

## October 2016

### Economic Indicators and Comment:

In its latest World Economic Outlook report, the International Monetary Fund has projected global growth to slow to 3.1% in 2016 before recovering to 3.4% in 2017. The forecast, revised down by 0.1% for 2016 and 2017 relative to April, reflects a more subdued outlook for advanced economies following the UK's Brexit vote, weaker-than-expected growth in the U.S. and increasing spillovers from China's ongoing economic restructuring.

The IMF predicts that advanced economies will expand just 1.6% in 2016, less than last year's 2.1% pace and down from the July forecast of 1.8%;

- Growth for this year in the U.S. is forecast at 1.6%, down from 2.2% in July, following a disappointing first half. Growth is likely to pick up to 2.2% next year as the drag from lower energy prices and dollar strength fades.

- Uncertainty following the "Brexit" referendum will take a toll on the confidence of investors. UK growth is predicted to slow to 1.8% this year and to 1.1% in 2017, down from 2.2% last year.

- The euro area will expand 1.7% this year and 1.5% next year, compared with 2% growth in 2015.

- Growth in Japan, the world's number 3 economy, is expected to remain subdued at 0.5 percent this year and 0.6 percent in 2017.

In emerging market and developing economies, growth will accelerate for the first time in six years, to 4.2% - slightly higher than the July forecast of 4.1%. Next year, emerging economies are expected to grow 4.6%. China's economy is forecast to expand 6.6% this year and 6.2% in 2017, down from growth of 6.9% last year as the country attempts to switch its economic engine away from investment and towards consumption and services.

China's economy grew 6.7% in the third quarter from a year earlier, the same pace as in the previous quarter, as increased government spending and a property boom offset stubbornly weak exports.

The UK economy grew 0.5% in the third quarter of 2016. Although growth in the three months from July to September was slower than the 0.7% in the second quarter, it was much stronger than the most recent average forecast of 0.3%. The ONS said the data provided "the most comprehensive picture so far of the post-referendum UK economy. While quarterly growth has fallen slightly, the economy has continued to expand at a rate broadly similar to that seen since 2015 and there is little evidence of a pronounced effect in the immediate aftermath of the [Brexit] vote." Economists forecast growth will slow over the next few months - rising inflation and weak earnings growth are expected to reduce consumer spending power that has been an important contributor to recent growth. Q3 growth was driven by strong performance in the services sector (which makes up nearly 80%) which expanded 0.8% while the 3 other sectors, industrial production, construction and agriculture, contracted.

U.S. industrial production edged up 0.1% in September after falling 0.5% in August. For the third quarter, industrial production rose at an annual rate of 1.8%, its first quarterly increase since the third quarter of 2015. Manufacturing output increased 0.2% in September and moved up at an annual rate of 0.9% in the third quarter. Total industrial production in September was 1% lower than its year-earlier level.

According to Eurostat, the EU's statistics agency, industrial output in the eurozone was 1.6% higher than in July, and 1.8% up on August 2015. That was a slightly stronger performance than had been expected, with economists having estimated a 1.5% increase. Eurostat also cut its estimate for the decline in output during July to 0.7% from 1.1%. The pickup was led by Germany but there were also significant increases in France, Italy, Spain and the Netherlands.

A selection of the latest actual GDP growth rates, published by Trading Economics, reads: -

#### GDP Growth Rates - Percentages

	Quarter on Quarter		Year on Year	
	Last	Previous	Last	Previous
U.S.	2.9 <i>updated Sept 16</i>	1.4	1.5 <i>updated Sept 16</i>	1.3
Euro Area	0.3 <i>updated Sept 16</i>	0.3	1.6 <i>updated Sept 16</i>	1.6
China	1.8 <i>updated Sept 16</i>	1.9	6.7 <i>updated Sept 16</i>	6.7
UK	0.5 <i>updated Sept 16</i>	0.7	2.3 <i>updated Sept 16</i>	2.1
France	0.2 <i>updated Sept 16</i>	0.2	1.1 <i>updated Sept 16</i>	1.3
Russia	-0.6 <i>updated Sept 16</i>	-1.31	-0.6 <i>updated Sept 16</i>	-1.2
Spain	0.7 <i>updated Sept 16</i>	0.8	3.2 <i>updated Sept 16</i>	3.4
Germany	0.4 <i>updated June 16</i>	0.7	3.1 <i>updated June 16</i>	1.5
Italy	0.0 <i>updated June 16</i>	0.3	0.8 <i>updated June 16</i>	1.0

#### Market Commentary and News:

Aurubis will offer 2017 copper cathode premiums for long term and annual contract to its customers at US\$86/t for average pricing, down 6.5% from US\$92 in 2016. "This reflects our market expectations," a company spokesman said. The premium is paid above the LME average cash copper price.

