Metals Newsletter

Energy Cables Sector (Inc. Super-Tension Cables and Power Cable Accessories)
Communication Cables Sector, Winding Wires Sector
Health and Safety and Environmental Committees
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Economic Indicators and Comment:

The OECD's composite leading indicators (CLIs), continue to point to stable growth momentum in the OECD area as a whole. The CLIs signal stable growth momentum in the Euro area, particularly in Germany and Italy, while growth is firming in France. Stable growth momentum is also anticipated in Japan. In India, the CLI points to firming growth. Growth momentum is anticipated to moderate in Canada as well as in the UK and the U.S. On the other hand, the outlook continues to deteriorate for China, with the CLI pointing more strongly to a loss of growth momentum. Signs of slowing growth momentum are also re-emerging in Russia. In Brazil, weak growth momentum is anticipated.

According to the third estimate released by the Bureau of Economic Analysis, US GDP increased at an annual rate of 3.9% in the second quarter of 2015. In the first quarter, GDP increased 0.6%. In the second estimate, issued last month the increase was forecast at 3.7%. The increase in real GDP in the second quarter primarily reflected positive contributions from PCE, exports, non residential fixed investment, state and local government spending, and residential fixed investment. Meanwhile U.S. industrial production in August decreased 0.4% from July.

Eurozone GDP growth data for the second quarter of 2015 has been revised upwards in the 'second estimate' published by Eurostat. GDP rose by 0.4% in both the euro area (EA19) and the EU28 during the second quarter of 2015, compared with the previous quarter. In the first quarter of 2015, GDP grew by 0.5% in both areas. Compared with the same quarter of the previous year, GDP rose by 1.5% in the euro area and by 1.9% in the EU28 in the second quarter of 2015, after increasing 1.2% and 1.7% respectively in the previous quarter.

Industrial production in the Eurozone increased more rapidly than expected in July. The European Union's statistics agency reported that output from factories, mines and power stations during July was 0.6% higher than in June and 1.9% up compared with the same month a year earlier, the strongest performance since February. The pickup in industrial production in July was spread across most of the Eurozone, with France the main exception, as output there fell 0.8% from June. There was a very strong rebound in Greece after three months of decline, with output up 4.3% on the month, second only to Ireland's 7.2% gain.

China's industrial production grew 6.1% year on year in August, according to the National Bureau of Statistics. While this was marginally faster than July's 6.0% level, it compared with an already low reading in August 2014 and fell well below a median 6.6% forecast by 12 economists in a Wall Street Journal survey.

Companies:

Glencore Plc, the worst performer on the UK's benchmark stock index this year - having lost almost US$45 billion in market value this year - has sold US$2.5 billion of new shares to help reduce its debt and protect its credit rating amid a rout in commodities prices. The company was responding to investor concern that a debt- laden balance sheet can't withstand the slump in commodity prices. The share sale, the largest of its kind in the mining industry in Europe, is part of a wider US$10 billion debt reduction program announced in the month which saw the company scrap dividends and plan asset sales to cut its $30 billion of borrowings. By month end Glencore share price had closed at 80.25 pence, having rallied slightly after the company said it can withstand current market conditions.

Market Commentary and News:

European copper smelter Aurubis said global copper supply could be hit by worsening storms in South America due to an El Nino weather pattern, potentially disrupting output later this year. "Strong rainfall, flooding and earthquakes are predicted for South America. If this occurs, the copper industry in Chile and Peru will be affected by impacts on production," Aurubis said in a note. Weather bureaus are confirming the return of an El Nino weather pattern this year, with agencies in the

U.S., Japan and Australia increasing their forecasts for the strength and duration of the event. Heavy rain and winds forced the precautionary closure of some mines in Chile earlier this month, while floods in late March cut Chile's copper production that month and in April. Chile is expected to produce 4.01Mt of copper in concentrate this year while Peru is forecast to produce 1.7Mt - these countries accounting for 45% of global mine supply.

