Metals Newsletter

January 2016

Economic Indicators and Comment:

The U.S. economy slowed in the last three months of 2015. GDP expanded at a seasonally adjusted rate of 0.7% between the months of October and December — the second time in seven quarters that the nation has registered growth less than 1%. The economy is being driven by steady consumer spending but weighed down by a strong and rising dollar which is increasing the cost of America’s exports and trimming profits for manufacturers. Meanwhile, U.S. industrial output continued to fall in December - down 0.4% month on month primarily as a result of cutbacks for utilities and mining. For the fourth quarter as a whole, industrial production fell at an annual rate of 3.4%.

According to the country's national bureau China's economy grew by 6.9% in 2015, in line with the government’s target of about 7%. This compared with 7.3% a year earlier and marked its slowest growth since 1990. Economic growth in the final quarter of 2015 edged down to 6.8% with the economy slowing in December to cap the weakest quarter of growth since the 2009 global recession. Industrial production, retail sales and fixed-asset investment all slowed at the end of the year. The International Monetary Fund said it expected China's economy to grow by 6.3% this year and 6% in 2017.

Eurozone industrial production decreased by 0.7% month on month in November, resulting in a 1.1% year on year increase. Given the warm winter weather, the energy sector is doing particularly poorly at -2.8% yoy. German industry is actually underperforming the Eurozone average at -0.3% yoy, as it is particularly hit by the slowdown in China and other emerging markets. French industry in contrast is doing better at +2.8% yoy.

The UK economy grew by 0.5% in the three months to the end of December, official figures released by the Office for National Statistics showed, taking the annual rate of growth for 2015 to 2.2%. This is an improvement on the third quarter figure of 0.4%. But the 2.2% annual growth in 2015 was down compared with 2.9% in 2014. Output in the three months to December was 1.9% higher than a year earlier, down from 2.1% in the third quarter and the smallest increase since early 2013.

Brent crude dropped below US$28 a barrel to a 12-year low in the month. Oil prices have shrugged off rising tension between Iran and Saudi Arabia as supplies continue to outstrip demand.

Market Commentary and News:

Annual global copper mine production capacity is expected to grow by around 5% a year and reach 27 million tonnes by 2019, the International Copper Study Group (ICSG) said in a release. Based on existing facilities and announced project developments, it estimates that annual copper mine production capacity until 2019 is expected to show an increase of around 4.4 million tonnes or 20% from 2015. World copper refinery capacity will reach 29.7 million tonnes a year in 2019, an increase of 2.4 million tonnes a year or 9% from that in 2015.

ICSG data also showed that the refined copper market for October 2015 was roughly balanced with an apparent production surplus of only 2,000t. After making seasonal adjustments, October showed a small production deficit of 3,000t. The refined copper balance for the first ten months of 2015 indicates a production surplus of around 60,000t (and a seasonally adjusted surplus of about 122,000t). This compares with a production deficit of around 485,000t (a seasonally adjusted deficit of about 426,000t) for the same period of 2014. In the first ten months of 2015, world apparent usage is estimated to have declined by around 1% (210,000t) compared with that in the same period of 2014. Excluding China, world usage declined by around 3.5%. Although Chinese apparent demand increased by around 1.5%, usage declined by 4.5% and 7% in the EU and Japan respectively, and by 46% in Russia. On a regional basis, usage is estimated to have increased by around 1% in Africa, in Asia and in the Americas respectively while declining by around 10% and 60% in Europe and Oceania, respectively. The main contributor to increased world refined production was China (up by 4%) followed by the DRC and India where production increased by 5% respectively. Output in Chile and Japan (the second and third leading refined copper producers) declined by 2% and 3% respectively, while in the U.S. (the fourth largest refined copper producer), production dropped by 2%.

