

October 2015

Economic Indicators and Comment:

In its World Economic Outlook, the IMF said that a slowdown in emerging markets driven by weak commodity prices has forced it to cut its outlook for global growth this year to 3.1% from a July forecast of 3.3%. In 2016 the world economy will expand 3.6%, less than the 3.8% projected in July, the organisation said. It noted that the deteriorating picture showed a global recovery that's uneven still from Australia to Germany. Brazil and Russia's economies are contracting, Japan and the euro area are struggling to impress and the long-time growth engine China is decelerating. The fund left its outlook for China's growth this year at 6.8% and 6.3% for next year. The modest recovery among advanced economies, led by the U.S. and UK, will likely continue, though the world's richest nations will remain threatened by deflationary pressures, it said. The U.S. will expand 2.6% in 2015, up from a forecast of 2.5% in July, while its economy will grow 2.8% in 2016, down from a projected 3% in July. The IMF downgraded its outlook for Japan to 0.6% growth this year and 1% next year. The euro area will expand 1.5% in 2015 and 1.6% next year. The picture in emerging markets is bleaker, with growth expected to slow in 2015 for a fifth straight year. Russia's economy will contract by a larger-than-expected 3.8% this year, before shrinking 0.6% in 2016, compared with the IMF's July projection for 0.2% growth next year.

The World Bank has cut its 2015 and 2016 growth forecasts for developing East Asia and Pacific and said the outlook was clouded by the risk of a sharp slowdown in China and possible a spill over from expected increases in U.S. interest rates. The Bank now expects the developing East Asia and Pacific (EAP) region, which includes China, to grow 6.5% in 2015 and 6.4% in 2016, down from 6.8% growth in 2014. Its previous forecast in April was 6.7% in both 2015 and 2016. The Bank said the downward revisions to regional growth forecasts mainly reflect a moderate slowdown in China's economy, which it sees growing 6.9% in 2015 and 6.7% in 2016, down from 7.3% in 2014. The previous forecast was for China to grow 7.1% in 2015 and 7% in 2016. Growth in developing East Asia excluding China is expected to hold steady in 2015 at 4.6% before accelerating to 4.9% in 2016. Those were down from previous forecasts of 5.1% growth in 2015 and 5.4% in 2016.

U.S. industrial production fell for a second straight month in September on renewed weakness in oil and gas drilling, the latest indication that the economy lost momentum in the third quarter. Industrial output slipped 0.2% after a revised 0.1% dip in August, the Federal Reserve said. Industrial production rose at an annual rate of 1.8% in the third quarter. Manufacturing output fell 0.1% even though robust demand for automobiles lifted motor vehicle and parts production 0.2%. Manufacturing output dropped by a revised 0.4% in August - previously reported as a 0.5% drop. For the third quarter, manufacturing output increased at 2.5%.

Japanese industrial output rose 1% month on month in September, marking a turnaround from a 1.2% drop in August. This is the first gain in 3 months. Output in October is expected to rise 4.1% according to a survey. The unexpected strength could help to pull the Japanese economy out of recession in the third quarter. On a year on year basis, production is still down 0.9% from a year ago.

Industrial production in the Eurozone slumped in August by 0.5%, according to official figures that illustrate the impact of falling demand for Europe's cars and machine tools in China and Asia. The latest figures showed an even bigger drop in the year-on-year growth rate to just 0.9% growth when a rise of 1.8% had been expected. A 1.1% fall in Germany was more than offset by a 1.6% rise in France, but the weight of declines among Europe's smaller countries dragged down the total for the currency bloc's 19 members. A 4.3% decline in the Czech Republic's industrial output spearheaded a long list of fallers that included the Netherlands, down 1.5%, Denmark, down 1.1% and Spain, down 1.3%.

U.K. industrial production rose more than economists forecast in August, boosted by gas extraction and the best month for transport equipment since 2011. The Office for National Statistics said that total production increased 1% from July, when it declined 0.3%. Manufacturing gained 0.5% following a 0.7% drop the previous month. In the three months through August, industrial production rose just 0.1% while manufacturing output declined 0.9%. Oil and gas extraction jumped 8.7% in August, the biggest monthly increase since February last year. The figure was boosted by seasonal-adjustment factors, as the usual August shutdowns took place earlier than normal - many happened in July instead. Similar factors bolstered

vehicle production by 8.8%, with factories staying open in August. Overall transport equipment rose 4.6 %, the biggest monthly gain since January 2011. Compared with a year earlier, industrial output rose 1.9% in August, with manufacturing fell 0.8%.

