Metals Newsletter

February 2015

Economic Indicators and Comment:

The OECD's composite leading indicators (CLIs), point to tentative signs of a positive change in growth momentum in the euro area, particularly in Germany and Spain. In Italy, the CLI also points to improvements, with this month's CLI pointing to stable growth momentum compared to weakening momentum last month. The outlook for France is unchanged from last month's assessment, with stable growth momentum anticipated. The CLIs indicate stable growth momentum also in the OECD area as whole and in some of the major economies, including the U.S., Canada, Japan, China and Brazil. In the UK, the CLI points to an easing in growth momentum. The CLI for India indicates firming growth while in Russia the CLI continues to point to a loss in growth momentum.

Standard & Poor's Ratings Services said has lowered its economic growth forecasts for China and Japan while raising the outlook for India. For China, S&P now sees 2015 GDP rising 6.9%, down from a previous projection of 7.1% growth. For 2016, it cut China's GDP expansion to 6.6% from 6.7%. For Japan, it trimmed the 2015 forecast to just 0.7% growth from 1.3%, while for 2016 it sees 1.3% growth, down from 2.1%. It raised its outlook for India to grow 7.9% in the fiscal year ending March 2016, up from a previous forecast of 6.2%. For the year ending March 2017, it sees 8.2% growth, compared to 6.6% previously forecast.

Policy insiders say Chinese authorities will cut interest rates, increase liquidity and tolerate some currency weakness to ensure the economy grows around 7% this year, as they try to head off deflation and keep employment strong enough to push on with reforms. Expansion of around 7% is expected to be unveiled as the official 2015 target when parliament meets in March and is seen as the minimum needed to stop job losses and debt defaults among local governments and firms.

Euro zone economic growth accelerated unexpectedly in the final quarter of 2014 as the bloc's largest member, Germany, expanded at more than twice the expected rate. A preliminary estimate showed the economy expanded by 0.3% between October and December compared with the previous three months, according to figures released by Eurostat. Year-on-year, euro zone growth was 0.9% in the fourth quarter, 0.1% higher than expected. The euro zone's biggest economy, Germany was the best performer, growing by 0.7% in the quarter, far surpassing expectations of a 0.3% rise. It marked a return to solid expansion in Germany after two quarters close to zero, boosting the growth rate for the whole of last year to 1.6%.

Industrial production in the euro zone failed to rise as expected in December with Ireland the main culprit - Irish factory output slipped by 12.4% from the previous month. Declines in several mostly peripheral euro zone states – Estonia, Finland, Greece, Malta, the Netherlands, Portugal and Spain - wiped out gains in Germany, France and Italy. Overall industrial production in the 18 country zone in December was unchanged while year-on-year production was down 0.2%.

In its second estimate of Q4 2014 GDP, the ONS said that the UK economy was estimated to have increased by 0.5% between Q3 2014 and Q4 2014, unrevised from the previous estimate published in January 2015. GDP was estimated to have increased by 2.6% in 2014, compared with 2013, also unrevised from the previous estimate. Between Q4 2013 and Q4 2014, GDP increased by 2.7%, unrevised from the previously published estimate - its highest growth rate since the last three months of 2007.

Companies:

Nexans published its financial statements for the full year 2014, Sales at constant metal prices were €4,587 million compared with €4,689 million in 2013. The Group posted a net loss of €168 million due to the recognition of a non-recurring €197 million net asset impairment, notably for goodwill in Australia, North America and Brazil. CEO Arnaud

Poupart-Lafarge reported that despite a difficult environment, the group had moved ahead with the transformation process and strategic initiatives, which contributed €73 million to the €148 million operating margin and had been able to deliver a better performance than the previous year despite a more difficult economic environment. Looking to 2015 he said that *a*ll of the measures aimed at transforming the Group will continue to be rolled out and implemented in 2015, with the key priority of improving operating performance. In the current context of a still highly-fragmented market, acute competition and customers moving towards larger and integrated structures, competitiveness will be a determining factor for the Group going forward.