Codelco has also reduced its 2017 physical copper premium to European buyers to the US\$80 to \$85 per tonne range and is offering Chinese buyers a premium of around US\$70, traders report. Sources said that Codelco would offer a premium of US\$82 to buyers in Europe. Codelco's premiums are viewed as a benchmark for global contracts, and other producers are likely to follow suit. The company offered a Chinese premium of \$98 and a European premium of \$92 for 2016.

At the end of the month, traders report that Codelco may look to sell a share of its annual sales to Asian customers on a quarterly or monthly premium basis, as the market appetite for long-term supplies seems to be weakening. The proposal would replace the Chilean producer's fixed, annual pricing mechanism. Codelco is planning to negotiate a quarterly premium with buyers, mostly in China, in the month before the three-month period starts, traders said.

World mined copper output in 2016 will rise 5% to 20.3Mt as new projects developed over the past few years approach full capacity, the Australian Department of Industry, Innovation and Science said in its quarterly report. Production in 2017 is likely to increase 6.8% to 21.7Mt. The report said world mined production in the first half of 2016 was up 6% to almost 10Mt and forecast world refined copper production in 2016 would increase 1.7% to 23.45Mt and rise 2.3% to 24Mt in 2017. World refined copper output rose 3% to more than 11Mt between January and June. Meanwhile, world copper consumption in the first six months of 2016 posted a 7% hike to just under 12Mt. Over this period, Chinese demand rose 10% to more than 5.8Mt. The department anticipated increased investment in infrastructure, construction and industrial capacity in emerging economies to drive much of the growth in global copper consumption over the next two years. World copper consumption in 2016 was expected to rise 1.5% to 23Mt and increase 3.4% to 23.8Mt in 2017.

Meanwhile, the global world refined copper market showed a 133,000t surplus in July, compared with a 106,000t deficit in June, the International Copper Study Group (ICSG) said in its latest monthly bulletin. For the first 7 months of the year, the market was in a 264,000t deficit compared with a 70,000t deficit in the same period a year earlier, the ICSG said. World refined copper output in July was 1.98Mt, while consumption was 1.85Mt. Bonded stocks of copper in China showed a 123,000t surplus in July compared with a 109,000t deficit in June.

The recent growth in global copper output is unsustainable now that most of the new projects have been completed and copper prices have remained low, according to Freeport-McMoRan CEO Richard Adkerson. While acknowledging that copper supply had risen substantially in recent years, mainly due to new production projects, the company believes that recent supply growth is not sustainable in the current pricing environment. He referred to a recent report from UK commodity research firm Wood MacKenzie forecasting a 4Mt decline in output over next several years. To replace 4Mt would be a significant challenge for the industry, he said, noting that current output from the top 10 global copper mines totals about 5.5Mt. Moreover, developing new mine supply will require copper prices to average about \$7275/t. The LME USD copper price closed October at \$4827.50/t.

Copper output in Chile, the world's largest producer, will fall to a four-year low of 5.54Mt in 2016, according to the Chilean Copper Commission. The forecast output would be a decrease of 3.9% compared with 2015 and the lowest since 2012, when Chile produced 5.434Mt. Three months ago, Cochilco predicted the country would produce 5.738Mt this year, little changed from 2015. Chile produced 3.682Mt of copper in the first eight months of 2016, down 4% compared with the same period in 2015.