Companies:

Nexans announced its 2015 third quarter results. Sales for the quarter amounted to €1,520 million at current metal prices (versus €1,574 million for third-quarter 2014), and €1,124 million at constant metal prices, down 0.3% year on year on an organic basis. For the first nine months of 2015, the sales decreased organically by 0.6%. The company noted a slight organic sales decrease of 0.3% over the quarter, in line with the trend observed in the first half of the year. It reported:

- a sustained robust growth in the third quarter for automotive harnesses, LAN cables and systems, and submarine high-voltage projects (excluding umbilicals).
- a slight 1.3% decrease in Europe, reflecting lower business volumes in the building market, whereas sales to energy operators and in the Industry markets stabilized during the period.
- ongoing positive momentum for the Middle East, Russia and Africa Area, upturn in South America and stable sales in China.
- continued deterioration in the Oil & Gas and Mining sectors, which weighed on sales in North America and Australia and led to a slowdown in umbilicals projects.
- its strategic initiatives were 'pursued as planned'.

Market Commentary and News:

The global refined copper market is expected to see a deficit of around 130,000t in 2016 instead of a surplus predicted earlier in April as prices at six-year lows curb production, offsetting a drop in global demand amid concerns about slowing economic growth in China, the International Copper Study Group (ICSG) reported. In April, the group had forecast a surplus of 230,000t in 2016. Projections for 2015 indicate that the market should essentially remain balanced, said the group, which had revised its forecast downwards in April. The ICSG had earlier forecast a surplus of 360,000 tonnes. World refined copper production in 2015 is expected to increase by only 1% year-on-year to 22.7Mt after increasing by nearly 7% in 2014, the ICSG said. In 2016, refined copper production is seen to grow by around 2.5% to 23.2Mt. Refined copper production growth in China will be partially offset by a decline in Chile, Japan and the U.S. The ICSG expects world apparent refined usage in 2015 to decline by 1.2%, mainly because apparent demand in China is expected to remain essentially flat. Consumption in the rest of the world is expected to decline by 1.5%, the ICSG said. For 2016, the world apparent refined usage is expected to grow at around 3% with industrial demand growth in China is expected at around 4%. Usage in the rest of the world is forecast to increase by about 2%.

The ICSG later in the month reported that the global world refined copper market showed an 8,000t surplus in July, compared with a 16,000t deficit in June. For the first 7 months of the year, the market was in an 8,000t surplus compared with a 563,000t deficit in the same period a year earlier. World refined copper output in July was 1.92Mt, while consumption was 1.91Mt.

Aurubis, Europe's biggest refined copper producer, has cut its copper cathode premium for 2016 term supplies to US\$92/t from \$110 this year. A company spokesperson said the "premium reflects our view of the market and our costs.". The premium is paid above the LME average cash copper price. Later in the month Codelco followed suit and offered its European customers a contractual premium of US\$92/t for 2016, down US\$20 /t on the benchmark number it offered in 2015,

Trade sources report that Codelco's Asian benchmark premium is expected to fall from the US\$133/t level agreed for 2015 to around US\$110/t in 2016. The same sources report that Japanese refined cathode producers have asked Chinese buyers of refined copper to pay term premiums at about US\$105/t in 2016, down 8.7% from US\$115 in 2015. The proposed term premium is within the range of current spot premiums at about US\$100-\$110 for shipments into Shanghai.

China's demand for copper is expected to rise 4% to 4.5% in 2016, with the exact level depending on economic growth, investment in power projects and bank credit to small and medium size factories, according to state-backed research firm Antaika. Those variables have also prompted Antaika to trim its 2015 forecast for growth in copper demand to 5.3% from the 6.2% touted at the start of the year. It put demand at 9.18Mt tonnes in 2015 but said the 2015 forecast could be cut further to below 5% in December if appetite for the metal did not show signs of improving. State investment in the power sector is expected to rise next year after slowing in 2015. Still, copper is used only when grids fund projects and place orders for power cables and wires. China will spend at least 2 trillion yuan (US\$315 billion) to improve its power grid

infrastructure over the 2015-2020 period, which could consume some 1.3Mt of refined copper. Copper demand could boom if funding for power projects surged next year. Refined copper production may rise 6% to 7% to 7.87Mt to 7.94Mt in 2016 as production at new smelters rises gradually. Growth expected for this year is 7.7%.

