

July 2015

Economic Indicators and Comment:

The IMF, in revisions to its World Economic Outlook, has cut its forecast for global growth this year, citing a weaker first quarter in the U.S., and expressed confidence that financial-market turbulence from China to Greece would not cause widespread damage. While Greece's debt crisis will have a major effect on the country's economy, it's only 2% of the euro-area's GDP. China's stock-market slump is "very much a sideshow" that "doesn't reflect on the fundamentals" of China's economy, it said. The world economy will grow 3.3% in 2015, less than the 3.5% pace projected in April and slower than the 3.4% expansion last year. The fund left its forecast for growth next year unchanged at 3.8%. While the IMF left its 2015 projections for China and the euro area unchanged from April, it singled out both economies as sources of potential risk. Much of the global downgrade was driven by the U.S., which the fund now sees growing 2.5%, compared with 3.1% in April. The fund warned that risks to the world recovery remain "tilted to the downside." The IMF reduced its projection for growth in advanced economies to 2.1%, down from 2.4%. The fund left its forecast for the euro-area unchanged at 1.5%, while cutting its outlook for Japan to 0.8% from 1%. Canada will grow 1.5% this year, down 0.7% from April, while Mexico's growth was cut to 2.4 % from 3%. Emerging markets should grow 4.2% in 2015, down 0.1% from the April projection. The fund left its forecast for China's expansion this year unchanged at 6.8% while Brazil's economy will contract 1.5%, compared with its previous forecast for a 1% percent drop in April.

U.S. Commerce Department reported that Q2 GDP increased at a 2.3% annualized rate and revised its Q1 "advanced" figure to 0.6% from a previously reported 0.2% fall. The agency said that "the economy has moved beyond some of the early 2015 constraints including weather and port delays, while cooling global markets, a strong dollar and insufficient wage gains may continue to limit growth". Economists' estimates for GDP had ranged from 1.2% to 3.8%. The Commerce Department also issued its annual revisions, updating the data back through 2012. The economic expansion over the past three years was weaker than initially projected, with the biggest revision coming in 2013. From the end of 2011 to the end of 2014, the economy expanded at a 2.1% annual rate, compared to the 2.4% pace reported before. GDP grew 1.5% in 2013, the weakest since 2009, compared with a previously reported 2.2% gain.

China's National Bureau of Statistics reported that China's growth remained at 7% in the second quarter (the government's target for the full year) - most economists had expected a figure below 7%. Refuting claims that the data had been inflated, the Bureau said there were "positive signs in the second quarter, with the overall economy stabilizing and staging signs of improvement". Other statistics released showed little sign of turnaround in a quarter that started against the backdrop of a broad stock rally and ended under the shadow of that rally's collapse. Industrial production grew 6.3% year-over-year in the first half, down from the 6.4% growth in the first quarter, while growth in fixed-asset investment fell to 11.4% from 13.5%, and retail-sales gains slowed to 10.4% from 10.6%, the bureau said.

Following the end of June/early July sell off in Chinese equities which bottomed on July 8 and had erased US\$4 trillion from the nation's equities, the Shanghai Composite Index gauge had recovered 16% towards month end. Officials had allowed more than 1,400 companies to halt trading, banned major shareholders from selling stakes and armed a state-run financing vehicle with more than US\$480 billion to support the market. On July 27 however, amid media reports that the government had withdrawn its support for the market, data showed Chinese manufacturing unexpectedly fell in July to the lowest level in 15 months and a gauge of industrial companies plunged by a record 9%, equities saw the biggest one day fall since 2007. The SCI plunged 8.5% with 75 stocks dropping for each one that rose and a measure of 30-day volatility jumped to its highest level since 1997, as more than 1,700 stocks fell by the daily 10% limit on the Shanghai and Shenzhen exchanges. The Hang Seng China Enterprises Index sank 3.8%, extending the world's worst decline in the past month. Government officials stressed later that there was no truth to reports that the government has withdrawn its support for the stock market, affirming that "the commission will continue efforts to stabilize market and investor sentiment, and prevent systemic risk".

