

June 2015

Economic Indicators and Comment:

The World Bank has downgraded its outlook for global economic growth this year amid a broad-based slowdown in emerging markets and softer output in the U.S. The institution said that it now expects the world economy to grow by 2.8%, 0.2% slower than it estimated in January. Sharp contractions in Brazil and Russia, alongside weaker growth in Turkey, Indonesia and scores of other developing economies are offsetting healthier growth in Europe and Japan, the bank said in its Global Economic Prospects report issued in June. The bank expects global economic growth in 2016 to accelerate to 3.3%, barring trouble in emerging markets as the U.S. Federal Reserve moves toward raising rates. The forecast also assumes recoveries in the Eurozone and Japan. Extracted figures read:

Real GDP	(World Bank 'Global Economic Prospects')					
	2012	2013	2014	2015f	2016f	2017f
	<i>percentage change from previous year</i>					
World	2.4	2.5	2.6	2.8	3.3	3.2
US	2.3	2.2	2.4	2.7	2.8	2.4
China	7.7	7.7	7.4	7.1	7.0	6.9
Japan	1.7	1.6	0.0	1.1	1.7	1.2
Euro	-0.7	-0.4	0.9	1.5	1.8	1.6
UK	0.7	1.7	2.8	2.6	2.6	2.2

Composite leading indicators (CLIs) point to growth convergence across most major economies and within the OECD. The CLIs point to firming growth in the Euro area, particularly in France and Italy, while growth momentum shows signs of easing in Canada and the U.S.. Stable growth momentum is anticipated in the UK, Germany and Japan. Amongst other major economies, tentative signs of a positive change in growth momentum are emerging in Russia while the CLIs continue to point to stable growth momentum in India and to easing growth in China. However, a loss in growth momentum remains the outlook for Brazil.

According to the U.S. Commerce Department, GDP shrank at a 0.2% annual rate in the January-March quarter instead of the 0.7% contraction it reported last month. The stronger pace of consumer spending and inventory accumulation than previously estimated accounted for the upward revision. The U.S. economy contracted as it struggled with bad weather, a strong dollar, spending cuts in the energy sector and disruptions at West Coast ports. Growth, however, has since rebounded in the second quarter as the temporary drag from unusually heavy snowfalls and the ports dispute faded. Retailers reported strong sales in May, housing is also strengthening and manufacturing activity is beginning to stabilize.

U.S. industrial output however, unexpectedly fell 0.2% in May after declining 0.5% in April, the Federal Reserve reported. Industrial production has been weak since December and economists had expected output to rise 0.2% in May. Manufacturing and mining activity remained weak, contrasting starkly with upbeat data on retail sales, employment, consumer and small business confidence.

The European Union's statistics agency said that industrial production - production by factories, mines and utilities - was 0.1% higher than in March and 0.8% higher than in the same month of last year. The Eurozone economy grew at an unchanged rate of 0.4% in the first three months of the year and surveys indicate growth has remained modest in the second quarter. German industrial output returned to growth in April but production declined in France, Italy and Spain. The German economy slowed in the first quarter, while growth in the other three major Eurozone economies picked up.

The UK economy grew faster than initially thought in the first quarter of this year but still suffered a marked slowdown compared to the end of 2014. The ONS Statistics said GDP rose 0.4% in from the previous three months. That was in line with economists' forecasts after a recent revision to official construction figures showed the sector did not suffer the sharp

drop first thought. The latest growth rate was half the 0.8% recorded in the final quarter of last year, also revised up from a previous estimate of 0.6%.

Britain's industrial sector rose sharply in April, as a strong rebound in the oil and gas sector made up for a disappointing month for manufacturers. Production output rose 0.4% between March and April, well ahead of economists' expectations of a 0.1% increase. The improvement in the headline industrial production number however, masks a worrying downturn in factory output blamed on the disappointing performance of exports which have been hit by a strong pound against the euro and by weak demand around the world.

