has maintained its price forecast for 2016 at US$4740/t (April month average was US$4851.12/t) despite expectations of slower demand growth in many markets, including China.

Anglo American expects prices for copper to remain low for the next three to five years, prompting the global miner to focus on lowering costs at its mines, the head of the company's copper business said.

Aurubis, Europe's biggest copper smelter, is looking for potential acquisitions in emerging markets, but prefers those with less political risk. "That means Africa may not be at the top of our list, we are also a little shy of Chinese opportunities," Aurubis CFO Erwin Faust told Reuters in Santiago.

Copper prices are expected to slide below January's 6-1/2 year lows, hit by a lack of production cutbacks and weak demand in China, GFMS analysts at Thomson Reuters said. The LME copper price has bounced 14% in April since touching a low of £3005.51/t in January but it is due to resume its downtrend, GFMS said in its Copper Survey 2016 report.

Amid concern that a global copper glut will persist as miners press on with cost cuts, banks including Barclays are forecasting further losses. While prices capped a quarterly gain in April for the first time in almost two years after some producers reined in supply, the head of Chile's Codelco has warned that there are few signals of improving demand and it doesn't see a recovery starting until 2018. Barclays reiterated its bearish outlook, saying prices would drop in the second quarter. According to Societe Generale, weaker currencies in producer nations and lower oil prices are helping suppliers trim costs, curbing the need to make output cuts. "On the ground level, the mines and the producers are not under the pressure to cut supply that one might think they'd be under," said Societe Generale's head of commodities research. "Demand growth is going to be subdued relative to what we've been historically used to, as a function of the slowdown in China."

Copper stocks in Shanghai warehouses have increased but are mostly tied up in financing deals, a senior executive at China Minmetals Corp told delegates at CRU's World Copper Conference in Santiago. This has led copper to become more than just a metal – it is part of China's economy, integrated by these financing deals. "The stocks in SHFE can't be used as much of the metal is financed by banks," he said. "Copper consumption in China still has huge potential, and emerging industries will become the new driving force for copper consumption," he told delegates. He acknowledged that there is a big imbalance between the country's provinces which in turn creates huge potential for growth. China's copper consumption is rising on average by 381kt annually. At 7.4kg, China's copper consumption per capita is still well below the world average," he noted.

According to the World Bureau of Metal Statistics (WBMS), the calculated market balance for primary aluminium for January to February 2016 was a tiny surplus of 9.5kt which follows a deficit of 311kt recorded for the whole of 2015. Demand for primary aluminium for January to February 2016 was 8.89Mt - 12kt more than the first two months of 2015. Production in January to February 2016 fell by 26kt compared with 2015. Total reported stocks fell by 25kt during February and at the end of the month were 3,636kt which equated to 23 days demand and compares with 3,787kt at the end of 2015. Overall, global production fell in January to February 2016 by 0.3% compared with the first two months of 2015. Chinese output was estimated at 4550kt - currently accounting for more than 51% of world total production. Chinese apparent demand was 1.9% cent lower than 2015. Net exports of aluminium semi manufactures from China have fallen from 719 in January to February 2015 to 537 in the first two months of 2016. Production in the EU28 rose by 3.1% and NAFTA output fell by 2.4%. Demand in the EU28 was 102kt lower than the comparable 2015 total. Global demand rose by 0.1% during January to February compared with the levels recorded one year previously. In February 2016 primary aluminium production was 4168.2kt and consumption was 4209.9kt.

Global primary aluminium production averaged 156,600tpd day in March 2016 (31 days), up from 144,400tpd per day in February (29 days), and was a four-month high, data issued by the International Aluminium Institute (IAI) showed.

According to Rusal chief executive, Vladislav Soloviev, global and Chinese demand for aluminium will remain strong and supply outside China will continue to tighten this year, creating conditions for firmer prices. Rising exports of Chinese processed aluminium products are also projected to slow down this year as the premium in overseas prices versus domestic prices narrows. Rusal estimates that global aluminium consumption will grow by 5.7% to 59.5Mt this year. He said that Chinese growth is expected to continue to be strong at 7% year-on-year in 2016 to 31Mt. Rusal expects the transportation sector that covers automobile and aviation equipment to continue to lead demand growth, followed by the construction, electrical, consumer durables and packaging sectors. On the supply side, the projected increase in net capacity addition in China could be more than offset by plant closures elsewhere, he said. Rusal sees no new significant capacity additions over the next five years outside China, with the supply deficit forecast to rise sharply in 2016 and expected to surpass 2.4Mt this year. Rusal reported a 1.7% rise in first quarter aluminium production from a year earlier. Last year, Rusal slipped to the world's second largest producer behind China's Hongqiao company.

