

November 2015

Economic Indicators and Comment:

The OECD reduced its global economic forecasts for the second time in three months as slower growth in emerging markets spilled over into countries such as Germany and Japan. World output will expand 2.9% in 2015 and 3.3% in 2016, down from the 3% and 3.6% predicted in September. With Russia and Brazil in recession and China poised to deliver its weakest expansion in more than two decades, the economies that powered world growth in recent years are now slowing it down. The OECD barely changed its forecasts for Chinese output, pegging growth at 6.8% this year and 6.5% in 2016. Yet Brazil's economy is now seen shrinking 3.1% this year and 1.2% next (compared with previous forecasts of - 2.8% and - 0.7%). Russian GDP is on track to drop 4% in 2015 and 0.4% next year, compared with a June prediction of -3.1% in 2015 and +0.8% in 2016. Should the situation in the emerging deteriorate, "growth would also be hit in the euro area, as well as Japan." Japanese GDP will grow 0.6% this year and 1% next, according to the report. While the 2015 forecast is unchanged, the 2016 one has been cut from 1.2%. The euro area's expansion is now seen at 1.5% in 2015 and 1.8% in 2016, a reduction by 0.1% for each year. The U.S. expansion remains on track, with the OECD predicting growth of 2.4% this year and 2.5% in 2016. UK GDP is seen rising 2.4% in both years, little changed from September. The OECD also offered its first glimpse of 2017, predicting a global expansion of 3.6% with growth of 2.4% in the U.S., 1.9% in the euro area and 6.2% in China.

U.S. GDP increased at an annual rate of 2.1% in the third quarter of 2015, according to the "second" estimate released by the Bureau of Economic Analysis. In the second quarter, real GDP increased 3.9%. The increase in GDP in the third quarter primarily reflected positive contributions from personal consumption expenditures (PCE), non residential fixed investment, state and local government spending, residential fixed investment, and exports that were partly offset by a negative contribution from private inventory investment. Imports, (a subtraction in the calculation of GDP) increased. U.S. industrial output fell for the third straight month in October, down 0.2% from September.

Chinese Premier Li Keqiang said at the end of November that China was on track to reach its economic growth target of about 7% this year, and the economy was going through adjustments to maintain reasonable medium to long term growth. Li made the comments during a summit in the city of Suzhou with leaders of 16 Central and Eastern European countries. **Meanwhile**, China's industrial production was up 5.6% in October, its weakest monthly gain in 2015.

Japan's GDP declined an annualized 0.8% in the third quarter, following a revised 0.7% drop in the second quarter, meeting the common definition of a recession. Economists had estimated a 0.2% decline for the third quarter. Weakness in business investment and shrinking inventories drove the contraction as slow growth in China and a weak global outlook prompted Japanese companies to hold back on spending and production.

According to the ONS, UK GDP was estimated to have increased by 0.5% between Q2 2015 and Q3 2015, unrevised from the preliminary estimate published in October, marking eleven consecutive quarters of positive growth. GDP in volume terms increased by 6.4% between Q1 2008 (the pre-economic downturn peak) and Q3 2015. Between Q3 2014 and Q3 2015, GDP increased by 2.3%, unrevised from the previously published estimate. Meanwhile, UK manufacturing output rose at the fastest pace in more than a year in September. The ONS said output grew by 0.8% in September compared with August. This was the largest monthly rise since April 2014. The increase was also double the 0.4% pace of growth economists had been expecting.

Companies:

Prysmian Group published its results for the first nine months of the year. Group Sales amounted to €5,663 million, an organic growth of +6.9% assuming the same group perimeter and excluding metal price and exchange rate effects. Including the impact of the Western Link project, nine-month organic growth would have been 6.7%, up to €5,569 million. The Energy Projects segment posted firm robust growth of +19.6%. The Energy Products segment reported continuing recovery by Power Distribution and Trade & Installers, despite some signs of slowing by the latter in the third quarter. Sales of Industrial cables showed a slight improvement in the third quarter, although reporting a still slightly negative nine-month performance primarily due to the impact of falling demand in the Oil & Gas market and the weakness of the automotive business. Telecom is showing solid organic growth, even if the pace has eased in the third quarter compared

with the sharp acceleration in the first six months. The results showed improvement in profitability, with adjusted ebitda at €488 million excluding WL - up 11.4%.

Polish KGHM, Europe's second copper producer, booked a 95% fall in its third-quarter net profit hit by falling copper prices and a write down on its 10.4% stake in utility Tauron, it reported in the month. The state-controlled miner showed a net profit of 33 million zlotys (US\$8.39 million), with a 44% annual decline to 354 million on a standalone level. The fall in copper prices, only partially offset by a strengthening of the dollar against the zloty, resulted in a 7.5% annual decline in KGHM's third quarter revenue, which stood at 4.8 billion zlotys.