Companies:

Dubai Cable Co., the second-largest cable manufacturer in the Middle East, is building its first aluminium plant as customers seek cheaper alternatives to copper for power transmission. The US\$60 million factory in Abu Dhabi in the UAE will have capacity to produce 50ktpa of aluminium rod and overhead conductors annually. The project called Ducab Aluminium Co is planned to open in the first quarter of 2016. According to researcher CRU's estimates, copper is losing about 2% a year of demand to less costly materials such as aluminium - about 500kt.

General Cable Corp has agreed to sell assets in Australia, China, New Zealand and Thailand to MM Logistics Co Ltd for US\$205 million. The asset sale is scheduled to conclude in the third quarter the company said with proceeds used to reduce outstanding borrowings amid depressed earnings. With the completion of this transaction General Cable will have fully completed the Asian portion of the Asian and African divestiture programme it announced in July 2014. According to the company it has received US\$88 million from the sale of interests in Phelps Dodge International Philippines Inc, Keystone Electric Wire & Cable (China) and Dominion Wire & Cables (Fiji).

Copper producer Aurubis AG will be introducing a new corporate organizational structure on July 1, 2015. The company will be structured into two segments focusing on Primary Copper Production and Copper Products instead of the three former Business Units Primary Copper, Recycling/Precious Metals and Copper Products.

Market Commentary and News:

The global world refined copper market showed a 6,000t surplus in March, compared with a 126,000t surplus in February, the International Copper Study Group (ICSG) said in its latest monthly bulletin. For the first 3 months of the year, the market was in a 167,000t surplus compared with a 233,000t deficit in the same period a year earlier. World refined copper output in March was 1.92 million tonnes, while consumption was 1.91 million tonnes. Bonded stocks of copper in China showed a 21,000t surplus in March compared with a 126,000t surplus in February.

Global miner Rio Tinto says the outlook for the copper market in the short-term continues to improve and has warned it will return to deficit after 2017. A company representative said the return to deficit would be precipitated by a lack of new project approvals while Chinese stimuli and loose monetary policy would be supportive of demand.

China's copper imports fell 16.3% in May from the previous month, hitting a three-month low and reversing a gain in April as a slowdown in the economy trimmed demand and global prices rose. Imports of anode, refined copper, copper alloys and semi-finished copper products reached 360,000t in May compared to 430,000t in April, which was the highest total since April 2014, data from the General Administration showed. Traders suggest that China's overseas purchases of copper will remain subdued in coming months as local trading firms cut back on imports for financing purposes and turn to the domestic market instead.

According to Aurubis analysts, the rally in copper prices in May was driven by a weaker dollar, production losses and heavy buying by Chinese funds. Low prices at the start of the year were largely attributed to Chinese hedge funds building up shorts and betting on falling prices. Disruptions to output at mines were greater than expected in the first four months of the year. The industry has suffered a year-to-date annualised disruption rate of 6.6%, its highest level since 2008. As a result, production growth is expected to slow to 2.2% in 2015, up only 475,000t from 2014.

Copper production in Chile in the 4 months January to April was 1.904M, up 2.3% on the corresponding period last year.

Zambian mines minister said that copper output in Africa's second largest copper producer could fall this year compared with 2014 following a dispute with mining companies over taxes. Zambia's copper production dropped to 708,000t in 2014 from 760,000t in 2013 and the minister said he was not optimistic about beating last year's target.

Analysts suggest that expectations that falling stocks of copper in exchange-registered warehouses point to stronger consumption and higher prices are likely to be disappointed, as metal leaving warehouses does not translate into usage. Material exiting registered LME or Shanghai Futures Exchange warehouses does often foretell a tighter market. Indeed, according to traders, copper cathode stocks held in private storage in Northern and Southern Europe are rising as regional sales to consumers proceed sluggishly and orders from China fall on the back of weaker financing demand. With the forward curve in the LME copper spreads now proving less punitive to those hedging physical inventories, producers and traders are warehousing stock in major ports including Rotterdam and Livorno, waiting for conditions to improve. In Italy, stocks are building as cathode produced in Africa has been diverted away from the Middle Eastern market, where competition for sales has intensified at the same time as demand has flattened out, sources said. With nearby copper spreads back in contango, it is unlikely that the excess inventory will be placed on the LME. In warehouse Rotterdam copper premiums were assessed at between US\$40-60/t at the beginning of June, up from US\$30-60 a week earlier, but down from levels of US\$120-160 seen a year ago. In addition to strong cathode supply, a dramatic easing in copper scrap availability in recent months has also put a cap on premiums and encouraged cathode buyers to source high-grade scrap as a substitute.

