Metals Newsletter

January 2015

Economic Indicators and Comment:

The World Bank cut its forecast for global growth this year, as an improving U.S. economy and low fuel prices fail to offset disappointing results from Europe to China. The world economy will expand 3% in 2015, down from a projection of 3.4% in June, according to its semi-annual Global Economic Prospects report, released in January. The report adds to signs of a growing disparity between the U.S. and other major economies while tempering any optimism that a plunge in oil prices will boost output. The Bank upgraded its forecast for U.S. growth to 3.2% this year from a 3% estimate given in June. It reduced its projections for the euro area and Japan, citing lingering effects from the financial crisis and "structural bottlenecks." It also cut its forecast for China, saying the world's second-biggest economy is undergoing a "managed slowdown."

The IMF has cut its growth forecasts for the global economy on the back of a slowdown in China, looming recession in Russia and continuing weakness in the Eurozone. The Fund warned that the boost from lower oil prices is being outweighed by a host of negative factors and it now expects global growth to edge up only slightly from 3.3% last year to 3.5% this year. That is down from a 3.8% forecast for 2015 made in October last year. It forecasts growth picking up only slightly next year and cut its 2016 forecasts from 4% to 3.7%. The U.S. is the only major economy where the IMF has raised growth forecasts for the next two years. It sees a boost from lower oil prices and strong domestic demand helping the U.S. economy to grow 3.6% this year, up markedly from the previous forecast of 3.1%. The IMF left its UK forecasts largely the same, continuing to project growth of 2.7% this year. The UK is expected to lose its place as the fastest-growing major economy to the US this year, with UK growth forecast at 2.7% and the US at 3.6%. The fund predicts Eurozone growth of 1.2% this year, down from 1.3% in October. It has also cut its 2016 forecast to 1.4% from 1.7%. In China, the IMF cut its 2015 forecast to 6.8% from 7.1% and it cut its 2016 forecast to 6.3% from 6.8%. It warns the lower growth is already affecting the rest of Asia.

U.S. GDP expanded at a 2.6% annual pace after the third quarter's 5% rate, the Commerce Department said in its first snapshot of fourth-quarter performance. Analysts said the data indicated domestic fundamentals were strong enough to cushion the blow on growth from weakening overseas economies. First-quarter growth estimates are currently converging around a 2.5% pace, with acceleration anticipated for the rest of 2015. Economists had expected GDP to expand at a 3% rate in the fourth quarter. For all of 2014, the economy grew 2.4% compared to 2.2% in 2013. U.S. industrial production was down 0.1% month on month in December.

China's economic growth held steady at 7.3% in the fourth quarter from a year earlier, slightly better than expected but still hovering at its weakest since the global financial crisis. China's economy grew 7.4% the whole of 2014, the National Bureau of Statistics reported in January, just less than the government's 7.5% target and marking the weakest expansion in 24 years, On a quarter-on-quarter basis, economic growth eased to 1.5% versus expectations of 1.7% and down from 1.9% in the third quarter. Later in the month, analysts reported that China would be accelerating 300 infrastructure projects valued at 7 trillion yuan (US$1.1 trillion) this year to shore up growth that's in danger of slipping below 7%. The projects will be funded by the central and local governments, state-owned firms, loans and the private sector, and the investment will be in seven industries including oil and gas pipelines, health, clean energy, transportation and mining.

Industrial production in the Eurozone unexpectedly climbed 0.2% in November from October which was further revised up to 0.3 per cent from 0.1%, nurturing hopes of an economic turnaround this year. Economists had expected a flat month-on-month reading, and industrial production to be 0.7% lower than a year ago. Instead it is now 0.4% lower than in November last year.

Market Commentary and News:

The global world refined copper market showed a 41,000t deficit in October, compared with a 3,000t surplus in September, the International Copper Study Group (ICSG) said in its latest monthly bulletin. For the first 10 months of the year, the market was in a 616,000t deficit compared with a 159,000t deficit in the same period a year earlier, the ICSG said. World refined copper output in October was 2.01 million tonnes, while consumption was 2.05 million tonnes. Bonded stocks of copper in China showed a 66,000t deficit in October.

