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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British Cables Association

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Economic Indicators and Comment:

The U.S. economy expanded at a slightly slower pace than initially estimated in Q3 2015, as steady consumer spending was offset by a slowdown in inventory investment. GDP advanced 2.0% in the third quarter, the Commerce Department reported. The agency last month had estimated third-quarter GDP growth of 2.1%. The report highlighted the relative strength of the U.S. economy compared with overseas economies, as domestic demand remained firm but exports slowed. The Q3 reading marks a sharp slowdown from the second quarter's 3.9% rate of expansion.

U.S. industrial output in November meanwhile witnessed its sharpest fall in three and a half year - down 0.6% month on month - following a revised 0.4% fall in October, according to figures released by the Federal Reserve. The Total Manufacturing index remained unchanged but the Utilities and Manufacturing indices were down 4.3% and 1.1% respectively.

Eurozone industrial production rebounded at a faster than expected rate in October, data from Eurostat showed. Industrial output advanced 0.6% on a monthly basis in October, reversing a 0.3% fall in September. This was the first increase in three months. On a yearly basis, industrial production climbed 1.9%, faster than the revised 1.3% increase in September. Economists had forecast a 1.4% growth for October. The growth rate for September was revised down from 1.7%.

Companies:

The Aurubis Group more than doubled its operating EBT to €343 million in fiscal year 2014/15 compared to the previous year (€137 million). Operating return on capital employed (ROCE) reached 18.7 % (previous year: 8.5 %). At €10,995 million, the Group's revenues were €246 million lower than the previous year (€11,241 million) due to lower sales of copper products. Aurubis' revenues are generally strongly tied to metal prices and thus are not a suitable indicator of the company's business performance. Significantly higher treatment and refining charges for the input materials copper concentrate and copper scrap, a strong increase in sulphuric acid prices worldwide and a higher cathode premium in particular contributed to the positive results. Sales of copper wire rod increased 3% from 742kt to 764kt while sales for other copper products declined slightly. The Group said it expected physical copper demand to be weaker worldwide - Aurubis has lowered the cathode premium for European customers to US$92/t for calendar year 2016 (the 2015 premium was US$110/t). The company expects the current demand level for copper products to continue.

Commodities trading firm Trafigura reported an increase in annual net profit as it racked up record oil trading volumes, as well as an increase in metals. The firm said it made a net profit of US$1.1 billion, up 6.5% from the year before. Gross profit was US$2.6 billion, an increase of 28% year-on-year, representing a gross margin of 2.7% compared with 1.6% the year before.

Market Commentary and News:

The global refined copper market in September, excluding changes in Chinese bonded stocks, showed an apparent production deficit of around 25,000t, according to preliminary data released by the International Copper Study Group. When making seasonal adjustments for world refined production and usage, September showed a production surplus of 30,000t, For January-September, indications are the global refined copper markets were in a production surplus of about 35,000t/year, and a seasonally adjusted surplus of about 122,000t. That compares with a production deficit of around 450,000t, and a seasonally adjusted deficit of about 375,000t, for the same period of 2014. For the first nine months, world apparent usage is estimated to have declined by around 1.5% (250,000t) compared with the same 2014 period. Excluding China, world usage declined by around 3.5%. Based on the average of independent stock estimates, China's bonded stocks declined by around 95,000t in January-September from the same year-ago period. Stocks declined by 30,000t in the same period of 2014. In the first nine months of 2015, the world refined copper balance adjusted for the change in Chinese bonded stocks indicates a production deficit of around 60,000t, compared with a deficit of around 480,000t in the same period of 2014. World mine production is estimated to have increased by around 3% (450,000t) in the first nine months of 2015 compared with production in the same 2014 period. World refined production is estimated to have increased by about 1.5% (230,000t) in the first nine months of 2015 compared with refined production in the same 2014 period: primary production was up by 1% and secondary production (from scrap) was up by 4.5%.

In a later release, the ICSG said the global world refined copper market showed a 26,000t deficit in September, compared with a 77,000t surplus in August. World refined copper output in September was 1.90 million tonnes, while consumption was 1.93 million tonnes.