Cochilco, Chile's state mining commission said that Chile is expected to produce a little over 5.76 million tonnes of copper in 2016, a slight 0.1% increase over last year. The commission projects a 4.6% increase in global copper production for 2016 and an additional 2.2% jump in 2017. That would lead to global surpluses of 200,000t in 2016 and 170,000t in 2017. The commission said that the production rise in 2016 can be explained by increased capacity and new projects in Peru, which would position itself as the world's second largest producer of copper, displacing China.

Chile produced 5.79 million tonnes of copper in 2015, a slight 0.2% from a year earlier even as some companies responded to a deep rout in metals prices with output cuts, government data showed on Friday. In December, Chile produced 495,953tonnes of copper, a 5.5% decrease from the year before, reduced by falling ore grades.

Copper production in Peru, the world's third largest supplier, surged 63% in December and 23% for the whole of 2015, official data showed. Peru has forecast a 66% jump in copper production for 2016 which should allow the Andean country to overtake China as the world's second biggest copper producer.

Zambia's Chamber of Mines said that copper production inched higher to 711,515t in 2015 from 708,000t the previous year mainly due to a new mine owned by Canada's First Quantum Minerals.

China produced 7.96 million tonnes of refined copper in 2015, up 4.8% from a year earlier, according to preliminary figures released by the country's industry ministry.

China's 2015 refined copper imports at 3.678 million tonnes were up 2.5% year on year. Total copper imports came in close to the record of 2014 - arrivals of anode, refined copper, alloys and semi-finished copper products were 4.81 million tonnes, down 0.3% from a record 4.83 million tonnes in 2014.

China's state stockpiling agency bought 150,000t of refined copper cathode through a closed-door tender early in December.

The Escondida copper mine in Chile was operating at 50% at the end of January after workers blocked the access road to the mine to protest the company's plan to lay off employees. Meanwhile, unionized workers at BHP Billiton's Cerro Colorado copper mine in Chile went on a 3 day strike at the beginning of the month after contract negotiations failed,

Chile state copper commission Cochilco on Thursday forecast average copper prices of US$4740/t for 2016 and US$4850/t for 2017, downward revisions from its previous forecast in October. In its last report the state body had forecast a 2016 price of US$5512/t. January month end LME copper cash price closed US$4541.50/t.

Japan's aluminium premiums for January-March shipments were set at US$110/t, up 22% from the previous quarter on higher overseas rates and falling local inventory, trade sources said. This marks the first increase in four quarters and a rise from a US$90/t premium in the previous quarter and is in line with a climb in U.S. and European surcharges for physical aluminium.

Japan's aluminium imports are expected to shrink for a second year running in 2016, after buyers reduced purchases for January-March shipments due to high levels of local inventory. The expected drop in imports could help trim domestic aluminium stocks by March by about 100,000t to around 300,000t, pushing up surcharges for physical deliveries.

Alcoa Inc's plans to close its 269,000 tpa Warrick smelter, announced in the month, will bring U.S. aluminium output to its lowest level in more than 65 years. Warrick is the largest currently-operating smelter in the U.S. and the biggest facility to close in a string of recent curtailments and closures.

Six large Chinese aluminium producers in China are considering forming a joint venture company that will handle primary aluminium stockpiling, a report by state-backed research firm Antaike said. The six companies -- four state-owned firms and two private enterprises -- include Aluminium Corp of China (Chinalco), State Power Investment Corporation, Yunnan Aluminium, Jiugang group, Jinjiang group and Weiqiao Aluminium & Electricity, Antaike said.

Alcoa Inc, the first major U.S company to report its fourth quarter results, said revenue dropped to US$5.25 billion in the latest quarter, down 18% from US$6.38 billion a year earlier based on sharply lower aluminium prices. Aluminium prices, it said, have fallen over 25% to about $1500/t in the past year amid a supply glut that worsened this year as demand has faltered in China. In response, Alcoa has been phasing out aluminium production in high-cost areas such as the U.S., Australia and Europe, and instead focusing on making raw aluminium in places where power is cheaper. Alcoa also has been refocusing its business around the more profitable business of making products for the automotive and aerospace markets.