Falling copper prices have forced some producers to halt or curb copper production. In Chile, Collahuasi has announced production cuts while Freeport McMoRan has halted mining, crushing and stacking at its El Abra copper mine in northern Chile as it transitions to lower levels of production. The firm said it had terminated 650 jobs as it seeks to reduce costs. Freeport owns 51% of the El Abra mine with Chile's Codelco owning the balance. In Zambia, Chinese corporation CNMC has also announced it will suspend operations at the Luanshya mine. Glencore had earlier confirmed that it has commenced a review of its African Katanga (DRC) and Mopani (Zambia) copper operations that will see production at the sites suspended for 18 months. A suspension of operations will remove approximately 400,000 mt of copper cathode from the market, Glencore said in a statement.

As September spot cathode premiums continue to weaken, European traders are suggesting that premiums for 2016 annual contracts are likely to be lower than those in 2015. Some sources are predicting 2016 premiums will be settled "significantly lower than this year's". If so, next year's annual cathode premium for deliveries to China would likely follow suit. Term premiums for China in 2015 were set at US$133/t from Chile and US$115 from Japan, down 3.6% and 6.5% respectively from the previous year. Premiums are expected to fall by at least US$10 from this year in 2016, with a range of US$115-$125 expected for metal from Chile and about US$100 from Japan. Producers normally announce their European and Chinese benchmark premiums ahead of LME Week in London (week commencing 12.10.2015).

Copper inventories in China's bonded warehouses fell to the smallest in almost two years as traders moved metal to the domestic market amid slower sales from smelters. Stockpiles dropped 17% to 540,000t in August from a month earlier, the lowest level since November 2013, according to Bloomberg Intelligence analysts. Futures in China have plunged 21% in the past year and touched the lowest level since 2009, spurring producers to curb sales.

China's copper imports were flat in August from the previous month despite weak international prices, hit by slowing economic growth. Imports of anode, refined copper, copper alloys and semi-finished copper products stood at 350,000t in August, little changed from July and June, data from the General Administration of Customs showed.

Weaker demand from China is driving the big fall in metals prices and any rebound will be only gradual, a study by the European Central Bank found on Monday, adding to evidence that low commodity prices may be here to stay. In its monthly bulletin, the ECB concludes that the falling cost of iron ore for steel, aluminium and copper reflected "the slowdown in the growth of emerging economies" and was likely to stay for the "short term".

Some big aluminium producers have offered Japanese buyers a premium of US$110/t for October-December primary metal shipments, up 10% from the previous quarter, sources involved said. Japan is Asia's biggest importer of the metal and the premiums for primary metal shipments it agrees to pay each quarter set the benchmark for the rest of Asia.

Surcharges for physical aluminium in Europe however, are due to remain weak after falling in recent weeks, weighed down by overproduction, new rules that force more outflows from warehouses and difficult conditions for financing. A constant flow of metal out of warehouses registered by the LME is due to increase after new LME rules designed to slash backlogs twice as quickly as under previous reforms took effect at the start of August.

Pressured by a 42% drop in its share price this year and a surge in Chinese aluminium exports, Alcoa Inc said it will break itself in two, separating its faster growing plane and car parts business from traditional aluminium smelting operations as shareholders seek higher returns.

U.S. producer Century Aluminium warned that it would begin shuttering its Hawesville smelter in Kentucky in October "unless the current pricing environment substantially improves". The number of operating aluminium smelters in the U.S. looks set to fall to just seven from thirteen operating prior to the global financial crisis of 2008-2009.

Aluminium producers outside China struggling to stay afloat are pinning their hopes on the U.S. winning a trade dispute lodged at the World Trade Organisation against Chinese export subsidies. A ruling favouring the U.S. could open the floodgates for other countries, which have seen their aluminium producing industries decimated by Chinese exports, to bring similar actions.

A U.S. aluminium industry body has called on federal authorities to investigate allegations that Chinese producers of the metal are improperly labelling their exports, flooding the market and driving down global prices. U.S. aluminium producers have alleged that the Chinese have mislabelled exports as semi-fabricated aluminium in order to evade an export tax on primary aluminium. These products, the U.S. producers say, are often re-melted into primary aluminium further along in the supply chain.

