July 2016

Economic Indicators and Comment:

The OECD said it would suspend publication until September of its flagship economic indicators, as uncertainty created by Britain's vote to leave the EU could make the data misleading or inaccurate. Every month the Organisation for Economic Cooperation and Development publishes a composite leading indicator for all its member countries, designed to flag early signals of turning points in economic activity.

The U.S. economy expanded less than forecast in the second quarter after a weaker start to the year than previously estimated as inventories fell for the first time in nearly five years and business investment weakened further, offsetting robust consumer spending. GDP rose at a 1.2% annualized rate after a 0.8% increase in the prior quarter, U.S. Commerce Department figures showed. Economists had forecast an improvement in growth from the first quarter to an annualized pace of 2.5%. In addition, the GDP growth estimate for the fourth quarter was cut by 0.5% to a 0.9% rate.

U.S. industrial production increased 0.6% month on month in June – the highest monthly increase in a year - after declining 0.3% in May. For the second quarter as a whole, industrial production fell at an annual rate of 1%, its third consecutive quarterly decline. Manufacturing output moved up 0.4% in June, a gain largely due to an increase in motor vehicle assemblies while the output of manufactured goods other than motor vehicles and parts was unchanged.

China's economy defied expectations of a slowdown with GDP growth for the June quarter holding steady at 6.7% - unchanged from the first quarter - according to figures released by the National Bureau of Statistics. They are within the official 6.5% to 7% target band set earlier this year and ahead of a consensus expectation of 6.6% growth. Seasonally adjusted, the economy grew at 1.8% for the quarter. Analysts had speculated - with the strong property-led recovery in the first three months of the year having dissipated and industrial production, private investment and trade data all disappointing - that the economy was likely to slow. Chinese GDP figures generally come with a caveat from many analysts questioning their reliability as an accurate measure of the actual growth momentum.

ECB President Mario Draghi estimates that the U.K.'s vote to depart the EU and its immediate consequences will reduce economic growth in the Eurozone by up to 0.5% over three years, reflecting the U.K.'s importance as the currency area's second-largest export market after the U.S., as well as the possible perception that the EU could become ungovernable.

The EU's statistics agency said industrial production fell by 1.2% in May from April, having expanded by 1.4% in the earlier month, an upward revision from its earlier estimate of 1.1%. Compared with May 2015, output was up just 0.5%. The Eurozone's industrial performance was weaker than expected - economists previously surveyed by The Wall Street Journal had estimated output shrank by 0.8% on the month, and grew by 1.3% on the year. Many economists estimate the Eurozone economy slowed during the three-months to June, growing by between 0.3% and 0.4% after recording an expansion of 0.6% in the first quarter.

German industrial output in May was down 1.3% on the month, its steepest monthly drop since August 2014, data from the Economy Ministry showed. The April reading was revised down to a 0.5% increase from an initially reported rise of 0.8%. The ministry said that the data pointed to slightly weaker industrial output in the second quarter.

The UK economy grew by 0.6% in the three months to the end of June, as economic growth accelerated in the run-up to the vote to leave the EU. Second-quarter GDP grew faster than expected, up from 0.4% growth in the previous quarter, the ONS said. By far the strongest growth was in April, followed by a sharp easing off in May and June. On a yearly basis the economy grew by 2.2%. The pick-up in economic activity was boosted by the biggest upturn in industrial output since 1999, particularly from car factories and pharmaceutical firms. There was also strong growth across the services sector, particularly retailing. Economists, including those at the Bank of England, had estimated second-quarter growth would be about 0.5%.

British non-ferrous metal manufacturers face a risk of their exports to the EU attracting duties should the UK government push ahead with plans to trigger Article 50 under the Treaty on European Union. If Britain then refuses to allow free movement of EU workers into its economy, it could be barred from the European Economic Area (EEA) halfway house EU membership, used by Norway and Iceland, which involves duty free trade in industrial goods. The UK would then have to negotiate a bilateral free trade deal with the EU, but to secure comprehensive free trade, it may have to allow unrestricted immigration from remaining member states. If it failed to persuade the EU to allow full free trade alongside immigration controls on EU citizens, then standard duties applied to members of the World Trade Organisation (WTO) would probably apply to British exports. EC documents show that imports for example of unwrought aluminium from Switzerland into the EU attract 3% duties, aluminium alloys 6%, aluminium powders and flakes 5%, aluminium bars, rods and profiles 7.5%, aluminium wire 7.5%, and tubes and pipes 7.5%.

