Metals Newsletter

March 2015

Economic Indicators and Comment:

The OECD's latest composite leading indicators (CLIs) point to positive change in growth momentum in the euro area and stable growth momentum in most other major economies and the OECD area as a whole. In Germany, the CLI confirms the positive change in momentum that was tentatively flagged in last month's assessment. The outlook for Italy and France has also improved, with the CLIs now showing tentative signs of a positive change in momentum. Stable growth momentum is anticipated amongst most other major economies, including the U.S., the UK, Canada, Japan, China and Brazil. In India, the CLI continues to indicate firming growth, while in Russia the CLI still points to a loss in growth momentum.

According to the "third" estimate released by the Bureau of Economic Analysis, real U.S. GDP increased at an annual rate of 2.2% in the fourth quarter of 2014 - unchanged from the "second" estimate issued last month. In the third quarter, real GDP increased 5.0%. Industrial Production meanwhile showed signs of a slight slowdown - up 0.1% month on month February - while January was revised down to minus 0.3%.

China's Premier Li Keqiang's has set China its lowest economic growth target in more than 15 years. The goal of about 7 % is down from last year's aspiration of about 7.5%. Fiscal policy will remain proactive and monetary policy prudent, while the yuan exchange rate will be kept at a reasonable and balanced level, the government said. The Premier announced that while China has no plans to introduce any stimulus, it will invest more than 1.6 trillion yuan (USD 260 billion) in its infrastructure. Over 800 billion yuan (USD 133 billion) will be spent in railway construction this year while investment in major water conservancy projects will exceed 800 billion yuan. Over 8,000 kilometres of railway track will be opened to traffic this year and construction on the 57 ongoing major water conservancy projects will be accelerated while 27 more projects will start this year. China already has 16,000 km of high speed tracks, which amounts to 60 % of the world total.

Japan's industrial output fell 3.4% month-on-month in February - much worse than expected at and almost double the median estimate for a 1.8%. This was the biggest fall since June last year when production also fell by 3.4% due to declines in production of machinery, cars and electronics. In January output rose 4.0%, the biggest increase in nearly four years partly as demand surged before the Lunar New Year.

The Eurozone economy expanded by 0.3% in final quarter of last year, data released by Eurostat has confirmed - unchanged from an initial estimate published last month. On an annualised basis, the Eurozone's GDP was 0.9% higher than a year ago, again unchanged from the initial reading. More recent data from the Eurozone suggests that the zone is regaining momentum following a difficult 2014 with the ECB raising its GDP growth projections to 1.5% this year, 1.9% in 2016 and 2.1% in 2017.

Industrial production in the Eurozone meanwhile fell in January - production by factories, mines and utilities was 0.1% lower than in December, but 1.2% higher than in the same month of last year. German industrial output rose more than expected in January, increasing 0.6% month-on-month. The December figure was heavily revised up to a rise of 1.0% from a previously reported gain of just 0.1%.

Figures released at month end by the ONS show that UK GDP in volume terms was estimated to have increased by 0.6% between Q3 and Q4 2014, revised up 0.1% from the previous estimate published in February. GDP was estimated to have increased by 2.8% in 2014, compared with 2013, revised up 0.2% from the previously published estimate. Between Q4 2013 and Q4 2014, GDP in volume terms increased by 3.0%, revised up 0.3% from the previously published estimate.

Companies:

Global metals miners and traders have reported profits adversely affected by falling commodity prices:

- Chilean state miner Codelco earned US$3 billion from its copper sales in 2014, down 22% from US$3.9 billion in 2013, as lower prices ate into profit margins. The company produced 1.672 million tonnes of copper in 2014, up 3.1% from 2013, reflecting increased output at its Chuquicamata, El Teniente and Ministro Hales mines,

- A 15% rise in earnings at Glencore's trading division partially offset a hit last year from the slide in commodity prices, leaving the company's core profit just 2% lower. Glencore makes about a quarter of its earnings from commodities trading, which differentiates it from mining rivals and has allowed it to withstand a steep fall in oil and metal prices slightly better than its peers. Glencore posted 2014 adjusted earnings before interest, tax, depreciation and amortisation (EBITDA) of US$12.8 billion (GBP 8.3 billion), in line with expectations. Earnings at its trading division rose to US$3.0 billion while mining earnings fell 7% to $9.8 billion.