Copper wire and cable demand is set to drop 0.9% to 717,000t in the fiscal year to March 31 2016 mostly on falling exports and below its previous estimate, according to the Japanese Electric Wire & Cable Makers' Association. This compares with its previous estimate of 725,000mt, which would have shown a 0.4% yoy increase. It expects exports to fall more than anticipated as lower crude prices push back oil investment projects and the VW's emissions rigging scandal to reduce its demand for wire harnesses.

China will spend at least 2 trillion yuan ($315 billion) to improve its power grid infrastructure over the 2015-2020 periods, a report by a government newspaper said. Despite falling power consumption growth, China is working to upgrade its cross-country power transmission capacity in order to reduce coal consumption along the eastern coast and provide markets for energy producers in the resource-rich far west, where electricity demand is considerably weaker. It has already built long-distance ultra-high voltage power lines connecting giant thermal power and hydroelectric stations in the west to eastern coastal regions like Shanghai. The 2015-2020 investment is likely to provide a boost for sectors like copper- demand from the power sector accounted for nearly half of China's estimated 8.7Mt of refined copper consumption last year. The plan was aimed at increasing the reliability of power transmission, which would favour copper-based cables over cheaper alternative aluminium-based cables, according to analysts at state-backed research firm Antaike. It did not give an estimate for copper consumption under the proposal, but said more than 1Mt of copper had been used in power transmission projects in 2014 when the investment was about 170 billion yuan.

China's economic planner has approved 143 billion yuan ($22.4 billion) worth of new railway projects that include a new high-speed railway line in central China. The express railway line will be built in China's central Henan province while the two other railway services will be in the south western province of Yunnan.

China has also approved subway projects in three cities including Beijing, Tianjian and Shenzhen worth a total 464.77 billion yuan (US$73.04 billion). The National Development and Reform Commission (NDRC) said that it had approved the second construction phase of a subway system in Beijing, with an investment value of 212.28 billion yuan. It is expected to be finished by 2021. It also gave the go-ahead for a subway plan worth 179.43 billion yuan in Tianjin. It is due for completion in 2020. The third construction phase of a subway system in Shenzhen also won approval. It is planned to be completed by 2020, with an investment value of 73.06 billion yuan. Beijing has approved billions of dollars in infrastructure projects in recent months to stave off a sharper economic slowdown.

China's CMST Development Co. Ltd. is poised to buy a 51% stake in warehousing firm Henry Bath & Son Ltd., owned by Mercuria Energy Group. CMST reportedly will pay US$60 million for the holding. The proposed deal between Swiss commodity trader and the Beijing-based logistics company is subject to due diligence and regulatory approvals in China. The sale of the stake in Liverpool-based Henry Bath underlines the shifting balance of power in global metals markets from Europe to Asia and in particular China, which is the largest commodity consumer.

The LME plans to introduce limits on large positions for the first time to avoid market squeezes, initially on its new aluminium premium contract, it said in September. The use of position limits may be expanded to other contracts if upcoming legislation requires them, the exchange added in a statement.

The LME has appointed four new members to its steel committee, including leading industry executives who are backing the exchange's new steel rebar and scrap contracts ahead of their launch in November. The LME is also close to sealing deals with market makers to guarantee liquidity for the new contracts.

The LME is launching an electronic system to better track material stored outside its exchange warehouses in response to the financing fraud in China. The new system, called LME Shield, will launch in December, and will allow the exchange to provide electronic receipts for metal stored outside its system.

The CME Group has taken another step towards challenging the LME's dominance of base metals trading outside China with a new European aluminium premium contract launched in September. The new 25-tonne contract will trade on the global CME Globex platform and will be cash settled against Metal Bulletin's assessment of aluminium spot price transactions in Europe.

LME Commentary:

Copper and aluminium prices on the LME picked up to seven week highs in the early part of September as investors took some comfort from China's announced measures to strengthen its economy, trade data showing copper imports holding steady in China and concerns about short term supply following an earthquake in Chile.

