

April 2015

Economic Indicators and Comment:

The OECD's composite leading indicators (CLI's) are showing signs of a positive change in general momentum. In Italy and France, the signs which were assessed as tentative in March have now been confirmed as positive while the CLI for Germany continues to point to positive change. The outlook is for stable growth momentum in the OECD area as a whole as well as for the U.S., the UK and Japan. On the other hand, CLIs signal growth easing in China and Canada, albeit from relatively high levels. In Brazil and Russia, CLIs point to a loss in growth momentum while in India the CLI continues to indicate firming growth.

Real GDP in the U.S. increased at an annual rate of 0.2% in the first quarter of 2015, according to the "advance" estimate released by the Bureau of Economic Analysis. In the fourth quarter, real GDP increased 2.2%. The Bureau emphasized that the first-quarter advance estimate is based on data which is incomplete or subject to further revision by the source agency. The increase in real GDP in the first quarter primarily reflected positive contributions from personal consumption expenditures (PCE) and private inventory investment that were partly offset by negative contributions from exports, non-residential fixed investment, and state and local government spending. Imports, which are a subtraction in the calculation of GDP, increased.

According to the Department of Commerce, U.S. industrial production decreased 0.6% mom in March after increasing 0.1% in February. For the first quarter of 2015 as a whole, industrial production declined at an annual rate of 1.0%, the first quarterly decrease since the second quarter of 2009. The quarterly decline resulted from a drop in oil and gas well drilling and servicing of more than 60% and from a decrease in manufacturing production of 1.2%. In March, manufacturing output moved up 0.1% for its first monthly gain since November; however, factory output in January is now estimated to have fallen 0.6%, about twice the size of the previously reported decline. The output of utilities fell 5.9%. Average, total industrial production in March was 2.0% above its level of a year earlier. Capacity utilization for the industrial sector decreased 0.6% in March to 78.4%.

The latest preliminary estimate figures released by the UK's ONS show that the UK economy grew by 0.3% in the first quarter of 2015. This compares with 0.6% in the last three months of 2014. The figures, suggest a "temporary" slowdown in the economy, analysts said. The ONS said the economy was 2.4% larger than the same period a year earlier. Growth of 0.5% in the services industry was offset by a 1.6% fall in the pace of economic output in construction where output fell for the second consecutive quarter.

Companies:

Nexans released its first quarter 2015 results at the end of April. The Group reported sales of €1,601 million at current metal prices (versus €1,560 million in the first three months of 2014). At constant metal prices, first quarter sales came in at €1,172 million, representing year-on-year organic growth of 1.8%. The company reported increased sales momentum in the Group's most attractive markets (submarine cables, automotive harnesses and LAN cables) with improved product mix in Europe - Europe reported 3% year-on-year growth - at the expense of the overall sales volume. Sales were hampered by difficult market conditions in Brazil and Australia as well as in the Oil & Gas sector. Commenting on the performance, CEO Arnaud Poupart Lafarge said: "Our sales figures in the first three months of 2015 reflect our strategic decision to focus on the Group's most profitable operations. We are meeting our objectives in all of the main areas of our strategic plan, particularly in terms of reducing fixed costs."

Market Commentary and News:

The International Copper Study Group has forecast that in 2015 world refined copper production is expected to exceed refined copper demand by 365,000t. For 2016, the study group expects the copper market to show a second consecutive production surplus albeit lower at 230,000t as demand growth outpaces production growth. World mine production is expected to increase by around 5% in both 2015 and 2016 to 19.5 million tonnes and 20.5 million tonnes, respectively. Following demand growth of around 7% in 2014, the ICSG expects world apparent refined usage in 2015 to increase by 0.6%. It added that although industrial demand growth in China is expected at around 4.5% to 5%, apparent demand in China is expected to increase by 1%.

In January 2015, the global world refined copper market showed a 59,000t surplus, compared with a 138,000t surplus in December, the ICSG said. This compares with a 142,000t deficit in the same period a year earlier. World refined copper output in January was 1.91 million tonnes, while consumption was 1.85 million tonnes. Bonded stocks of copper in China showed a 56,000t surplus in January compared with a 148,000t surplus in December. Apparent Chinese demand it noted was down 3.8% or 35,000t in January.