- Antofagasta Plc, the London listed Chilean miner, saw its 2014 profit decline by 30% due to lower metal prices, suggesting that the price it realized for sales fell 8.5% last year. Net income fell to US$459.8 million from US$659.6 million a year earlier while sales dropped 11% to US$5.29 billion.

- Japan's Sumitomo Corp warned it would post its first annual loss in 16 years in the financial year ending 31.03.2015, having been hit by a slump in commodities prices that forced it to cut its investment plans for its energy and metals businesses. The trading house said that it expected a net loss of 85 billion yen (US$711 million) for the current year, missing its own already lowered forecast of a 10 billion yen net profit. The loss would be the first since the 1998/99 financial year, and the widest since the company was hit by US$2.6 billion in losses from illegal copper trades in 1996/97. Japan's fifth-largest trading house added that it expected to return to profit in the new financial year, on the back of higher income from non-natural resources operations

Market Commentary and News:

The International Copper Study Group published a list of the world’s 10 biggest copper-producing countries in 2014, ranked by both mined and refined output. Figures are in thousands of metric tons;

	Mined Copper:		Refined Copper:	
Rank	Country	Production	Country	Production
1.	Chile	5,746	China	7,640
2.	China	1,617	Chile	2,744
3.	U.S.	1,382	Japan	1,554
4.	Peru	1,380	U.S.	1,094
5	Australia	970	Russia	882
6.	D.R. Congo	907	D.R.Congo	772
7.	Russia	750	India	766
8.	Zambia	704	Germany	680
9.	Canada	696	South Korea	617
10.	Mexico	514	Poland	577

The global refined copper market saw a 104,000t surplus in December 2014 compared with a deficit of 46,000t in November, on weak demand in major consuming regions during the year-end holiday season, according data released by the International Copper Study Group (ICSG). World refined copper consumption fell 4% month-on-month to 1.89 million tonnes in December, while refined copper production rose 3.6% to 1.99 million tonnes in the same comparison. Refined copper balance for the whole year logged a production deficit of 475,000t, compared with a deficit of 270,000t in 2013. In 2014, world apparent refined copper usage increased by 8% year-on-year to 23 million tonnes. The ICSG attributed the rise to strong Chinese demand and more usage of cathode by semi-manufacturers caused by a shortage of high-grade scrap.

Commenting on its annual results, Antofogasta CEO Diego Hernandez said he was cautious about copper prices in the short term - this year and next year - but that thereafter copper supply-demand will be very tight. Hernandez said the market could be in balance at the end of this year.

China's refined copper production for 2015 is forecast to rise to 7.5 million tonnes, up about 8.7% from the 6.9 million tonnes produced in 2014 according to Beijing Antaike, the state-owned metals information division. Their analysts attributed the forecast increase to expanded capacity in the country to about 10.8 million tonnes in 2015, up 8% from 10 million tonnes in 2014.

Jiangxi Copper Co Ltd, China's top integrated copper producer, expects China's refined copper consumption to rise 5% in 2015, from over 10 million tonnes apparent demand estimated for 2014 when the growth was 8.2%. The company mined 210,000t of copper in ores in 2014 and plans to produce 209,500t in 2015. Its refined copper production was 1.2 million tonnes in 2014.

The heaviest rains to hit Chile's northern desert regions in 20 year forced the shutdown of some of the world's largest copper mines at the end of March as roads were cut and towns flooded. The army was placed in charge of public order in the region. Codelco, the world's largest copper producer, shut all of its mines in the Atacama Desert including Chuquicamata and Radomiro Tomic as the rains caused dangerous driving conditions for the giant trucks the mines depend on. The company kept some of its processing plants operating using stockpiled material. By month end Codelco reported that it had lost around 6,500t of copper production. Antofagasta said that it was restarting operations at its Centinela and Michilla complexes while Enami has declared force majeure on its May copper shipments. Government sources reported that six people had died, nineteen were missing and more than 4,000 were made homeless.

Russian aluminium exports to countries outside the Commonwealth of Independent States (CIS) increased by 21.5% year on year in January, official customs data showed.