The Democratic Republic of Congo, Africa's biggest copper producer, has reduced its earlier production forecast of 1.02Mt for 2015 to 974,424t to account for Glencore's Katanga suspension. DRC's copper production has more than doubled since 2011 but further gains are threatened by electricity shortages and the falling copper price. DRC produced 1.065Mt of copper in 2014, according to government figures, crossing the 1Mt threshold for the first time in its history.

Zambia has cut its copper output forecast for this year by as much as 26% - down to around 600,000t - as prices trade near six-year lows and a power shortage curbs production, according to the Finance Ministry. Africa's second largest copper producer is struggling to meet half of peak electricity demand at a time when mines, including Glencore's local unit, have announced the suspension of local operations. Zambia depends on copper exports for 70% of its exports and the kwacha has fallen 46% against the US dollar this year. The government had forecast output at 808,000t in 2015, having produced 708,000t in 2014.

Diego Hernandez, the head of Chilean miner Antofagasta believes copper prices are near a bottom as a modest pickup in Chinese demand next year is set to stem further declines. If the Chinese economy continues to grow at 6% to 7% annually then copper demand will grow by at least half of that figure, he said. Antofagasta has no plans to pare back production from its mines as all operations are profitable. "If China wants to continue to grow at a reasonable pace they need to continue with programs on infrastructure and power distribution," Hernandez said. He confirmed that Antofagasta is targeting 665,000t of copper production this year after cutting the outlook in July.

Codelco the world's biggest copper producer will push ahead with its annual target of producing 1.6Mt to 1.7Mt this year and next year - unlike other major producers Glencore and Freeport McMoRan who have decided to reduce output. The company said that publicly traded commodity companies are under greater pressure than state-owned producers like Codelco to placate investors by cutting output as prices collapse. Codelco is maintaining output targets and warning investors not to expect any dramatic changes to its record investment plans. Earlier in the month, Chile's Mining Minister Aurora Williams, said that lower prices will persist through next year followed by a measured recovery in early 2017.

Rio Tinto, the world's sixth biggest copper mine producer, has no plans to cut copper output next year, having already reduced production at its U.S. operations this year, an executive said. Jean-Sébastien Jacques, chief executive of copper told Reuters that the copper market may have a good run for nine to 12 months, but it could face another tough stretch for a year or two after that. He said that Rio has already done its part in cutting output and expects its copper mine output this year to fall to 500,000-535,000t from 603,000t in 2014, a decline of 11% to 17%. "Our base view today is I wouldn't be surprised if we were balanced or potentially had a small (supply/demand) deficit next year," he said. He cautioned that another influx of supply was due to hit the market late next year or in 2017 that could cause another rough patch for the market before shortages kick in around 2018 or 2019.

KGHM, Europe's second largest copper producer, does not plan to suspend more production, put projects on hold or sell assets as the industry battles sinking prices, its chief executive said. KGHM has put its McCreedy West copper mine in Canada on "care and maintenance" - suspending but not shutting down operations - last month as part of a cost-cutting plan. He said he expected copper prices of between US\$5,000/t and US\$5,200/t next year, with the state of the Chinese economy and U.S. Federal Reserve's interest rates decisions expected to remain key drivers of markets. The CEO said that a weak Polish zloty was cushioning the company from the fall in metal prices.

Jinchuan Group Co., China's third biggest copper smelter, sees basically balanced global market as low smelting capacity expansion counters slowing demand. Its Vice General Manager Zhou Min told a conference in Nanning, China that:-

- global refined copper production will grow 2.3% this year and 0.9% in 2016:
- China's refined output is forecast at 8.25Mt this year, increasing to 8.5Mt in 2016:
- world refined consumption may fall slightly in 2015 from 2014, and then increase 1.5% in 2016:
- the global refined market is seen in 19,000t surplus in the first half of 2015, a small oversupply in the full year and a balanced market in 2016:
- world mined copper output will grow 5.1% in 2016:
- copper prices will trade in the range of US\$4,500 to US\$6,000/mt for some time to come.

