Metals Newsletter

Energy Cables Sector (Inc. Super-Tension Cables and Power Cable Accessories)
Communication Cables Sector, Winding Wires Sector
Health and Safety and Environmental Committees
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Economic Indicators and Comment:

The OECD's Composite leading indicators (CLIs), point to stable growth momentum in area as a whole. Stable growth momentum is expected in Germany, Japan and India. The CLI for Russia also points to stable growth momentum albeit below long term trend. In France and Italy, as well as the Euro area as a whole, CLIs point to firming growth. On the other hand, growth is expected to ease to around long-term trends in the U.S. and the UK with tentative signs of a loss in growth momentum in Canada. In Brazil and China, CLIs point more strongly than last month to a loss in growth momentum.

Following poor industrial and manufacturing data and the continuing fall in the stock market, China's central bank unexpectedly reduced interest rates to try and help the situation. The bank devalued the Yuan in an effort to support exporters and boost the role of market pricing by cutting its daily reference rate by 1.9%, triggering the Yuan's biggest one-day drop since January 1994. Simultaneously, it relaxed reserve requirements for the second time in two months, subsequently pumping more money into its financial system than any time since February. It promised to inject US$48 billion into the country's biggest policy lender, China Development Bank Corp (CDB) and said it planned to issue at least 1 trillion yuan (US$161 billion) in bonds, and potentially a multiple of that, to fund construction projects. Despite these actions and a further 0.25% rate cut, by month end the leading Shanghai Composite index of shares which had peaked at over 5200 in mid June had fallen below 3000 at the end of the month.

The U.S. economy grew faster than initially thought in the second quarter on solid domestic demand. GDP expanded at a 3.7% annual pace instead of the 2.3% rate reported in July, the Commerce Department said in its second GDP estimate.

U.S. industrial output in July advanced at its strongest pace since last November. Industrial production increased 0.6% mom after a downwardly revised increase of 0.1% in June, the Federal Reserve reported. Economists polled by Reuters had looked for a gain of just 0.3%. The gain in output reflected a 0.8% increase in factory production that was spurred by 10.6% surge in motor vehicle output.

According to Eurostat's preliminary statistics, Eurozone GDP growth in the second quarter of the year was down to 0.3% from 0.4% in the first quarter. A slump in French manufacturing and construction saw GDP there reported as flat following a 0.7% improvement in the first quarter. Germany saw its manufacturing sector continue to strengthen - German exports did particularly well. German GDP grew at 0.4% while Spain's recovery maintained its momentum with a 1% growth and a modest improvement in Italy at 0.2%. The details were as follows:-

Percentage Change from Previous Quarter				
	2014		2015	
	Q3	Q4	Q3	Q4
EA19	**0.2**	**0.4**	**0.4**	**0.3**
EU28	**0.3**	**0.4**	**0.4**	**0.4**
Belgium	0.3	0.2	0.4	0.4
Bulgaria	0.4	0.4	0.9	0.4
Czech Republic	0.5	0.5	2.5	0.9
Denmark	0.6	0.3	0.5	
Germany	0.2	0.6	0.3	0.4
Estonia	0.2	1.0	-0.3	0.8
Ireland	1.4	1.2	1.4	
Greece	0.8	-0.2	0	0.8
Spain	0.5	0.7	0.9	1.0
France	0.2	0.1	0.7	0
Croatia	0.2	-0.1	0	
Italy	-0.1	0	0.3	0.2
Cyprus	-0.8	-0.2	1.4	0.5

Percentage Change from Previous Quarter				
	2014		2015	
	Q3	Q4	Q3	Q4
Latvia	0.5	0.5	0.4	1.2
Lithuania	0.5	0.7	-0.5	0.6
Luxembourg	2.2	2.2	0.7	
Hungary	0.6	0.7	0.6	0.5
Malta	0.6	1	0.6	
Netherlands	0.4	0.9	0.6	0.1
Austria	0	-0.2	0.7	0.1
Poland	0.9	0.8	1.0	0.9
Portugal	0.2	0.4	0.4	0.4
Romania	1.3	0.9	1.4	0.1
Slovenia	0.7	0.3	0.8	
Slovakia	0.7	0.7	0.8	0.8
Finland	-0.2	-0.2	-0.2	-0.4
Sweden	0.6	0.9	0.4	1.0
UK	0.7	0.8	0.4	0.7

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Eurozone industrial production in June dropped 0.4% month over month, more than expected, but not a total surprise following weak German numbers for June. May was revised up to a still negative -0.2% month over month from -0.4% month over month. This still left overall production down 0.3% quarter over quarter in Q2, following a robust 1.1% quarter over quarter rise in the first quarter of the year.