China's State Reserves Bureau (SRB) plans to buy an initial tranche of 200,000t of refined copper in 2015 from the international market and may more than double the amount if global prices are low, industry sources report. The SRB has set a flexible buying plan in 2015 after having bought more copper than it had planned in 2014 due to low prices. In 2014 the SRB is estimated to have placed orders for between 400,000t and 700,000t of refined copper cathode, compared to the initial plan about 300,000t.

European demand for copper is weakening after consumers stockpiled the metal at the end of last year amid deepening concerns about the health of the region’s economy, according to traders. Additionally, backwardation in the copper market is leading metal holders to make deliveries. Cathode premiums over the LME basis price have fallen to their lowest since 2009, according to a Bloomberg News survey and data from researcher CRU Group. The spot premium in January was reported at about US$35/t, down from US$60/t in November. Consumers are using copper that they have built up and do not need to buy in the spot market, said the survey while supplies are ample as European producers ship less to China. Europe accounts for about 14% of global copper consumption.

Cuts in copper mine output are raising doubts about the extent of a widely expected global surplus and the reduced production could support a market rebound. An expected glut of supply in 2015 is one reason - along with falling oil prices - why investors have been selling the metal in the past six months, pulling prices to their lowest level in 5-1/2 years. But several mining companies have cut their expected 2015 copper production, mainly for geological or technical reasons - and only now are new forecasts emerging from analysts downgrading global output this year. Some have gone so far as to wipe out the surplus altogether and forecast a deficit. Concerns about economic growth in China have also weighed on prices for the metal. Some economists however, say any pick-up in the Chinese property sector this year could boost demand for copper and further eat into a global surplus. Analysts polled by Reuters in October had expected the global surplus to increase to 350,000t this year from a forecast 94,300t in 2014. Since then, Rio Tinto has trimmed expected 2015 output at its Kennecott U.S. operation by about 100,000t and BHP Billiton has cut around 150,000t from forecast production at Escondida in Chile. Glencore has reduced its forecast for output at its Alumbrera mine in Argentina by 50,000t.

Zambia’s local chamber of mines has said that about half of Zambia’s copper production is loss-making after prices for copper fell to their lowest levels since 2009. The price slump combines with higher mineral royalties introduced in January to put pressure on mines in Africa’s largest producer after the Democratic Republic of Congo.

Copper demand in China will be hurt by persistent weakness in the property market over the next 12 months, according to Goldman Sachs. A downturn in the nation’s real-estate market, which accounts for half of China’s copper usage, weighed on industrial metal consumption in the past year and is unlikely to end in 2015, analysts wrote in a January report. There is a high risk prices in 12 months will be below the bank’s forecast of US$6,000/t, it said. Property is still the key copper driver and it remains soft, the bank added and demand is likely to be hit hard. China property sales growth will be steady this year, according to the bank’s estimates.

Chilean state copper commission Cochilco has cut its forecast for 2015 average copper prices to US6,283/t, from a prior estimate of US 6,614/t, amid a collapse in commodities prices, a strengthening U.S. dollar, and worries about demand in China. It also forecast average copper prices of US6,173/t in 2016. The LME cash copper price closed the end of January at US$5505/t.

Credit rating agency Standard & Poor’s downgraded its price forecasts for copper due to slower global growth and said it expects changes to the ratings of related companies in the coming weeks. The agency revised down its copper price forecast to US$5,953/t in 2015 and 2016, from US$6,834/t, it said in a release. The agency added that the fundamentals for other industrial metals, such as aluminium, nickel, and zinc, remain positive.