Norsk Hydro's earnings before interest, taxes, depreciation and amortisation (Ebitda) fell 39% year-on-year to NOK 2.7 billion (US$330 million) in the first quarter, amid lower aluminium and alumina prices. The producer noted that the drop in earnings were partly offset by positive currency effects, lower raw material costs and seasonally stronger downstream results. The bauxite and alumina business saw a 48% year-on-year drop in Ebitda to NOK 640 million mainly due to lower realised alumina prices and lower sales volumes, Hydro said. Bauxite production was up 26% year-on-year to 2.7 billion tonnes in the quarter. Alumina output rose 5% year-on-year to 1.5 million tonnes.

Surcharges for physical aluminium in Europe are unlikely to fall much further after recent declines driven by tightening futures spreads, traders said. The premiums over LME for immediate delivery were quoted at US$125-$135/t for duty-paid metal in Rotterdam, down some US$10 in recent weeks and from US$140-$150 in early February.

Japanese aluminium buyers have agreed to pay producers a premium of US$115-$117/t for metal to be shipped over April-June, up about 5% from the prior quarter, on lower local inventories, sources said. Japan is Asia's biggest importer of the metal and the premiums for primary metal shipments set the benchmark for the region.

Commentators confirm that the US primary aluminium smelting industry is vanishing and it has become politically fashionable to wag a disapproving finger at China. But this view ignores the real culprits – the strong dollar and the rise of the Middle East as major low-cost producer. Heidi Brock, president of the Aluminum Association that represents U.S. firms, said earlier this month that China's share of aluminium production jumped from 10% of the global total a decade ago to over 55% last year, while that in the rest of the world fell or remained flat. She said the U.S. has lost 3,500 jobs as smelters were forced to idle 60% of their capacity, while Chinese capacity grew both due to new capacity additions and insufficient closure of uncompetitive production lines that have been in operation only because of subsidised electricity.

Alcoa has agreed to a new power deal for its 279,000tpa Intalco aluminium smelter, according to a statement from its power supplier, potentially staving off closure of one of the last remaining U.S. aluminium plants. Both sides struck a deal that would keep 2.5 pot lines open at the plant in Washington state, according to the Bonneville Power Authority (BPA) website

At the end of April, China's securities regulator ordered the country's major commodity futures exchanges to control speculative trading activity, sources told Reuters, after a surge in prices sparked fears of a boom-and-bust cycle. In response, commodity futures exchanges in Dalian, Shanghai and Zhengzhou ordered major institutional investors that 'lack a commodities background' to rein in their trading, market traders said. The sources didn't define what was meant by a lack of background in commodities. Investors, including hedge funds and retail investors, have placed big bets on Chinese commodities futures this year, driving up contracts and prompting many analysts to warn of similarities with a boom in the country's stock markets, which reversed into a sharp crash last summer.

The LME has introduced a new market data usage policy, which came into effect on 4 April 2016. A licence is required by any firm that uses LME or London Bullion Market Association Platinum and Palladium (LBMA PGM) data or trademark(s) either for valuation and/or pricing activities and/or as a reference price in transactions, other than for limited internal business use. A Usage Licence is required for use of any delay class of data. The LME says fee waivers are available for firms who are LME members, a party to LME client contracts or an LPP (London Platinum and Palladium) member participant. If your firm is solely using the Data for limited internal business use, then a Usage Licence would not be required. In addition, LME has introduced a minimum threshold under which a Usage Licence will not be required (subject to the LME's discretion). This threshold will be based on the annual notional value of transactions/activities in which the Data is used and set at US$ 5 million.

The LME has launched its electronic tracking system for warehouses, which aims to guard against the type of fraud that emerged in China in 2014. LMEshield provides electronic receipts as proof of ownership for stored metal, with the capacity to give security for tens of millions of tonnes of material outside the LME's own network of registered warehouses.

The LME is calling for views on possible reforms to its physical network, including warehouse charge capping, conversion to a fixed-term warehouse agreement, and converting from an in-warehouse contract to a free-on-truck (FOT) paid contract. The exchange has published a paper calling for responses from the market to these reforms and to the possibility of charge threshold guidance, charge-based incentive guidance, and the possible application of information barriers to LME-listed companies. The LME therefore plans to discuss possible policy changes with the market, with a view to dealing with these issues. It is now calling for responses by May 18 and has said it will provide an update by July.

## LME Commentary:

LME metal prices experienced weak trading in the early part of the supported by a weaker dollar but constrained by concerns over demand from China and rising Asian inventories. Prices improved noticeably towards month end as freak weather, a weak dollar and stronger demand from China, spurred the biggest buying spree in commodities in a year. Silver soared to 11-month highs as the dollar hit its lowest level since August and soybean and corn futures reached their highest point since July as investment funds continued to pile in on concerns about adverse weather in South America.