Japan's central bank is considering cutting estimates for fiscal 2015 real growth in GDP to the upper 1% level in light of China's economic slowdown and weaker-than-expected exports and production. The Bank of Japan predicted 2% GDP growth in its April outlook report, but economic recovery has been slow in China and elsewhere. In Japan, auto export volume sank to a four-year low and industrial production slumped in June.

The EU's statistics office Eurostat said industrial production in the 19 countries using the euro fell by 0.4% month-on-month in May, but showed a 1.6% year-on-year gain. It was the third consecutive month of a flat or negative monthly reading. The monthly fall was steepest for energy production with non-durable consumer good output also down. Production of intermediate goods, capital goods and durable consumer goods was higher in May. Eurostat had forecast in May that Eurozone economic growth would be 0.4% in the second quarter, the same rate as in the first three months of 2015. It sees full year GDP growth of 1.8% compared to 1.4% in 2014. German industrial production was flat in May, as a robust rise in manufacturing was offset by a drop in construction output.

UK GDP growth in the three months to June stood at 0.7% according to the ONS, following a disappointing rise of 0.4% in the first quarter. The second-quarter number was in line with City expectations. Commentators pointed to unbalanced growth with increases in the services and production sectors of 0.7% and 1.0% respectively offset by a 0.3% fall in manufacturing and a 0.7% decrease in agriculture. Construction output was unchanged. Year-on-year, GDP was 2.6% higher. The ONS said the second quarter was 5.2% higher than the pre-downturn peak of January to March 2008. From that peak at the start of 2008 to the trough – the second quarter of 2009 – the economy shrank by 6%, it said.

Companies:

Nexans announced its 2015 first-half results. Operating margin was up 23% year on year to €95 millions, despite a 0.8% (organic) decrease in sales which at €3.271 million compared to €3.216 million for the same period in 2014. Sales were hampered by ongoing difficult market conditions in Brazil and Australia as well as in the Oil & Gas sector. The Company reported sustained growth in high value-added businesses (submarine high-voltage cables, automotive harnesses, and LAN cables and systems) and a gradual improvement in Europe and the Middle East, Russia and Africa Area. €98 million of restructuring costs and provisions were recognized during the period which contributed to a net loss of €59 million.

Prysmian Group also published its first half 2015 results. Sales increased to €3,737 million (up 7.0% excluding Western Link). The Group announced a record order book of almost €3.5 billion. There were "excellent performances" by the energy projects sector which were up 17.4% (excluding WL) and telecom (+13.1%) while energy & infrastructure showed a recovery. Adjusted EBITDA at €315 million was up 13.3% year on year. For the 2015 full year, the Group aims to position itself at the top end of the adjusted EBITDA range of €590-€640 million for full year 2015."

Market Commentary and News:

The global world refined copper market showed an 81,000t deficit in April, compared with a 4,000t surplus in March, the International Copper Study Group (ICSG) said in its latest monthly bulletin. For the first 4 months of the year, the market was in a 62,000t surplus compared with a 436,000t deficit in the same period a year earlier. World refined copper output in April was 1.83Mt, while consumption was 1.91Mt. Bonded stocks of copper in China showed a 71,000t deficit in April compared with a 21,000t surplus in March. During the first four months of 2015, the refined copper balance logged a surplus of 60,000t, compared with a deficit of 436,000t during the same period of last year. Demand from China was the highest during the month since December 2014. China's apparent demand however, still declined by 5% based on a 14% decrease in net imports from a high net import number in 2014. World demand excluding China fell by around 3% in the first four months mainly on a 43% decline from Russia following its withdrawal of its cathode export tax in September 2014, as well as a decline of 6% and 7% from Japan and the EU, respectively. Copper mine production in the first four months rose by 3% year-on-year to 6.26Mt tonnes, attributed to a recovery in production levels at mines in Indonesia and Chile. World refined production increased by about 3% to 7.36Mt in the first four month, with a 2% increase in primary production and a 8.5% increase in secondary production.