China's domestic alumInium smelting capacity is expected to reach 40 million tpa by the end of 2015, up 14.3% from around 35 million tpa at the end of 2014, according to state nonferrous analysts, Beijing Antaike. The current forecast also reflected a sharp rise of 29% from the 31 million tpa capacity seen at end-2013. Continuing expansions of smelters in the western regions -- especially Xinjiang where production costs are comparatively lower than the rest of the country -- was the driving force for the country's rising capacity. Aluminium production capacity in Xinjiang alone is expected to reach about 6 million tpa by end 2015, compared with around 4.5 million tpa at end 2014. Capacity in Xinjiang stood at around 3 million tpa at the end of 2013. With the rising capacity this year, China's aluminium output in 2015 is also expected higher at about 31 million tonnes, up 10.7% from the 28 million tonnes achieved in 2014, and 24% from around 25 million in 2013, according to Antaike figures. The expected increase in output has already taken into account possible smelter cuts due to prevailing weak metal prices. So far, about 200,000-400,000t of output has been cut since December last year. Of the global aluminium production of 53.746 million tpa in 2014, China accounted for 27.98 million tonnes. High-cost and polluting Chinese smelters with a combined capacity of 2.1 million tonnes have stopped production already.

Aluminium stocks in Japan have risen to 419,900t, an all-time high which is putting pressure on local prices as some companies want to destock before March, the end of the Japanese financial year. Aluminium stocks at three main Japanese ports had swollen by the end of December, according to trading house surveys. Some recent buy tenders settled at low premiums as a result, traders said.

Aluminium Bahrain (Alba) produced and sold over 930,000t of aluminium in 2014, setting another new high for the company.

CRU has estimated the three-month LME primary aluminium average price of $1,950/t for the first quarter of this year. The LME three-month price closed the end of January 2015 at US$1837.50/t.

Annual turnover of metal futures and options on the LME was at a record high in 2014. Trading lots in all metals other than copper were higher than in 2013. Copper turnover at 40,835,037 lots was 4.9% down on 2013 while primary aluminium was 3.3% up at 68,819,845 lots. Total trading on the LME was up 3.5% at 177,151,712 lots.

Standard Bank may make further write downs of about US$80 million on the value of aluminium stockpiles entangled in a Chinese fraud investigation. US$167 million of aluminium it claimed ownership of was placed under lockdown by Chinese authorities probing irregularities at warehouses in Shandong Province. The aluminium stockpiles held in bonded facilities, mostly at the Qingdao port, were allegedly pledged to banks as collateral for loans multiple times.

LME Commentary:

Copper and aluminium prices on the LME, Comex and Shanghai came under sustained selling pressure in the month, battered by bearish and negative news on virtually all fronts. Poor manufacturing and weaker GDP figures out of China; both the IMF and World Bank cutting their forecasts for world growth based on disappointing prospects in the Eurozone, Japan and some major emerging economies; political uncertainty in Europe with the Swiss franc devaluation and the Greek elections; aggressive selling by Chinese and other large funds; a general commodities downdraft spurred by lower oil prices - were all compounded by real and apparent weaker demand. The exit of major banks furthermore, from commodities in the past few years has also drained liquidity from the metals markets, exaggerating any strong, in this case, downwards movement.

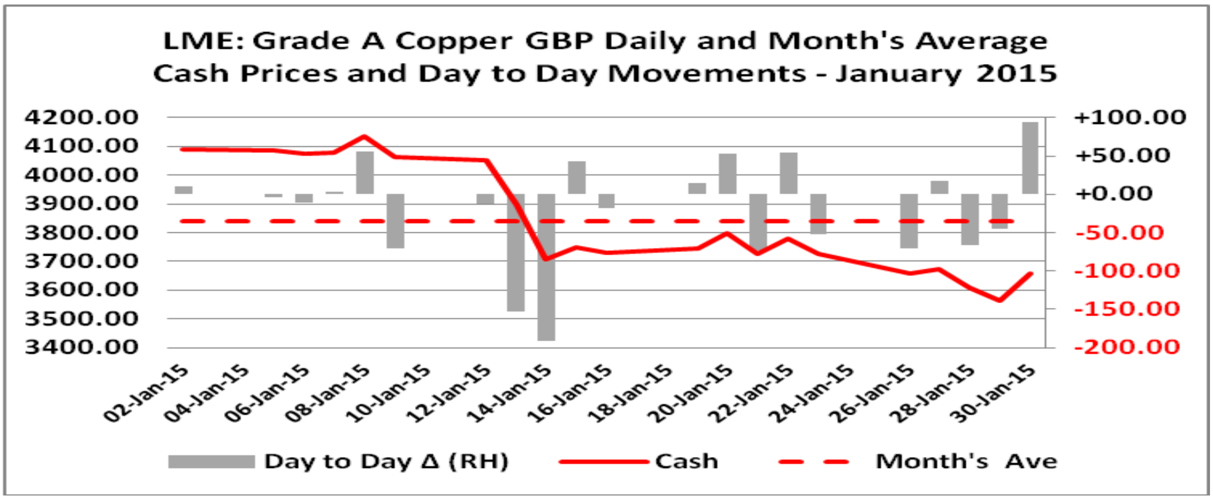
By month end, the LME GBP copper cash price which had bottomed at £3563.73/t, its lowest in more than five years, closed the month at £3568.05/t - a loss of 10.6% of its value in the month, and trading at. The LME primary aluminium cash price meanwhile bottomed at $1762/t early in the month - its lowest since May 2014 - and despite the sell-off in other metals actually recovered towards month end still closing the month down 9.08% at $1837.50/t.