Russian producers' output of copper wire rod was down by about one third in April 2015 compared with the previous year based on a sharp drop in demand. Production levels during the month however, were an improvement from March 2015. According to an industry source, copper wire rod production in April fell by 30-35% year-on-year but it increased by 20-23% from March. Russian copper producers, such as Norilsk Nickel, Ural Mining and Metallurgical Co and Russian Copper Co, started reducing their production of copper wire rod in favour of cathode following the removal of a tax on exports of copper cathode in August last year. But this year demand for cable and wire demand has dropped sharply due to reduced investment programmes in Russian electricity companies. As a result, almost all the major producers have further reduced their output. Production at Katur-Invest, the largest copper wire rod facility in Russia with capacity of 285,000tpy, was down 30% year-on-year in April. But the largest percentage drops came from Moscow-based Elkat and Saint-Petersburg-based Transkat. "Elkat has reduced output by approximately 62-64%, and Transkat by 65%," the source added.

Japan's copper cable shipments, including sales and exports in May, fell 2.5% from a year earlier to 53,300t, the Japan Electric Wire and Cable Makers' Association said.

New standards and regulations issued by China's National Energy Administration have caught the interest of copper investors. The regulator released nationwide industrial standards at the start of June for the use of low-voltage aluminium alloy cables, meaning that China's state power grid could use aluminium alloys instead of copper for some types of wiring.

Market analysts continue to ponder the conundrum of both falling aluminium premiums and falling aluminium basis prices. According to Alcoa, global aluminium usage last year increased by 9% and will increase by 6.5% in 2015. Such growth stands aluminium out from other industrial metals. The problem is that global production grew and is growing faster - 10.3% in April and 6.8% cumulative in the first 4 months of the year, according to the International Aluminium Institute. Main driver of that growth is China. Annual production in China grew by 2Mt to 31.5Mt since the start of the year. In contrast, production outside China grew by 255,500t annualised. China still imposes a 15% export duty on primary aluminium but the exports of semi finished and alloys has increased sharply - 3.67Mt in 2014 was up 20% on 2013 and in first 4 months of 2015 were up 46% to 1.45Mt. Additionally, China has just cancelled the export tax on some forms of aluminium rods and bars. Conversely, some industry sources and traders said that Chinese exports of semi-finished aluminium products are likely to drop in coming months as prices in the international market fall.

Russian aluminium maker Rusal and several of its domestic consumers have proposed a tax on imports of products containing aluminium, according to newspaper reports. Rusal, along with a number of state firms including defence conglomerate Rostec, United Aircraft Corp and United Shipbuilding Corp, and a subsidiary of U.S. Alcoa which owns one plant in Russia, made the proposal to the government at an Industry Ministry meeting in the month.

Aluminium premiums in the U.S. have fallen to their lowest in more than three years as imports and scrap supplies remain high. U.S. Midwest premiums have dropped to 8-9 cents per lb from 9-10 cents last week and 13-14 cents a month ago, traders said. These are the lowest prices since early 2012.

Aluminium Bahrain, owner of one of the world's largest aluminium smelters, has won government approval for a larger than originally planned US\$3.5 billion expansion that will boost its output by more than 50%. The Line 6 expansion project is expected to boost Alba's annual output by 514,000tpa to 1.45 million tpa with around half of the extra production to be sold to existing and new Bahraini customers.

The LME has delayed the launch of its new contracts in steel and aluminium by about a month, until the end of November 2015, to coincide with an upgrading of their clearing house platform. Falling aluminium premiums on global physical

markets may however, mean the new contract may be too late to serve their purpose. The LME conceived the idea of a premium contract when the premiums were high and rising, queues for aluminium at LME warehouses were long and metal was tied up in financing deals.