Companies:

Prysmian published its first half 2016 results in July. Group Sales amounted to €3,785 million, an organic growth of +1.8% assuming the same group perimeter and excluding metal price and exchange rate effects. The Group reported a strong impetus from its strategic businesses with Energy Projects reporting an organic growth of 22.7% and Telecom up 5.8%. Adjusted EBITDA was €347 million – up 10.5% on the first half of 2015. There was a marked improvement in profitability with margin at 9.2% (8.4% in H12015). Group Operating Income came to €217 million, a major improvement from €173 million in the first half of 2015 (+25.5%).

CEO Valerio Battista said that the first-half results were marked by revenue growth and a significant improvement in profitability with the biggest drivers of growth Energy Projects and Telecom. The important set of technological innovations introduced between end of 2015 and 2016 mean the Group is well positioned to continue taking advantage of the opportunities offered by the market. In the Telecom business, growth has been driven by the recovery in optical fibre competitiveness and the new optical cable manufacturing capacity in Eastern Europe. Performance by the higher value-added businesses had contributed to a fresh upturn in profitability.

Nexans also published its first half 2016 results. Operating margin was up 42% year on year to €135 million with organic sales volume growing 0.2% (up 2% in the second quarter). EBITDA showed a 22% increase to €203 million euros and the Group returned a net profit of €29 million. Consolidated sales for the period came to €2,951 million compared with €3,271 million for the same period of 2015. At constant metal prices, first-half 2016 sales amounted to €2,277 million

CEO Arnaud Poupart-Lafarge said: "The first half of 2016 saw a significant increase in the Group's operating margin despite globally lacklustre growth, reflecting the success of the strategic initiatives we have put in place. In spite of the unsettled operating environment in second-half 2016, we maintain our confidence in the full potential of the strategic initiatives and in the capacity of the Group to deliver the expected results."

Market Commentary and News:

The refined copper market moved to a 110,000t deficit in April, 86% higher than the 59,000t deficit in March, preliminary data released by the International Copper Study Group showed. A fall in refined usage by 0.5% to 2.036Mt in April was offset by a fall in refined copper production by 3%, to 1.927Mt. The refined copper balance for the first four months of the year showed a production deficit of 119,000t, from a production surplus of around 13,000t for the same period in 2015. This year's deficit is due primarily to strong Chinese demand, the ICSG said, which showed a 14% increase in the first four months of the year, based on a 30% increase in net imports of refined copper from the lower net import level in early 2015 and consequently lower apparent demand. Excluding China, world consumption declined around 1% in January to April. World refined production in the same period increased 4.5% year on year to 7.688Mt. This included a 4% increase in primary production and a 5.5% increase in secondary production. The contributor to growth was China, where output grew 8%, followed by the US (18%). Output in Chile and Japan, respectively the world's second and third largest producers, both increased 5%, while production in the DRC and Zambia declined due to temporary production cuts.

Copper mine production capacity through 2019 is expected to grow at an average rate of about 4%/year to reach 26.5Mtpa in 2019, an increase of about 3.9Mt, or 17%, from 2015, according to the ICSG. The group lowered initial estimates of annual mine production capacity for 2018 and 2019 by around 200,000t and 500,000t, respectively, mostly because of ongoing delays for many project expansions and start-ups. Peru is projected to account for 25% of additional capacity from new mine projects and expansions through 2019, followed by Zambia, the DRC, China and Mexico - together those five countries will represent 65% of the world growth. ICSG calculations indicate that world copper refinery capacity will reach

29.7Mtpa in 2019, an increase of 2.4Mtpa or 9%, from 2015. About 50% (1.2Mtpa) of the world refinery capacity increase during this period is expected to come from electrolytic refineries in China and about 25% (600,000tpa) from electrowinning capacity increases in DRC, Mexico, Myanmar and Zambia," the ICSG said.