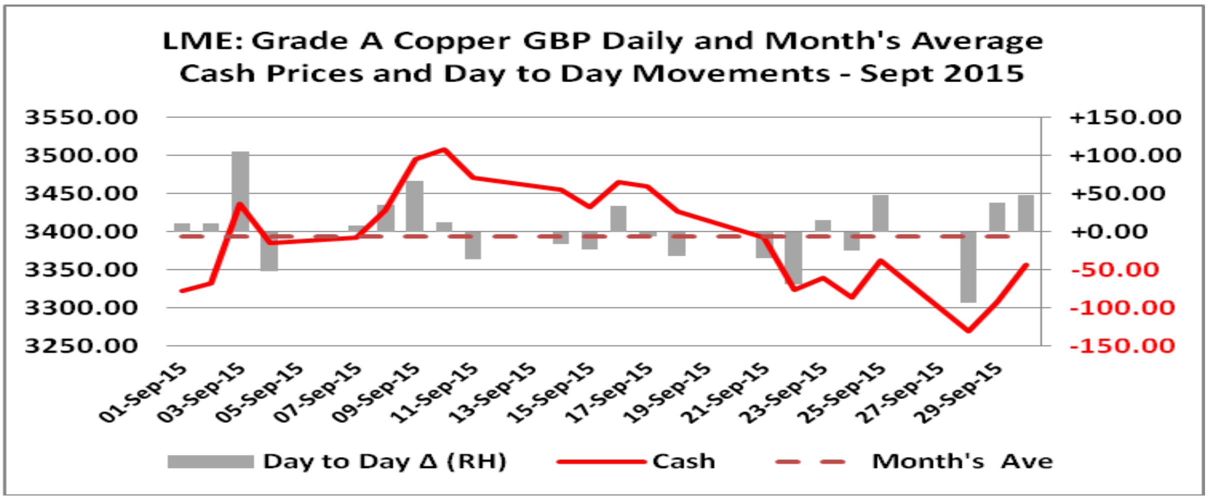
Copper peaked at £3508.32/t and aluminium at $1628/t as the market took a deep breath following the declines of July. But with growing anxiety over China's economic growth - a survey showed worsening factory activity in China - and the U.S.'s reluctance to increase interest rates, nervousness returned. Prices fell again before an output cut in Chile and a revival in Glencore shares helped to fuel a short-covering rally ahead of month end.

Despite the abundance of stock and physical availability, the LME cash to 3 month copper spread traded in a modest backwardation through the month, averaging £7.50/t.

Warehoused exchange stocks for both copper and primary aluminium meanwhile fell in the month. Reversing a 3 month trend, copper stocks held on LME warrant fell 47,250t or 13% to 320,400t - their lowest since June. Aluminium warehoused stocks continue to fall - September month end close at 3,179,225t was down 86,525t in the month and 1,026,000t (24.4%) down in the year to date.

LME Statistics and Charts: September 2015:

	Copper			Aluminium		
	Cash £/t	**3M £/t**	**Stocks**	**Cash $/t**	**Stocks**	**USD:GBP**
Opening	3321.82	3316.16	367,650	1577.50	3,265,750	1.5338
Average	3394.42	3387.05		1588.80		1.5342
High	3508.32	3498.21		1628.00		1.5633
Low	3269.03	3256.70		1537.00		1.5147
Range	239.29	241.51		91.00		
Closing	3355.96	3342.56	320,400	1562.00	3,179,225	1.5386
Opening:Closing Δ	34.14	26.40	-47,250	-15.50	-86,525	
Opening:Closing Δ %	1.03	0.80	-12.85	-0.98	-2.65	
YTD Average	3720.81			1716.87		
YTD High	4240.26			1919.00		
YTD Low	3105.07			1485.50		