The LME's ambition to approve warehouses in China, particularly in Shanghai, is running into powerful local resistance. The main challenger is the local metal exchange, the Shanghai Futures Exchange (SHFE), which industry sources say is worried about loss of volumes. LME registered warehouses in China could encourage locals to use the LME instead for trading. For a number of years, the LME has been in discussion with the Chinese authorities about loosening their tight restrictions on 'foreign' entities operating warehouses in the country.

LME Commentary:

LME metal prices came under selling pressure in the month as growing fears of a Greek default, less than impressive economic and manufacturing data from both China and the U.S. and anticipations of summer shutdowns dented investor confidence.

LME GBP copper prices fell to the month's low at £3568.67/t - only £5/t higher than the year's low seen at the end of January - on the back of the falling underlying US dollar price and the strength of the Pound versus the US Dollar. The Pound traded up to a 7 month high against the US Dollar at 1.5915 in June. This compares to the year's low at 1.4610 at the beginning of April. Based on current US Dollar prices, each cent movement is the equivalent of £24.00/t. The June low at £3568.67/t represents a fall of £671.59/t or 15.8% from the year's high of £4240.26 at the beginning of May.

The cash to 3 month's spread traded in contango during the month, averaging £12.46/t in the month. This compares with an average of £6.06/t for the year to date.

Copper stocks on the LME were marginally higher in the month - up 2,500t, closing at 323,450t.