ICSG data showed global copper mine production capacity until 2018 is expected to grow at an average annual rate of around 6% to reach 27.5Mt/year in 2018. Compared with a previous estimate published in January, anticipated annual mine production capacity for 2017 and 2018 was revised down around 330,000 mt and 140,000 mt, respectively, owing mainly to continued delays for many projects. China is continuing to expand its smelting capacity and will account for 60% of the expected world growth through 2018. World copper refinery capacity will reach 30.2Mt/year in 2018, an increase of 2.9Mt/year (11%) from 2014.

According to Thomson Reuters, the top 10 copper producing countries in 2013 and 2014 were:

	2014 (tonnes)	2013 (tonnes)
1. Codelco	1.84M	1.79M
2. Freeport McMoran	1.47M	1.535M
3. Glencore	1.296M	1.260M
4. BHP Billiton	1.205M	1.203M
5. Southern Copper	665K	635K
6. Rio Tinto	636K	587K
7. KGHM Polska Miedz	506K	531K
8. Anglo American	504K	516K
9. Antofagasta	455K	466K
10. First Quantum Minerals	380K	381K

Chile is expected to produce 5.88Mt of copper in 2015, state copper commission Cochilco said in the month, slightly lowering its prior forecast. Cochilco estimated in April that output would be around 5.94 Mt, up from 5.78Mt last year.

Codelco resumed operations at its Chuquibambilla copper complex (the world's largest open pit copper mine) at the end of the month after protesting contract workers had forced a halt to production. The strike had however extended to the El Teniente division on July 29, where employees blocked access to the mine. Codelco said seven of its eight operations are currently operating but that the strike has caused millions of dollars in losses. The only operation to remain fully paralyzed is the Salvador division where earlier in the month a worker was shot dead by police. Codelco has offered to open talks with striking subcontractors if they end the blockades.

China had a 130,000t refined copper surplus in May on lacklustre consumption, Chinese metals consultancy Beijing Antaika said in its copper report. Despite March-June being mainland China's traditional boom season for copper consumption, demand in May was below expectations as figures showed that China's refined copper supply in May was 890,000t, as against consumption of 760,000t, thus incurring 130,000t surplus. The agency noted that despite demand from the air-conditioning sector, demand from the auto, power equipment, AC electric motors, telecommunications and electronic network sectors dwindled. During the second half of May, market players turned even more cautious in buying as copper prices fell, resulting in thin trade in the spot market. It forecast China's 2015 copper consumption will be 9.24Mt, up around 5% from 8.72Mt last year.

Analysts believe there is little incentive for copper producers to cut output as prices are still well above costs at most mines. In addition to energy prices, mining costs have declined due to weaker local currencies against the dollar in producing countries such as Chile. Efficiency gains are also pushing costs lower. Even the so-called "marginal cost" - marking the 10% highest-cost copper mines - is between US\$4,500/t at US\$5,051/t. This is the level which is regarded as key to prompting mine closures when prices break below it.

Goldman Sachs has reduced its long term price forecasts for copper by up to 44%. The bank is first forecasting copper will fall to US\$4,500/t by the end of next year - about 16% below current levels. The biggest adjustments made however, are to the 2017 and 2018 forecasts - down to US\$4500/t for both years from the previous forecasts of US\$7,000 and \$8,000/t respectively. The bank has been bearish on future copper prices for the past two and a half years but maintained a more bullish medium to long-term stance on the assumption of Chinese copper demand growth of 4% per annum and a major slowing in supply growth around 2017/2018. Now however, the bank has "an increased conviction in copper supply growth over the next three years, and less conservative assumptions regarding mining cost deflation in dollar terms."

Norsk Hydro, one of the world's largest aluminium producers, has cut forecasts for global primary aluminium demand growth excluding China for the second quarter running, and said there was more excess aluminium in global markets than it had previously estimated. It trimmed its 2015 global forecast for primary aluminium demand growth to 2-3% from 3% excluding China, and to 5% from 6% when China is included. The firm said global markets would be oversupplied by between 0.5 and 1 million tonnes of aluminium this year, up from a previous estimate of 0.5 million tonnes, as Chinese production exceeds a deficit in the rest of the world. Earlier this month U.S. peer Alcoa said it expected supply to outpace global demand by 760,000t this year, some 400,000t higher than its previous forecast, as China had not cut output as much as expected.