China's power sector consumed 4.56 million tonnes of refined copper in 2015, up 7% year on year, but its copper demand growth is expected to average just 4% a year over 2016-2020 due to restructuring in the sector, China Nonferrous Metals Industry Association, or CNIA, said in a report. The power industry accounted for almost 50% of China's copper consumption last year, CNIA figures showed. The association noted that copper demand growth per annum from the domestic power sector averaged 25% before 2010, but the rate dropped to an average of 10% in 2012. CNIA has forecast the per annum demand growth at an average of just 4% for the 13th Five-Year Plan period over 2016-2020, citing changes in the domestic power industry, including construction of extra-high voltage grids that require less copper. Separately, the Chinese air-conditioning sector consumed 1.42 million mt of refined copper in 2015, up 4% year on year, CNIA said. It noted that the air-conditioning industry was China's second biggest copper consumer, accounting for 15% of the country's demand last year. The association noted that copper demand from this sector is expected to gradually decline in the coming years. China's construction sector consumed 755,000t of copper in 2015, up 2% year on year, accounting for 8% of the country's copper demand last year. CNIA explained that due to an aging population in the country, demand for housing is expected to fall in the coming years, thereby trimming copper demand from the construction sector. Meanwhile, major real estate developers have begun trial use of aluminium to replace copper in making aluminium alloy cables, and have predicted increased usage of aluminium for this product in the years ahead. The association said China's copper consumption has already reached its peak in 2015, at 9.9 million tonnes, so domestic copper demand is expected to enter an adjustment phase or gradually dip in the coming years.

The State Grid Corporation of China plans to spend 439 billion yuan (US$66.8 billion) on its electricity grid in 2016, lower than its spending in 2015. The country's largest grid company invested a record 452.1 billion yuan on the electricity grid in 2015, up 17.1% on an annual basis. Capital spending by the major grid companies is an important indicator of demand.

China’s railway administration has asked the government to approve a US$584bn five-year construction programme. The National Railway Administration estimates that this budget would be sufficient to build 30,000km of track. This compares with the US$550bn that the government spent on new rail track in the 2011-15 five-year plan.

Data from the LME website showed trade volumes on the LME fell 4.3% in 2015, dented by slowing growth in Chinese demand for commodities. Total volumes were reported at just short of 170 million contracts, down from around 177 million in 2014. Total trade in the LME's largest contract, aluminium, slumped nearly 9.1% in 2015 from the year before to 62.5 million lots. Trade in the copper contract was steady at 41-million lots, up 0.5%. Nickel was up 6.9% to a record 20.7 million lots. Trade in tin fell 30.7%, while zinc trade was down 5.7% from levels in 2014. Lead was little changed, falling just 0.9%. HKEX said that year-end LME futures market open interest stood at 2.3 million lots, up 2% from 2014. The LME's market share of global exchange-traded metals futures was 76.3%.

In contrast, base metals trade on the Shanghai Futures Exchange (SHFE) surged 76% in 2015 as investors sought ways to bet against China's economy and domestic smelters increased their hedging to offset losses in a year when metals prices slumped. Total turnover across the SHFE's six metals products increased to 444 million lots in 2015 compared to 253 million lots for four contracts in 2014. The exchange added tin and nickel contracts in March last year.

The LME is in talks with the World Gold Council and five banks about the possibility of introducing futures contracts on gold and standardized central clearing.

The LME, the only financial exchange to maintain open outcry trading in Europe, has moved its trading floor to a new home in Finsbury Square. Trading in the Leadenhall Street building ceased at the end of the month.

Some warehouse companies have welcomed the LME’s hint that it could impose charge capping after Metro International raised its rent and free-on-truck (fot) charges beyond those of most of its competitors.

China's CMST Development Co Ltd confirmed it will buy a majority stake in metals storage company Henry Bath from Swiss-based commodities trader Mercuria, the latest sign of China's growing clout in metals trading. The Beijing based logistics company has agreed to pay US$60 million for a 51% stake in one of the world's oldest metals storage firms. It will be the first Chinese player to enter the LME’s vast storage network.