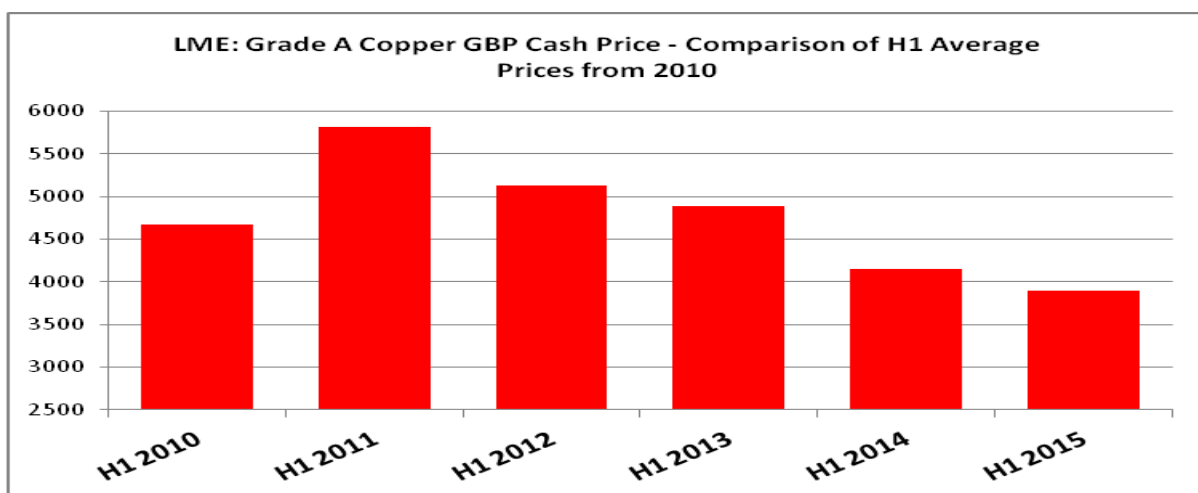
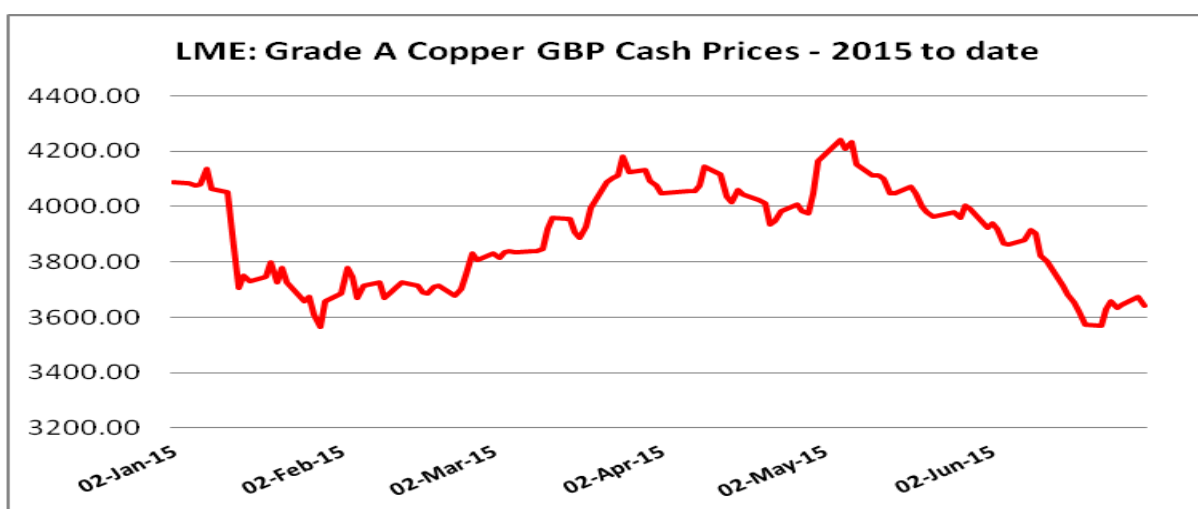
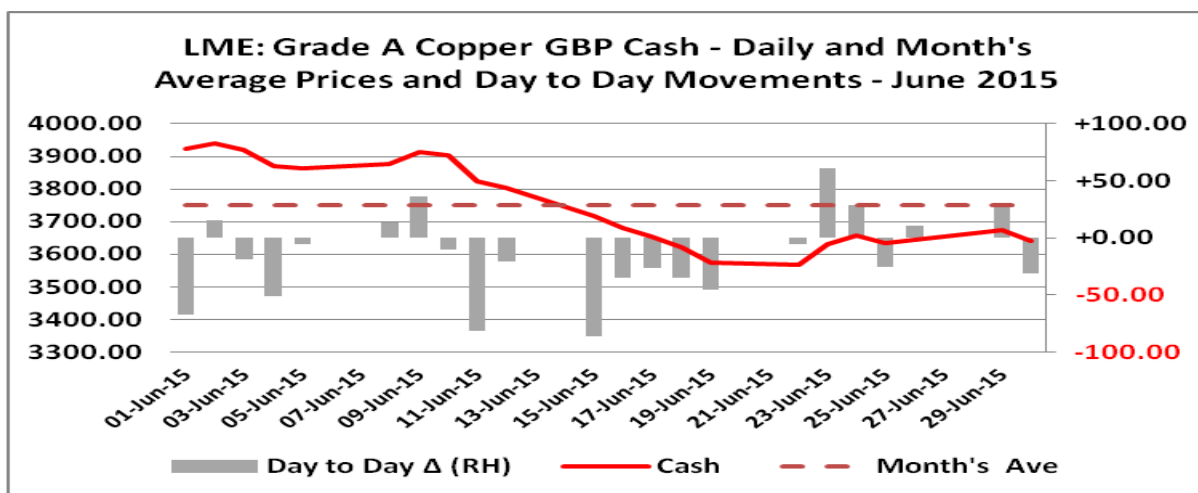
Aluminium prices fared even worse. The addition reality of increasing global production saw further liquidation with the LME cash price trading down to \$1642.00/t on the penultimate day - the lowest since early February 2014 and down US\$277/t or 14.4% from the year's high of \$1919.00 at the beginning of May.