Chile produced 2.778Mt of copper during the first six months of the year, down 5.6% from the same period of last year, government figures showed. Production in June fell 7.7% on the year to 473,608t. Statistics institute INE attributed the fall to reduced ore grades at a major producer.

China’s Minmetals Corporation signed a US$3 billion long-term electrolytic copper purchase contract with Poland’s KGHM. Now in its 20th year, the cooperation between Minmetals and KGHM started in 1997 and as of the end of 2015, Minmetals had directly purchased more than 810,000t of electrolytic copper from Poland.

China's copper output rose 7.6% to 4.03Mt in the first half of 2016 from a year ago, data from the Ministry of Industry and Information Technology showed.

Japan's copper cable shipments including sales and exports in June fell 5.5% from a year earlier to 55,900t, according to the Japan Electric Wire and Cable Makers' Association.

Russian aluminium and copper exports to countries outside the Commonwealth of Independent States (CIS) declined in the first five months of 2016, official customs data showed. The Federal Customs Service provided the following data for January-May Russian aluminium and copper exports:

		Jan - May 2016 mt	Jan - May 2016 mt
Aluminium	Total	1,415,000	1,511,500
	Non-CIS	1,389,900	1,488,800
	CIS	25,100	23,200
Copper	Total	214,900	237,200
	Non-CIS	211,100	235,300
	CIS	3,700	1,900

Alcoa Inc reported a lower quarterly net profit, citing a 10% decline in revenue due to lower prices for aluminium and alumina and plant operations that have been curtailed, closed or sold off. Alcoa reiterated its forecast for global automotive production growth in 2016 of between1% to 4% but said continued weakness in the North American market would offset anticipated growth in heavy-duty truck, trailer and bus production in China. Alcoa reported a second-quarter net income of US$135 million, down from US$140 million.

One of the world's largest aluminium producers, Norsk Hydro has raised its 2016 forecast for aluminium global demand. Norsk Hydro reported an underlying operating profit of 1.62 billion Norwegian crowns (US$190.73 million), down from 2.67 billion in the year-ago period. The company believes that global aluminium demand is likely to increase 4% to 5% from its earlier forecast of 3% to 4%. Norsk Hydro also estimated that the higher than expected activity in China alone will see a growth of 5% to 7%in 2016. The company's global aluminium demand forecast is now closer to its peer Alcoa's forecast of 5%.

Russian aluminium producer Rusal reported a 5% rise in half-year aluminium sales volumes from a year ago, mainly due to the start-up of its Boguchansky smelter, but the average sale price slid 24%. The aluminium producer's sales rose to 1.915Mt in the half year to June, compared with 1.823Mt a year earlier.

The China Aluminium Association said that the restart of mothballed aluminium smelting capacity in China will likely be concentrated in the fourth quarter of 2016 when the current slack domestic buying season is over. With domestic aluminium prices at Yuan 12,740/mt ($1,911/t) as of the end of June, up Yuan 1,790/t from January and reports in July of a shortage of aluminium ingot, the sector will start to put unused capacity back into production, the CAA said. China's Aluminium output fell 1.9% to 15.32Mt in the first half of 2016 from a year ago, data from the Ministry of Industry and Information Technology showed.

According to traders, premiums for physical aluminium in Europe are expected gradually to extend their recent decline due to sluggish demand and as metal is released from warehouses when finance deals become less lucrative. The premiums payable over the LME cash price for prompt delivery were quoted at US$115-$120/t for duty-paid metal in Rotterdam, down some $10-$15 in recent months and from $140-$150 in early February.

Aluminium prices are likely to hover between US$1,500 and $1,700/t for the latter half of this year as oversupply will cap further gains, Akio Hamaji, the chairman of the Japan Aluminium Association said. "With uncertainty over the European economy after Brexit, it is unlikely to see a strong pickup in global economy," Hamaji told reporters.

