

March 2016

Economic Indicators and Comment:

The OECD's composite leading indicators (CLIs) point to signs of easing growth in the OECD area as a whole. The outlook points to easing growth in the UK, the U.S., Canada and Japan. Similar signs are also emerging in Germany. Stable growth momentum is anticipated in Italy and in the Euro area as a whole. In France, and India, CLIs point to stabilising growth momentum. The outlook for China remains unchanged from last month's assessment, pointing to tentative signs of stabilisation, while in Russia and Brazil the CLIs point to a loss in growth momentum.

The U.S. Commerce Department revised its fourth quarter GDP growth to an annualised rate of 1.4%, up from its initial estimate of 0.7%. Overall, the US economy is estimated to have grown at a rate of 2.4% for all of 2015. One reason for the revised figure was greater consumer spending than officials initially thought, boosted by an improving labour market.

European statistics agency Eurostat confirmed its estimate that GDP in the euro zone rose by 0.3% in the fourth quarter compared to the previous three months. However, it revised up its estimate for year-on-year expansion to 1.6% from an initial estimate of 1.5%. The comparison of GDP performance reads;

	Percentage change compared with the previous quarter				Percentage change compared with the same quarter of the previous year			
	2015				2015			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
EA19	0.6	0.4	0.3	0.3	1.3	1.6	1.6	1.6
EU28	0.6	0.5	0.4	0.4	1.7	1.9	1.9	1.8

German industrial output rose strongly in January, showing Europe's largest economy began 2016 in solid form despite financial market turmoil that has hit business morale. Output rose by 3.3% on the month, data from the Economy Ministry showed, surpassing the mid-range forecast in a Reuters poll for a 0.5% gain. Capital goods were a particular bright spot, with 5.3% more of these rolling off production lines in Germany than in the previous month. Construction output also rose strongly, up 7%.

The UK's Office for Budget Responsibility reduced its forecast for GDP growth in 2016 to 2%. The downgrade is greater than the market anticipated. The British Chambers of Commerce had previously downgraded its growth forecast from 2.5% to 2.2%. In November's Autumn Budget Statement, the projection for 2016 was 2.4%. Growth figures for 2017 have also been reduced. According to the OBR, growth for 2017 will be 2.2% with a growth rate of 2.1% for the following three years.

Market Commentary and News:

The refined global copper market recorded its sixth consecutive year of deficit in 2015, with demand outstripping supply by 57,000t for the full-year, preliminary data released by the International Copper Study Group showed in March. This follows a deficit of 47,000t for December. Seasonally adjusted, the deficit for the full-year 2015 was 53,000t and was as high as 163,000t in December. The full-year deficit for 2015 is the sixth consecutive annual deficit, according to the ICSG, but is down from 420,000t reported in 2014. The seasonally-adjusted deficit for 2014 was 416,000t. The ICSG said the lower deficit in 2015 was due to higher supply - global refined copper was up by 1.6% on a year earlier, mining production 3.5% higher while demand remained fairly flat. Higher demand in China offset weaker demand in other regions and countries in 2015. The ICSG reported earlier in the month that the global refined copper market is expected to remain "essentially balanced" in 2016 compared with a previous forecast in October for a 175,000t surplus. This is due to downward revisions for both production and usage in view of global weaker economic outlook and project delays and price related production

cuts. The copper market should see a deficit of 56,000t this year and a surplus of 20,000t in 2017, it said. ICSG sees global refined copper production increasing by just 0.5% to 23 million tonnes this year compared with 1.6% in 2015.

Codelco, the world's biggest copper producer, said that a global surplus will persist through this year and next and dismissed suggestions that a recent gain in prices was likely to endure. The metal will probably fluctuate at around US\$4410/t to \$4632/t for a couple of years, with extreme volatility (March 2016 closed at US\$4855/t). After the surpluses in 2016 and 2017, the market may swing to a deficit of 50,000t to 100,000t in 2018, with the shortfall expanding to 300,000t to 400,000t in 2019, the company chairman said in a statement.