Aluminium producers Norsk Hydro, Noranda and Vedanta have hinted at revisions to plant investments due to lower aluminium prices. Norsk Hydro's CEO told Reuters that lower prices may force production cuts at its higher cost operations.

Noranda may delay smelter upgrades and Vedanta says it plans to stop the proposed ramp up at its plants and will restructure its higher cost aluminium operations.

Rio Tinto meanwhile, said it was looking to lift its aluminium market share in North America and the Asia-Pacific region after revamping its Kitimat aluminium smelter in western Canada to produce nearly 50% more metal. The increase in primary aluminium production at the smelter to 420,000t/year could eat into markets also supplied by rival Alcoa and other producers.

Bank of America Merrill Lynch has cut its price forecasts for aluminium for this year and 2016, citing a global supply glut fuelled by increasing output from China. The bank revised down its 2015 average aluminium price forecast by 3.3% to US\$1,742/t for 2015, and by 3.4% to US\$1,788/t in 2016.

Official customs data for the first five months of 2015 showed Russian exports of aluminium were up 26% year on year at 1,511,500t, copper exports up 200.6% at 237,200t, while nickel exports at 83,400t were down 5.0%.

Trade sources report that Japan's aluminium premiums for July-September shipments have been set at a six-year low of US\$100/t as swelling Chinese exports piled more pressure on an already swamped market. The nearly US\$300 quarterly drop in premiums, the sharpest such decline ever, is in line with a global slump triggered by higher aluminium supply and shortened LME warehouse delivery times.

Japanese copper cable shipments were up 0.4% at 58,600t in June compared with 58,359t in June 2015 according to the Japanese Electric Wire and Cable Makers' Association.

Market sources have suggested that Chinese investors banned from selling equities may be selling copper instead, resulting in its collapse to the lowest level in six years. Investors are trying to hedge exposure to Chinese shares after the government stepped in to stem a stock-market collapse that wiped out US\$4 trillion in value. Copper is being sold as a proxy for China's broader economy. The move has added pressure on copper prices, amongst other commodities, that have collapsed amid a wider rout in commodities spurred by slowing Chinese growth and persistent surpluses.

Hong Kong Exchanges & Clearing Ltd said it had settled two class-action lawsuit complaints against itself and its subsidiary - the LME - over allegations of anti-competitive and monopolistic behaviour. The lawsuits, brought by small aluminium manufacturers in the U.S., accused banks and traders of hoarding metal in LME warehouses thereby driving up the prices of industrial products.

The LME is to further address the problem of queues at its warehouses with proposals that include rent caps from May 1, 2016. "The introduction of queue-based rent capping would also help to provide further certainty as to the elimination of existing queues, and could prevent the occurrence of future queues," the exchange said in a statement. The exchange also recommended increasing the minimum load-out rate to cut queues at a faster pace. Warehouse companies that fail to deliver out queued metal within 30 calendar days would be required to halve the maximum published rent and after 50 days no rent could be charged at all, the LME said. The consultation period for the recommendations will run for six weeks until August 17, 2015.

LME Commentary:

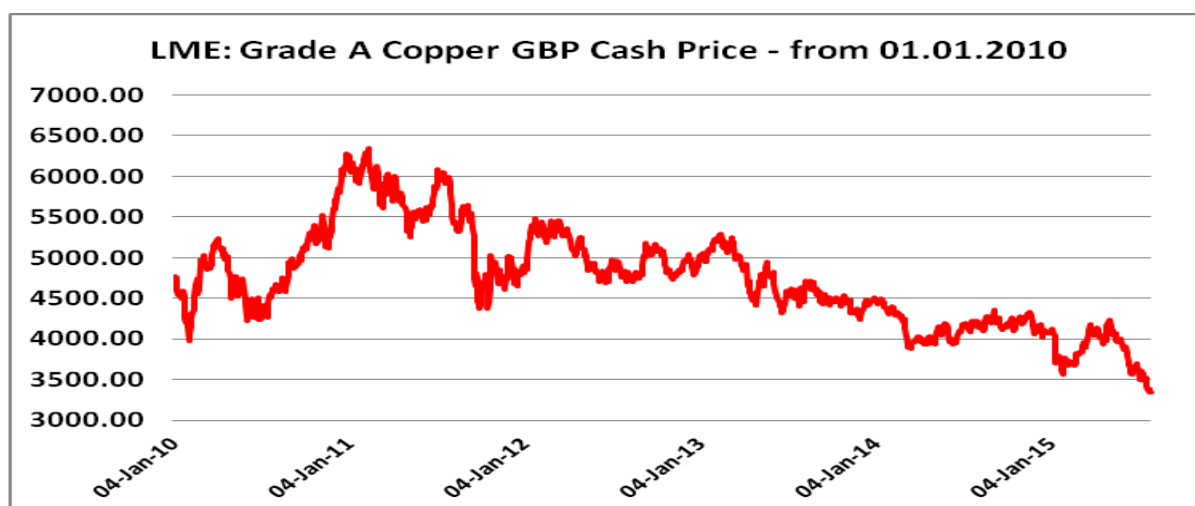
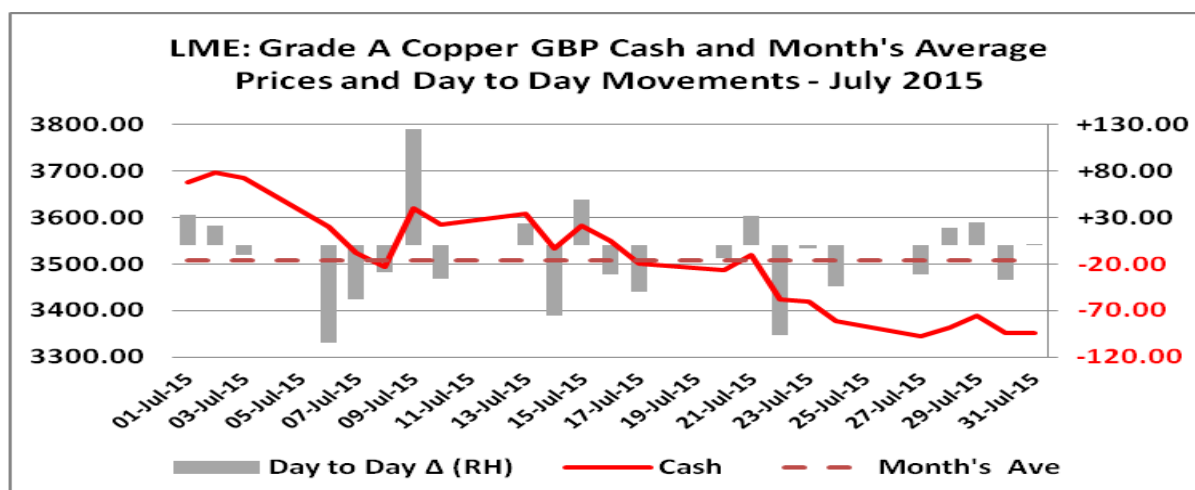
Commodities displayed their almost complete sensitivity to and reliance on the direction and tone of the Chinese economy as copper and aluminium, alongside gold, platinum, iron ore and Brent Crude slid to their lowest prices levels in 6 years. Investors liquidated large chunks of commodity portfolios as the Chinese equities markets sustained huge losses and reports of a slowdown in Chinese manufacturing, market oversupply (stuttering demand and ample supply) and an important bearish forecast by Goldman Sachs created further uncertainty. The strength of the US Dollar, making USD priced metals more expensive for overseas buyers, created further downward pressure.