A newly-established German trading company, Metalprodex GmbH, said it planned to start a trading platform for the buying and selling of base metals for immediate physical delivery. The aim is to start offering an electronic trading platform in September which can provide delivery of physical metal within two days, the company said. No exact start date has yet been set. The platform aims to offer an additional service which is not available on markets such as the LME. It would not be aimed at financial investors. "We aim to offer a platform for physical trade when the buyers really need the metal now. This sort of physical trade is currently undertaken by telephone, email or fax or even over a beer. We will offer a transparent platform for metal trades needing spot delivery," the company said. Market participants will provide the metals traded, there will be no short selling and sellers will have to have metal they are selling available immediately. The initial focus would be on aluminium, copper, lead and zinc in standard 25t lot sizes. The main locations for delivery will include Rotterdam, Hamburg, Szczecin, Barcelona, Genoa and Istanbul. Metal producing companies, recycling smelters, metal consuming industries, traders and warehouses have already expressed interest, the company said. No names of likely trading participants are being revealed. Dutch warehousing company C. Steinweg will provide warehousing services. Trading will be in euros and prices will be set regionally.

LME owner, Hong Kong Exchanges and Clearing, is putting plans for a London-Hong Kong Connect on hold due to regulatory uncertainty in the wake of the UK vote to leave the EU, CEO Charles Li announced. Plans to build the London-Hong Kong Connect, which would allow LME trades to be cleared and settled in Hong Kong, were announced in October. At the time, the LME said the development of Connect was subject to regulatory approvals in the UK, the EU and Hong Kong. Li said; "With Britain withdrawing from the EU, there is some uncertainty about the policy developments in the UK. Therefore, we will wait and monitor the development of the UK and Europe's regulatory policy before making further plans to connect the commodities markets in London and Hong Kong. We don't expect Brexit to have an impact on any other initiatives, such as establishing LME-certified warehouses in the mainland. We are also still on track to launch our trading platform in Qianhai, Shenzhen, to 'physicalise' the mainland's commodities market,".

The LME announced plans to freeze maximum warehouse rental rates at its approved network of warehouses for five years. The move was the latest in a series of reforms at the exchange's global network of more than 600 warehouses at 37 locations, which have included tough rules to slash delivery backlogs.

The LME was forced to move its open outcry ring trading from its offices on Finsbury Square to its disaster recovery site in Chelmsford, east of London from mid-July due to structural problems. The exchange said a potential safety issue in the building had been discovered and that it expected trading to continue at Chelmsford until early August.

LME Commentary:

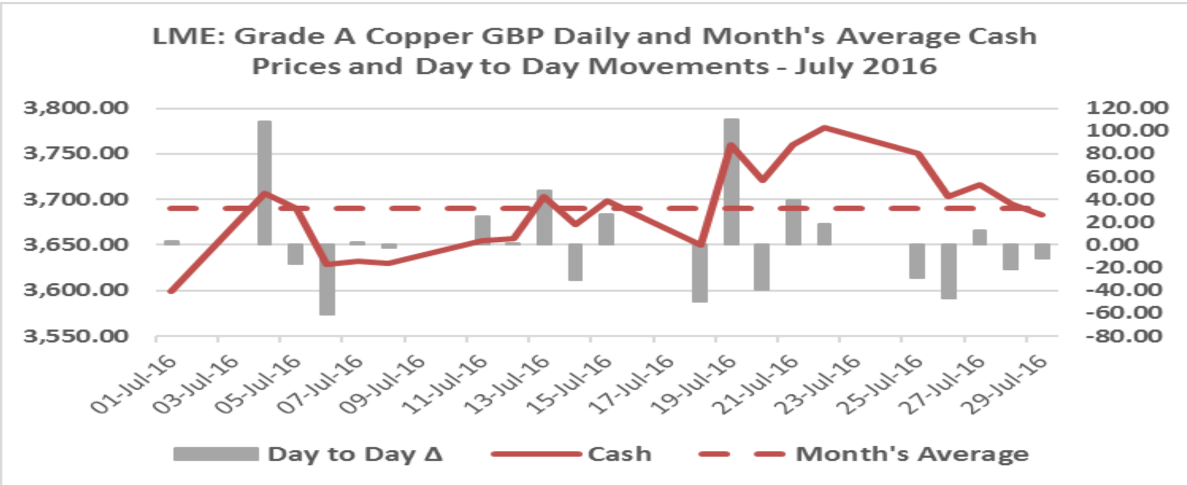
LME copper and aluminium prices strengthened over the course of the month with both achieving highs for the year at £3778.88/t and $1682/t respectively. The market saw short covering (buying) on renewed investor appetite for risk based on strong U.S. economic data, steady economic growth in China and the prospect of delays to any interest rate hike in the U.S. Indications of slow copper demand (after warehouse inventories touched a five-month high) and concerns over Chinese demand in the second half of the year kept a lid on the upside gains.