Commodity trading group Trafigura expects the copper market to be in balance during most of 2016 before a surplus emerges at the end of the year. "Copper industry fundamentals remain for now relatively healthy across the globe but have also been affected to some extent by the deceleration in China," Trafigura said in its annual report. The group said its traded volume of processed copper ore surged 29% to 3.1 million tonnes during its 2015 financial year to the end of September. Overall metals and minerals traded volumes rose 6% to 52.1 million tonnes. The trader said it concluded significant investments during the year which would support further volume growth, including taking a 30% stake in a new copper smelter owned by China's Jinchuan Group.

Copper will remain in the doldrums over the next couple years as multibillion-dollar projects commissioned during boom times come on stream, according to BHP Billiton. The world's biggest resource company, however, expects a "significant" supply deficit to emerge by the end of the decade as the industry struggles to replace ageing ore bodies. The miner sees as much as 2.7million tonnes of net additional supply hitting the market over the next couple of years from new mines. Even though China will use an increasing amount of scrap, BHP still expects the country's primary copper consumption to grow by 2% per annum until 2030 when it will reach about 12 million tonnes. This estimate also includes the impact of substitution - lightweight aluminium replacing copper in power cables. BHP sees copper demand in non-OECD countries growing by 3.6% per annum over the same period, led by infrastructure growth in India and urban development in developing countries such as Indonesia and Vietnam. The company maintained that it has "a pretty good visibility of supply during the next three to five years" and that it was "confident at some point there will be a deficit which will inevitably result in higher prices than today."

Chinese copper consumption in 2015 is expected to increase by 2.6% to between 10 and 11 million tonnes, thanks to the multi-billion dollars of investment the country has poured into electricity network development, according to a report released by China Nonferrous Metals Industry Association. Investment in electricity network projects would top Yuan 467.9 billion ($72.3 billion) this year, and about 60% to 70% of the total would be spent on sourcing copper cable, CNIA said. Assuming Chinese copper prices average Yuan 40,000 ($6,177)/mt in 2015, copper cable requirements of power network projects would reach about 7.5 million tonnes, it said. An overhang in Chinese copper rod production is anticipated to extend into 2016, CNIA said. Output is expected to reach 6.5 million tonnes this year, or 65% of the country's copper rod production capacity of 10 million tpa. CNIA noted that Chinese would see the addition of another 600,000 mt/year of new capacity next year. Copper cathode production is likely to rise 9.7% in 2015 to 7.11 million mt. Apparent consumption of copper concentrate would reach 10.41 million mt this year, a 7.5% jump over 2014. Imports are likely to contribute 3.5 million mt of the total, a 3% drop from a year ago. With the growth in supply continuing to outpace demand, CNIA holds a bearish view of Chinese copper prices in the coming year.

Industry sources report that discussions are ongoing on methods and volumes of stockpiling copper, zinc and nickel to be bought by the Chinese state stockpiler. Copper and nickel are classified as strategic materials. "We understand that the main plan is to stockpile base metals, including copper, nickel, aluminium and zinc, and some minor metals in different buying methods," an executive at a state-owned copper smelter said.

Norsk Hydro, one of the world's largest aluminium producers, launched new cost cuts in December to combat a sharp decline in prices triggered by an oversupply of metal from China. By the end of 2019, the company aims to reduce its annual costs by 2.9 billion Norwegian crowns (US$335.70 million), of which 1.1 billion would come in 2016, it said in a statement. The new plan follows cost cuts of 4.5 billion crowns since 2011. The head of Norsk Hydro told Reuters that the plunge in price of primary aluminium has caused high-cost producers to reduce output and will probably lead to a better market balance next year and possibly a supply deficit in 2017.

Some Japanese aluminium buyers have agreed to pay producers a premium of US$110/t for metal to be shipped in the January-March quarter, sources directly involved in the pricing talks said. The deal, which marks a 22% rise from a US$90/t premium in the previous quarter, is the first increase in four quarters, in line with a rise in overseas surcharges for physical aluminium.

Some large aluminium smelters in China are likely to participate in a commercial stockpiling programme, which would cut the availability of the metal to support prices and increase cash to producers, industry sources said. An executive at a medium-sized aluminium smelter said the volume of stockpiling had not been set and would depend on the scale of production cuts by participating smelters in the second half of 2015.