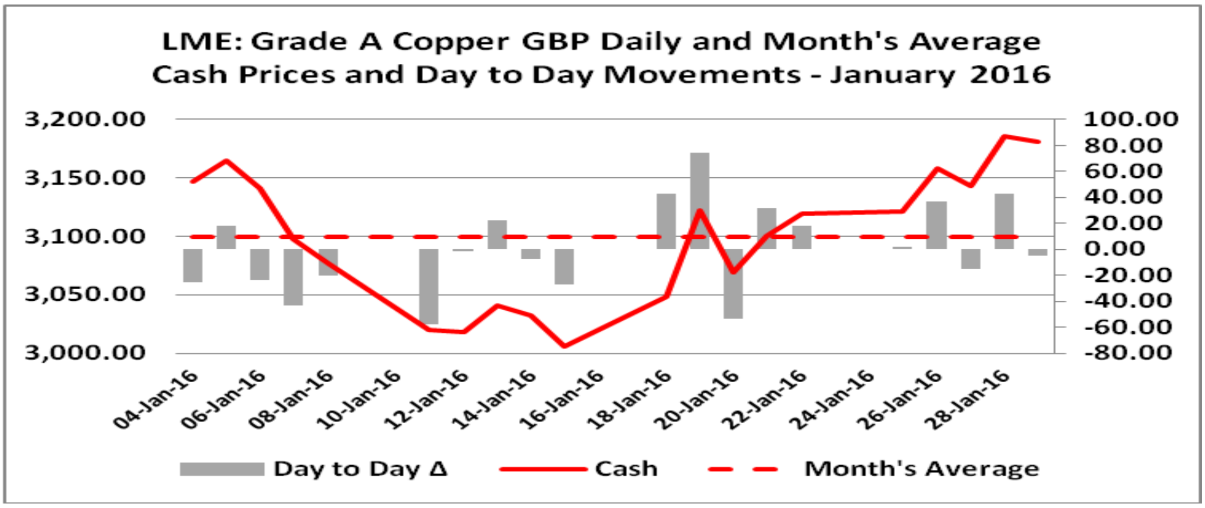
LME Commentary:

LME copper and aluminium prices sank further at the start of the month as China's stock markets fell sharply and government data there showed slower service sector growth. Market caution persisted as the U.S. posted a slowdown in Q4 GDP while the continued slide in oil prices compounded worries over global growth and commodity demand. A strengthening U.S. Dollar against all other major currencies further compounded the bearish sentiment. By mid month both copper and aluminium prices has sunk to near 7 year lows - the copper price low at £3005.51/t and aluminium at $1453/t were the lowest prices since April 2009.

Prices after mid month recovered as China prepared fresh steps to stabilise its currency and its fourth quarter growth met market expectations amid relief that the world's second largest economy had not shown further deterioration. Copper prices were supported by better-than-expected Chinese imports while any meaningful recovery in aluminium prices continues to be thwarted by fears of production increases. LME copper hit a 2 ½ month high at £3186.05/t on the penultimate trading day while primary aluminium achieved a modest 4 week high at $1529.50/t on the last day.

LME Statistics and Charts: January 2016:

	Copper			Aluminium		
	Cash £/t	**3M £/t**	**Stocks**	**Cash $/t**	**Stocks**	**USD:GBP**
Opening	3147.02	3143.21	236,225	1442.00	2,901,200	1.4760
Average	3099.81	3099.34		1479.43		1.4397
High	3186.05	3179.43		1529.50		1.4760
Low	3005.51	3012.06		1453.00		1.4112
Range	180.54	167.37		76.50		
Closing	3181.44	3176.57	239,400	1507.50	2,795,825	1.4275
Opening:Closing Δ	34.42	33.36	3,175	65.50	-105,375	
Opening:Closing Δ %	1.09	1.06	+1.34	+4.54	-3.63	