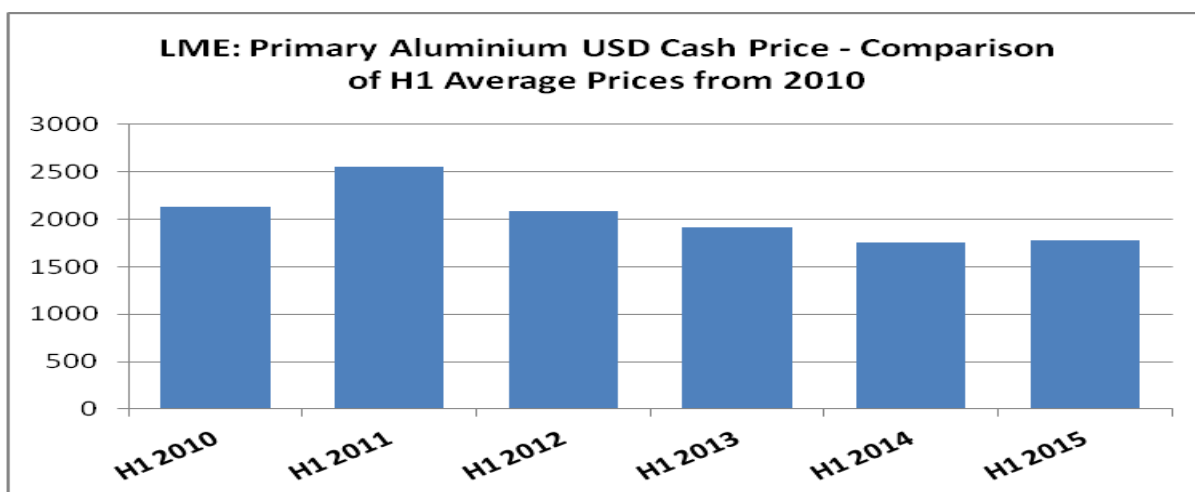
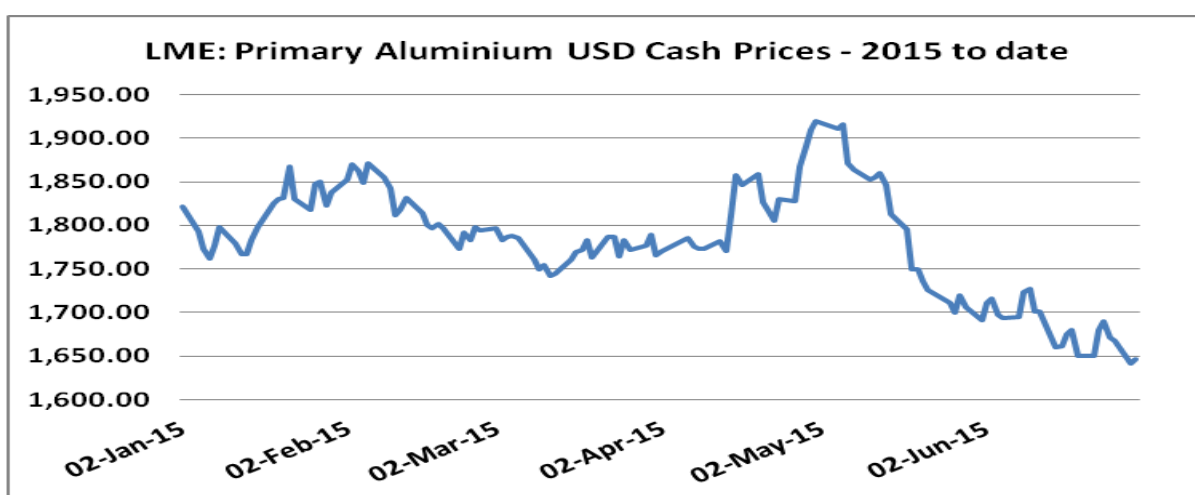
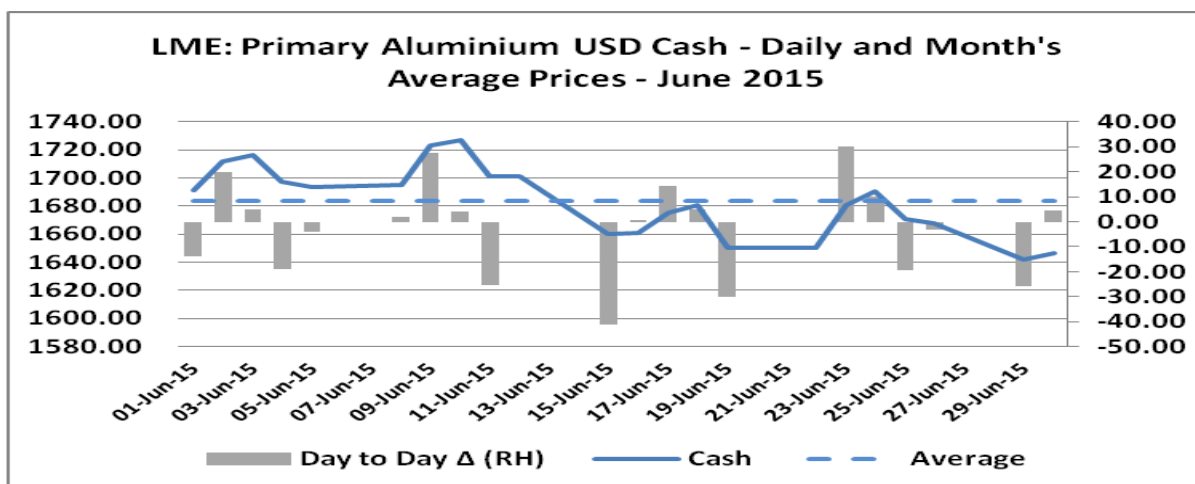
Like copper, the primary aluminium market moved strongly back into contango for the cash to 3 month period. The June contango averaged \$40.25/t compared with \$17.31/t for the year to date.

