September 2016

Economic Indicators and Comment:

The OECD has downgraded global GDP expectations to 2.9% this year, down from an earlier forecast of 3%. It marks the lowest rate of annual growth since the financial crash and could result in lower investment, productivity and wages. The organization cited uncertainty following the UK's Brexit vote and wider global growth woes for its assessment. It updated its growth projections for UK GDP rising to 1.8% in 2016 - a slight improvement on its last forecast - but growth tumbling to 1% in 2017. The wider report pointed to the world economy floundering this year to levels not seen since the financial crisis, with globalization grinding to a halt amid a slump in trade. Trade growth - which had been driven by China for many years and had helped limit the impact of the crisis - was predicted by the OECD to lag GDP in the global economy.

The OECD's composite leading indicators (CLI's) which are designed to anticipate turning points in economic activity relative to trend six to nine months ahead, were suspended in July following uncertainty after the Brexit vote. The OECD now believes that the volatility in data that emerged in the weeks immediately following the referendum appears to have reduced. Assuming this remains the case for the next 6 months, the current assessment for the UK points to growth continuing to slow, before stabilising around a lower rate towards the end of the year. Stable growth momentum is anticipated in the OECD area as a whole, the U.S., Japan as well as the euro area, including Germany. On the other hand, growth is expected to ease in France, while the CLI for Italy points to a more severe weakness in growth momentum. Amongst major emerging economies, the CLI's continue to indicate that growth is picking up in China, Russia and Brazil, while the CLI for India continues to point to firming growth.

According to the U.S. Federal Reserve, industrial production decreased 0.4% in August after rising 0.6% in July. Manufacturing output also declined 0.4% in August, reversing its increase in July; the level of the index in August is little changed from its level in March. At 104.4% of its 2012 average, total industrial production in August was 1.1% lower than its year-earlier level. Capacity utilization for the industrial sector decreased 0.4% in August to 75.5%, a rate that is 4.5% below its long-run (1972–2015) average.

Eurozone industrial output fell sharply in July. The EU's statistics agency Eurostat said the combined output of manufacturers, miners and utility providers fell by 1.1% in July from June, having expanded by 0.8% in the earlier month. Compared with July 2015, output was down 0.5%, the largest year-to-year drop since November 2014. The economy as a whole grew by just 0.3% in the second quarter, having expanded by 0.5% in the first. The July drop in industrial output is consistent with other indications that growth may have weakened further in the third quarter. Economists at the European Central Bank lowered their growth forecast for next year to 1.6% from 1.7% in June, seeing only a modest impact from the U.K.'s Brexit vote.

German industrial production unexpectedly fell in July, as it recorded its steepest fall in 23 months. Industrial output fell by 1.5% on the month, data from the Economy Ministry showed. A 1.8% rise in output in the construction sector and a surge of 2.6% in energy output were not enough to offset a 2.3% fall in manufacturing, the data showed. The June reading was revised up to a rise of 1.1% from a previously reported rise of 0.8%.

Data released by the ONS shows that UK manufacturing production declined in July, the first full month after Britain's vote to leave the EU, but industrial production overall edged up. Manufacturing production fell by a far steeper than expected 0.9% compared to June while industrial production as a whole edged up 0.1%, month-on-month. The drop in manufacturing output in July was the biggest monthly decline in a year. The ONS said there seems to have been "no immediate benefit" to UK manufacturers from the sharp fall in the pound although it advised against reading too much into one month's numbers. Economists had previously forecast a 0.2% monthly fall in industrial production and a 0.3% decline in manufacturing production on the month.

Market Commentary and News:

Chile, the world's largest producer of copper, exported 1.6 million tonnes of refined copper from January-July, up 6% year on year, government figures showed. The increase largely reflected higher exports by state-owned Codelco, which shipped 1.056 million tonnes, up 19.4%. The increase in cathode exports was largely to buyers in Asia. Exports to China rose 18% to 811,800t of refined copper, while South Korea acquired 169,500t, up 52%. Shipments to the U.S. fell 21% to 185,000t.

Forecast investment in Chile's mining industry has fallen to its lowest level in six years as miners shelve projects amid a prolonged downturn in the price of copper, a government study showed. Companies are expected to invest US$49 billion in Chile over the next decade, down 36% from a similar 10-year projection published a year ago and its lowest 10-year forecast since the one published in 2009, according to a new study by the Chilean Copper Commission (Cochilco).

By the end of the first week of September, operations at Chile’s Chuquicamata copper mine had returned to normal, one week after two workers died in an accident there. Chuquicamata produced 309,000t of copper last year. Meanwhile, production at Chilean state-owned copper Codelco's Salvador division was halted after protesting workers seized the installations at the start of a strike over pay. Salvador, which produced 49,200t of copper last year, is Codelco's smallest operating division.