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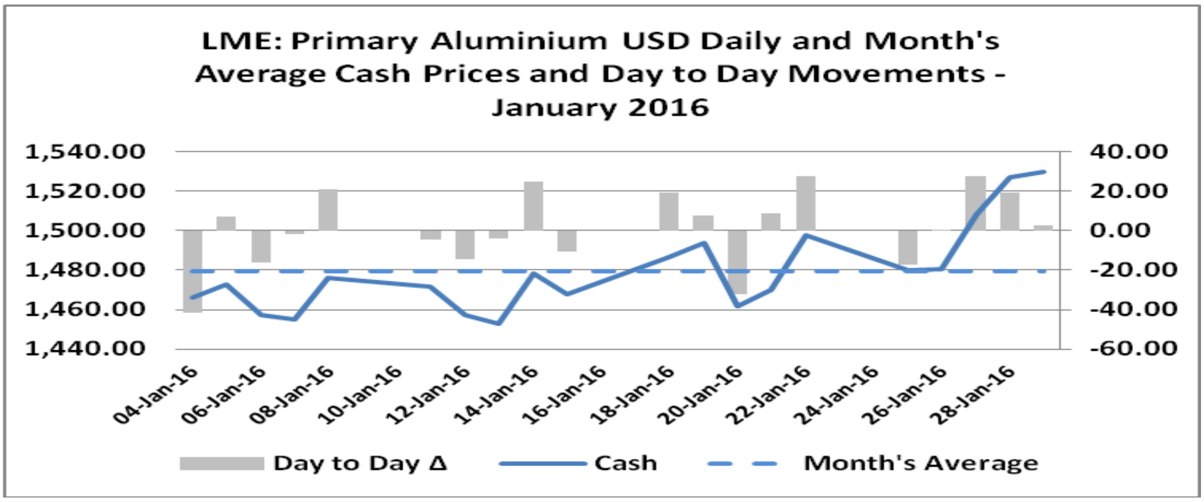

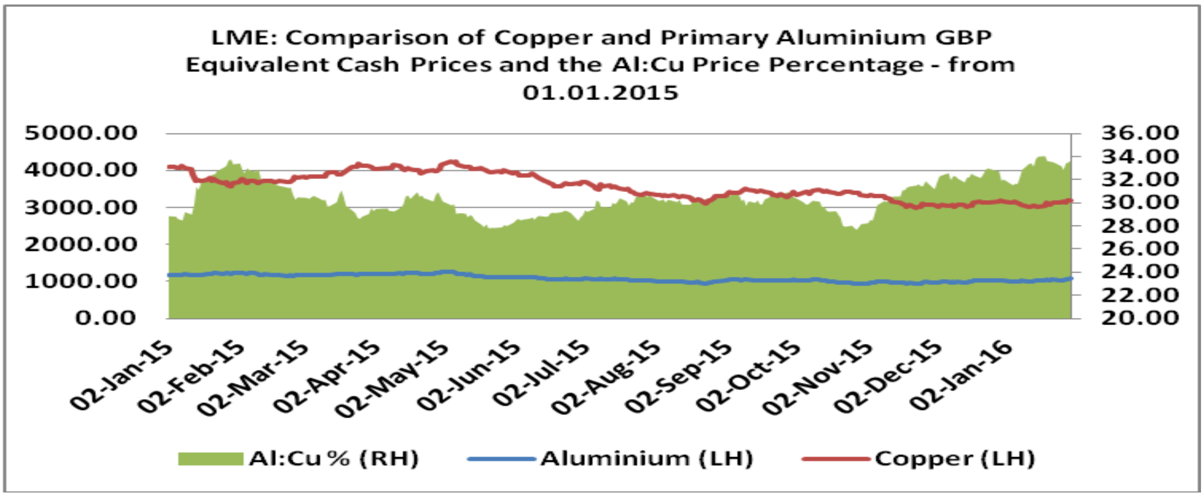

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