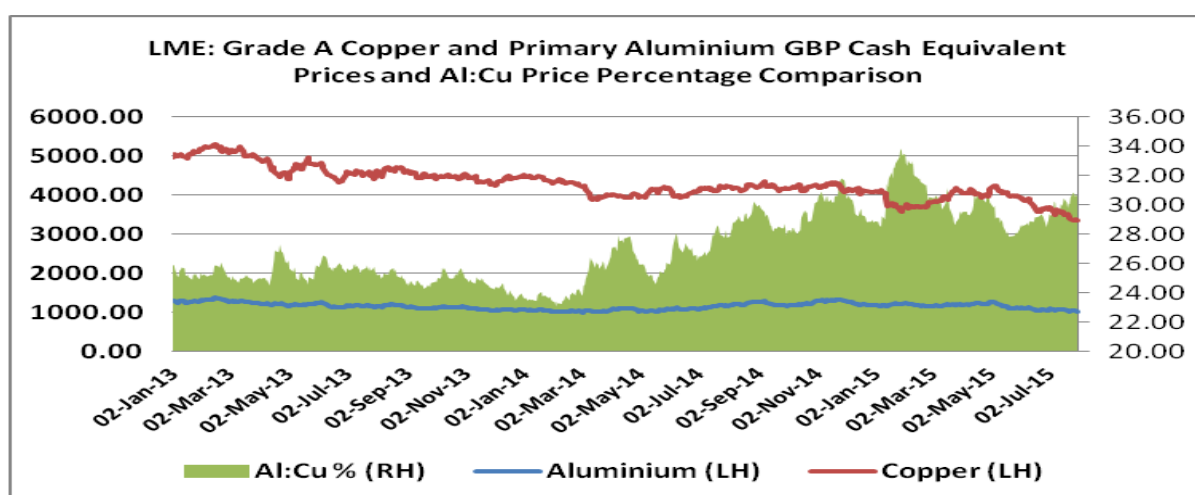
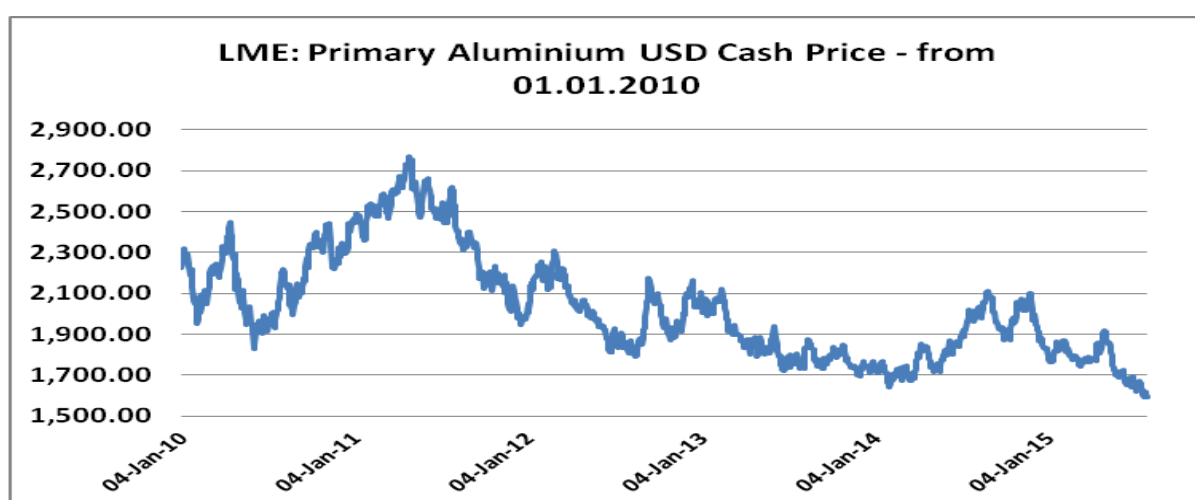
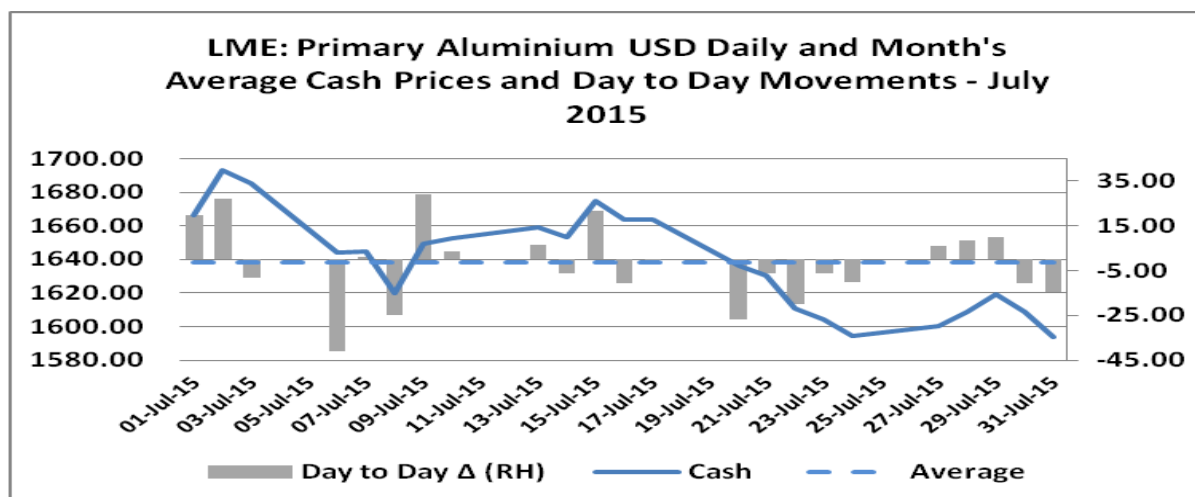
The LME copper cash price, after a steady start to the month, bottomed at £3344.50 on 27 July - its lowest since 30 July 2009. LME stocks increased 23,075t in the month to close at 346,525t, their highest levels since early January this year.