China cut imports of the refined copper to the lowest level in 18 months in August as domestic production climbed amid increasing foreign purchases of ore and concentrate. Imports of refined metal slumped for a fifth month to 232,066t from 251,235t in July and 262,691t a year earlier. Refined metal exports jumped more than four-fold from a year earlier. Ore and concentrate imports were 1.45 million tonnes in August, the biggest in six months and 26% higher year on year, according to data released.

Copper output in Peru rose 30% in July compared with the same month in 2015, official data showed. Output at 201,867t was 29.9% higher than a year ago. Peru is expected to become the second biggest copper producer this year thanks to rising output from new mines, according to the Energy and Mines Ministry.

Copper production in Democratic Republic of Congo, Africa's biggest producer, will fall an estimated 1.7% in 2016 to 978,414t due to low prices, the chamber of mines reported. The industry group said in a quarterly report that copper production had dropped by 4.5% in the first half of 2016.

Russian primary aluminium production rose 2.8% in August compared with July 2016, the Federal State Statistics Service said. Refined copper production fell 3.4%. Actual output amounts were not specified.

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

	Jan-July 2016	**Jan-July 2015**
	tonnes	**tonnes**
Aluminium		
Total	2,034,300	2,026,900
Non-CIS	1,998,100	1,995,900
CIS	36,200	31,000
Copper		
Total	294,600	315,000
Non-CIS	288,300	312,100
CIS	6,200	2,900

Aluminium appears to have greater prospects for increased demand than most other base metals, according to commentators, but globally the aluminium market has been fairly balanced and it looks likely to remain so. Indeed, data from the International Aluminium Institute (IAI) showed Chinese output at 20.472Mt in the eight months to August, down 2.8% from the same period a year ago. Aluminium prices have rallied this year due to the appearance of a tighter market and assumptions that supply from China would ease. Sentiment had been reinforced by falling stocks of aluminium in warehouses monitored by the Shanghai Futures Exchange (SHFE), which have fallen nearly 70% since March to near 100,000t. LME stocks have fallen nearly 30% this year and are at their lowest since 2008. Any price rises however, appear to have been met by the restarting of previously idled capacity - especially in China - and where according to recent reports, semi-finished aluminium goods are now being turned back into metal. This is highlighting a supply overhang that casts doubt on the sustainability of a price rally this year - LME values have failed to sustain above US1700/t on 3 occasions this year. This reaction, together with very high visible and invisible inventories, is likely to keep aluminium prices range-bound for the foreseeable future. Despite all the trials and tribulations going on globally, aluminium demand growth continues to be "remarkable," says the International Aluminium Institute (IAI), noting that global consumption will probably grow by 4% - perhaps even more - this year. It added that aluminium has the best outlook for end-market growth of the base metals complex, with potential to continue to grow for the next few years. A Reuters survey showed analysts expecting on average a 267,500t surplus this year, but sources say the number could eventually be much higher.

Alcoa Inc., the 128-year-old company that invented modern aluminum processing, is formally splitting itself in two by hiving off most of its legacy mining and smelting assets, having gained board approval. From the beginning of November, the iconic name will be used by a new company, Alcoa Corp., that will hold its legacy metal-processing business, while valued car and jet parts businesses will go by the name of Arconic Inc.

A Chinese industry group making a rare appearance at a U.S. government hearing in September sought to counter arguments that excess aluminium capacity in China threatened American and global producers and processors of the metal. Appearing at the end of a day of submissions at the U.S. International Trade Commission, the officials argued that China's aluminium industry had been a major contributor to the global economy.

Japanese aluminium buyers are looking to reduce the amount of the metal they purchase via annual contracts, instead turning to spot markets where premiums have in recent months dropped to their lowest in over seven years amid a persistent supply glut. Most aluminium buying by Asia's biggest importer of the metal is carried out through annual contracts, with premiums for delivered metal set each quarter via negotiations that act as a benchmark for the region. Some Japanese aluminium buyers have agreed to pay producers a premium of US$75/t for shipments in the October-December quarter, reflecting softer spot premiums, sources directly involved said. This marks a 17% to 19% fall from the US$90 to $93/t premiums in the previous quarter, is the second straight quarterly drop and the lowest in more than seven years.