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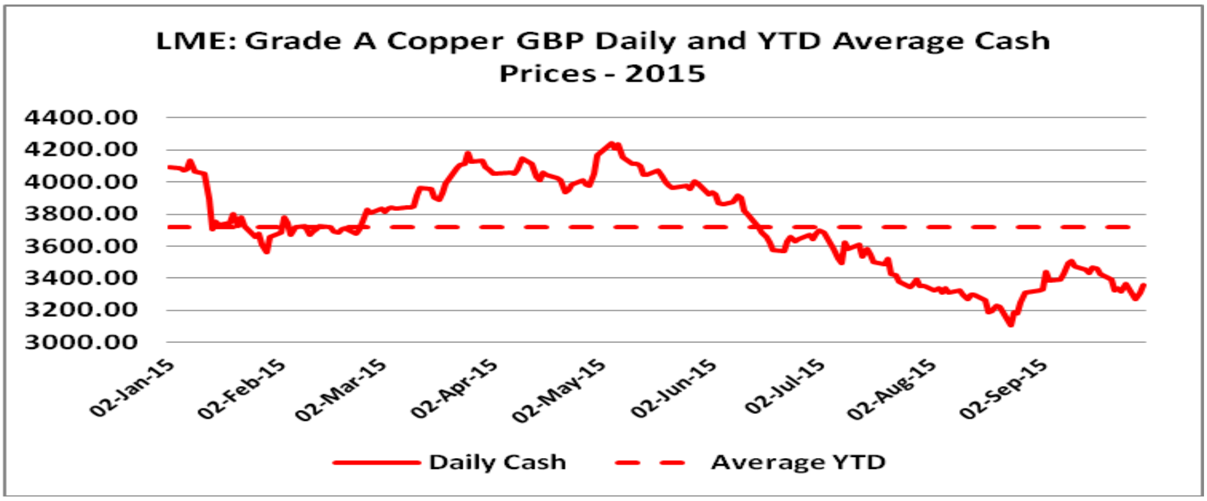