(tonnes)	Jan-15	Jan-14
Aluminium:		
Total	208,100	172,600
Non-CIS	204,300	168,200
CIS	3,800	4,400
Copper:		
Total	16,400	16,400
Non-CIS	15,900	15,900
CIS	200	200

Market analysts are suggesting a potential deluge of aluminium, held as collateral in financing deals, that could be released back onto global markets as increased Chinese exports of the metal cause surcharges for physical material to extend their dramatic slide. Premiums which fell for the first time last month after years of hitting record highs are also facing pressure from LME reform aimed at shortening lengthy queues and the prospect of higher U.S. interest rates. Premiums have already shed 10-15% in Asia, Europe and the U.S. An estimated 10 to 12 million tonnes of aluminium are in storage worldwide, but until recently the bulk has not been available, locked into financing deals or in warehouse backlogs. Under financing deals, investors have profited handsomely in recent years by selling forward metal at a higher price, then leaving it in storage while also reaping the benefit of sky-high premiums. Now, the flatter forward curve in aluminium (the reduction in the contango) has reduced the forward selling price and expected hikes in U.S. interest rates, boosting borrowing costs, have made the financing deals less attractive. Another factor expected to inflate supply and curb premiums is the LME's recently announced reform of its warehousing policy, driven by consumer complaints about the long delays to obtain aluminium from storage.

Physical primary aluminium premiums are weakening just about everywhere, according to traders. Japanese buyers are reported to have bought for second quarter shipments at US$380/t, down from a record US $425/t in the current quarter. It's the first time the Japanese premium, which serves as a benchmark for the Asian region, has fallen in six quarters. In March, South Korea's state stockpile manager bought 2,000t of aluminium at a premium of US$330/t, the lowest level in a year. Premiums in Europe have been falling and even in the U.S., previously the prime driver of higher premiums, there are signs of softness.

Russian aluminium producer United Company Rusal is considering shutting down more smelters because of the outlook for prices and a desire to shift production to cleaner energy sources. Any move would mirror a similar decision taken last month by rival Alcoa Inc, which is reviewing 500,000t of smelting capacity with a view to cutting costs.

Japan's copper cable shipments including sales and exports fell 2.5% in February from a year earlier to 59,400t, the Japan Electric Wire and Cable Makers' Association said.

Italy is proposing to give private companies incentives totalling €6 billion to speed up the country's broadband, the government said in March. The plan involves substituting the copper-based broadband network with fibre optic cables and bringing Italian broadband infrastructure up to speed with that in the rest of Europe. No deadline has been set for the proposals, the cabinet's press office said. The plans could have a significant impact on the scrap market for copper in the medium to long term by increasing the supply. In the best case scenario, the €6 billion invested by the government will attract an equal amount from private companies and lead to a speed greater than 100 mbps for 87% of the population, government documents state. In a less optimistic scenario, between €1 billion and €4 billion of private investment would be generated, which would lead to between 46% and 70% of the Italian population having access to broadband with a speed faster than 100 mbps, according to the document.

Revenue from trading fees and tariffs at the LME rose 8% to HK$928 million (US$120 million) in 2014, boosted by new clearing fees from September, LME owner Hong Kong Exchanges and Clearing Ltd said in the month. Total revenue grew by 5% to HK$1.274 billion ($164.27 million). Operating expenses rose by 11% to HK$568 million due in part to greater staffing, marketing expenses for the mini metals contracts and legal fees from class action lawsuits in the U.S. Legal and professional fees jumped by 20% to HK$175 million last year.

The LME has announced that it has delayed the launch of its aluminium premium contract to October 26, 2015 in order to obtain feedback from the market on proposed reforms to warehouse policy and physical delivery network.

Following a tentative agreement with the Malaysian Minister of Finance that a new 6% goods and service tax will not apply to transactions on metals which are stored within the Malaysian free trade zones and on storage and handling charges, the LME has withdrawn its earlier announcement to potentially suspend the issuing of LME Warrants with effect from 1st July 2015 and confirmed that warrants may continue to be issued in the Malaysian locations of Johor Port and Port Klang. The earlier announcement had created market fears that nearly half of the LME's Asian copper stocks were about to exit Malaysian warehouses. Almost 50,000 tonnes of copper had been cancelled across the ports of Johor and Klang, representing three quarters of Malaysia's copper stock, 40% of the LME's Asian inventories, and about 15% of its total stock.

LME Commentary:

LME Sterling copper cash prices strengthened through the month as the Pound weakened noticeably against the US Dollar and supply concerns - a blockade of the Grasberg mine in Indonesia and torrential rains in the north of Chile - caused major mine closures and disruptions. Exchange copper stocks peaked at 342,625t in March - their highest since January 2014 and some 177,025t or 93% higher than the end of December close.

LME aluminium basis prices were largely unchanged in the month with the major emphasis on the narrowing cash to 3 month spread and the movement in premium movements. Like the LME price, primary aluminium exchange stocks were also unchanged in March, closing the month at 3,935,275t, down 269,650t or 6.4% from the end of 2014.