Prysmian Group also published its 2014 full year results in the month. Sales at €6,840 million showed an organic growth of +1.8% compared to 2013 (up +2.7% if Western Link was excluded), boosted by excellent performances by the submarine cables business and a solid recovery by telecom. Adjusted EBITDA amounted to €509 million (€613 million in 2013). Excluding the adverse impact of the Western Link project, adjusted EBITDA would have been €603 million, basically in line with its level in 2013. Adjusted net profit of €186 million was down 32.0% on 2013 or €252 million excluding Western Link - down 6.3% on 2013. CEO Valerio Battista reported that this was a significant result, having been achieved in a still difficult scenario, that has seen demand recover for some businesses, like Optical Cables and Renewables, but with ongoing weakness in the more cyclical sectors, like Trade & Installers and Power Distribution, as well as a slowdown in the Oil & Gas market. For 2015, the Group's expectation is that demand for MV power distribution cables will remain weak, while the building wires business is likely to see a continuation of the stabilising trend observed in the second half of 2014. In the Industrial Oil & Gas and SURF cables business, the sudden drop in oil prices could affect investments over the medium term. The Group confirms a generally stable trend for its high value-added power transmission businesses, with potential growth areas in the submarine business, although offset by weak demand in the high voltage underground market. In the Telecom business, demand for optical fibre cables is expected to carry on recovering in the coming quarters, especially in Europe and the U.S., albeit at a slower pace than in 2014.

The Aurubis Group reported revenues of €2,635 million in the first quarter of its fiscal year 2014/15 compared with €2,793 million in the corresponding period last year with operating earnings before taxes (EBT) of €39 million - down €3 million on the previous year. Aurubis produced 238Kt of copper cathode from its primary copper operations - up 7.2% year on year while cathode output from its recycling operations was unchanged year on year at 47Kt. Copper rod production at 163Kt compared with 156Kt for the previous year but continuous cast shapes were down 2.6% at 38Kt and flat rolled products and specialty wire down 4% at 48Kt. Aurubis said that "the international copper market will likely be fundamentally well supported in 2015 as market observers expect a low surplus or a balanced copper cathode market. We therefore anticipate good demand for cathodes with a high premium level. The trends on our product markets vary: while we anticipate stable sales of copper rod, market observers forecast stagnating demand for shapes. More difficult conditions are expected on the markets for strip products as well".

Global miner BHP Billiton posted a 31% drop in half-year profit as prices for all its main products collapsed, but beat market forecasts and flagged further belt tightening to withstand the tough conditions. The company again cut its targets for capital spending and said it would reap savings of US$4 billion in the three years to 2017, shoring up cash flows so it could stick to its policy of not cutting dividends.

Russia's United Company Rusal Plc reported a more than six-fold rise in fourth-quarter earnings due to a slump in the rouble against the US dollar and stronger aluminium prices and forecast a deficit in aluminium supply in 2015 outside China. The world's biggest aluminium producer warned, however, that aluminium premiums in Asia may come under pressure from rising exports of semi-manufactured products from China, the world's largest aluminium producer and consumer.

Market Commentary and News:

The global world refined copper market showed a 42Kt deficit in November, compared with a 29Kt deficit in October, the International Copper Study Group (ICSG) said in its latest monthly bulletin. For the first 11 months of the year, the market was in a 640Kt deficit compared with a 278Kt deficit in the same period a year earlier. World refined copper output in November was 2 million tonnes, while consumption was 2.04 million tonnes. Bonded stocks of copper in China showed a 1Kt surplus in November compared with a 62Kt deficit in October.

Chile exported 5.66 million tonnes of copper in 2014, up 1% from 5.59 million mt in 2013, according to figures released by the Chilean Copper Commission (Cochilco). The country exported 2.48 million tonnes of refined copper, down 4% from 2.59 million tonnes from 2013, while exports of copper concentrates totalled 2.73 million tonnes, up 8% from 2.53 million tonnes a year earlier. Total production was 5.78 million tonnes and the largest buyer by far is China, which took around 2.2 million tonnes, or 39% of Chile's copper exports. Asian buyers accounted for the top four destinations last year, with Japan and South Korea placing second and third respectively. Sales of mostly bulk copper (concentrate) to India are rising fast. It was the first time India ranked above the U.S. since 2010.

Chinese copper producers are cutting demand for raw material scrap due to low margins at a time of weak metal prices, which could slow down growth in China's production of refined copper this year, industry sources said. It could also make producers more dependent on copper concentrates, boosting demand for imports. Nearly a third of China’s output has come from copper scrap in the past two years.