The president of Pan Pacific Copper, Japan's biggest copper smelter, expects copper prices to rise to US\$6,000/t over the next 18 months, driven by global production cuts and demand growth in Asia, although any upside will be limited in 2015. "Copper prices will continue to languish this year, hovering between the current level and \$5,500 a tonne," he said. The company forecast an average price of US\$6,000/t in the year to end-March 2017 and US\$6,700/t in the following year.

Mitsui Bussan provided the following overview of the global copper market:

000's tonnes	2011	2012	2013	2014E	2015F	2016F
Global Mine Production	16 078	16 711	17 775	18 775	19 315	19 895
Change y-o-y (%)	0.20%	3.90%	6.40%	5.60%	2.90%	3.00%
Total Refined Cathode Production	19,695	20,100	20,750	22,010	22,347	22,595
Change y-o-y (%)	4.70%	2.10%	3.20%	6.10%	1.50%	1.10%
China	5,195	5,820	6,325	7,400	7,675	7,975
	13.70%	12.00%	8.70%	17.00%	3.70%	3.90%
Ex-China	14,500	14,280	14,425	14,610	14,672	14,620
	1.60%	-1.50%	1.00%	1.30%	0.40%	-0.40%
Global Copper Demand	19,650	19,925	20,650	21,550	21,925	22,350
Change y-o-y (%)	4.00%	1.40%	3.60%	4.40%	1.70%	1.90%
Apparent China	7,800	8,175	8,850	9,700	10,000	10,325
	8.30%	4.80%	8.30%	9.60%	3.10%	3.30%
Ex-China	11,850	11,750	11,800	11,850	11,925	12,025
	3.50%	-0.80%	0.40%	0.40%	0.60%	0.80%
Refined Copper Market Balance	45	175	100	460	422	245
LME, Comex, SHFE stocks	544	589	507	307	519	
Producers, Merchants, Consumers, Govt	800	804	821	600	650	
Estimated Other Stocks	850	925	925	1125	1375	
Liquid And Trade Stocks	1,344	1,393	1,328	907	1,169	
Exchange stock ratio (weeks)	1.6	1.4	1.5	1.3	0.7	
Est Liquid stock + Exchange ratio (weeks)	3.6	3.7	4	3.6	3.6	
Implied other changes	65	126	165	882	160	to Sep 15

Source: ICSG, LME, COMEX, SHFE, WBMS, CNIA, MBC

A report by Bank of America Merrill Lynch has found that about half of the world's aluminium smelters are not profitable and continued price pressures would force more smelters offline should the price fall below US\$1200/t. In the banks view, "the recent (price) dynamic is testament to the ongoing challenging fundamental backdrop". This has perhaps been most visible in the reluctance of Chinese producers to curb output. In fact, the country's smelters, partially supported by subsidies, have increasingly delivered into the deficits created by production discipline from smelters in the rest of the world.

Russia's Rusal expects some U.S. high-cost aluminium firms to cut production in the coming months, which could support base prices, while Rusal itself is still considering trimming its output, according to a company executive. Later in the month the company reported steady output in the third quarter but reaffirmed it was reviewing some of its operations as global prices continued to fall. The world's largest aluminium producer produced 916,000t in the third quarter, up 1% on the prior quarter. For the first three quarters, production edged up by 1.4% to 2.7Mt.

Aluminium Corp of China (Chinalco), the country's biggest producer, plans to shut down its biggest smelter - accounting for about an eighth of its total capacity - due to low prices, according to an industry source. The shutdown reflects mounting pressure on even state-owned companies in the face of slower economic growth and a planned restructure of state-owned enterprises, although it is not expected to have much impact on a forecast domestic output surplus this year.