Century Aluminium Co has abandoned plans to slash output at its Sebree, Kentucky, smelter due in part to a modest rebound in prices, a spokesman said. Century is the latest aluminium maker to backtrack on steps to cope with weak market conditions. The move comes as the company, whose largest shareholder is Glencore Plc, is considering launching a trade case against China, which it blames for the tumbling prices that have prompted smelter cutbacks and closures. The company will continue operating its Mount Holly, South Carolina, smelter at half capacity after agreeing to a three-year deal with power provider Santee Cooper. The 224,000tpa smelter had been scheduled to close at year end. Century stopped production at one of the plant's two potlines earlier this week and the plant will produce around 112,000tpa for the foreseeable future.

The LME said it intended to investigate planned large rises in warehouse rents for next year as they were out of line with the market and did not appear to be based on objective economic factors. The stock-weighted average increases for both warehouse rents and FOTs at 10% and 12% for 2016-2017 respectively are significantly higher than in the past two cycles. In 2015-2016 rents increased by an average of 3% and FOTs rose 2%.

The LME will include ores and metal products in a new electronic system for tracking material stored outside its registered warehouses and may later expand to other commodities. A metals warehousing fraud in China spurred the development of the new scheme to provide electronic receipts as proof of ownership for stored metal, which has the capacity for tens of millions of tonnes of material.

According to estimates from Trafigura, the biggest commodities meltdown in a generation has cost hedge funds more than US$40 billion in seven years. Losses due to poor performance and investor withdrawals have left assets at the top 10 commodities hedge funds at less than US$10 billion, compared with more than $50 billion in 2008. The company said the perception of commodities as an investable asset has been replaced by a “generalized aversion." “Commodities as an asset class are not as attractive as before and we are seeing the consequences on our asset management division.”It is probably one of the consequences of the end of the commodities super cycle. We have seen a sea-change in investor attitudes,” Trafigura said in its annual report. The Bloomberg Commodity Index, which tracks investor returns from 22 natural resources, has plunged two-thirds from its peak to the lowest level since 1999. According to the Newedge Commodity Trading Index Hedge, commodities funds are heading for their worst performance in seven years, after losing 4.6% in the first 10 months of 2015. Overall 2015 was “a difficult year” for commodity-related hedge funds, Trafigura said. The market became less liquid and more difficult to trade as hedge fund withdrawals led to closures, the trader said. The company confirmed it is winding down its Galena Metals Fund. In a statement it said that "in view of the difficult conditions prevailing on commodities markets, Galena Asset Management has decided to wind down the Galena Metals Fund, its liquid trading fund”.

Paul Crone, founder of Citrine Capital Management, one of the few surviving hedge funds investing exclusively in metals, alongside Red Kite Group, said that the biggest rout in industrial metals prices since the financial crisis is set to deepen as mining companies fail to cut production enough to make up for slowing demand. “We could make fresh multi-year lows across metals in the next six months,” The hedge-fund manager said that while low prices are beginning to trigger supply cuts, the market is questioning “how real” the reductions will be and whether producers will adequately follow through on their pledges. At the same time, consumption growth remains lacklustre, particularly in China. “I don’t see an uptick in real demand in the very short- term,” he said. “China is worse than the market had anticipated.” Copper, which has fallen 27% this year, could drop an additional 15% in 2016, Crone said.

Japan's copper cable shipments including sales and exports in November rose 1.2% from a year earlier to 61,800t on an estimated basis, the Japan Electric Wire and Cable Makers' Association reported.

China’s railway administration has asked the government to approve a US$584bn five-year construction programme, Bloomberg reported in December. The National Railway Administration estimates that this budget would be sufficient to build 30,000km of track, which compares with the US$550bn that the government spent on new rail track in the 2011-15 five-year plan. The strategic goal is to create a high-speed link between all cities with a population greater than 200,000. This will involve manufacturing 44 bullet trains and building 5,000km of high-speed lines. Priority will be given to the economic hubs of Beijing, Tianjin and neighbouring Hebei Province; the Yangtze River Delta; and the Pearl River Delta. Six lines will be built in the relatively undeveloped central and western regions of the country. According to Caixin, the government wants to build a 90,000km network in those regions by the end of 2020. The arguments in favour of continuing the pace of rail construction include the need to maintain demand in the internal economy, and the fact that in some respects China’s rail network is small relative to its population and land area.