LME traded volumes continued to fall in August, dropping 17.7% year-on-year with declines reported in average daily volumes (ADVs) for all metals. Market participants said the trend towards a decline had been exacerbated by the seasonally quieter holiday period as well as by the forced move of the trading floor to a disaster recovery site following structural issues at the new City of London premises (trading resumed in the London offices on 5.9.16). Total average daily volumes were 553,531 lots, with aluminium the most traded contract at 179,456 lots on an ADV basis despite a 28.8% drop in the metal's daily trading volumes in August. Copper saw its ADV drop by 15.3% year-on-year to 136,606 lots in August.

The owner of the LME aims to target Chinese commodity traders concerned by speculative excesses on the country's domestic bourses, with plans to establish a physical metals trading platform in mainland China next year. Chief Executive Charles Li said its planned exchange in Qianhai would make sure prices remained tied to the underlying economy by underpinning it with an LME-style warehouse system for the physical delivery of metal. He insisted that it would be a platform for physical users and for people who trade commodities not another financial speculation forum. The move comes after a surge in speculative activity in Chinese commodity futures caused prices to jump earlier this year, raising questions about the influence of China's growing number of retail speculators on global commodity markets.

The LME settled a disciplinary action against Noble Group Ltd.'s warehousing division after mistakes by the unit led to incorrect reporting of large quantities of lead stockpiles earlier this year. Worldwide Warehouse Solutions Ltd. will pay a fine of £30,000 and cover costs incurred by the LME from the errors, the exchange said in a notice. WWS acknowledged the errors, notified the bourse and fully cooperated, the LME said. In February, WWS mistakenly issued new bearer documents for an equivalent of 31,700t of lead at its depots in the Dutch city of Vlissingen, which caused the total lead stocks to increase instead of being shown as unchanged.

London-listed mining company Anglo American is proposing to set up a copper trading book to offer customers and suppliers marketing support as many merchants and investment banks withdraw from physical trading. The company plans to leverage its existing capabilities in marketing, operations and risk management to offer services including hedging, financing and supply optionality. The company is making a long-term commitment to the new marketing business and views it as an opportunity to generate additional income without making the kind of capex commitments needed to fuel growth in its mining business, a spokesman told Metal Bulletin.

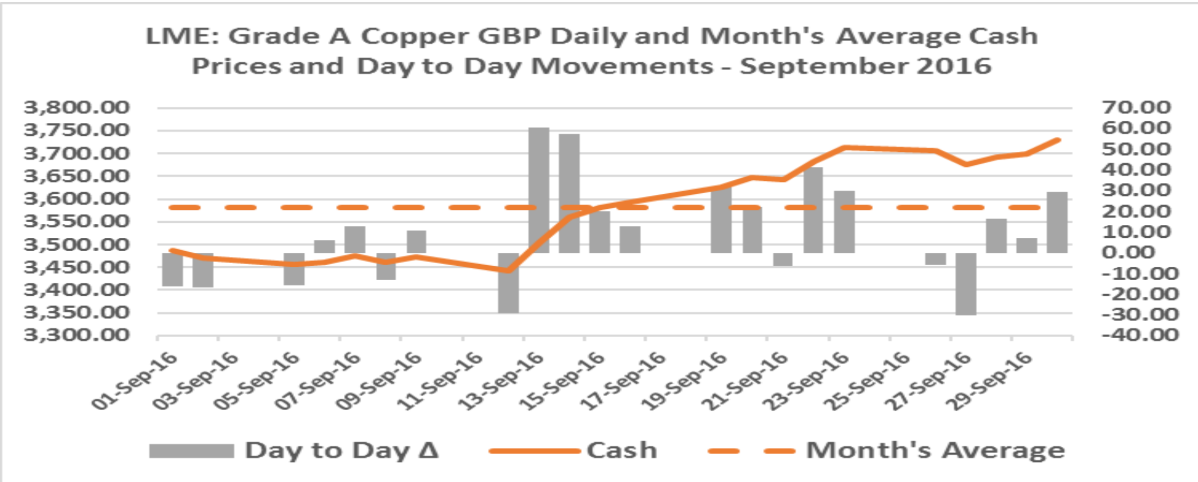
LME Commentary:

The first half of September saw LME copper and aluminium prices under determined selling pressure, driven by fears of copper oversupply (and a flood of inventory into exchange stocks) and reports of aluminium smelter restarts in China. By mid-month (12.9.16) the GBP copper cash price had fallen to a 11 week low at £3442.49/t while simultaneously, the primary aluminium USD cash price hit a 13 week low at $1545.50/t. Thereafter both metals witnessed price improvements. Copper closed the month at £3728.97, its highest since the end of July despite the continued surge in exchange stocks which peaked at 379,175t – their highest since December 2013. The primary aluminium price meanwhile, peaked at $1658.50/t, its highest since early August.