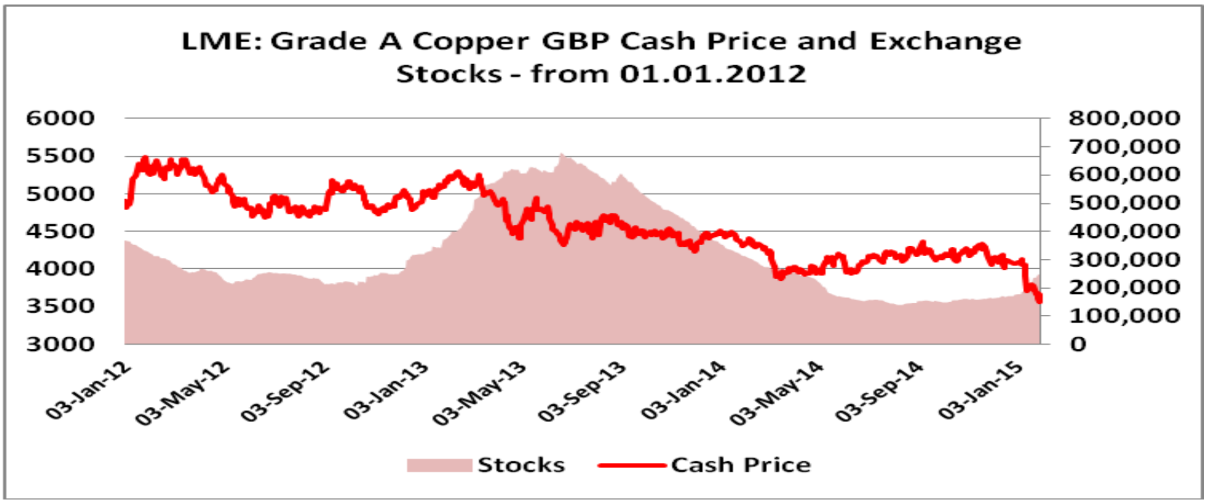
LME copper stocks rose markedly in the month, closing at 250,025t, up 73,00t or 41% in the month and their highest since April 2014. LME primary aluminium stocks meanwhile, closed the month at 4,041,075t, down 163,575t in the month and the lowest since May 2009.