Javier Targhetta, Freeport-McMoRan's senior vp of marketing & sales, told delegates at the Metal Bulletin International Copper conference in Lisbon that after a surge in supply, more mine closures are needed to rebalance the market and pull copper prices out of their sustained downtrend. So far, he said, about 700,000t of copper mine capacity have been brought offline in response to lower prices, but this is "significantly less" than the volume of copper that is being produced at a loss in today's price environment. Responding to falling prices, Freeport plans to cut copper production by 113,500t in 2016 and could cut output by a further 130,500tpa in future years if prices do not rebound. He said he is confident that the market will rebalance itself over the next couple of years as high-cost capacity is removed from the market, setting the stage for the next major rally in copper prices.

Glencore Plc posted a US\$4.96 billion net loss for 2015 - a major shift from a US\$2.31 billion profit a year earlier - largely due to US\$5.8 billion worth of impairments, restructuring costs and net losses on the sale of assets. Glencore sold US\$1.6 billion worth of assets in 2015 and is looking at further disposals, saying it is confident it can achieve a further US\$4 billion to US\$5 billion worth of asset sales this year. CEO Ivan Glasenberg said that Glencore is preparing itself for even lower commodity prices as the company plans to cut further production. "We will cut production at our various assets. There is no reason to dig more material out of the ground in an oversupplied market. We believe that we are not getting a right return in the market," he said. Glasenberg expected these cutbacks to "have a positive effect on the commodity market." He did however remain positive on the long-term commodity price on limited new supply in the market. "Reduced CapEx is going to tighten up supply," he said. "For the first time in a long time you do not see any big increase in supplies." "If you look at the CapEx of all the top five mining companies, they are going to spend US\$20 billion to US\$25 billion in sustaining CapEx. It is pretty low".

Stockpiles of refined copper in Shanghai extended their advance to record levels as the difference between domestic and foreign prices encouraged imports into China. Inventories tracked by the Shanghai Futures Exchange are higher than stockpiles monitored by the LME for the first time in a more than a decade. Inventories followed by the SHFE closed March at 368,725t, equivalent to around two and a half weeks of consumption in China. Stocks on the LME closed the month at 142,400t, their lowest since August 2014. Stocks on North America's Comex market closed at 65,309t.

Revenues for Emirates Global Aluminium were down 900m United Arab Emirates dirham (AED) last year because of falling aluminium prices. The two-year-old company, among the top five aluminium producers in the world, posted total sales revenues of AED18.7bn in 2015, down from AED19.8bn in its first year of operation. Last year the company earned profits of AED1.9bn, compared with AED3.7bn in 2014. The company said that 2015 was challenging for the aluminium industry, largely due to global macroeconomic uncertainty, growth slowdown in China, a stronger U.S. dollar and falling oil prices. Despite lower sales revenues and income in 2015, EGA sold 4% more aluminium to more than 250 customers globally compared to 2014, equating to 2.4Mt. In the UAE alone it sold more than 225,000t of aluminium. Two new aluminium plants are expected to begin production in UAE this year. Cable manufacturer Ducab and manufacturer Talex have constructed the plants in the Khalifa Industrial Zone, Abu Dhabi.

Aluminium production in Venezuela continued to drop in 2015 the Ministry of Industry said in its annual report, after a year of labour conflicts, timid investment and a deep recession. Venalum, Latin America's largest aluminium factory, had output of 90,795t of the metal last year, a 15% drop from 2014.

Hongqiao Group Limited, China's largest primary aluminium producer, is running a trial production at its one million tpa alumina plant in Indonesia and will complete building another 1 million tonnes by the end of 2017, its Chief Executive Officer said. The capacity is the first and second phase of a 4 million tpa plant. The company said it had no timetable to build the remaining two million tonnes and the construction would be determined by market situations.