Companies:

Aurubis, Europe's largest copper producer, produced 712,000t of copper cathode in the first nine months of its 2014-15 fiscal year (October 2014 to June 2015), up 3% from 689,000t in the year-earlier period. Wirerod output was up 1.1% year on year at 570,000t, but production of continuous cast shapes fell 9.7% to 129,000t and output of flat rolled products and specialty wire was down 4.1% at 163,000 mt. Aurubis generated operating earnings before taxes of €261 million (US$290 million) in the first nine months of fiscal year 2014-15, up from €75 million in the year-earlier period on the back of higher treatment and refining charges, higher sulphuric acid prices worldwide, a higher copper cathode premium and the strong US dollar.

Europe's second by size copper producer, Poland's KGHM, reiterated its 2015 sales and output targets, after a weaker zloty helped it beat market forecasts with a 35% rise in its Q2 net profit. The company reported a bottom line of 824 million zlotys (US$219.5 million), compared with 685 million expected by analysts as a weaker zloty currency helped it outweigh the effect of low copper prices. Sales jumped by 10% to 4.325 billion zlotys. In the first half of the year the producer booked around half of both its copper output and sales targets for 2015 of, respectively, 567,500t and 564,700t. The company said it may postpone or suspend some investment projects if prices of copper and silver remain at current low levels. KGHM sees the LME copper price of $5,000/t as its "pain level".

Sliding metal and commodity prices have also adversely affected results and share prices of a number of high profile mining companies:

- Rio Tinto posted sharply lower first-half profits on falling metal prices and pledged US$1 billion in cost cuts this year. The company's iron ore division was particularly hard hit, with underlying earnings in the section plunging 55% in the first half versus a year earlier despite a dramatic reduction in mining production costs.

- BHP Billiton reported a 52% slump in annual profit to a decade low, damaged by plunging iron ore, copper, coal and oil prices. The world's biggest miner said its underlying attributable profit fell to US$6.42 billion for the year to June from $13.26 billion a year earlier. The result was below analysts' forecasts around US$7.73 billion. The company said it will slash its mining capital budget by 25% next year and cut 10% of its U.S. mine staff. Freeport now plans to spend US$2 billion on mining in 2016, for a total capital budget of US$4 billion. Last month it cut total spending to US$4.7 billion from US$5.6 billion forecast in July.

- Miner and commodities firm Glencore cut its forecast for earnings from trading, a division meant to help cushion the company against tumbling commodities prices, sending its shares to record lows. Glencore said tough market conditions, especially for aluminium and nickel, were hurting the business even though it had previously said the trading division would meet earnings targets whatever happened to commodity prices. Announcing a 29% slump in first-half earnings, Glencore said it expected trading, or what the company calls its marketing division, to post full-year earnings before interest and tax of US$2.5 billion to US$2.6 billion. Glencore had previously posted a 3% fall in its first-half copper production and said it will cut its capital expenditure plans for the year. The company said total copper output using feed from its own sources fell to 730,900t.

Glencore, whose stock is down nearly 46% this year, is the worst-performing stock in the FTSE 100, followed by fellow miners Anglo American, down 40%, Antofagasta, down 26% and Rio Tinto which was down nearly 22%.

Russia's Rusal Plc reported a 158% jump in second-quarter core profit in August, beating forecasts thanks to sharp cost cuts and a weaker rouble. The world's largest aluminium producer warned that it sees aluminium prices, already down to six-year lows, remaining under pressure due to a glut of exports from China and new supply from the Middle East and India.

Market Commentary and News:

According to the World Bureau of Metal Statistics (WBMS), refined copper consumption in the period January - June 2015 at 11.1Mt was down 1.2% yoy, whilst refined production was up 2.4% and mine production up 3.8%. WBMS put the first half year surplus at 0.15Mt. Although the agency expects mine closures to begin in earnest if prices become established below US$5,000, it still expects surpluses to continue through end 2016.