Fears earlier in October that Codelco would delay some US\$2.25 billion worth of planned investment, as its profits have dried up due to weak copper prices, were later allayed as the government said it will increase funding for the company to overhaul ageing mines and head off a slump in output. After making a financial loss in the first half of 2016, its chief executive had described Codelco's situation as "extremely fragile". Furthermore, Chilean law requires that Codelco gives 10% of its sales to the military – a further drain on reserves. Later in the month, Finance Minister Rodrigo Valdes said that Chile will have to provide even more investment despite a budget deficit that has reached its second-highest level since the return to democracy 26 years ago. Chile exported US\$6.5 billion worth of copper in the third quarter, down 4.4% year on year, central bank data showed. Exports during the first nine months of the year totalled US\$20 billion, down 12.1%, with exports of cathode falling 13.5% to US\$9.2 billion and exports of concentrate down 10.4% to US\$8.9 billion.

China's current Five-Year Plan, running from 2016 to 2020, could boost Chinese copper demand by up to 15%, the International Copper Association said. Aggregated copper demand is expected to total 29.5Mt by the end of the current plan, up from 25.6Mt at the end of its previous plan in 2015. With China expected to see at least 6.5% annual growth in GDP, the government will have to invest great resources in areas such as transportation, building infrastructure and energy, according to the ICA's Asian regional director. The ICA predicts copper demand to grow by 82% in the areas of power generation and 40% in the power grid, totalling an extra 1.78Mt. The share of renewable power installations is set to grow to 40% from 13%, important for copper as they use four to twelve times more copper than traditional power generation, the ICA said. Copper demand is also set to benefit from a rise in the use of electric vehicles, expected to grow more than eightfold during the period. Electric cars use three to four times more copper than gasoline and diesel engines.

Japan's copper wire and cable demand is expected to fall 1.6% on year to 688,000t in the financial year through to March 2017 (down from its March forecast of 711,000t) as the economy slows and exports drop, according to Japan Electric Wire & Cable Makers' Association. The shortfall is due to the slowing Japanese economy. Domestic demand is expected to fall 0.9% to 671,000t, dragged down by electricity and construction sectors. Exports are expected to fall 22% to 17,000t. Total demand is forecast to increase at an average rate of 0.3% year on year through to 2020. Japan's copper cable shipments including sales and exports in September rose 1.7% from a year earlier to 60,400t on an estimated basis, according to the Association.

Norwegian aluminium producer Norsk Hydro, one of the world's biggest, slightly lifted its outlook for global demand as it reported forecast-beating quarterly earnings. The firm reiterated a forecast for global aluminium demand to grow by between 4% and 5% in 2016 but added it expected growth "to land in the higher range of this estimate for the full year". Chinese primary aluminium production is increasing strongly. The country produced 2.751 million tonnes in September is the second-highest monthly tally ever, exceeded only in June 2015. Annualised run rates have accelerated by 2.16 million tonnes to 33.48 million over the last two months and China accounted for 55.7% of global output in September. Global daily average primary aluminium output hit a record high in September at 164.600 tonnes, driven by buoyant output in top producer China, data from the International Aluminium Institute (IAI) showed.

## Primary Aluminium Production (in 000's tonnes)

	Africa	North America	South America	Asia (ex China)	West Europe	East & Central Europe	Oceania	GCC	China	ROW Estimated	Total	Daily Average
Jan	141	368	113	277	321	338	169	432	2,480	90	<b>4729</b>	152.5
Feb	133	344	107	259	299	317	156	409	2,070	90	<b>4184</b>	144.3
Mar	141	329	115	273	321	338	167	435	2,620	90	<b>4829</b>	155.8
Apr	135	329	112	264	312	327	162	424	2,569	90	<b>4724</b>	157.5
May	142	337	117	281	322	338	168	439	2,675	90	<b>4909</b>	158.4
June	139	324	107	282	307	326	164	422	2,686	90	<b>4847</b>	161.6
July	144	336	115	299	315	335	170	437	2,659	90	<b>4900</b>	158.1
Aug	144	334	114	301	317	334	168	438	2,713	90	<b>4953</b>	159.8
Sep	141	325	112	293	310	325	164	426	2,751	90	<b>4937</b>	164.6
<b>Total</b>	<b>1,260</b>	<b>3,026</b>	<b>1,012</b>	<b>2,529</b>	<b>2,824</b>	<b>2,978</b>	<b>1,488</b>	<b>3,862</b>	<b>23,223</b>	<b>810</b>	<b>43,012</b>	