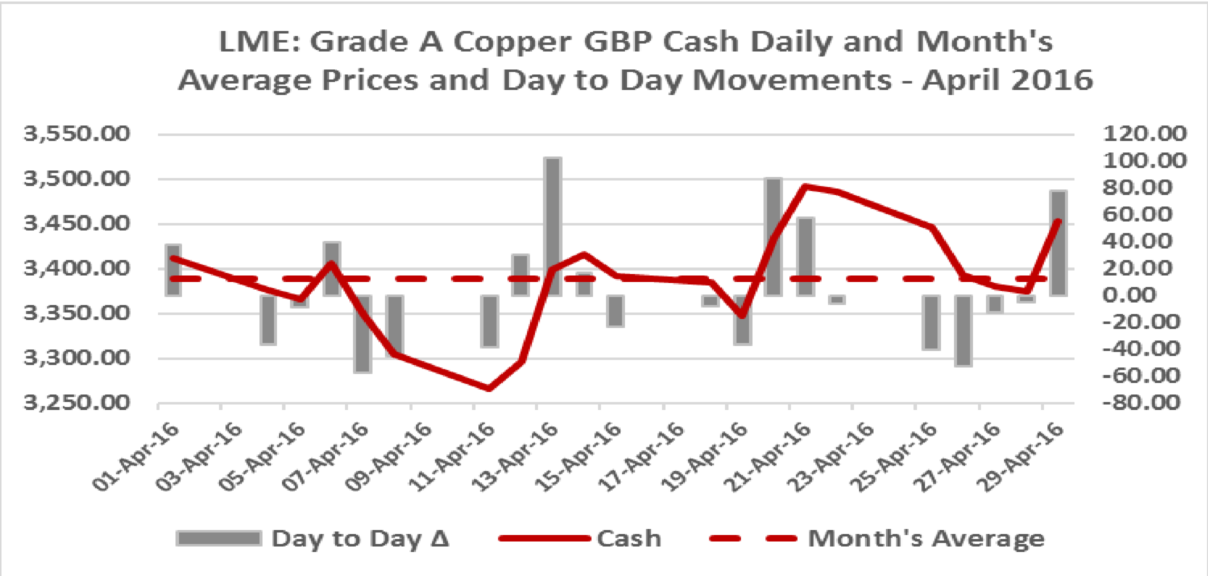
Copper prices fell sharply in the first half of the month over concerns about the effectiveness of producer cuts in the face of faltering demand, particularly in China. By mid-month, copper had recovered on robust import data from China and was carried along with the general improvement in the commodities sector - it reached a 4 week high at £3492.11/t on 21.04.16. The recovery was further helped by a stronger Pound versus the US Dollar - Sterling reached its highest rate early January.

By contrast aluminium prices on the LME and Shanghai Futures Exchange saw steep gains in April largely on the back of promises from the Chinese government of maintaining a 6.5% growth rate over the next five years and assurances that market forces will be allowed to have a greater say in the shaping of the economy. BY month end the LME primary aluminium cash price had reached US$1675/t, the high of the year and the highest since early July 2015.

Market commentators are however warning that if there is a common theme emerging from the recent strong gains in commodity prices, it's that the extent of the rally is not justified by fundamentals and is therefore largely speculative. Assuming this market consensus is correct, it's logical to assume that at some point the heat will go out of the market and prices will stabilise or retreat.

## LME Statistics and Charts: April 2016:

| | Copper | | | Aluminium | | |
|---|---|---|---|---|---|---|
| | **Cash £/t** | **3M £/t** | **Stocks** | **Cash $/t** | **Stocks** | **USD:GBP** |
| **Opening** | 3411.63 | 3394.37 | 143,400 | 1524.00 | 2,783,050 | 1.4304 |
| **Average** | 3389.13 | 3378.29 | | 1564.31 | | 1.4313 |
| **High** | 3492.11 | 3483.85 | | 1673.00 | | 1.4612 |
| **Low** | 3266.07 | 3262.34 | | 1481.00 | | 1.4019 |
| **Range** | 226.04 | 221.51 | | 192.00 | | |
| **Closing** | 3452.64 | 3444.17 | 154,675 | 1673.00 | 2,639,075 | 1.4612 |
| **Opening : Closing Δ** | 41.01 | 49.80 | 11,275 | 149.00 | -143,975 | |
| **YTD Average** | 3297.41 | | | 1515.78 | | |
| **YTD High** | 3576.58 | | | 1673.00 | | |
| **YTD Low** | 3005.51 | | | 1453.00 | | |