LME Commentary:

In a largely featureless month, LME GBP copper and USD aluminium prices improved slightly as the US dollar weakened and despite oil prices falling below US35 a barrel - their lowest levels since 2009. Prices rallied toward month end as investors covered short positions ahead of a widely anticipated interest rate hike in the U.S. and traders squared positions in the lead-up to Christmas. The copper price was further underpinned after data showed that November's low prices had boosted Chinese imports and news that Chinese smelters are considering further production cuts.

In 2015;

- LME GBP copper and USD primary aluminium prices both reached 6 year lows of £2983.88/t and $1424/t on 23.11.2015.
- Year end LME copper cash close of £3172.31/t compares with 2014 year end close of £4079.42/t.
- Year end LME aluminium cash close of $1507.50/t compares with 2014 year end close of $1831.50/t.
- LME copper stocks closed the year at 236,225t, up 59,200t or 22% in the year.
- LME primary aluminium stocks closed the year at 2,901,200t, down 1,304,025t or 31% in the year.

LME Statistics and Charts: December 2015 and Full Year 2015:

December 2015	Copper			Aluminium		
	Cash £/t	3M £/t	Stocks	Cash $/t	Stocks	USD:GBP
Opening	3,065.23	3,057.86	243,025	1,442.00	2,897,100	1.5069
Average	3,088.95	3,090.16		1,494.29		1.4987
High	3,184.95	3,187.90		1,541.00		1.5165
Low	3,020.21	3,016.76		1,442.00		1.4804
Range	164.74	171.14		99.00		
Closing	3172.31	3171.21	236,225	1507.50	2,901,200	1.4822
Opening:Closing Δ	107.08	113.35	-6,800	65.50	4,100	
Opening:Closing Δ %	3.49	3.71	-2.80	+4.54	+0.14	

Full Year 2015	Copper			Aluminium		
	Cash £/t	3M £/t	Stocks	Cash $/t	Stocks	USD:GBP
Opening	4,089.85	4,052.55	177,025	1,821.50	4,205,225	1.5426
Average	3,594.80	3,591.46		1,660.77		1.5288
High	4,240.26	4,241.74		1,919.00		1.5915
Low	2,983.88	2,973.24		1,424.00		1.4610
Range	1,256.38	1,268.50		495.00		
Closing	3172.31	3171.21	236,225	1507.50	2,901,200	1.4822
Opening:Closing Δ	-917.54	-881.34	59,200	-314.00	-1,304,025	
Opening:Closing Δ %	-22.43	-21.75	+33.44	-17.24	-31.01	

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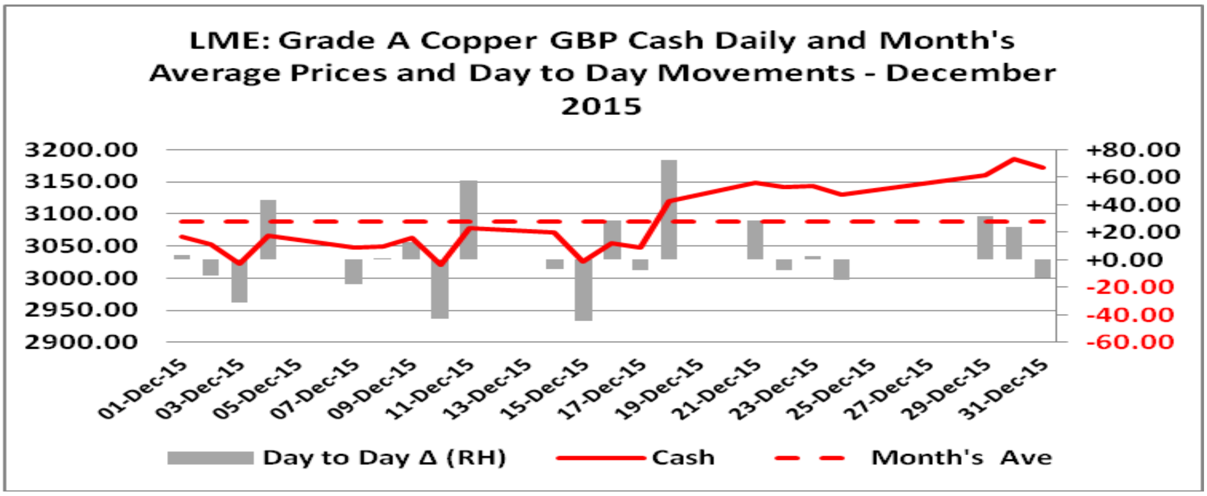