Market Commentary and News:

The global world refined copper market showed an 81,000t surplus in August, compared with a 3,000t deficit in July, the International Copper Study Group (ICSG) said in its monthly bulletin. For the first 8 months of the year, the market was in a 69,000t surplus compared with a 461,000t deficit in the same period a year earlier. World refined copper output in August was 1.9 million tonnes, while consumption was 1.82 million tonnes. Bonded stocks of copper in China showed a 42,000t deficit in August compared with a 26,000t deficit in July.

According to copper producer Antofagasta Minerals, global copper market supply and demand will be closer to balance in 2016, with output reduced by 2 million tonnes or more as smaller producers cut production. With copper prices bouncing around six-year lows, more small copper miners in Chile, China and the U.S. are facing increasing pressure to cut production. The company believes that at current prices there are 2 million tonnes or more of production whose cost is above or equal to the selling price. Antofagasta which trimmed its 2015 output target to 635,000t from 665,000t is likely to produce about 3% more metal in 2016 due to a new mine and improvements at existing mines, its chief executive officer said.

According to BMO Capital Markets, mining companies are digging up record amounts of copper even as prices plumb new lows. Global copper production is on track to hit a highest high of 18.7Mt this year and many analysts predict it will expand until at least 2019. The reason is that mining companies that have sunk billions of dollars into new projects are pushing them to completion in a bet that the larger, lower-cost ventures will help them weather the rout. Once up and running, the new mines will be profitable even if copper prices drop below US\$4400/t.

Nine large copper producers in China have agreed an initial plan to cut refined metal production by more than 200,000t in 2016 or around 5% from this year's level. The agreement followed a meeting to discuss coordinated output cuts to support the market after prices in Shanghai and London plunged to their lowest in more than 6 years. China's refined copper production rose 1.9% in October from the previous month, gaining for the third straight month and hitting a four-month high. Refined copper production reached 693,180t in October, rising from 680,235t in September, data from the National Bureau of Statistics showed.

Glencore said it will cut more production of the metal at its mines through 2017. The company, the world's third-largest copper miner, said it will eliminate an additional 55,000t of output by the end of 2017.

Glencore has laid off 4,300 workers at its Mopani operations in Zambia. Meanwhile Vedanta will stop production at its loss-making Nchanga underground mine in Zambia and cut 2,500 contractor jobs and place its Konkola operation under care and maintenance which will affect 1,675 people immediately and a further 825 over the next three months. Earlier threats that these mines would be run by the Zambian government were subsequently denied by country president Edgar Lungu.

Chilean copper commission Cochilco's semi-annual survey of 15 specialists is forecasting copper prices to average US\$5203/t this year and US\$5357/t next year, with the 2016 average down US\$1014/t from the previous survey. This is based on China's slowdown and 'normalization of U.S. monetary policy' which could strengthen the dollar.

This was mirrored by a CRU analyst who said that an increasingly strong US dollar is likely to push copper prices lower in 2016. He said that forecast copper prices would average US\$4784/t in 2016. The LME copper USD cash price averaged \$5572.84/t to the end of November. Overall he added, global copper consumption remains weak and he is looking at just 2.3% growth in copper demand next year.

U.S. investment bank Goldman Sachs also warned that commodity prices could see another sharp drop as an adjustment in supplies from energy, metals and agricultural producers remains insufficient in the face of weaker demand at key consumers like China. Slow global economic growth and a rebalancing in China towards consumption rather than manufacturing are contributing to a prolonged downturn in raw material prices.

US copper customers are being offered cathode premiums for next year of up to US\$22/t less than 2015 levels, according to trade sources. Unlike in Europe and Asia, there is no traditional benchmark in the USA - deals between participants vary depending on market conditions, locations and relationships. Contracts for 2015 were agreed in a fairly broad range of between \$55 and \$88/t on a CIF basis. Codelco will cut its term premium for physical refined copper supplied to Chinese buyers by 26.3%, offering \$98/t for shipments to Shanghai in 2016, trade sources said while Japan's Pan Pacific Copper have offered at premiums of \$105 per tonne, down from \$115/t agreed for this year. Europe's largest cathode producer Aurubis set its European premium at \$92/t, down from \$110 agreed for 2015. Codelco has set its 2015 European premium at \$92/t, down from \$112/t.

Japan's copper cable shipments including sales and exports in October fell 4.4% from a year earlier to 64,200t on an estimated basis, the Japan Electric Wire and Cable Makers' Association said.

Data published by the International Aluminium Institute shows that world primary aluminium production for the first 10 months of 2015 was 48.218Mt compared with 43.839Mt in the corresponding period in 2014 - an increase of 4.378Mt or 10%.