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The global world refined copper market showed a 62,000t deficit in May, compared with a 94,000t deficit in April, the International Copper Study Group (ICSG) said in its monthly bulletin. For the first 5 months of the year, the market was in a 4,000t surplus compared with a 537,000t deficit in the same period a year earlier. World refined copper output in May was 1.92Mt, while consumption was 1.98Mt. Bonded stocks of copper in China showed a 47,000t deficit in May compared with an 84,000t deficit in April.

Morgan Stanley and Standard Bank believe that power outages, strikes, floods and drought as well as lower grade ores are tightening copper supplies, potentially pushing the market into deficit and laying the ground for higher prices later this year. Morgan Stanley estimates lost output at 500,000t so far this year while ICBC Standard Bank has estimated an annualised 1.33Mt loss.

Pan Pacific Copper, Japan's biggest copper smelter, expects copper prices to recover this year to above US$6,000/t due to supply problems announced in recent weeks. "The market is paying too much attention to China's consumption, which is not as weak as the market sees," the company president told Reuters in an interview. "Our copper business in China has slowed down a bit but we don't have a sense that consumer spending has depressed sharply," he said. Pan Pacific altered its 2015 global supply-demand outlook for copper to a surplus of 100,000-200,000t from its earlier estimate of a balanced market. He still expects a pick-up in the metal prices later this year because of supply problems in Chile, Ok Tedi in Papua New Guinea while some small copper miners in China have also halted operations.

Copper production in Chile rose slightly in the first six months of 2015 compared to a year ago, with substantial growth at some large projects countered by scheduled maintenance and disruptive protests at others. Chile produced 2.9Mt of copper through to the end of June, an increase of 2.6% from the same period last year, the state-run statistics agency Cochilco said. Meanwhile, the head of the Chilean Copper Commission said that 200 small mines have closed in Chile following this year's drop in the copper price. Another 1,200 are still operating in part thanks to the subsidies offered by mining development agency ENAMI, which pays a premium of up to US660/t to the copper price while it remains below US$6393/t. In August, the head of mining association Sonami, called for additional funds to support miners struggling with current prices. Output from small mines represented less than 180,000t of the 5.7Mt of copper produced by Chile last year.

At the end of the month Codelco had resumed operations at its Chuquicamata division in northern Chile after the region was hit by heavy rains and strong winds, the company said. Six people died and around 1,000 left homeless by the storms which closed most of the ports in northern Chile that handle exports of copper.

China's copper consumption is expected to grow by 5.7% in 2015, reaching 9.22Mt, state-owned Chinese metals consultancy Beijing Antaike said in its copper report. The power generators and air-conditioning manufacturers are set to be the major consumers in 2015, accounting for 65% of China's annual consumption. Antaike expects China's refined copper output to reach 7.4Mt this year, up 7.6% year on year. In the report, Antaike forecast China to have a refined copper surplus of 980,000Mt in 2015, lower than the 1.488Mt surplus seen last year. The reduction was attributed to an anticipated drop in net refined copper imports this year which the forecasts to reach 2.8Mt this year, down 16% year on year.

China's copper smelters are considering deeper output cuts due to low metal prices and as supply of raw material scrap and concentrates from domestic mines falls, industry sources said at the end of the month.

According to Glencore, aggressive and synchronized short selling, especially from leveraged Chinese hedge funds, has pushed copper prices too low. Indicators of supply and demand suggest prices should be higher, the company said in its earnings statement in the month. Mine disruptions from Chile to Zambia mean producers are not delivering as much metal as expected and mining companies may cut production if prices fall further, Glencore said.

Data released by the Russian Federal Customs Service showed increases in both aluminium and copper exports in the first half of the year;

	Jan - June 2015	Jan - June 2014	Delta	
	tonnes	tonnes	tonnes	%
Aluminium	1,798,600	1,446,600	+352,000	+24.3
Copper	283,300	100,000	+183,300	+183.3
Nickel	94,200	107,300	-13,100	-12.2

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Goldman Sachs has revised its aluminium price forecasts lower on expectations of a surplus in output between 2016 and 2019. The investment bank revised its 3 month, 6 month and 12 month price forecast to US$1,500/t from $1,800, $1,500/t from $1,800, and $1,550/t from $1,900 respectively. Goldman is forecasting a 2015 average aluminium price at US$1,666/t versus its previous outlook of $1,742/t, and a 2016 price at US$1,525/t compared with its previous forecast of $1,925/t.