Copper output in Zambia, Africa’s second- biggest producer, fell to a three-year low in 2014, just as the implementation of a contested new mining tax threatens a further drop, according to the Chamber of Mines. Preliminary figures show production declined to 708,258t, the lowest since 2011. The country produced 790,007t in 2013. A new system that increases royalties for mines while removing corporate income tax may cut copper output by more than 158,000t this year, the Chamber said.

Peru, the world’s third copper producer, saw its mine output in 2014 increase a modest 0.26% from the year before, up to 1.38 million tonnes, according to official figures.

Faced with rising copper costs in the second half of last year as producers set their domestic sales prices not only based on the LME and in US dollars, Russian consumers, including cable plants, complained to the government and in January, President Putin asked officials to resolve the problem of increasing domestic prices. A source at the ministry of industry and trade has suggested that one solution would be the re-introduction of export duties on copper cathodes. He added that if there is no compromise with the metals producing companies in the coming weeks, the imposition of duties could not be excluded. In August 2014, the 10% export duties on copper and nickel were reduced to zero.

The International Aluminium Institute (IAI) has stopped reporting global inventory stocks with critics suggesting this will impair transparency. In a statement, the IAI said the aluminium stocks numbers it receives from global smelters had become incomplete to the point where it would be misleading to carry on reporting them.

Price improvements for aluminium and related alumina and bauxite, amid slowing supplies out of China, are turning Rio Tinto’s aluminium division's fortunes around. In Rio Tinto's financial results, data showed aluminium had surpassed copper in 2014 as the second biggest contributor to underlying earnings behind iron ore - US$1.25 billion against US$910 million for copper. In 2013, aluminium contributed US$550 million versus US$820 million by copper. The company noted that copper is the only metal expected to average a lower price both this year and next year relative to 2014. Aluminium was among the headline picks, with expectations that the metal will record a widening supply deficit over this year and next, supporting higher prices.

Premiums for physical aluminium in Europe are finally falling from record levels hit in recent years, weighed down by Chinese exports, sluggish demand in Europe and material from financing deals moving back onto the market, according to market analysts. The move has unnerved the market, traders said, suggesting that this was a turning point, with warehousing reforms by the LME due to free up even more metal.

Japan's aluminium premiums are likely to stay at a record high level of US$425/t throughout this year, supported by higher U.S. spot premiums and tight global supply, outside of China, Japanese trading house Sumitomo Corp said. Japan is Asia's top aluminium importer and the premiums for primary metal shipments it agrees to pay each quarter over the London Metal Exchange (LME) cash price set the benchmark for the region.

Aluminium stocks held at three major Japanese ports climbed for a tenth month to hit a record high at the end of January, as robust imports met tepid domestic demand. Aluminium stocks held at Yokohama, Nagoya and Osaka grew 8.8% in January from a month earlier to 449,800t.

South Korea's aluminium ingot imports rose 4.2% on year in 2014 to 1.49 million mt, Korea Nonferrous Metals Association data showed. The country also imported 331,682t of copper cathode in 2014, up 16.5% from the 284,634t in 2013. Exports of both the base metals also increased in 2014. Aluminium exports reached 90,005t, up 10.6% from 81,370t in 2013, while copper exports rose to 189,565t, up 7.3% from 176,621t a year earlier. In 2014, South Korea produced 601,724t of copper cathode, a marginal decline of 0.5% from the 605,015t in 2013. South Korea does not produce any aluminium.

Indonesia's first alumina refinery has started commercial operations, with most of its output committed for export to Japan, as the country's push to add value to minerals domestically begins to bear fruit. The refinery in Tayan, West Kalimantan, is one of the first mineral processing facilities to start operations since Indonesia banned exports of unprocessed ores in January 2014.

Produced by Neil Bootman of NGB Metal Services.

Japan's copper cable shipments including sales and exports in January fell 4.4% from a year earlier to 59,200t, the Japan Electric Wire and Cable Makers' Association said.

A new layer of tough rules proposed for implementation by the LME for operating warehouses may boost costs and drive more metal out of the regulated system and into unregistered depots, according to analysts. The plan would give the LME sweeping regulatory powers to determine whether warehousing firms are behaving badly, even if they are not technically breaking the rules.