Measured at the end of September, GBP copper prices have risen £556.66/t or 17.5% (from £3172.31 to £3728.97) since the end of 2015 while the underlying USD price has risen $130/t or 2.8% ($4702 to $4832). For the same period comparison, aluminium prices in USD have risen $151/t ($1507.50 to $1658.50) or 10% while the GBP equivalent price has increased £262.83/t or 26% (£1017.07 to £1279.90). This is largely due to the weakness of Sterling - the USD:GBP exchange rate at 2015 year-end at 1.4822 compares to September month end at 1.2958.

LME Statistics and Charts: September 2016:

	Copper			Aluminium		USD:GBP
	Cash £/t	3M £/t	Stocks	Cash $/t	Stocks	
Opening	3,487.85	3,492.84	304,775	1587.00	2,227,400	1.3246
Average	3,580.71	3,589.03		1590.00		1.3150
High	3,728.97	3,732.77		1658.50		1.3364
Low	3,442.49	3,453.59		1545.50		1.2934
Range	286.48	279.18		113.00		
Closing	3,728.97	3,732.77	371,775	1658.50	2,154,825	1.2958
Opening:Closing Δ	241.12	239.93	67,000	71.50	-72,575	
YTD Average	3,402.19			1570.59		
YTD High	3,778.88			1690.50		
YTD Low	3,005.51			1453.00		



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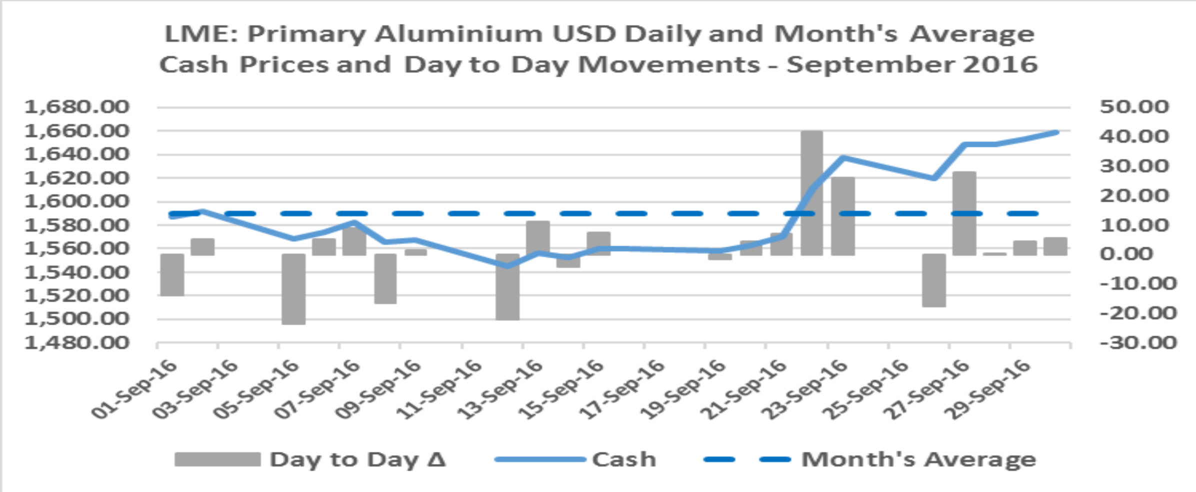