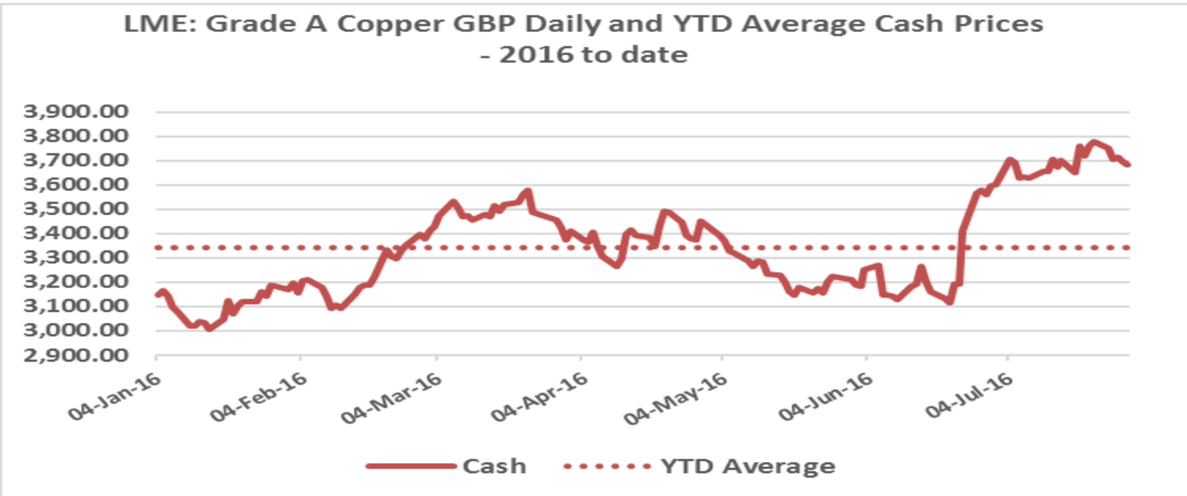
Sentiment was tempered by reports of plentiful nearby metal supply and falling premiums and in copper’s case, rising LME stocks. LME copper stocks closed the month at 210,075t – up 20,950t in the month. Copper for immediate delivery was also trading at a discount to the forward price – the cash to 3 month contango traded out to £13.40/t at mid-month, its widest since August 2015.

Primary aluminium prices performed steadily in July, building on the gains in June. The USD cash price reached the year’s high at $1682/t at mid-month, its highest level since June 2015 as stocks continue fall.