China is trying to push its two biggest aluminium businesses together as part of a planned shake-up of state-owned enterprises, industry sources said, a move that would create the world's largest aluminium maker. Power company State Power Investment Corp is in talks to hive off its aluminium assets to AlumInium Corp of China, allowing SPI to focus on power construction and generation, three industry sources told Reuters.

Meanwhile, loss-making aluminium smelters in China could idle another two to three million tonnes of annual capacity in coming months as metal prices dropped to 6 year lows, industry figures said. The closures would trim a production surplus in the world's largest aluminium producer and consumer, as well as support domestic prices, although any price gains may prompt some firms to revise their plans, they said.

India's Vedanta Ltd will halve output at its 1 million tpa alumina refinery in Odisha state in about two months and cut jobs, a senior executive said, due mainly to a shortage of raw material bauxite and weak world prices.

India's National Aluminium Co Ltd (NALCO) wants to set up an aluminium smelter and an associated power plant in Iran worth as much as US$2.6 billion once sanctions against the country start to be lifted. The company will meet with India's foreign ministry officials and the ambassador of Iran in New Delhi shortly to take things forward, it said.

U.S. producer Century Aluminium has joined a growing chorus calling for action against low-priced Chinese exports of semi-finished aluminium, as it curtailed capacity at one of its four smelters due to the plummeting aluminium price. Century, controlled by Glencore, has no plans to raise capacity at its Hawesville, Kentucky, smelter, which is currently operating at 80% of its 255,000tpa smelter due to continuing difficulties following a month-long lockout that ended in June.

The Bloomberg Commodity Index of 22 raw materials from oil to metals lost as much as 3% to 85.1752 in August - the lowest level since August 1999. Shares in miners and explorers including Glencore, BHP Billiton and Exxon Mobil Corp. tumbled while Brent crude fell below US$45 a barrel for the first time since 2009. Raw materials are in retreat as supplies outstrip demand amid forecasts for the slowest Chinese growth since 1990.

Chinese funds have cut their overall exposure to industrial commodities, seeing little prospect of momentum either way to pounce on, industry sources say. China's slowing economy has also hit commodities with the Thomson Reuters core commodity index down 13% so far this year. Indicating a drop in bets against metals, open interest in Shanghai copper dropped more than 40% in late July from a year high of 416,396 lots at the end of January this year.

July was another difficult month commodity funds with some well known hedge funds closing their doors in the face of falling markets - with gold and oil leading the fall. Black River Asset Management, owned by agricultural trader Cargill, closed its commodities fund, along with three other funds and Armajaro Asset Management said it would shut its US$450m commodities hedge fund after losing 11% in the first half. Meanwhile private equity group Carlyle parted ways with the founders of its Vermillion commodities firm after assets dwindled. Investors, it seems, have left in droves, seeking better returns elsewhere - their experience of the commodities sector has generally been poor over the past few years. Hedge funds rode the commodities super cycle from the early 2000s, with double-digit returns every year.

U.S. aluminium producer Alcoa Inc has stepped up efforts to challenge the U.S. commodities regulator's intervention in the LME's warehousing reform plan, criticizing its handling of the issue for a second time in as many months. In a letter dated July 27, Alcoa general counsel called on the U.S. Commodity Futures Trading Commission to retract a letter announcing its decision to delay ruling on the LME application to register as a "foreign board of trade" in the U.S.

The LME roughly doubled its core profit in the second quarter despite a slight fall in volumes, as a January hike in trading fees flowed through to the bottom line. The result reflects efforts by LME parent Hong Kong Exchanges and Clearing Ltd to boost returns from its metals business since it bought the 138-year-old exchange for US$2.2 billion in 2012.

US copper wire imports totalled 15,953t in June, up 2.9% from 15,500t in the same month last year, the first year-on-year gain since December 2014, and 14% higher than 13,992t in May. US copper wire exports totalled 15,510t in June, a 31.6% increase from 11,785t a year earlier but down 6.3% from 16,554t in May. US copper wire imports in the first six months of the year dropped 7.3% to 83,328t from 89,888t in the same period last year, while copper wire exports rose 3.5% to 88,118t from 85,164t in the same comparison.