Copper mining executives meeting at the annual CESCO week in Chile in April took the opportunity to hold forth on the state of the industry at various conferences and staged interviews. The following are some key comments made;

- Nelson Pizarro Codelco Chief Executive said that investment in mining projects fell by 25% in the past three years, with 45% of projects being delayed by 2-4 years and 21% by 4-6 years. Codelco, he said, was looking to maintain production of around 1.7 million tonnes between 2015 and 2019 and develop simultaneously up to six large-scale projects. Marketing manager Victor Perez said the company sees supply and demand for copper tightly balanced this year as floods, strikes and other problems slow production around the world. After a balanced 2014, Codelco is expecting a small surplus of around 50,000t in 2015. Copper demand is expected to rise 4% this year, led by China, matching a forecast increase in metal supply. Next year should see another small surplus but the market should move into a deficit by the second half of 2017 that will continue in 2018. As a result, Codelco sees prices holding around current levels of \$6173/t over the next two years, but in the longer term moving back above \$6614/t.

- Jean-Sebastien Jacques, Metals CEO at Rio Tinto said that the industry should not get completely lost in the present challenging copper situation. Now he said was the time to "keep investing, keep innovating, and keep creating value at all points of the cycle because none of us in this industry build for the short term" and "we invest with a long-term view". He said that between now and 2020, global demand for copper semis will rise by more than 20%. Even with the Chinese economy cooling, it is growing off a much larger base and 5% growth in copper use today is equivalent to 12% growth a decade ago. India's power generation he added, is expected to double in the next 15 years.

- Ivan Arriagada, Antofagasta Minerals' chief executive sees the global copper market surplus practically disappearing this year due to kinks in output. Analysts had anticipated a copper surplus in 2015 to the tune of 500,000t to 600,000t but production stoppages such as those caused by recent heavy rains and mudslides in northern Chile, have curtailed those estimates. He said that the surplus has been disappearing and as a result we could even see the market in virtual balance. Antofagasta subsequently announced that it had cut its annual copper production forecast by 15,000t from its previous forecast of 710,000t. The company produced 146,400t of copper in the first quarter, down 13.6% from a year earlier.

- Mark Loveitt, president of International Wrought Copper Council, said substitution of aluminium for copper is slowing amid the narrowing price gap between the metals at CRU's World Copper Conference. Price is a key driver for substituting copper with other materials such as aluminium and plastics. The auto industry aims to use more aluminium in cars than copper because weight is the main driver, not price. Since the start of 2014, the aluminium to copper sterling equivalent cash price percentage has averaged 28.1% with a low of 23.1% and a high of 33.8%. Month end April closed at 30.6%.

- Chile is expected to produce 5.94 million tonnes of copper in 2015, state copper commission Cochilco said, slightly lowering its forecast. Cochilco estimated in January that output would be around 6.0 million tonnes, up from 5.78 million last year. The cut in the forecast was mostly due to a lower estimate from projects run by Anglo American and Barrick Gold. Cochilco said that an ongoing drought in Chile and extreme weather conditions in the north of the country earlier this month have also taken a toll.

Chile Mining Minister Aurora Williams said that copper production in the Atacama region of Chile that was hardest hit by floods last month is still almost completely at a standstill. "We are expecting a shortfall of around 30,000t this month" she told Reuters. Production in the region is usually some 32,000t a month, or around 8% of output in Chile, she said. Williams emphasized that medium and large mining operations would be able to catch up on production and said between 20,000t and 30,000t should be recoverable in the coming months.

China's surplus of refined copper edged up to 160,000t in February from 152,000t in January, the China Nonferrous Metals Industry Association said. Its output of refined copper fell 8% month on month to 570,000t in February, while its copper consumption in the month was 650,000t, down 12% from January. Price volatility as well as the Lunar New Year hit copper trading in February, CNIA said.

Chinese demand for copper has been weaker than expected so far in 2015 but will pick up in the second-half as government stimulus measures boost orders from factories, state-backed research firm Antaika said in the month. The company has cut its consumption growth forecast to 5.7% in 2015 from the 6.3% predicted earlier. The lower forecast would put 2015 consumption at about 9.2 million tonnes of refined copper, down from the around 9.3 million tonnes expected previously. Traders report that fabricators producing electrical cables and electronic components have placed fewer orders this year as growth eases. Appetite has also been curbed as Chinese banks have kept credit conditions tight for base metals firms after an alleged metal financing scam came to light in the port of Qingdao.

Physical copper traders have expressed concerns about further increases in visible inventories as financing deals unwind and demand wanes. Orders from fabricators in China have slowed as some annual buyers are seeking to delay deliveries. This is likely to increase downward pressure on premiums that have already tumbled to their lowest in two years. Traders say another 150,000t of metal will likely land in LME warehouses in the next month or so, taking the LME stocks above 500,000t for the first time since October 2013.