LME Statistics and Charts: July 2016:

	Copper			Aluminium		USD:GBP
	Cash £/t	3M £/t	Stocks	Cash $/t	Stocks	
Opening	3598.78	3607.67	189,125	1645.00	2,382,100	1.3292
Average	3689.93	3697.64		1629.83		1.3159
High	3778.88	3781.89		1682.00		1.3374
Low	3598.78	3607.67		1584.00		1.2967
Range	180.10	174.22		98.00		
Closing	3682.93	3685.89	210,075	1616.00	2,293,800	1.3177
Opening:Closing Δ	84.15	78.22	20,950	-29.00	-88,300	
YTD Average	3340.99			1520.10		
YTD High	3778.88			1682.00		
YTD Low	3005.51			1453.00		





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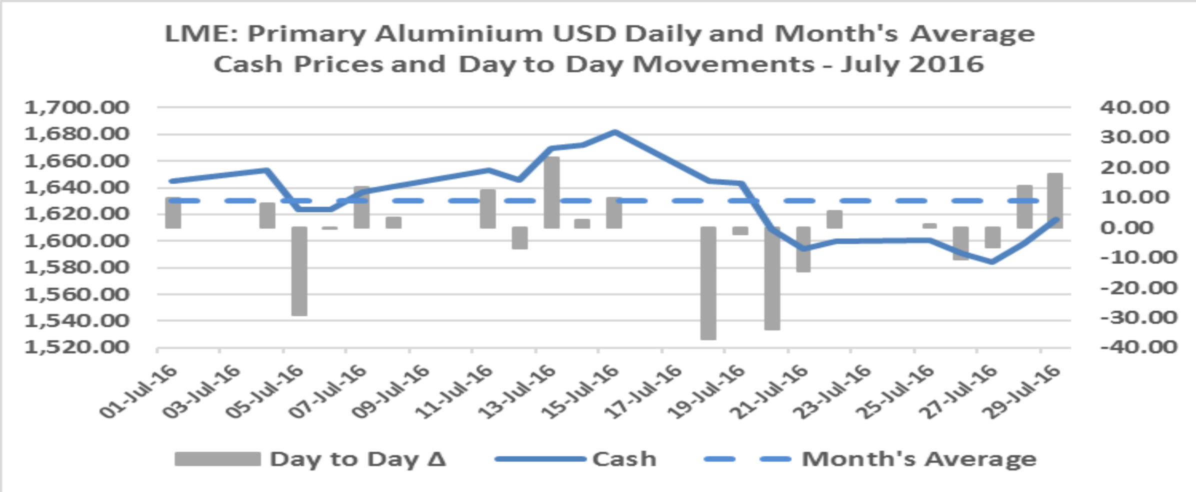