Source: International Aluminium Institute

Emirates Global Aluminium, one of the world's top 10 aluminium producers, says it expects fierce Chinese competition to "keep a lid" on world aluminium prices for the next couple of years. EGA is heavily reliant on export markets to sell its product, where it meets competition from China. "The oversupply position is mainly because of the Chinese primary aluminium production and there is concern from our consumers because of severe competition from the Chinese, including into our local markets in the UAE". The company does not expect to see good prices for the next couple of years and "most companies are in pain." It added that despite fairly steady increases in aluminium demand worldwide, supply additions have run ahead of demand and resulted in chronic oversupply, now exacerbated by a slowing in demand growth, especially in China. According to the Arab International Aluminium Conference (Arabal), 70% to 80% of production in the GCC must find a market outside the region. While the Middle East region has been one of the fastest growing markets for aluminium demand, capacity additions have grown substantially - from 2.24 million tpa in 2008 or about 6% of world capacity, to 5.59 million tpa last year, or about 10% of world capacity. There is strong demand from construction and transport sectors, but the region needs to build capacity downstream in areas like tyre and other automobile parts manufacturing to secure more of the GCC final demand market, an Arabal spokesman said. EGA was created three years ago from the US\$15bn merger of Dubal and Emal and is securing its own downstream capacity with the installation of a US\$3 billion alumina refinery in Abu Dhabi, due for completion in early 2018.

Premiums for physical aluminium in Europe are unlikely to fall much further after recent declines driven by tightening futures spreads, traders report. The premiums for immediate delivery, duty-paid metal in Rotterdam were quoted at US\$125-\$135/t, down some US\$10 in recent weeks and from US\$140-\$150 in early February. Elsewhere, Japanese aluminium buyers will pay a premium of US\$75/t over the LME cash price for shipments in the fourth quarter of this year. The settlement with producers, which will serve as the benchmark for Asian physical aluminium markets, marks a near 20% decline from the previous quarterly premium of US\$90-93/t and is the lowest level since the third quarter of 2009.

The new trading platform for buying and selling of base metals for immediate physical delivery was launched in October by German company Metalprodex GmbH, with initial trading mostly in aluminium and lead, the company's head said. Newly established Metalprodex is offering an electronic trading platform enabling delivery of physical metal within two days.

The exodus of metal hedge funds has resulted in just three remaining dedicated base metals players in a database of more than 8,000 hedge funds, according to market research. That exodus has contributed to weaker volumes on the LME, with activity set for its largest annual drop since at least 2008. Most of the big names operating five years ago are no longer around, wrong-footed by a weakening in the Chinese demand. Galena Metals Fund, one of the largest, shut last year joining others that had once bet big in metals such as Brevan Howard Commodities and Clive Capital LLP. Barclays Plc estimates base metal assets in hedge funds, exchange-traded funds and similar investments are down by almost half from 2010 to about US\$17 billion as of September. Blenheim Capital Management LLC, once the top commodities hedge fund and a big base metals player, has seen assets managed fall about 80% from a peak in 2011 to about US\$1.5 billion this year after redemptions and several years of losses. Hedge funds piled into metals in the early 2000's as mines failed to

Produced by Neil Bootman of NGB Metal Services.

The British Cables Association accepts no liability for any loss resulting from errors or omissions contained in this report

keep up with booming demand from China, sending prices to record highs. The strong returns, with some doubling their money in a year, crashed after Chinese stimulus spending hit a wall and prices slumped. Even Chinese hedge funds, which include firms such as Shanghai Chaos Invest Group, have shifted their attention to bulk commodities like iron ore and coal. Executives at JP Morgan Asset Management however (one of the world's biggest fund managers with assets of US\$1.7 trillion), said commodities will battle to regain a prized place in many portfolios by providing some diversification benefits, applying the rule of thumb is that assets diversify until they become fashionable. Speaking at the LME Seminar at the opening of this year's LME week, LME CEO Gary Jones said that the LME had seen a pick-up in activity in the last couple of months and "funds were returning to the markets that haven't been involved for some time". Jones said that asset allocation generally for commodities has been underweight for the last two years but that the market is starting to see some rebalancing and particularly back into metals.