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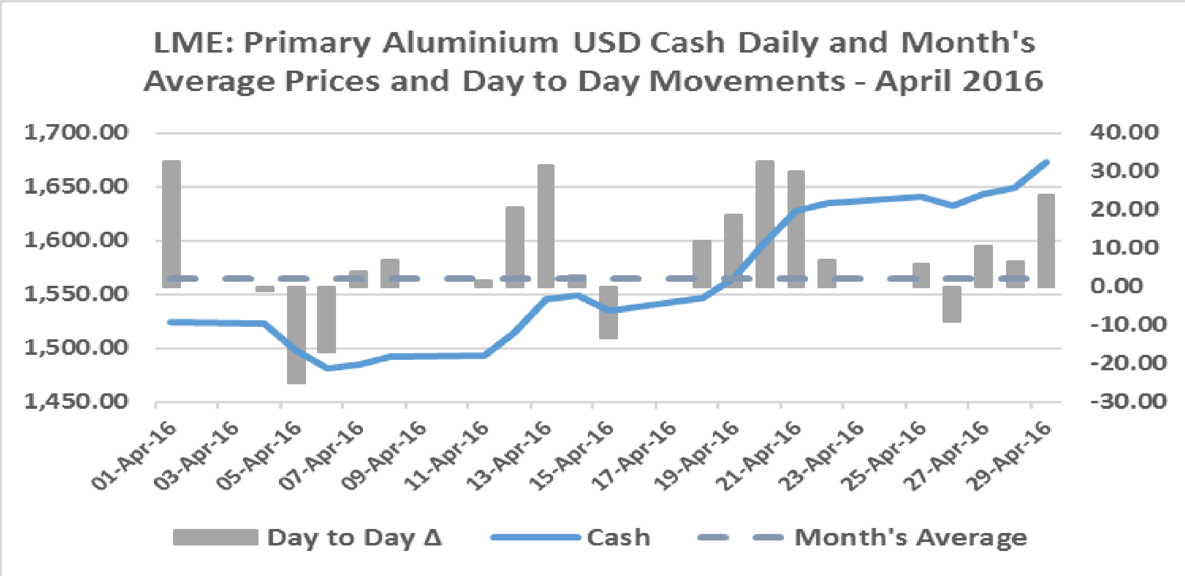


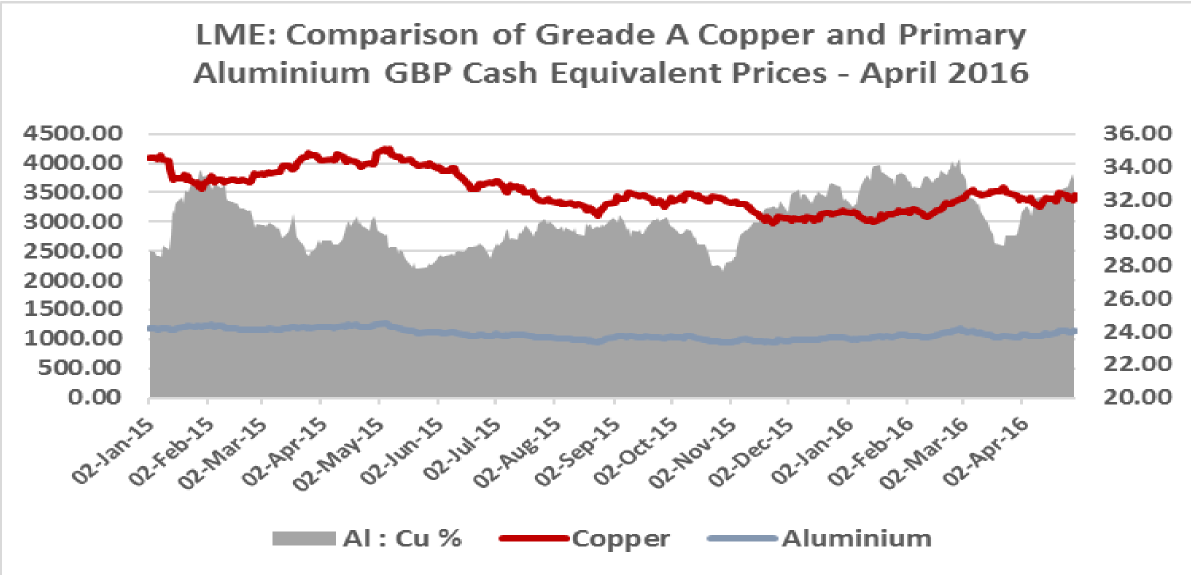


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