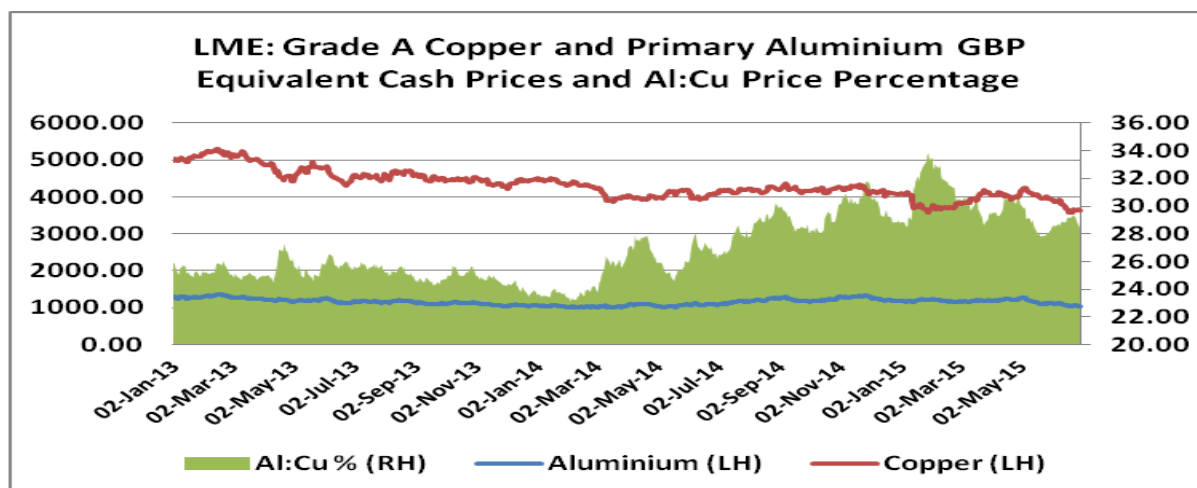
Primary aluminium stocks in LME warehouse closed the month at 3,574,250t, down 149,700t in the month.

LME Statistics and Charts: June 2015:

	Copper			Aluminium		
	Cash £/t	3M £/t	Stocks	Cash \$/t	Stocks	USD:GBP
Opening	3,923.06	3,938.46	320,950	1,691.50	3,723,950	1.5219
Average	3,751.33	3,763.79		1,683.45		1.5558
High	3,938.61	3,948.75		1,727.00		1.5915
Low	3,568.67	3,586.11		1,642.00		1.5219
Range	369.94	362.64		85.00		
Closing	3642.56	3653.16	323,450	1646.50	3,574,250	1.5706
Opening:Closing Δ	-280.50	-285.30	+2500	-45.00	-149,700	
Opening:Closing Δ %	-7.15	-7.24	+0.78	-2.66	-4.02	







Produced by Neil Bootman of NGB Metal Services.

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