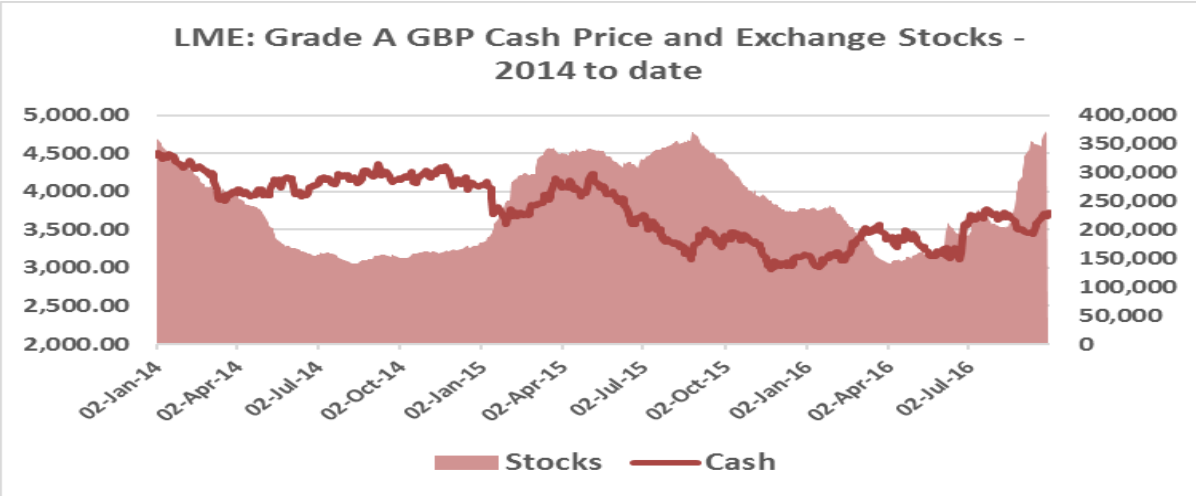

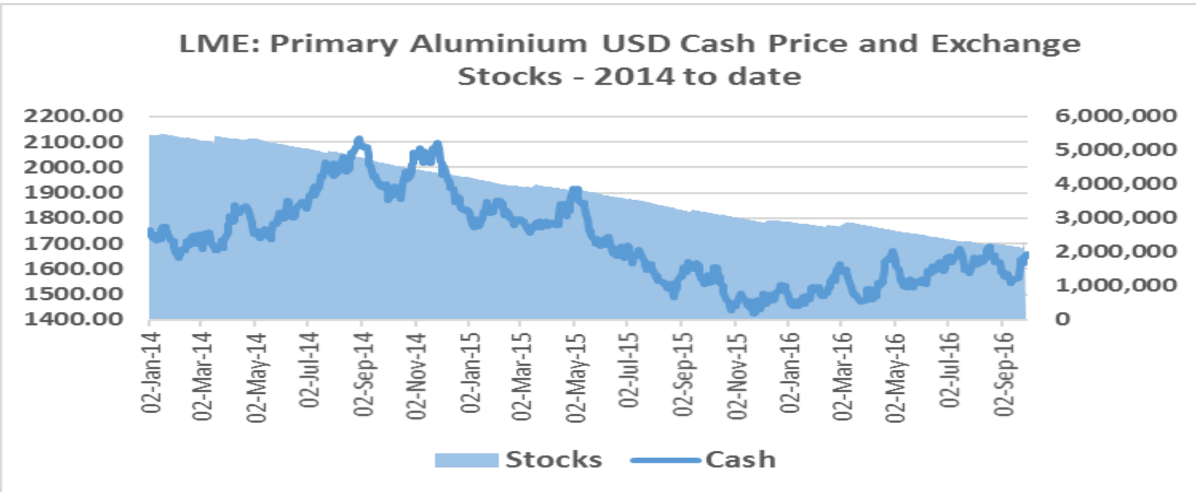

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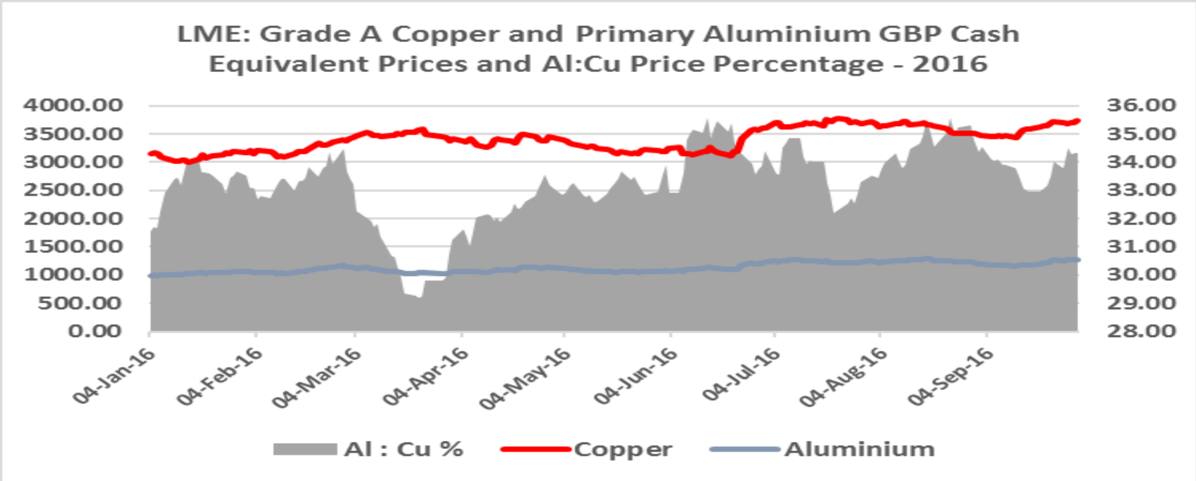

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