Manufacturers are abandoning copper for its lighter and cheaper rival aluminium after a decade of technological innovation that is saving some companies hundreds of millions of dollars, according to an article in the Indian news media. Japanese auto giant Toyota and Saudi's power company are among those making the switch. Some sectors including shipbuilding, building construction and electric circuitry will still need copper's high conductivity, flexibility and durability but developments in aluminium wiring that compensate for lower conductivity and less flexibility, new ways to stop corrosion and more efficient conductors, mean there is more scope to replace copper in power grid cables, auto wiring, air conditioning and refrigeration systems. Saudi Electricity Co. said it has already saved 2.4 billion riyals (\$640.09 million) by shifting from copper to aluminium in its medium voltage distribution network. A push for innovation to overcome the obstacles to substituting the two metals gathered speed in 2011 when copper prices spiked to \$10,000 a tonne while aluminium, suffering from a supply glut, was \$2,525. The price gap has more than halved, but aluminium is still around \$3,400 cheaper than its rival. "Ten years of high copper prices incentivised many players involved throughout the supply chain to invest in the R&D and make more substitution possible," said analyst Patrick Jones at Nomura in London. "Now we're starting to see some results on this front." The biggest potential for switching from copper is in the power sector, where aluminium is already widely used in overhead high-voltage cables from power stations but is now attractive for wiring branching off from substations. Japan's Kansai Electric Power last year began replacing 50-year-old copper distribution cabling in Osaka prefecture with aluminium. A spokesman said its plans to replace some 140,000 km of copper cabling over 30 years would save tens of billions of yen. Their new aluminium wires compensated for the downside of being thicker with a dimpled design that reduces wind pressure and helps repel snow meaning they can use existing electric poles and lower the risk of cables snapping, the spokesman said. The automotive sector also has benefited from innovations, boosting the potential for further use of lightweight aluminium to help the industry cut vehicle weight to help meet stricter emission standards. Having already switched to aluminium radiators from copper, it had been cautious of expanding the use to wiring, partly because aluminium is more susceptible to corrosion. But Japan's Furukawa Automotive Systems, a unit of Furukawa Electric Co, has developed new corrosion-proof terminals for aluminium wires in a harness, the backbone of a car's electrical system, a spokesman said. Furukawa has been supplying aluminium wire harness systems to Honda's light vehicles and Toyota's luxury vehicles. "We expect aluminium wire harnesses for use in vehicles will grow and make up about 30% of the market in Japan by 2025, compared to only a few percent now," he said. A spokesman for Toyota Motor Corp, the world's biggest selling automaker, confirmed the use of aluminium harnesses in its Land Cruiser, but declined to reveal plans for other models. Germany's Leoni started supplying aluminium cables for luxury cars about five years ago, and is expecting to expand to mass-market autos, spokesman Sven Schmidt said. A car can be about 1 kg lighter if aluminium cables are used instead of copper and this difference is expected to climb to 4 kg within five years, he said. Air conditioning and refrigeration is another area of competition for the two metals. Sapa supplies aluminium components to air conditioner makers and said in a presentation it expects sales growth after improvements in aluminium tubing made them more competitive as a replacement for copper tubes. As more companies make the switch, the impact on the copper and aluminium markets could be substantial. China is likely to need 100,000-250,000 tonnes less copper this year, because the authorities released quality standards for low-voltage aluminium alloy power cables, giving industrial users more confidence to replace copper ones. "Substitution could pose a significant threat to copper demand over the next decade, which could add up to 2-3 million tonnes a year of total demand destruction," Nomura's Jones said in a note. The copper industry plays down the threat, saying many industrial users are still wary of a switch. Global copper demand will rise to 22.2 million tonnes this year from 21.9 million in 2015, according to Thomson Reuters data. "In the automotive sector, there's risk of possible technical failure, warranty claims and the unknown aspect of using aluminium with all of its technical issues," said Colin Bennett, global market analyst with the European Copper Institute. "In the overall market, the actual loss from substitution is really a blip because the larger market for copper is growing."

CME Group, the derivatives marketplace, announced it will expand its base metals offering with the introduction of a new Aluminium European Premium Duty-Paid (Metal Bulletin) futures contract to begin trading on 21 March, 2016. Pending relevant regulatory review periods, the new contract will be available for trading on CME Globex and will be listed with and subject to the rules and regulations of COMEX. The company hopes the new contract, settled against Metal Bulletin's industry benchmark, will enable a broader and more diverse set of European customers to hedge their exposure to the aluminium premium. It said it is responding to commercial customer demands for a solution to manage their premium price risk and building on the successful launch of its Aluminium European Premium Duty-Unpaid European premium futures last year."