International Aluminium Institute figures show world primary aluminium production increased year on year by 3.7% or 1.93 million tonnes in 2014. Production increases were seen in China, where production increased by 2.079 million tonnes or 8% and the GCC area where production increased sharply by 945 thousand tonnes. In contrast, production in North America, Western/ Central /Eastern Europe, Africa, South America and Oceania fell;

IAI - Primary Aluminium Production (in 000's tonnes)							
	West Europe	East & Central Europe	North America	GCC	Others	China	Total
Q1 2013	856	1040	1238	940	2345	6098	12517
Q2 2013	879	1026	1257	981	2331	6191	12665
Q3 2013	898	989	1235	994	2334	6437	12887
Q4 2013	892	940	1188	972	2331	6712	13035
Total 2013	3525	3995	4918	3887	9341	25438	51104
Q1 2014	853	924	1161	1074	2260	6615	12887
Q2 2014	870	937	1145	1224	2220	6606	13002
Q3 2014	889	948	1144	1267	2144	6948	13340
Q4 2014	902	956	1135	1267	2197	7348	13805
Total 2014	3514	3765	4585	4832	8821	27517	53034
Jan-15	307	321	387	426	754	2,439	4634
Feb-15	279	293	350	389	689	2,203	4203
Mar-15	308	324	387	432	751	2,563	4765
Q1 2015	894	938	1124	1247	2194	7205	13602

According to Alcoa, the largest U.S. aluminium producer, the world aluminium market will see a surplus of 326,000t in 2015. This forecast differed sharply from the producer's January estimate of a 38,000t deficit for 2015, largely driven by an increase in its estimate for output in China. Demand will increase 6.5% this year, compared with 9% in 2014 the company added.

Alcoa has announced the full shuttering of the Alumar smelter in Brazil. Alcoa and minority partner BHP Billiton curtailed two potlines at the 440,000tpa plant over the course of 2013 and 2014. Now the third and last will also be mothballed.

China's exports of aluminium products have continued to surge, a trend that if continued may push the rest of the world toward a surplus. China's exports of primary, alloy and semi-finished aluminium grew by around 43% in the first quarter over the same period last year, according to preliminary customs data released in the month.

In an article in the Financial Times, Russian aluminium producer Rusal's chief executive Vladislav Soloviev said the company was unhappy with the LME primary aluminium price. The problem he said was the action of speculators who he claims, have depressed the LME price by as much as 30% relative to the "real supply and demand balance". The solution, in Rusal's view, is more transparency on what the speculators and investors are doing. This is in line with Alcoa's approach which led the original calls for the LME to introduce a U.S. style Commitments of Traders Report. Rusal's and other producers' problems are compounded by the global reduction of physical premiums which traders report are in free fall in both Asia and Europe and under pressure in the U.S..

U.S. regulators have deferred the LME's application to allow U.S. traders direct access to its electronic trading and order-matching system, citing issues surrounding the exchange's aluminium warehouses. The LME applied in August 2012 to become a foreign board of trade in the U.S. The U.S. Commodity Futures Trading Commission said it is deferring its review of the application while it continues to monitor the exchange's progress in reforming its storage network.

LME Commentary:

In a market driven by producers' talk of supply disruption and anticipations of further Chinese economic stimulus, tempered by reports of oversupply in the nearby or spot markets, the underlying US dollar LME copper cash price strengthened sharply in April - increasing some \$225.50/t during the month and closing at \$6245/t, its highest since the opening day of the year. The LME Sterling cash price however, closed at £4049.67/t, slightly down on the month's opening day price of \$4076.04/t as the US Dollar weakened against Sterling - it moved from 1.4768 to close the month at 1.5421.

The cash to 3 month spread moved to contango at mid month due to expectations of higher inventories and funds rolling over contracts before moving back into backwardation by month end. LME stocks increased in the month to close at 339,625t, up 7500t on the month.

Despite increasing production and falling premiums, the LME USD primary aluminium cash price strengthened in the month along with copper, zinc and nickel prices and was similarly buoyed by the prospect of more stimulus in China. The cash price closed at \$1909.50/t, it highest for the year and the highest since mid December 2014.

Primary aluminium stocks in LME warehouse continue to fall, closing the month at 3,814,825t, down 120,450t on the month and 390,400t or 9% on the year.

LME Statistics and Charts: April 2015:

	Copper			Aluminium		
	Cash £/t	3M £/t	Stocks	Cash \$/t	Stocks	USD:GBP
Opening	4,076.04	4,065.32	332,125	1765.50	3,935,275	1.4768
Average	4,032.24	4,028.85		1817.13		1.4952
High	4,144.42	4,137.05		1909.50		1.5421
Low	3,935.07	3,940.08		1765.50		1.4610
Range	209.35	196.97		144.00		
Closing	4049.67	4034.78	339,625	1909.50	3,814,825	1.5421
Opening:Closing Δ	-26.37	-30.54	+7,500	144.00	-120,450	
Opening:Closing Δ %	-0.65	-0.75	+2.26	+8.16	-3.06	