The extracted analysis reads:

World Primary Aluminium Production - Full Year 2014 and YTD 2015 in '000's tonnes

Month	China	North America	GCC	East & Central Europe	West Europe	ROW	Total
Jan 14	2,243	399	354	318	296	780	4390
Feb 14	2,091	362	332	287	275	708	4055
Mar 14	2,281	400	388	319	302	771	4461
April 14	2,178	381	394	308	290	745	4296
May 14	2,182	392	418	319	304	758	4373
Jun 14	2,246	372	412	309	297	717	4353
Jul 14	2,272	386	427	319	306	729	4439
Aug 14	2,330	386	426	319	306	718	4485
Sep 14	2,346	372	413	310	298	697	4436
Oct 14	2,395	379	426	321	307	723	4551
Nov 14	2,446	370	414	312	302	732	4576
Dec 14	2,507	386	428	323	313	755	4712
Total	27,517	4,585	4,832	3,764	3,596	8833	53,127
Jan 15	2,596	385	431	321	315	756	4804
Feb 15	2,360	348	393	293	287	694	4375
Mar 15	2,600	384	437	324	316	761	4822
April 15	2,594	371	420	313	307	739	4744
May 15	2,703	381	433	323	318	764	4922
Jun 15	2,756	365	420	313	310	736	4900
Jul 15	2,724	374	430	322	317	751	4918
Aug 15	2,734	378	433	322	316	768	4951
Sep 15	2,716	366	419	315	308	749	4873
Oct 15	2,675	377	433	328	318	777	4908
YTD Total	26,458	3,729	4,249	3,174	3,112	7,495	48,217

Russia's Rusal plans to decide by mid December which aluminium smelters to suspend as a part of its plans to potentially cut up to 200,000t of production. The world's largest aluminium producer is looking to cut production under pressure from sliding prices due to a market surplus. The company claimed that more than 50% or 14 million tonnes of aluminium production outside China was unprofitable amid falling prices. LME prices and the regional premiums had declined to US\$1,666/mt at the end of September, down 27% from the beginning of the year, rendering 9 million tonnes of production outside of China unprofitable and at risk of closure. More than 300,000t of production was cut this year and another 300,000-500,000t will be closed in the fourth quarter of 2015, said Rusal.

At the end of the last century the U.S. was home to 22 aluminium smelters. By the end of this year there will be just eight, of which only four will be producing metal, two of them at reduced rates. The latest round of closures has been announced;

- Alcoa said it will idle three of its four active U.S. aluminium smelters, slashing annual capacity by 500,000t, in the steepest cuts yet by an aluminium producer to battle oversupply and sinking metal prices. The company said in a statement it will suspend its Intalco and Wenatchee smelters in Washington State and the Massena West smelter in New York State. It will also permanently close Massena East, also in New York, which was shuttered in 2014. It subsequently announced that it will receive almost \$70 million in aid over 3-1/2 years from New York State to keep the Massena West, New York, aluminium smelter open. The state's power authority will provide \$30 million in power assistance, and the Empire State Development Corporation will provide \$38.8 million in capital and operating expenses to modernize the plant.

- Century Aluminium, controlled by Glencore Plc said it will curtail one of three potlines at its Seabree, Kentucky, aluminium smelter by the end of the year - the company's third capacity reduction in two months. The curtailment will reduce the 210,000tpa plant's capacity by around 70,000t and comes after it announced plans to close its 224,000tpa Mount Holly, South Carolina, smelter by the end of December if it does not receive a favourable power deal.

Traders report that premiums for physical aluminium in Europe have levelled off after recent gains and may come under pressure from additional supply if Chinese exports rebound and some inventories are liquidated. Premiums over the LME cash price have gradually climbed over the past couple of months amid tighter availability. European premiums were quoted at \$160-\$170/t for duty-paid material in Rotterdam, recovering from \$115-\$135 in September and from a peak of \$500 in November 2014.

The U.S. Midwest aluminium premium has risen to its highest level in six months, traders said in the month but the current forward curve and Alcoa's plans to save a U.S. smelter from curtailment were seen pressuring prices in the near-term. The premium has risen to around US\$193/t the traders said, citing the continued impact of Alcoa's plans to shutter the bulk of its U.S. smelting capacity.

China's state stockpile agency is considering buying more than 1 million tonnes of aluminium from local smelters, trade sources said at the end of the month - an initial sign that Beijing could agree to the first major bailout in its metals industry since 2009. News that the central government might scoop up a sizeable portion of domestic inventory in a bid to shore up struggling smelters surprised traders who said the strategy would offer only short-term support to prices.

Sam Walsh, chief executive officer of Rio Tinto Group, the world's second-biggest mining company, says he's unfazed by pessimism about China's ability to meet official economic growth forecasts that are critical to the fortunes of the industry. Rio's own independent research and analysis is indicating China's growth at close to 7%. This comment came as prices for industrial metals fell again in November.