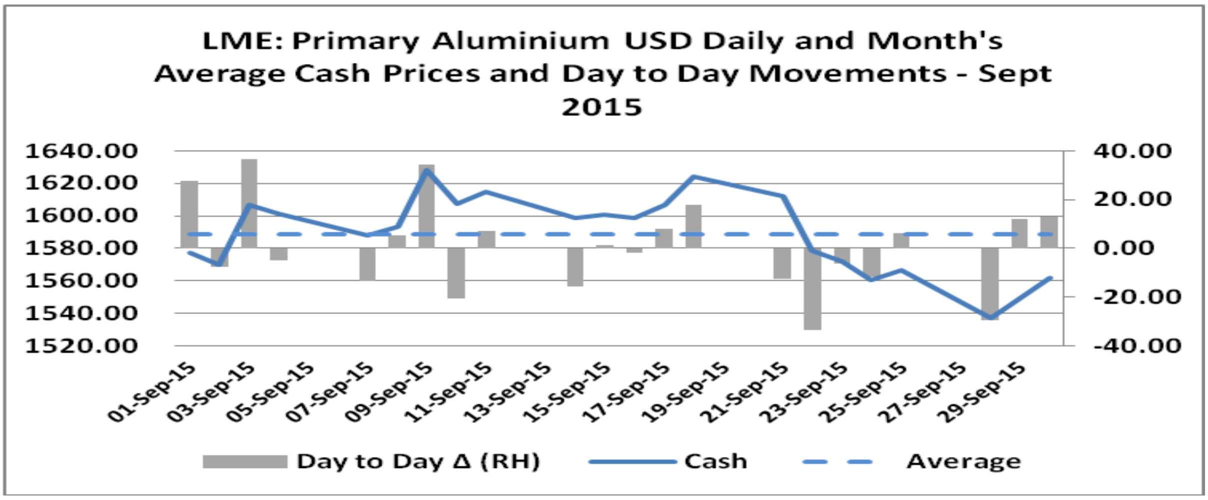

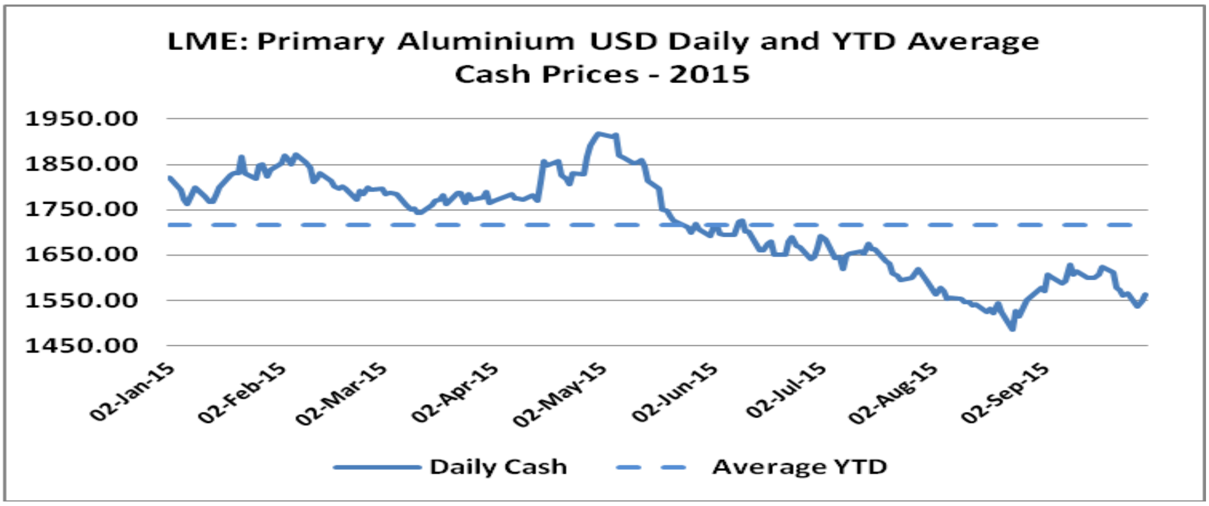

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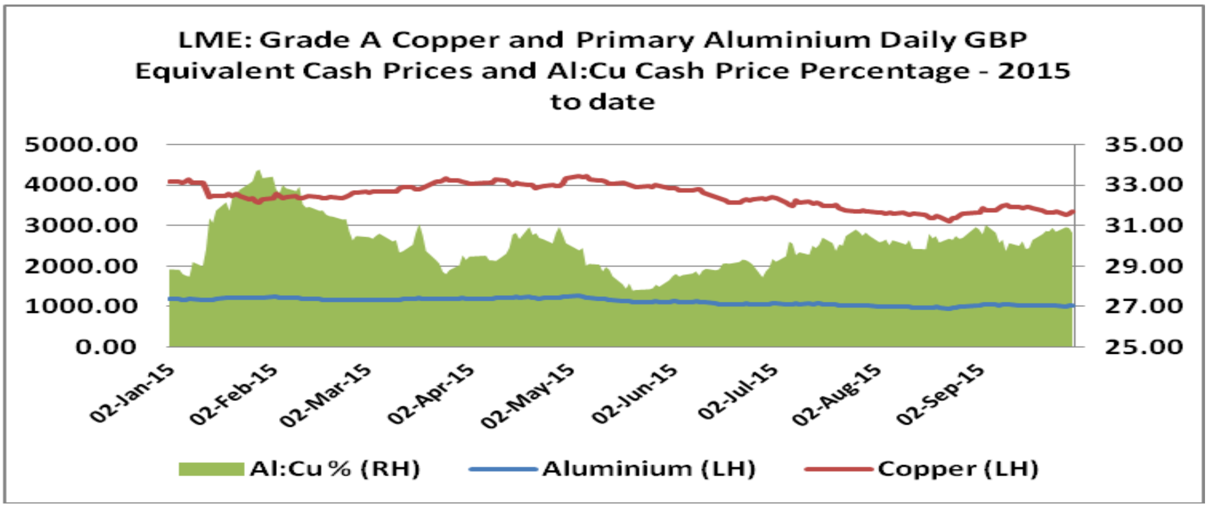

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