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Japanese wire and cable maker Sumitomo Electric Industries Ltd. also reported "robust" demand for wiring harnesses outside of Japan, especially in the USA, for its fiscal year ended March 31.

LME Commentary:

Prices on the LME continued their summer slide into August after U.S. factory data disappointed investors, Chinese manufacturing weakened in July, the U.S. dollar continued to strengthen and significantly after China devalued its currency. The currency move in particular unleashed a wave of speculative selling across the industrial metals complex as bears got the upper hand again.

Copper, the only one of six metals traded on the LME which hitherto had not technically been in a bear market, entered a bear market at the beginning of the month - a fall of 20% from the year's high in May meeting the common definition of such a move.

Prices got some reprieve from the sell-off as China's announced plans for more economic stimulus helped stem the downwards pressure. Traders however, remained nervous as copper flirted with the psychological US$5,000/t, a break of which they feared could open the door to further technical and chart selling. In the event, copper bottomed at US$4888/t (£3105.07/t) on 24.08.15 - its lowest since July 2009 and down 26% from the 2015 high of £4240.26/t in May - but rallied to close the month almost unchanged (down £13.43/t) from its opening.

Similarly buffeted by fears of a Chinese 'hard landing', aluminium prices followed the almost exact same trend as copper. The LME primary aluminium cash price bottomed on 24.08.15 at US$1485.50/t, its lowest since early June 2009 and down 22.6% on the 2015 high of US$1919/t at the beginning of May. By month end however, it had regained most of the losses to close at US$1550/t - only US$14/t down on the month's opening price.

Copper stocks in LME approved warehouses increased by 21,125t or 6.1% during the course of August to close at 367,650t, up 190,625t or 108% in the year. Primary aluminium stocks continue to decline, closing at 3,265,750t, down 163,675t or 4.8% in the month and 939,900t or 22.3% in the year.

LME Statistics and Charts: August 2015:

	Copper			Aluminium		
	Cash £/t	3M £/t	Stocks	Cash $/t	Stocks	USD:GBP
Opening	3,324.88	3,333.76	346,525	1,564.00	3,429,425	1.5569
Average	3,261.81	3,264.54		1,539.75		1.5603
High	3,338.77	3,348.28		1,577.50		1.5788
Low	3,105.07	3,106.01		1,485.50		1.5386
Range	233.70	242.27		92.00		
Closing	3311.45	3300.82	367,650	1550.00	3,265,750	1.5386
Opening:Closing Δ	-13.43	-32.94	21,125	-14.00	-163,675	
Opening:Closing Δ %	-0.40	-0.99	+6.10	-0.90	-4.77	
YTD Average	3763.81			1733.74		
YTD High	4240.26			1919.00		
YTD Low	3105.07			1485.50		

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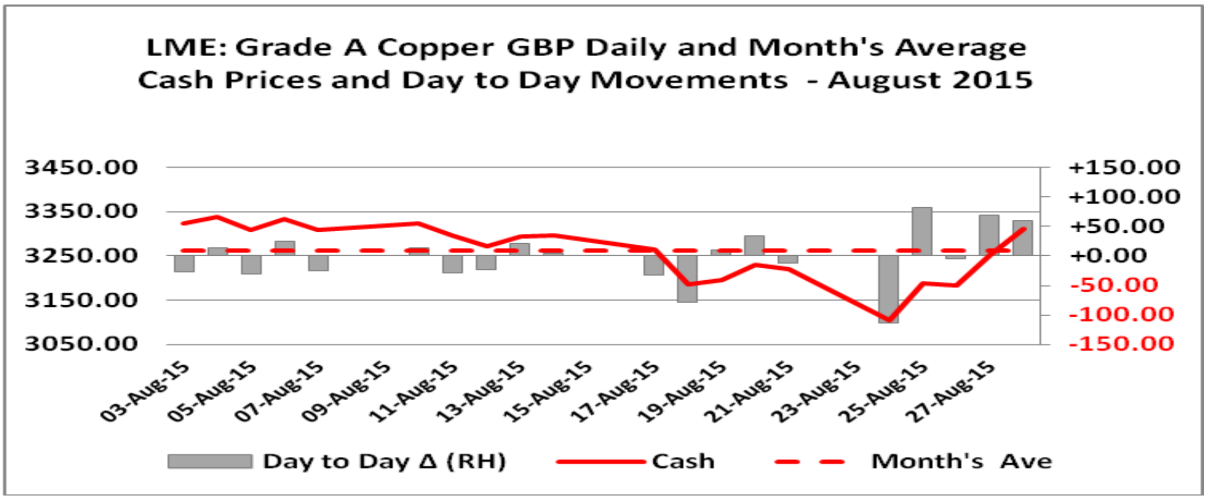