Turnover in copper options on the LME spiked last month to its highest in three years, as investors rushed to guard against steeper losses during the market's worst rout in years. Some 321,570 options, including traded average price options known as TAPOs, in the LME's second-biggest contract by turnover and liquidity traded in January, double the level in the same month last year and almost twice as much as in December, LME data shows.

LME Commentary:

In the early days of February LME metal price sentiment followed the fortunes of the oil price, news that Chinese manufacturing activity in January shrank for the first time in more than two years and the Greek debt standoff in Europe. Metal prices remained sluggish and loathe to move decisively either way with some Chinese copper fabricators reported to be taking extended Lunar Year holidays because of lower demand and the U.S. CFTC reporting that hedge funds and money managers had increased their bearish positions in copper futures.

Both aluminium and copper prices however managed to hold just above the lows seen in January as the number of open forward copper contacts on the LME subsequently surged to record levels ahead of the Lunar New Year, with investors now betting that dwindling copper supplies will push up prices despite the prospect of slower demand from China.
LME copper climbed towards month end as the euro firmed as investors bet - correctly - on a Greek debt deal, oil prices stabilised while much of the Asian region returned to work after the Lunar New Year holiday.

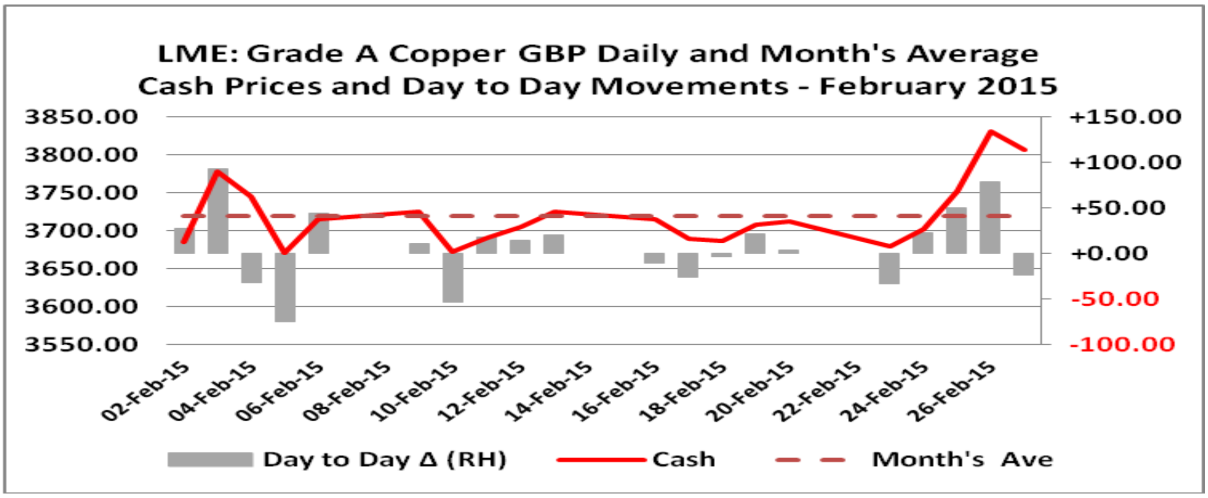
Primary aluminium prices traded as ever within a narrow range and unlike other LME metals failed to respond positively to the improved sentiment and the continued fall in aluminium exchange stocks in the second half of the month. Primary aluminium stocks closed the month at 3,939,425t, down 101,650t in the month and 265,800t or 6.3% in the year.