Mitsui Bussan provided the following overview of the global aluminium market:

000's tonnes	2011	2012	2013	2014E	2015F	2016F
Global Aluminium Production	45,600	47,556	49,350	52,200	55,450	58,300
Change y-o-y (%)	7.80%	4.30%	3.80%	5.80%	6.20%	5.10%
China	19,300	22,000	24,000	26,750	29,550	32,000
	12.20%	14.00%	9.10%	11.50%	10.50%	8.30%
Ex-China	26,300	25,556	25,350	25,450	25,900	26,300
	4.80%	-2.80%	-0.80%	0.40%	1.80%	1.50%
Global Aluminium Demand	44,100	47,100	48,900	51,800	54,200	56,950
Change y-o-y (%)	8.60%	6.80%	3.80%	5.90%	4.60%	5.10%
China	19,200	21,300	23,100	25,400	27,000	29,000
	15.00%	10.90%	8.50%	10.00%	6.30%	7.40%
Ex-China	24,900	25,800	25,800	26,400	27,200	27,950
	4.20%	3.60%	0.00%	2.30%	3.00%	2.80%
Refined Aluminium Market Balance	1,500	456	450	400	1,250	1,350
IAI Producer stocks, LME, SHFE, Japan Port Stocks	6,829	7,191	7,036	6,298	5,540	
Reported stock ratio (weeks)	8.1	7.9	7.5	6.3	5.3	
Other Speculated Stocks	7,500	7,500	7,750	7,750	8,950	
China Stockpiles	1,500	1,500	1,500	1,500	1,750	
Est. Off Exchange Stockpiles	6,000	6,000	6,250	6,250	7,200	To Sep 15
Total Estimated Stocks	14,329	14,691	14,786	14,048	14,490	
Estimated stock ratio (weeks)	16.9	16.2	15.7	14.1	13.9	

Source: IAI, WBMS, LME, SHFE, BBG, MBC

Produced by Neil Bootman of NGB Metal Services.

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U.S. aluminium extruders have accused Zhongwang Group, the world's second largest producer of aluminium extrusions, of evading U.S. import duties, firing the first salvo in a dispute over China's growing exports. In a petition filed with the U.S. Commerce Department, the U.S. Aluminum Extruders Council alleged China Zhongwang Holdings Ltd is shipping extruded aluminium products, including pallets and 5050 alloy extrusions, into the U.S. without paying duties. The head of the U.S. Aluminium Association will meet face-to-face with her Chinese counterparts in the China Nonferrous Metals Industry Association in November.

State-owned Emirates Global Aluminium is in talks with banks to raise a US\$5 billion loan, banking sources reported in the month, to refinance debt taken on for some of its projects. EGA, created by the merger of two state-owned aluminium companies Dubai Aluminium and Abu Dhabi's Emirates Aluminium, is jointly owned by Abu Dhabi investment fund Mubadala and the state company which holds Dubai's most high-profile assets, Investment Corporation of Dubai.

Norsk Hydro's underlying earnings before financial items and tax declined to NOK 2,215 million in the third quarter from NOK 2,667 million in the second quarter of 2015. Weaker alumina and aluminium prices and premiums weighed on results, while strong rolled products sales and record bauxite production contributed positively in the quarter. Primary Metal underlying EBIT declined in the third quarter due to lower realized premiums and aluminium prices, partly offset by a stronger USD and somewhat higher sales volumes.

China's copper and aluminium industries saddled with overcapacity amid waning demand are fighting to secure lucrative tenders to cable up the country's growing cities. China targets investment of RMB300bn in city power distribution this year alone to keep pace with rapid urbanisation. Switching to aluminium alloy for factories and city distribution networks could potentially replace up to 2Mt of copper demand annually or two-thirds of the roughly 3Mt of copper currently consumed by copper cable manufacturers, according to the International Copper Association. It would add about 1Mt of demand for aluminium. Substituting aluminium alloy for copper "won't solve the overcapacity problem for aluminium and it will undermine the copper industry," said Jiangxi Copper Corp, which is leading copper's lobbying effort. The China Nonferrous Metals Industry Association believes that the latest new standards for distribution cables are positive for aluminium but the degree to which it can help reduce overcapacity is limited, when comparing power with construction businesses and transportation. It is roughly half as expensive to wire up factories with aluminium alloy, making the switch attractive for cost conscious Chinese manufacturers but the shift will be expensive in the long term, since aluminium alloy deteriorates faster than copper.