Chinese traders have placed a new round of speculative bets against aluminium and copper prices after months of quiet trading, suggesting funds there expect prices to keep falling. Investors in China this month have increased their bets that aluminium prices will fall 15%, while average trading volumes have doubled. Average copper volumes in Shanghai have risen fourfold during November, while short positions have also increased.

Traded volumes on the LME fell 3% in the first nine months of 2015 compared to the same period last year due to a slowdown in global growth and weak commodity prices, the LME reported.

The LME's new aluminium and steel contracts failed to attract much interest at their launch in the month, highlighting the struggle they face to gain traction and liquidity. Brokers acknowledge that liquidity is the key to a successful contract but also know that this could take a long time. The LME has selected two electronic market makers for the steel contracts to provide bids and offers but does not have any market makers for the aluminium premium contracts. The LME hopes that recent volatility may make the LME's new contract in aluminium premiums attractive but brokers say complexity of the aluminium premium contracts is a problem and they believe major sellers in the physical market will shun the contracts as the transparency could undermine their revenues. The LME faces competition from CME Group, which has already launched aluminium premium contracts in the U.S. and recently in Europe.

From May next year, the LME will introduce more steps to speed up wait times for obtaining metals from its warehousing network to ease backlogs. The exchange, which has a network of about 600 facilities, will cut or remove fees charged by storage companies for metal held if they are unable to load out supplies within a certain time, it said in a notice. The regulation will also stagger dates those caps come into effect to prevent metal owners abusing the new rule. It will raise the minimum amount warehouses have to deliver each day from the beginning of March.

State-controlled China Nonferrous Metals Industry Association, supported by a few large state-owned domestic metals producers has called for authorities to investigate "malicious" short selling of metals markets on the Shanghai Futures Exchange. The initiative came after metals prices in Shanghai, like in London, continue to fall to 6 year lows. The price drop coincided with a steep climb in the in open positions and volumes for several metals traded on the exchange, prompting some producers to blame short selling for the price pressure.

Commodities trader Trafigura said it is closing its flagship Galena Metals Fund, the latest hedge fund victim of the price rout in raw materials markets. Commodities hedge funds are heading for their worst year since the 2008-09 global financial crises with some shutting down - including the \$450 million Armajaro Commodities Fund - after losing money and clients.

Financial industry analytics firm Coalition said commodities-related revenues at the top 10 investment banks dropped by 17% in the first nine months of the year after sluggish turnover from metals and investor products. The slide was also due to a retreat in business in the power and gas markets after last year's surge. Revenue earned by leading banks from commodity trading, selling derivatives to investors and other activities in the sector fell to \$3.7 billion from \$4.5 billion in the same period of 2014, it said.

LME Commentary:

Despite a steady start to the month supported by falling stockpiles and hopes that China's efforts to stimulate its economy will fuel an improvement in demand, prices on the LME fell again to new lows as the US dollar strengthened and fears grew over the prolonged economic weakness in China.

Aluminium prices strengthened initially in the month as both Alcoa and Century announced production cuts and Rusal strongly hinted at further cuts to be announced in December. This mild bullishness was soon replaced by growing investor indifference and uncertainty supported by rumours of Chinese fund led selling.

The primary aluminium USD cash price hit the years low at \$1424/t - its lowest since the end of April 2009 and down \$428/t or 23% from the start of the year. Simultaneously, the LME GBP copper cash price hit another low at £2983.88/t - its lowest since the end of May 2009 and down £1105.97/t or 27% from the start of the year.

Despite LME copper prices trading in backwardation and a narrowing of the primary aluminium cash to 3 month contango, prices remain under huge pressure amid great uncertainty about both supply and demand. Falling LME inventories did little to provide support - copper stocks were down 24,825t or 9.3% while aluminium stocks were down 142,475t or 4.7% in the month.

LME Statistics and Charts: November 2015:

	Copper			Aluminium		
	Cash £/t	3M £/t	Stocks	Cash \$/t	Stocks	USD:GBP
Opening	3320.51	3307.04	267,850	1452.00	3,039,575	1.5472
Average	3164.00	3155.08		1465.64		1.5194
High	3351.17	3346.75		1506.00		1.5472
Low	2983.88	2973.24		1424.00		1.5008
Range	367.29	373.51		82.00		
Closing	3062.03	3057.30	243,025	1442.00	2,897,100	1.5008
Opening:Closing Δ	-258.48	-249.74	-24,825	-10.00	-142,475	
Opening:Closing Δ %	-7.78	-7.55	-9.27	-0.69	-4.69	
YTD Average	3640.59			1675.84		
YTD High	4240.26			1919.00		
YTD Low	2983.88			1424.00		