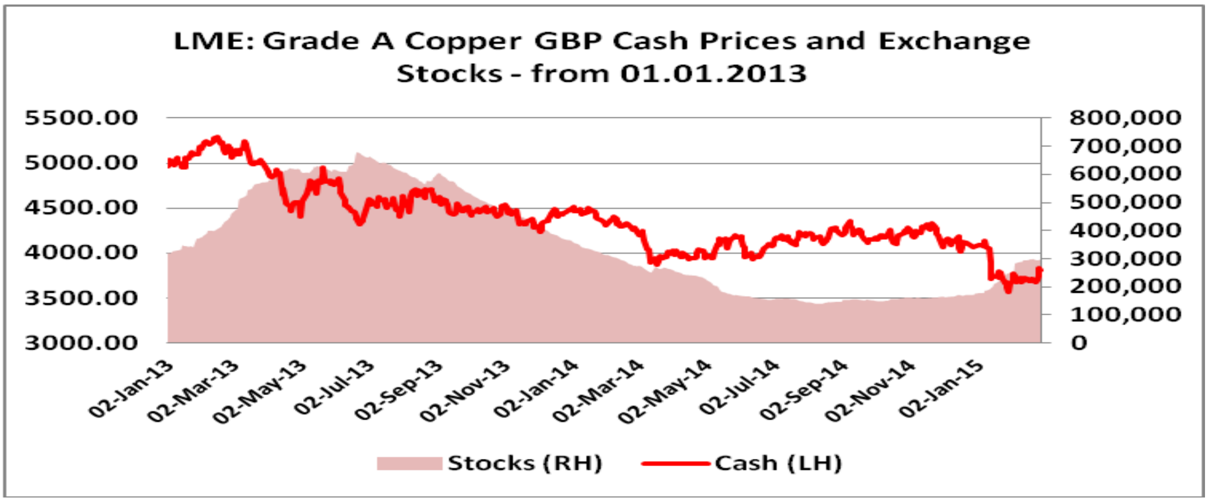
The cash-to-three-month copper spread on the LME narrowed in mid month to a £2.40/t contango (compared to the recent high backwardation of £47.54/t at the end of December) based the sharp decline in prices and steady rise in exchange stocks. LME copper stocks were up 47,175t in the month and closed the month some 120,175t of 67.9% higher than 2014 year end.

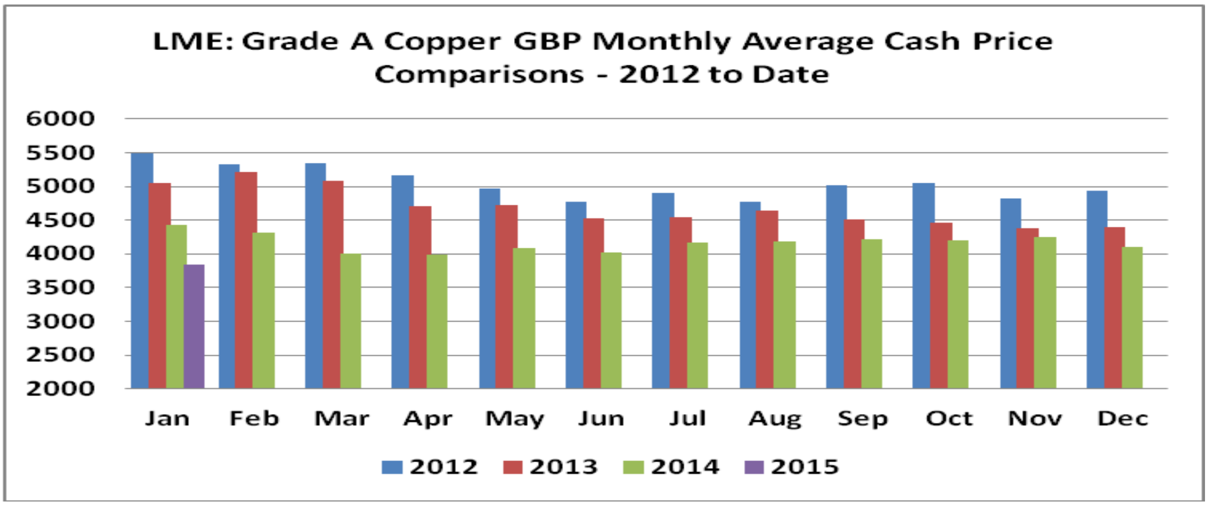
LME Data and Statistics - February 2015

	Copper			Aluminium		
	Cash £/t	3M £/t	Stocks	Cash $/t	Stocks	USD:GBP
Opening	3,685.42	3,667.98	250,025	1852.00	4,041,075	1.5020
Average	3,719.94	3,712.93		1820.78		1.5328
High	3,830.84	3,818.78		1871.50		1.5494
Low	3,670.54	3,667.61		1772.50		1.5020
Range	160.30	151.17		99.00		
Closing	3807.38	3784.26	297,200	1794.50	3,939,425	1.5445
Opening:Closing Δ	121.96	116.28	+47,175	-57.50	-101,650	
Opening:Closing Δ %	3.31	3.17	+18.87	-3.10	-2.52	