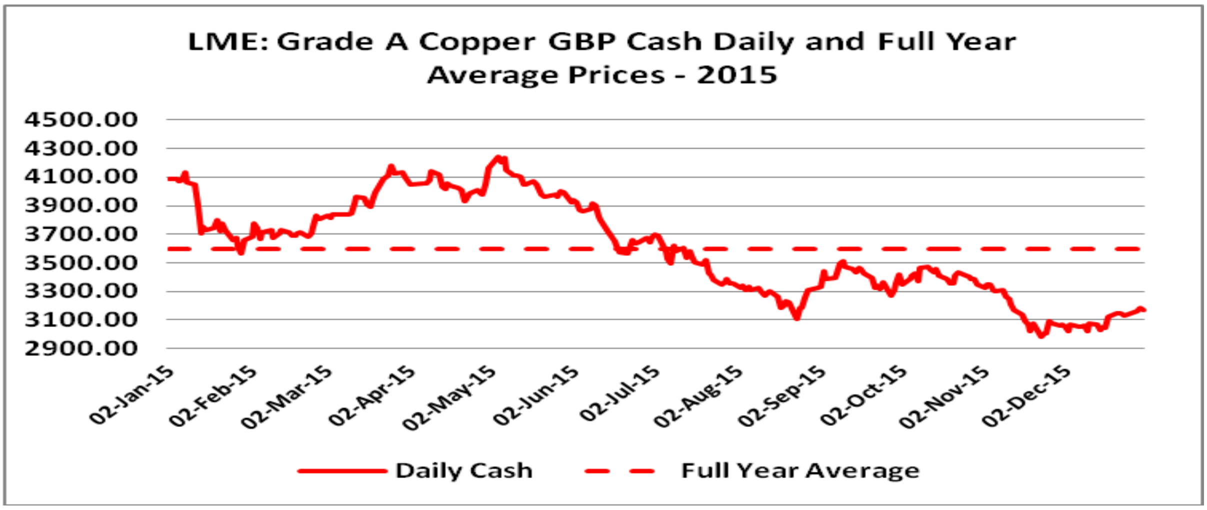

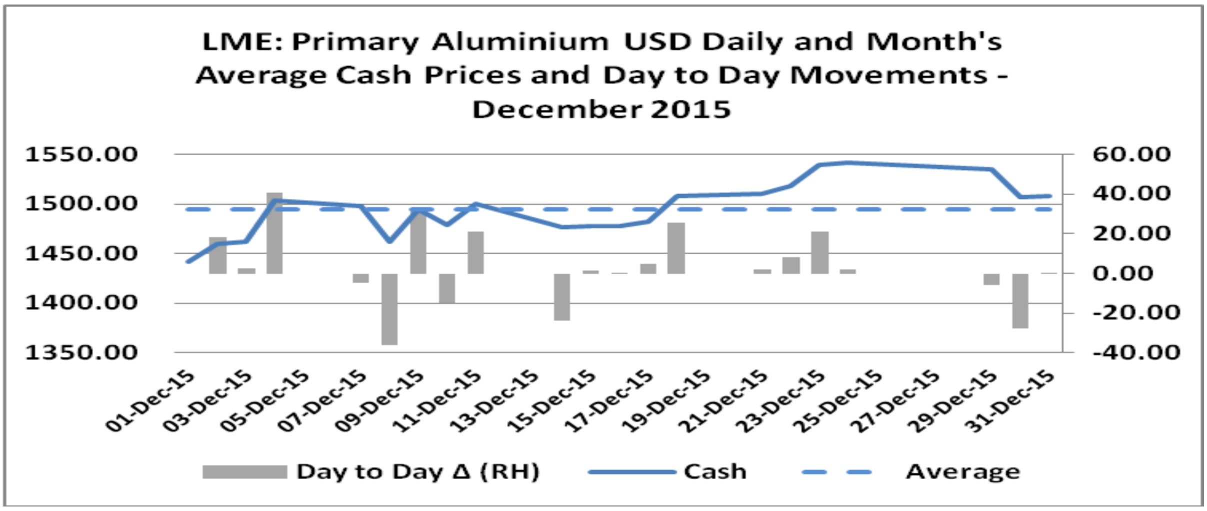