Chinese authorities approved the construction of four new railway lines stretching over 2,000 km, at a total investment of 253.3 billion yuan (US\$39.6 billion). A new intercity railway will link four cities in Ningxia Hui region with a total investment of 8.1 billion yuan, and the second and third lines will connect cities in Anhui and Sichuan provinces, the National Development and Reform Commission's (NDRC) said. The fourth line, in Fujian province, features the biggest investment -- 107.1 billion yuan, Construction is expected to be completed within the next five years.

The LME and seven financial institutions signed a memorandum of understanding during the state visit to Britain of China's President Xi Jinping in October, pledging to help Beijing and its neighbours trade more industrial metals. "This MOU further shows our determination to provide a bridge between China and the rest of the world," said LME Chief Executive Garry Jones. "We're making it easier for Chinese participants to engage in the LME's price-discovery process." The LME has long aimed to tap new business in China and according to Jones has a pipeline of more Chinese members. Later in the month, China Construction Bank Corp, the nation's second-largest lender, announced it had purchased a controlling 75% stake in Metdist Trading Ltd, a floor trading, Category 1 member of the LME. The Bagri family will retain 25% ownership in the brokerage firm, to be renamed CCBI Metdist Global Commodities U.K. Ltd.

LME Commentary:

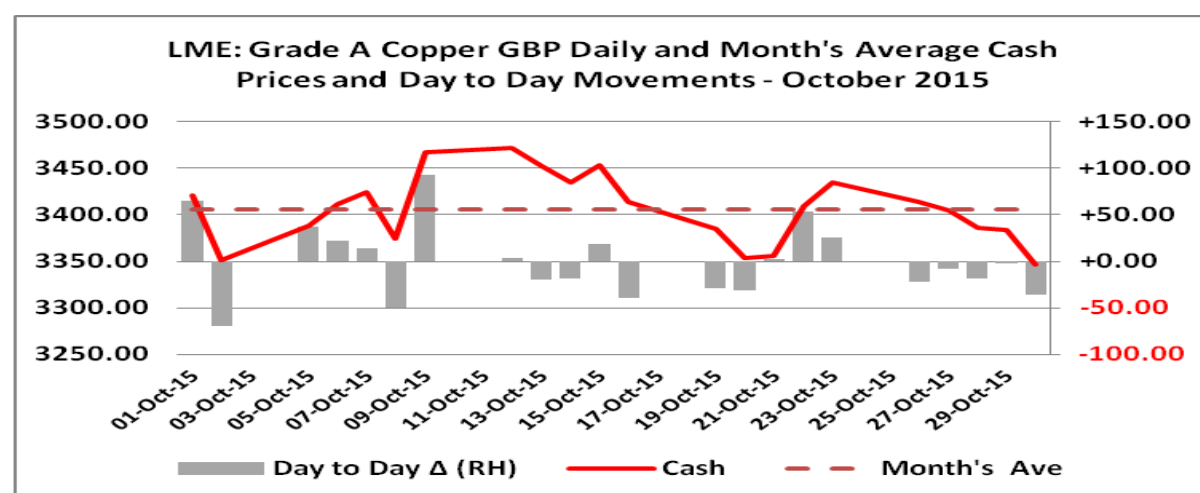
Another erratic price performance by LME metals set against a background of divergent economic news, cutbacks by producers and fears of falling demand in China. Pronouncements from interested parties attending the annual LME Dinner meeting and an important industry meeting in China provided mixed signals to an already nervous market.