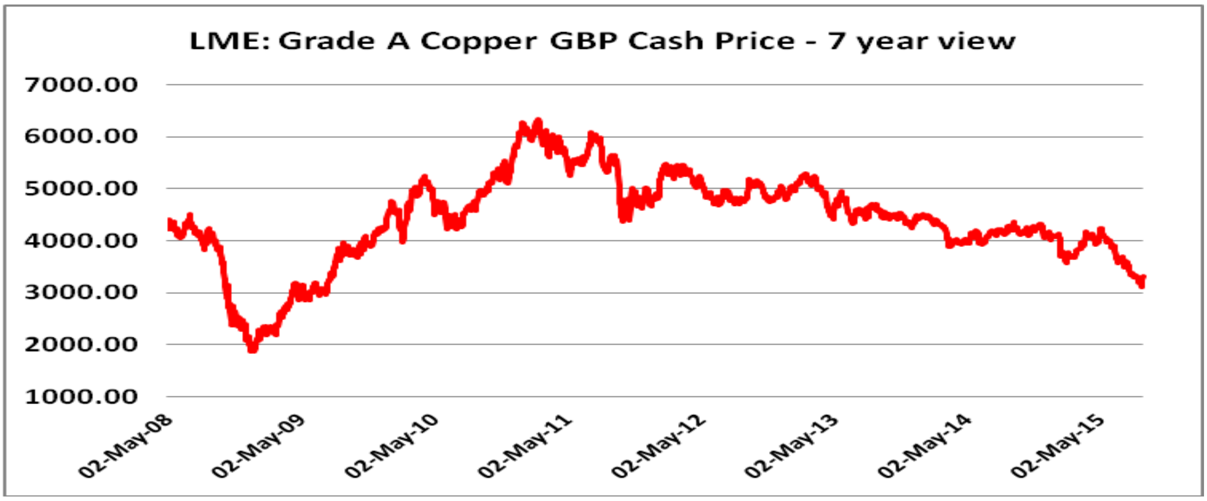

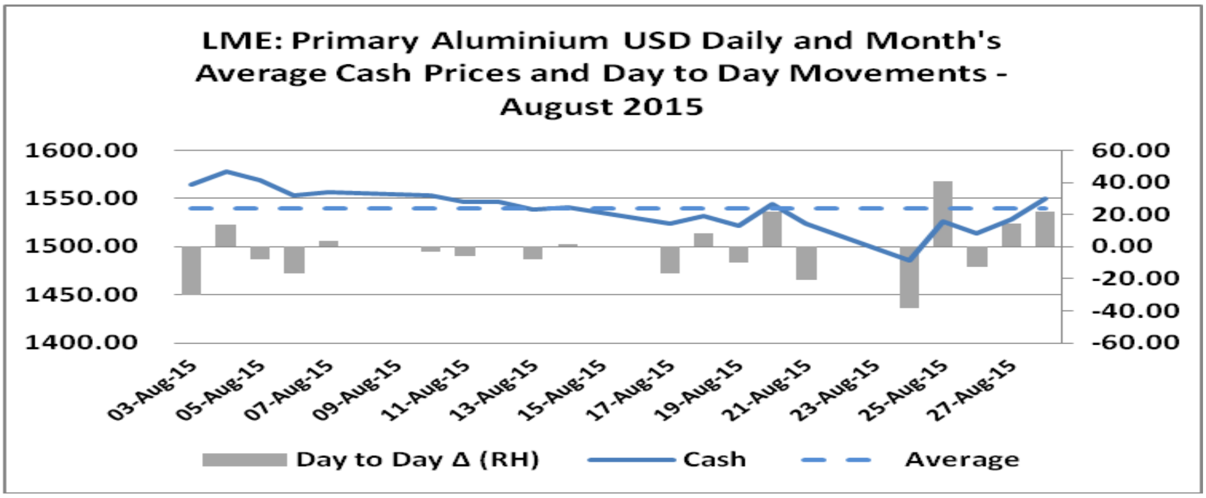

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