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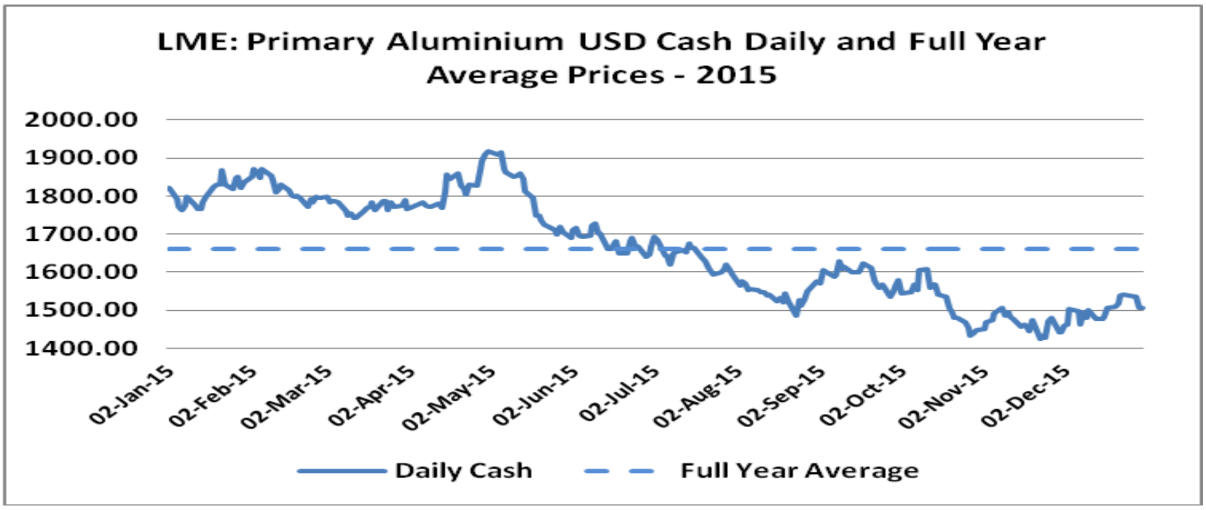