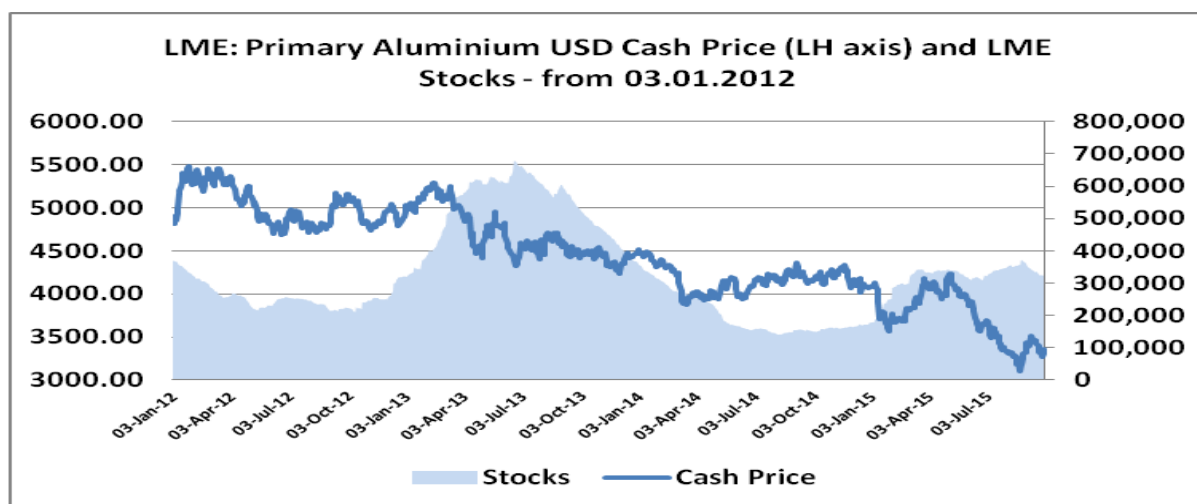
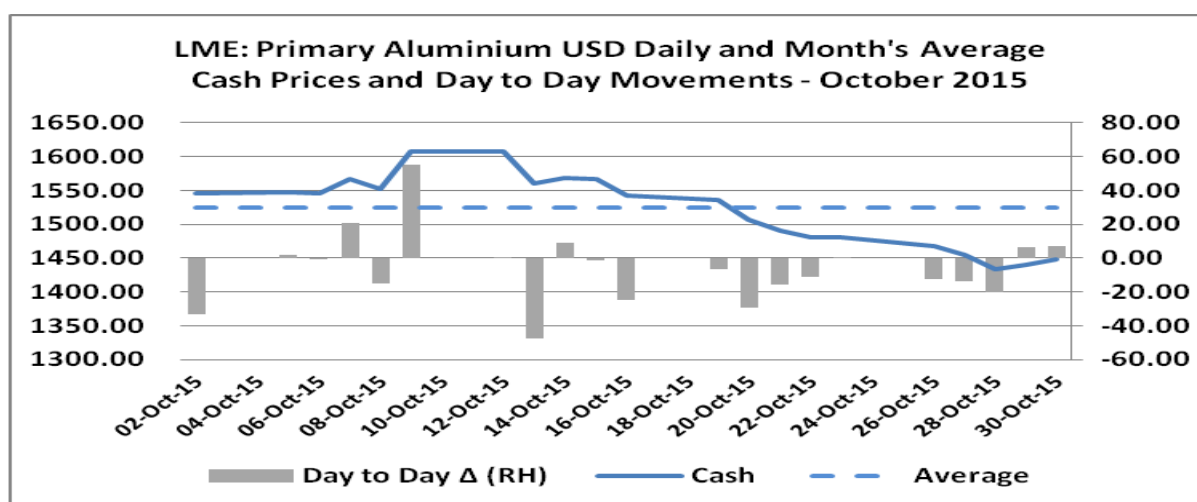
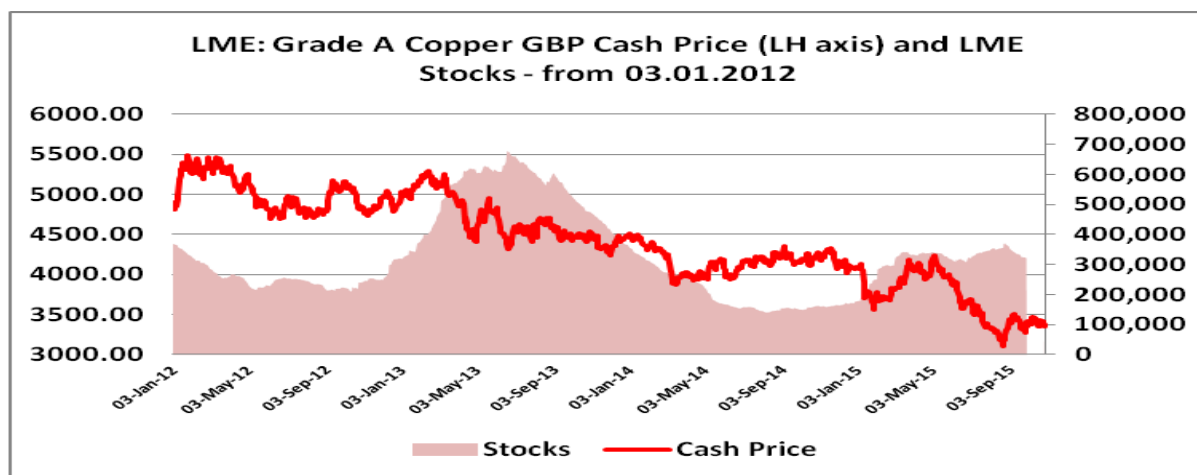
Both copper and aluminium prices performed steadily in the first 10 days of the month. Copper GBP cash climbed to a 12 week high of £3471.73/t as more miners said they were reconsidering production plans, the U.S. dollar weakened and there was a brief revival in Chinese demand. Reality subsequently prevailed and copper prices, despite a sharp fall in exchange stocks, started to run out of steam amid ample supplies, persistent concerns over the health of the Chinese demand and mixed signals coming out of the U.S.