## LME Commentary:

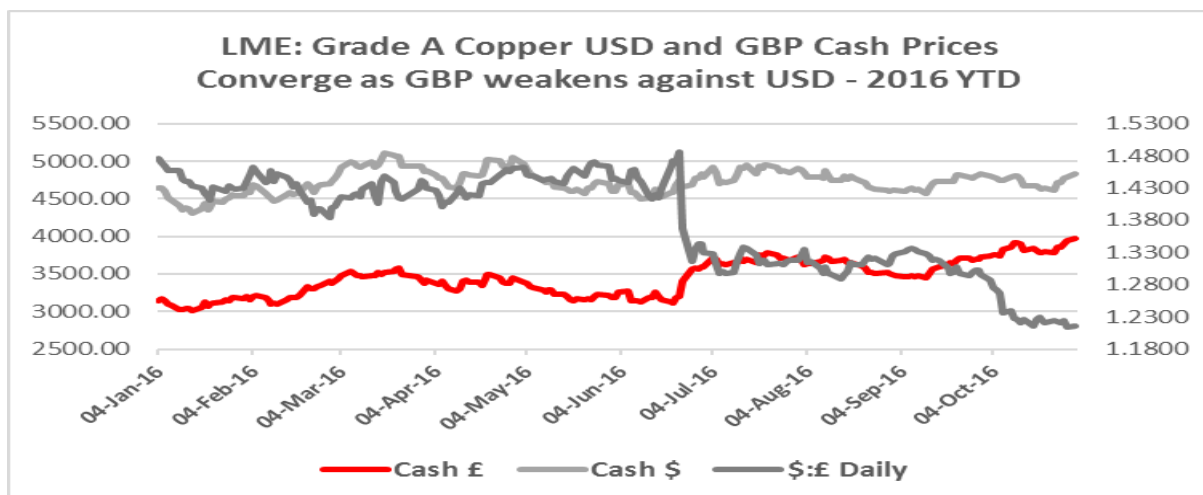
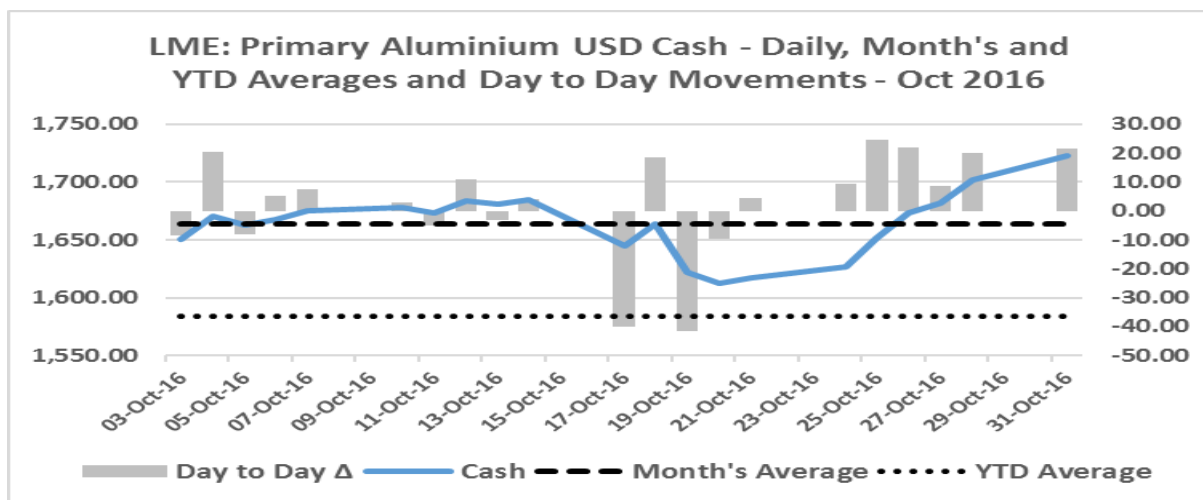
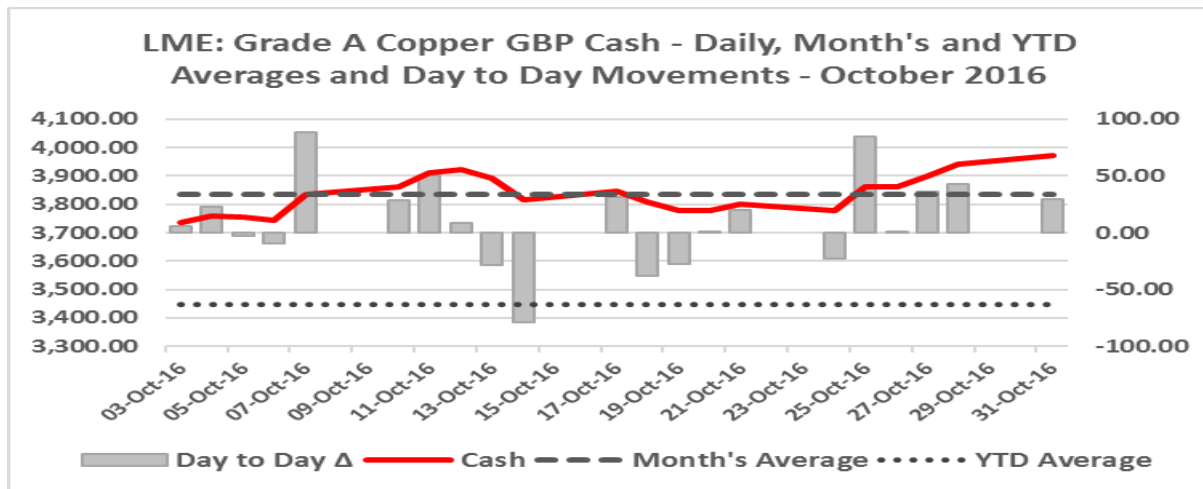
While the underlying LME USD copper and aluminium prices drifted modestly higher during October as an improving outlook for growth in the U.S. and China fuelled speculative buying in base metals, prices in Sterling were substantially boosted by the continuing fall of the Pound against the US Dollar.