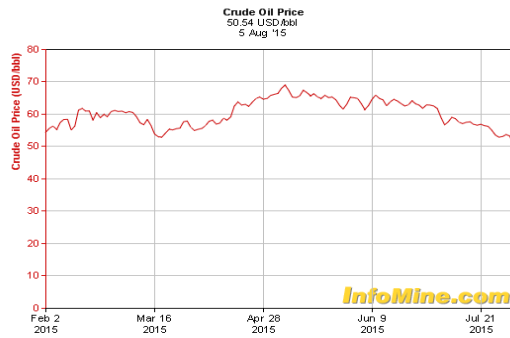
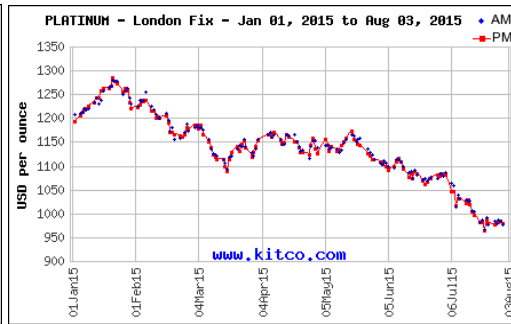
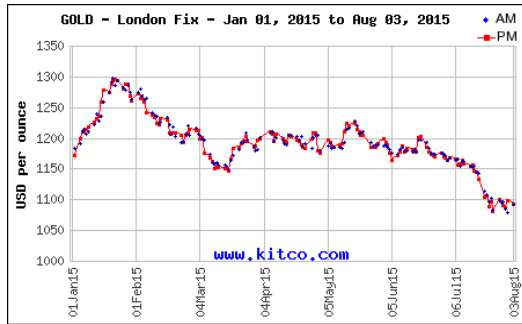
The primary aluminium price fell to \$1594 on the last trading day, its lowest since 14 July 2009. LME stocks were down a further 144,825t in the month, closing at 3,429,425t, their lowest since March 2009.

LME Statistics and Charts: July 2015:

	Copper			Aluminium		
	Cash £/t	3M £/t	Stocks	Cash \$/t	Stocks	USD:GBP
Opening	3,675.99	3,684.01	323,450	1,666.00	3,574,250	1.5657
Average	3,507.32	3,520.29		1,638.09		1.5559
High	3,696.98	3,712.52		1,693.00		1.5657
Low	3,344.50	3,353.11		1,594.00		1.5380
Range	352.48	359.41		99.00		
Closing	3352.60	3355.18	346,525	1594.00	3,429,425	1.5570
Opening:Closing Δ	-323.39	-328.83	23,075	-72.00	-144,825	
Opening:Closing Δ %	-8.80	-8.93	+7.13	-4.32	-4.05	
YTD Average	3832.11			1760.14		
YTD High	4240.26			1919.00		
YTD Low	3344.50			1594.00		







Produced by Neil Bootman of NGB Metal Services.

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