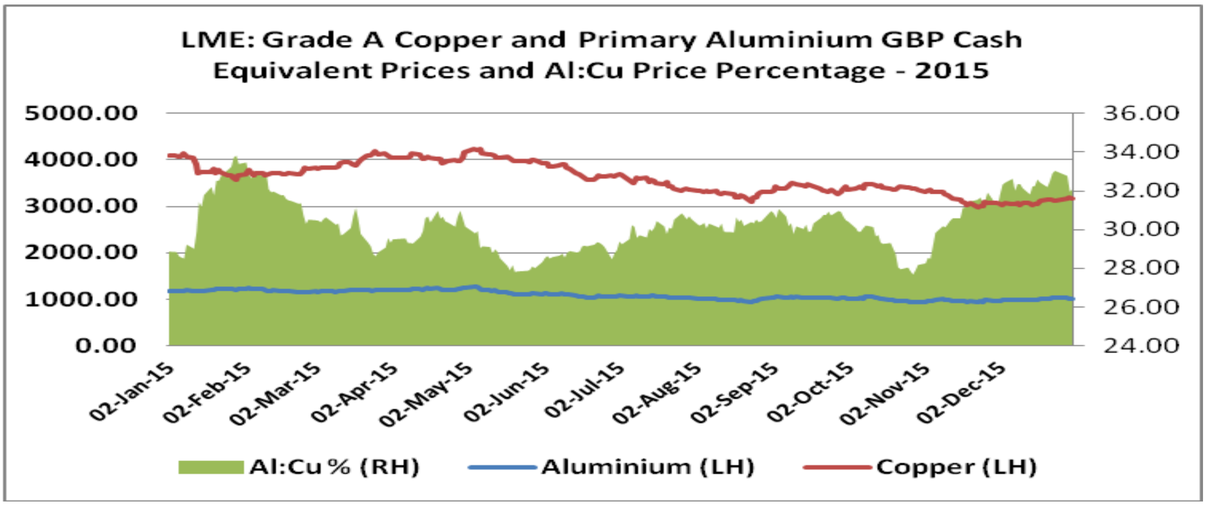

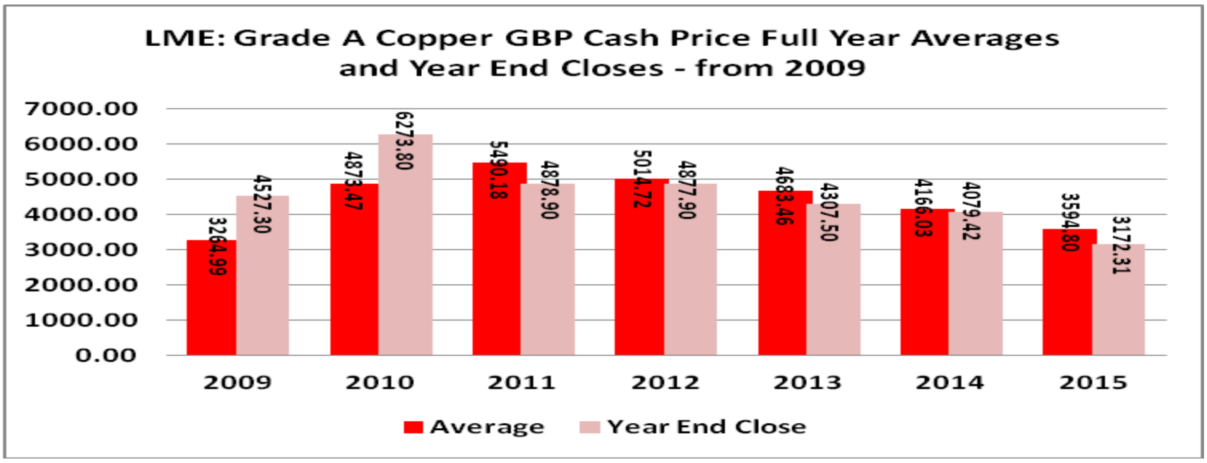

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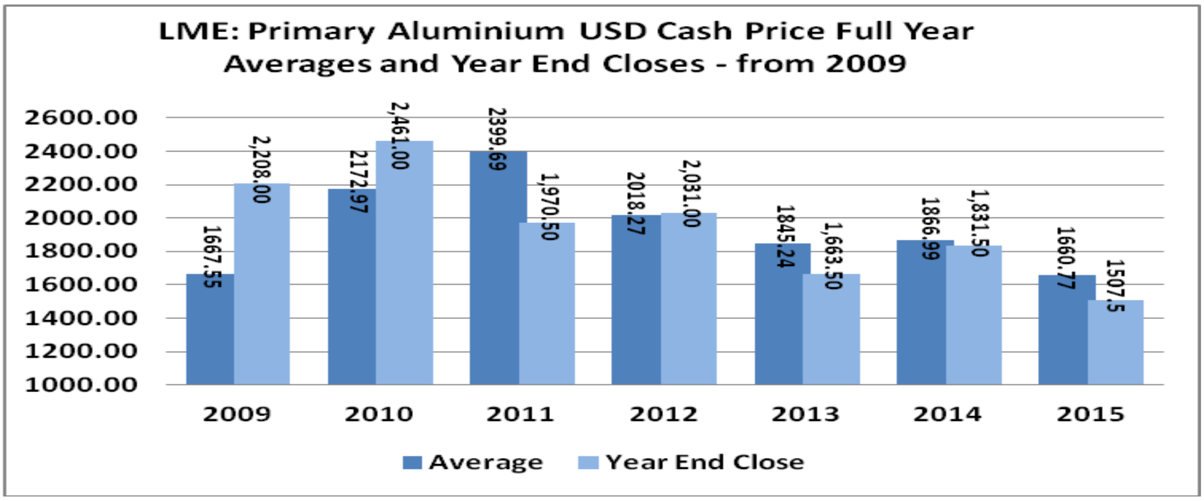

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