The LME GBP Copper cash price closed the month at £3970.64/t - a 16-month high, the same day as the Primary Aluminium GBP equivalent cash price achieved an 8-year high at £1417.17/t, as the Pound fell to its lowest level against the US Dollar in over 30 years. When copper had settled at £3989.84/t back on 29.5.2015, the USD price was \$6088.50/t with the exchange rate of 1.5219. At October 2016 month end, the USD price was \$4827.50/ and the exchange rate 1.2158. When primary aluminium had settled at an equivalent £1460.89/t back on 12.09.2008, the USD price was at \$2583/t with an exchange rate of 1.7681.

By comparison to other metals however, these price increases appear muted. At October month end, the LME USD cash copper price had rallied a modest 3.9% over the course of 2016, making it the worst performing base metal. The LME Primary Aluminium USD cash price had risen some 17.5%, still modest by comparison with rallies in Zinc and Tin of 55.6% and 44.2% respectively. As the Pound has weakened against the Dollar - nearly 18% over the period - GBP copper cash prices have risen some 26.2% while GBP primary aluminium prices have rallied 42.7%.

## LME Statistics and Charts: October 2016:

	Copper			Aluminium		USD:GBP
	Cash £/t	3M £/t	Stocks	Cash \$/t	Stocks	
Opening	3,735.04	3,744.28	371,775	1650.00	2,154,825	1.2870
Average	3,835.64	3,843.52		1663.95		1.2340
High	3,970.64	3,973.74		1723.00		1.2870
Low	3,735.04	3,744.28		1612.50		1.2147
Range	235.60	229.46		110.50		
Closing	3,970.64	3,973.74	319,475	1723.00	2,140,550	1.2158
Opening:Closing Δ	235.60	229.46	-52,300	73.00	-14,275	
YTD Average	3,445.33			1583.66		
YTD High	3,970.64			1723.00		
YTD Low	3,005.51			1453.00		



Produced by Neil Bootman of NGB Metal Services.

The British Cables Association accepts no liability for any loss resulting from errors or omissions contained in this report