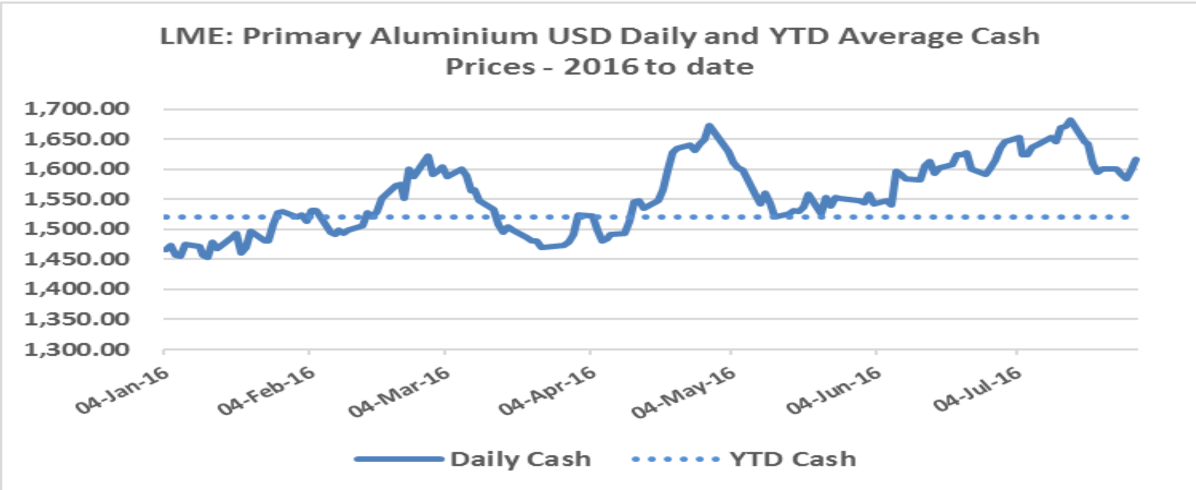

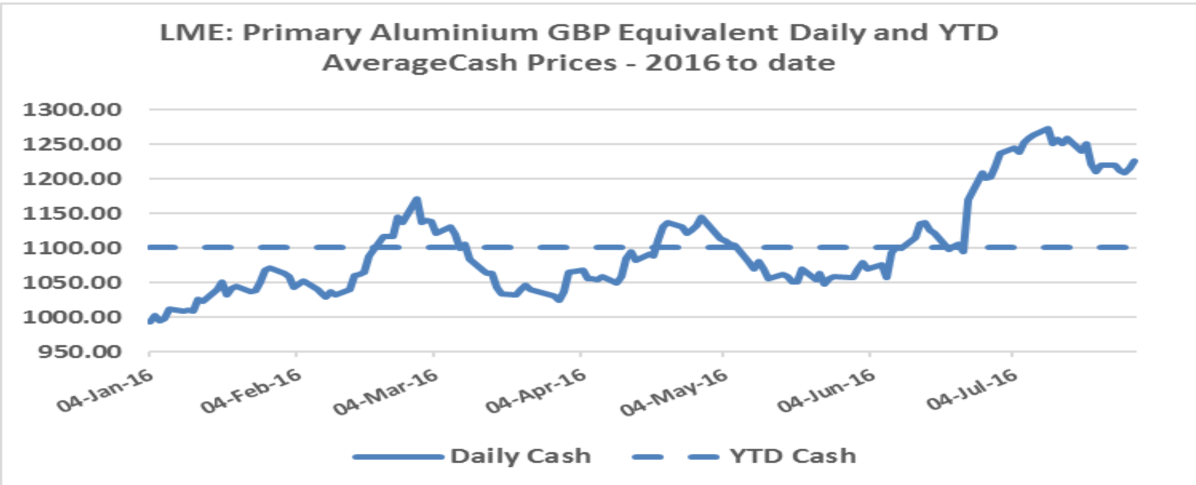

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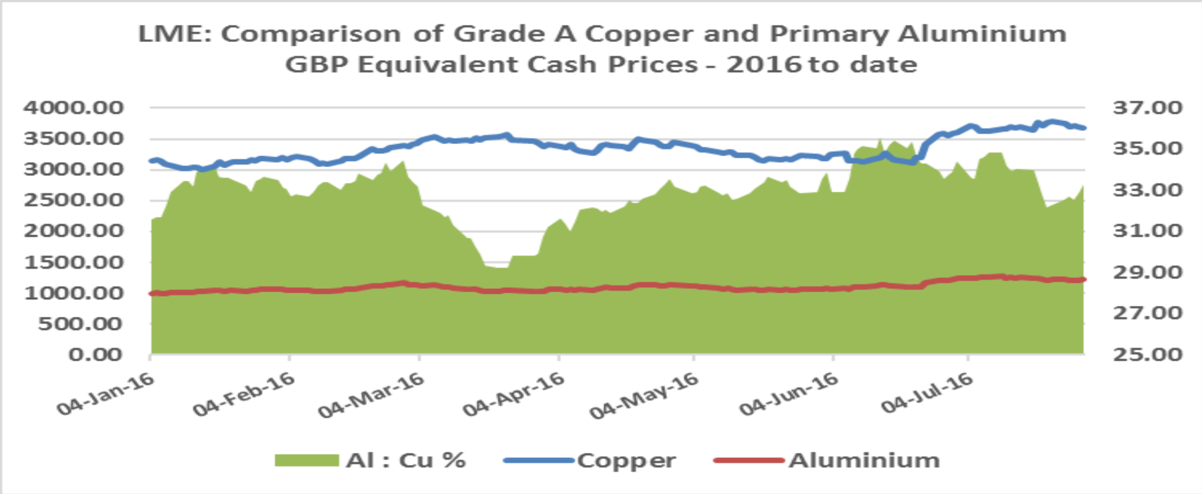

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