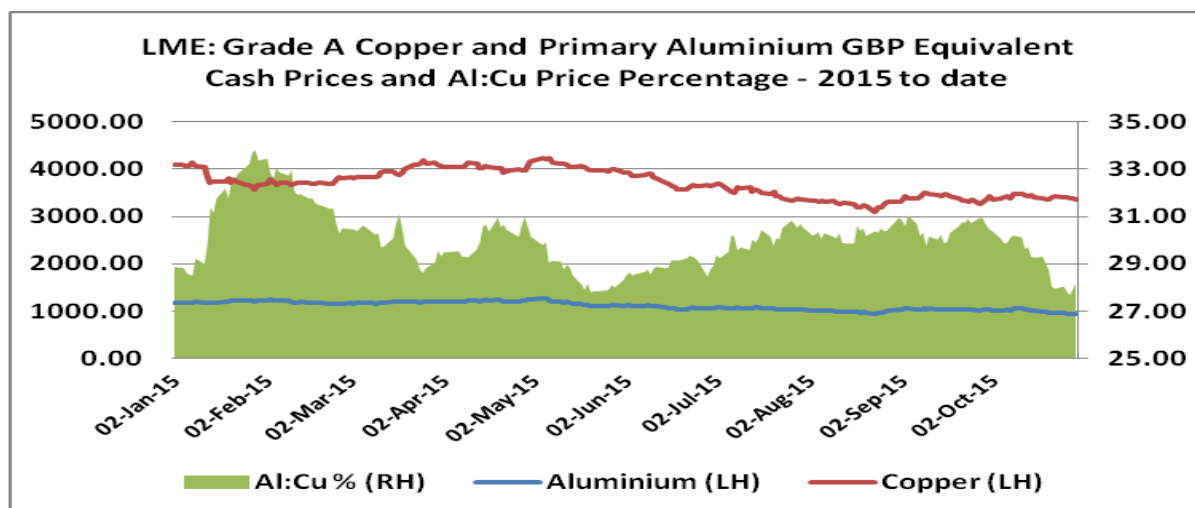
Aluminium cash prices on the LME traded above US\$1600/t up to mid month but despite falling exchange stocks fell to a new six-year low of US\$1,434/t at the end of October. The primary aluminium cash price bottomed at US\$1253.50/t on 24.02.2009 during the depths of the global financial crisis. Market sentiment is driven by continuing oversupply issues and hugely uncertain demand.

LME Statistics and Charts: October 2015:

	Copper			Aluminium		
	Cash £/t	3M £/t	Stocks	Cash \$/t	Stocks	USD:GBP
Opening	3,421.21	3,415.73	320,400	1,578.50	3,179,225	1.5135
Average	3,406.33	3,400.83		1,523.98		1.5332
High	3,471.73	3,465.92		1,607.50		1.5481
Low	3,347.13	3,335.51		1,434.00		1.5135
Range	124.60	130.41		173.50		
Closing	3347.13	3335.51	267,850	1447.50	3,039,575	1.5343
Opening:Closing Δ	-74.08	-80.22	-52,550	-131.00	-139,650	
Opening:Closing Δ %	-2.17	-2.35	-16.40	-8.30	-4.39	
YTD Average	3688.02			1696.76		
YTD High	4240.26			1919.00		
YTD Low	3105.07			1434.00		







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