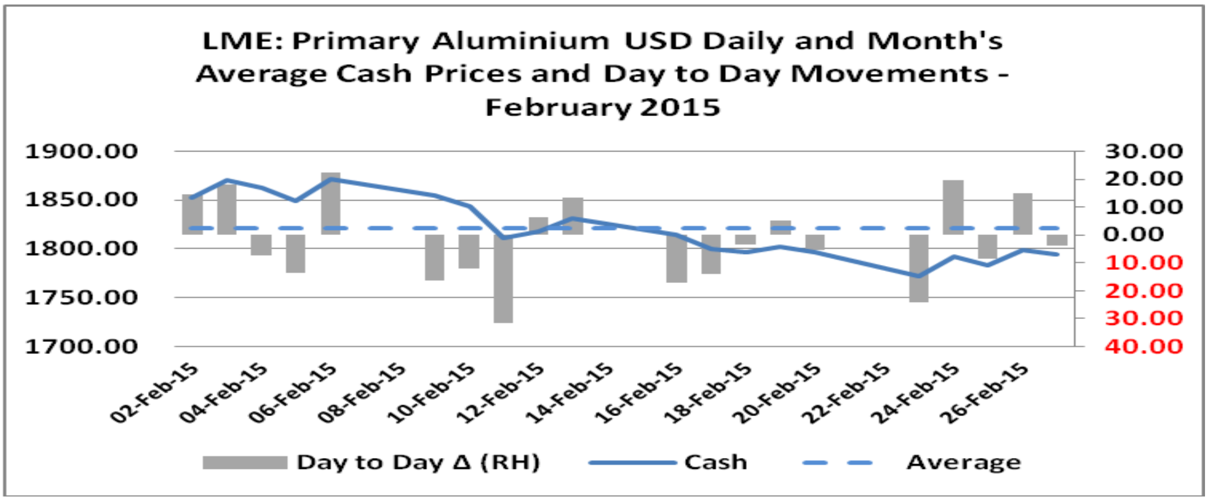
Produced by Neil Bootman of NGB Metal Services.