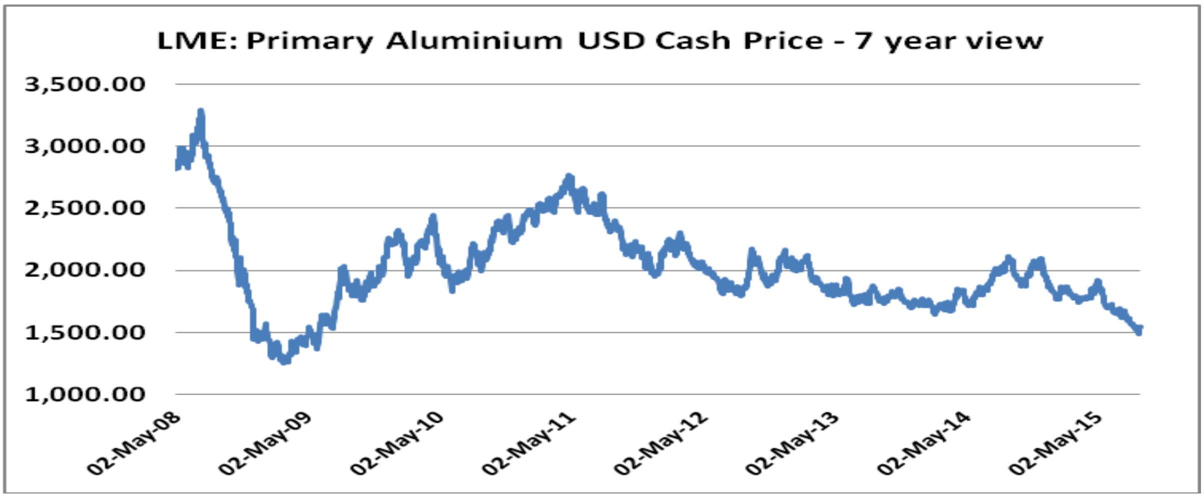

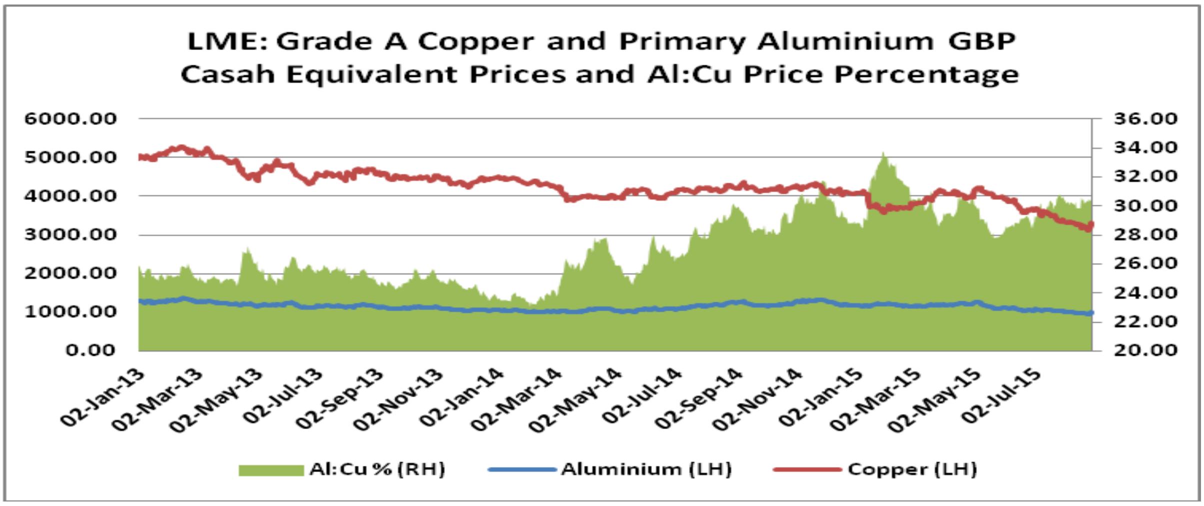

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