The LME posted a 36% jump in revenue for 2015 to HK\$1.735 billion (US\$223.15 million), as higher trading fees and tariffs helped it offset a 4.3% drop in the traded volumes. Trading fees and tariffs rose by HK\$476 million, or 51%, as a result of commercialising the LME's trading fees, effective from January 1, 2015. Trading volumes on the LME, were dented by slowing growth in Chinese demand for commodities, data from the exchange showed in January.

The LME confirmed its intention to explore the idea of capping warehouse rent because the proposed rises from April are much higher than in previous years. The LME said it plans to publish a discussion paper outlining its options on "Charge Capping". A statement said that the LME is proposing, at a minimum, to explore the possibilities for implementing a longer term solution to high charges. Subsequently, the LME said it will team up with warehouse operators to register warehouses

for its new electronic tracking system along China's silk road route. The exchange said it will work with Henry Bath, CMST Development and Mercuria Energy Trading to register warehouses.

Analysts at Barclays have warned of a “rush for the exits” as investors back away from commodities, resulting in price levels for oil and copper dropping as much as 25%. A note issued by the bank said that although investors have been attracted to commodities as one of the best performing assets so far in 2016, returns are unlikely to be sustained in the second quarter of the year. “This could make commodities vulnerable to a wave of investor liquidation that we estimate could, in a worst case scenario, knock as much as 20-25% from current price levels,” the note said. This would take the price of oil back to the low US\$30s and copper to the low US\$4,000s, the analysts said. The bank said that the recent price appreciation does not seem to be well founded in improving fundamentals, and that key markets such as oil and copper already face overhangs of excess production capacity and inventories. Net flows of investment into commodities totalled more than \$US20bn in January and February, the strongest start to a year since 2011. But futures positioning in copper and oil markets has switched from bearish to bullish extremes in a matter of weeks, and there is also evidence of a surge in investment flows into Chinese commodity markets.

LME Commentary:

There was a strong start to the month for metals prices as signs of a China property revival, brighter U.S. economic data, a revival in share markets and higher oil prices fuelled investor appetite for metals.

Copper broke through the £3500/t level early in the month for the first time since July 2015, peaking at the year’s high of £3576.58/t on 23.03.16 further supported by the European Central Bank’s announcement that it plans more economic stimulus.

Worryingly, the copper market moved into backwardation through the month – averaging £12.65/t and peaking at £25.24/t at month end as LME stocks fell sharply. This stock fall was in part due to the pull of the Chinese market and as a result of transfers out to non LME registered warehouses following the latest attempts to control rent and out rates. Stocks fell 51,075t or 26.4% in the month to close at 142,400t.

Despite a strong start to the month - prices traded above \$1600/t and in backwardation - primary aluminium prices failed to follow the resurgence in other metals and fell sharply over the month, bottoming at \$1469.50/t on 24.03.16, a 6-week low. Unusually, LME stocks increased in the month to close 2,783,050t - up 27,450t.

LME Statistics and Charts: March 2016:

	Copper			Aluminium		
	Cash £/t	3M £/t	Stocks	Cash \$/t	Stocks	USD:GBP
Opening	3379.10	3371.10	193,475	1590.50	2,755,600	1.4299
Average	3477.20	3464.55		1530.57		1.4228
High	3576.58	3562.95		1603.50		1.4492
Low	3373.51	3348.27		1469.50		1.3986
Range	203.07	214.68		134.00		
Closing	3373.51	3348.27	142,400	1491.50	2,783,050	1.4393
Opening:Closing Δ	-5.59	-22.83	-51,075	-99.00	27,450	
Opening:Closing Δ%	-0.17	-0.68	-26.40	-6.22	+1.00	
YTD Average	4671.91			1515.63		
YTD High	5103.00			1588.50		
YTD Low	4310.50			1451.50		