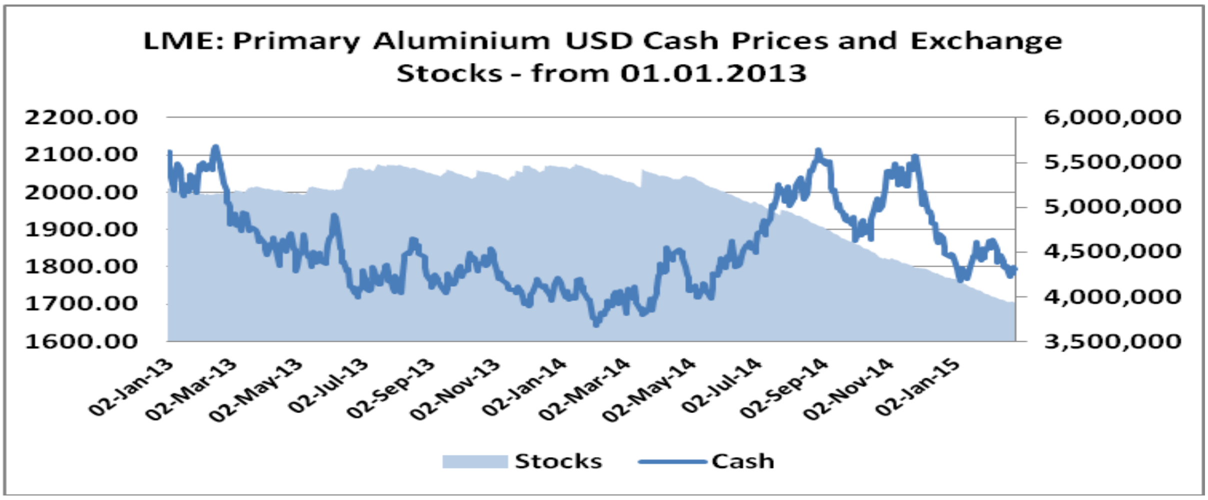


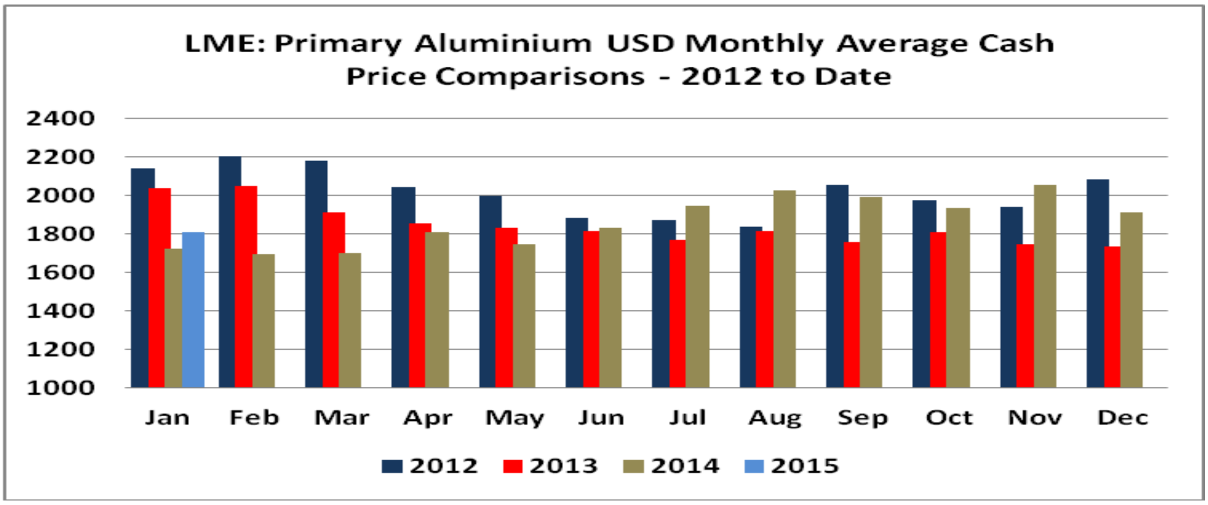




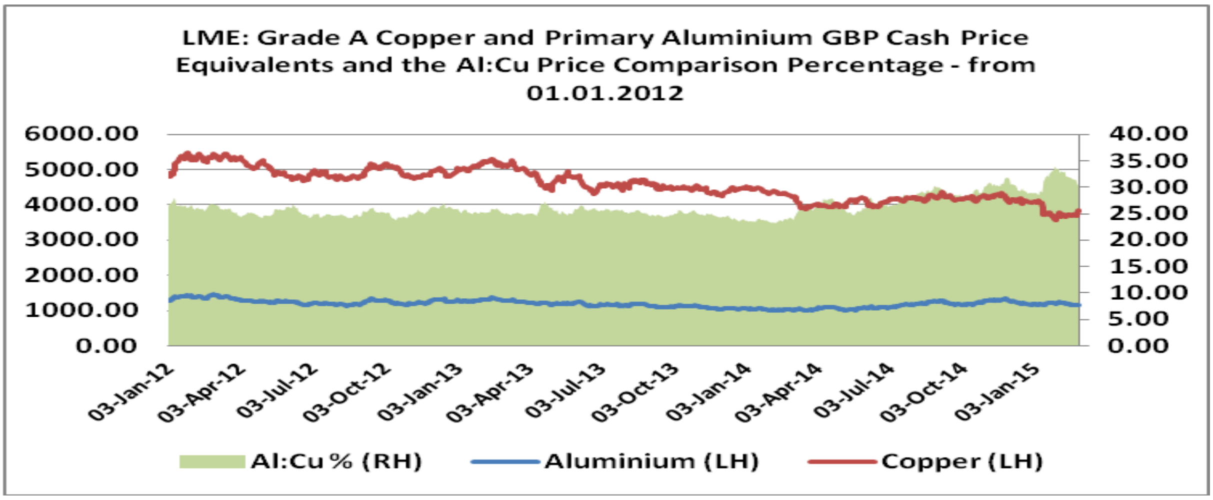
Produced by Neil Bootman of NGB Metal Services.







Produced by Neil Bootman of NGB Metal Services.



Produced by Neil Bootman of NGB Metal Services.