LME Data and Statistics - March 2015:

	Copper			Aluminium		
	Cash £/t	3M £/t	Stocks	Cash $/t	Stocks	USD:GBP
Opening	3,832.55	3,827.89	297,200	1797.00	3,939,425	1.5384
Average	3,814.08	3,804.18		1772.59		1.4976
High	4,180.93	4,173.38		1797.00		1.5384
Low	3,814.08	3,804.18		1742.00		1.4639
Range	366.85	369.20		55.00		
Closing	4093.98	4076.51	332,125	1789.00	3,935,275	1.4779
Opening:Closing Δ	261.43	248.62	+34,925	-8.00	+4,150	
Opening:Closing Δ %	6.82	6.49	+11.75	-0.45	+0.11	

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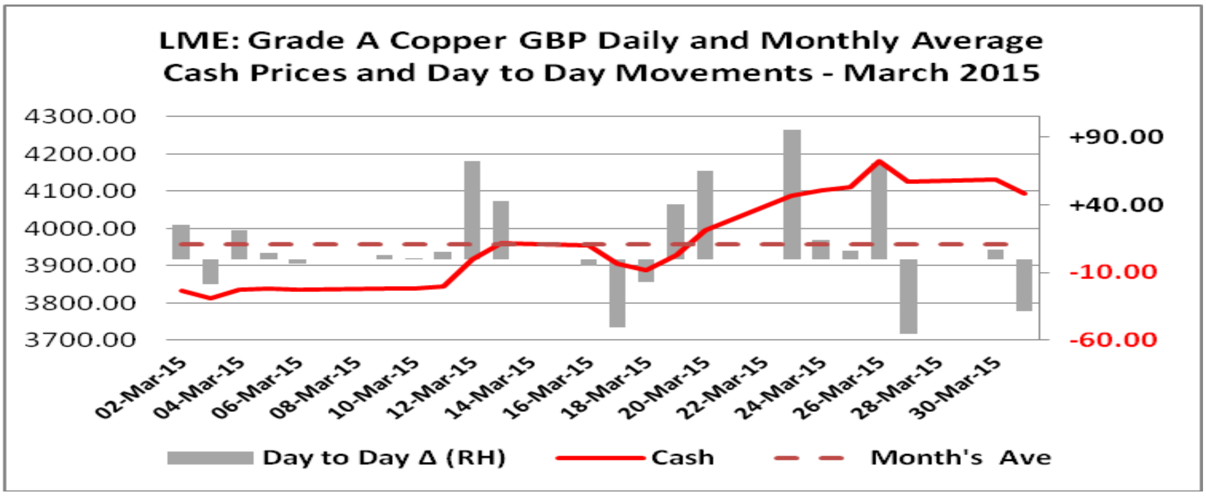

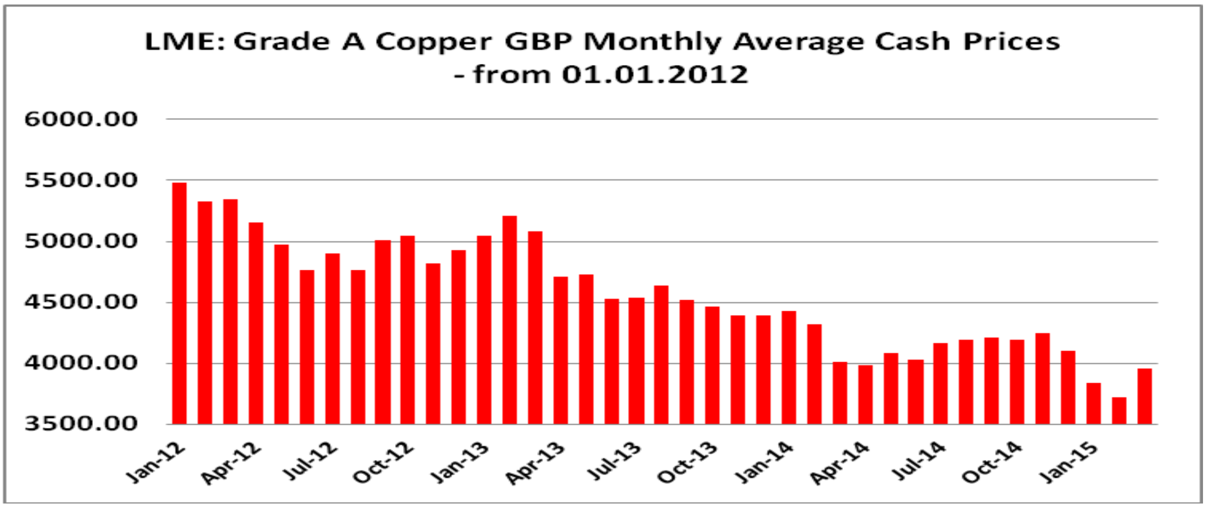

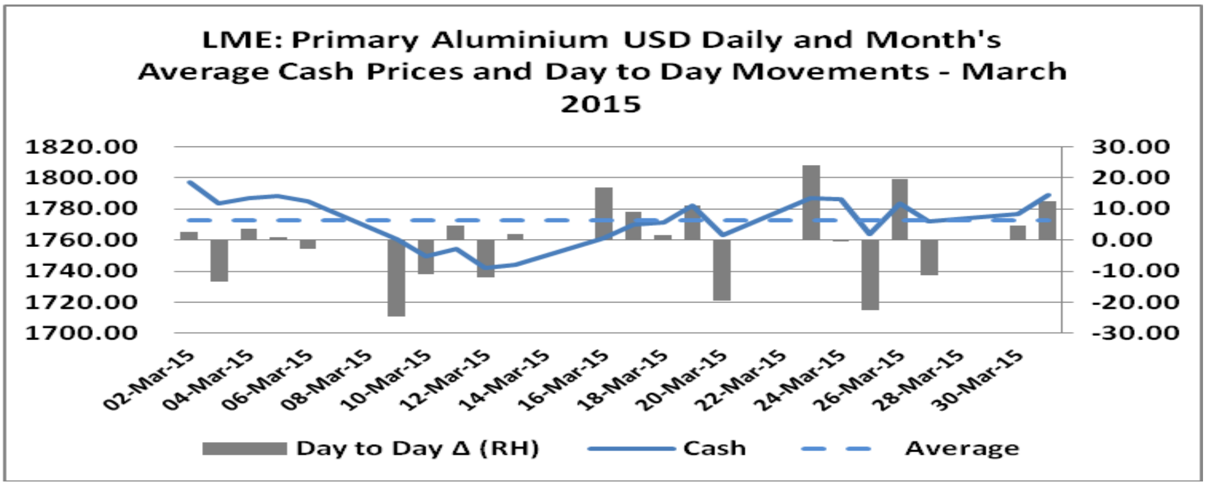

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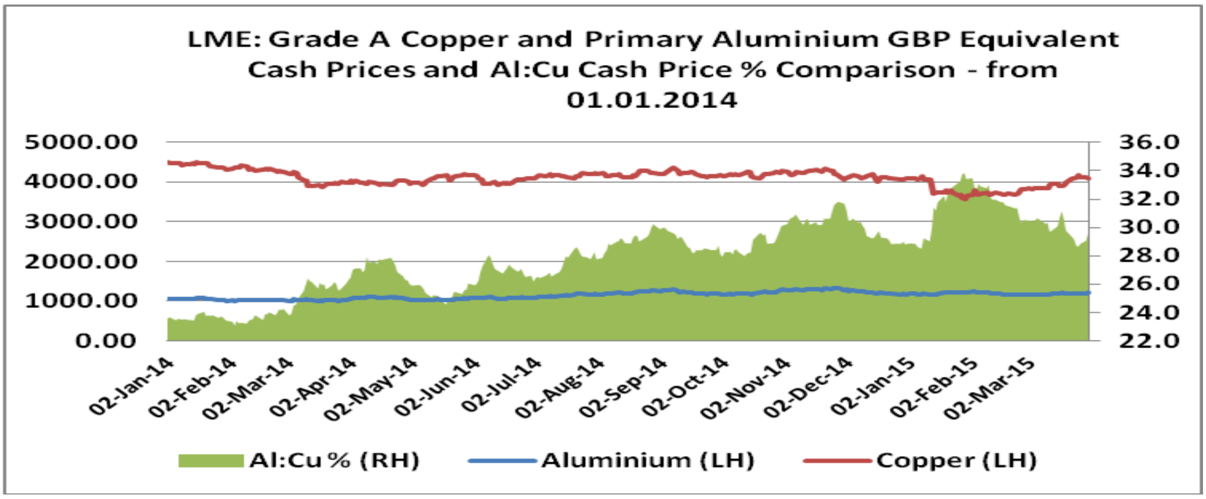

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