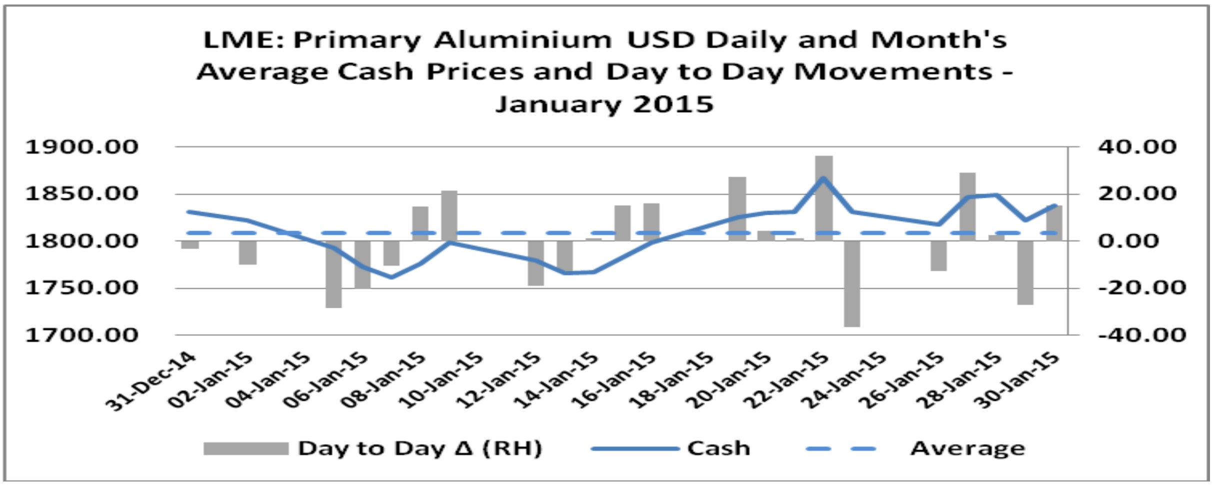
LME Data and Statistics - January 2015

	Copper			Aluminium		
	Cash £/t	3M £/t	Stocks	Cash $/t	Stocks	USD:GBP
Opening	4,089.85	4,052.55	177,025	2021.00	4,204,650	1.5426
Average	3,838.21	3,809.88		1808.38		1.5151
High	4,134.65	4,091.18		1867.00		1.5426
Low	3,563.73	3,551.87		1762.00		1.4973
Closing	3658.05	3633.64	250,025	1837.50	4,041,075	1.5049
Opening:Closing Δ	-431.80	-418.91	+73,000	-183.50	-163,575	
Opening:Closing Δ %	-10.56	-10.34	+41.24	-9.08	-3.89	

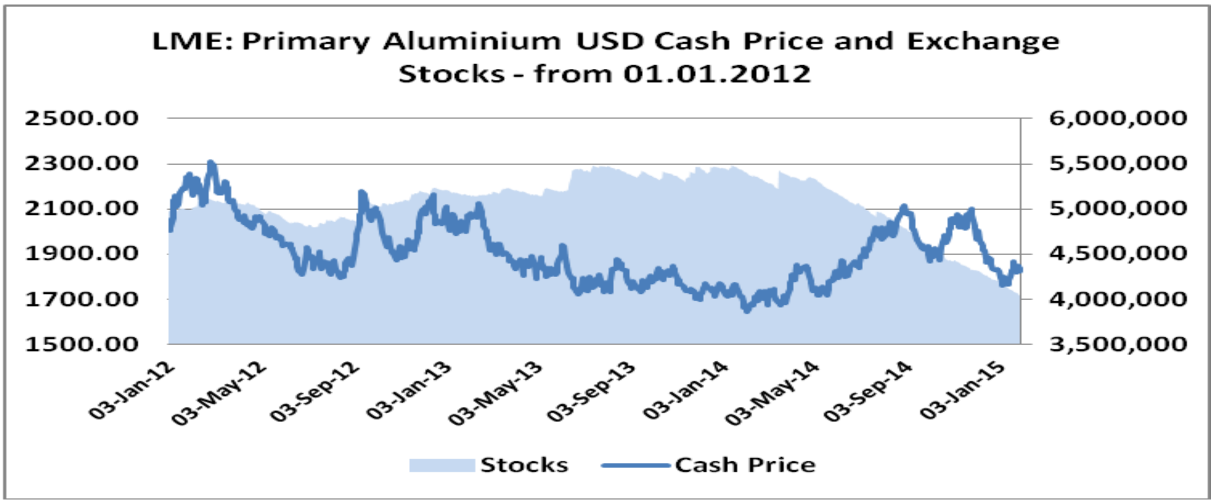
Produced by Neil Bootman of NGB Metal Services.

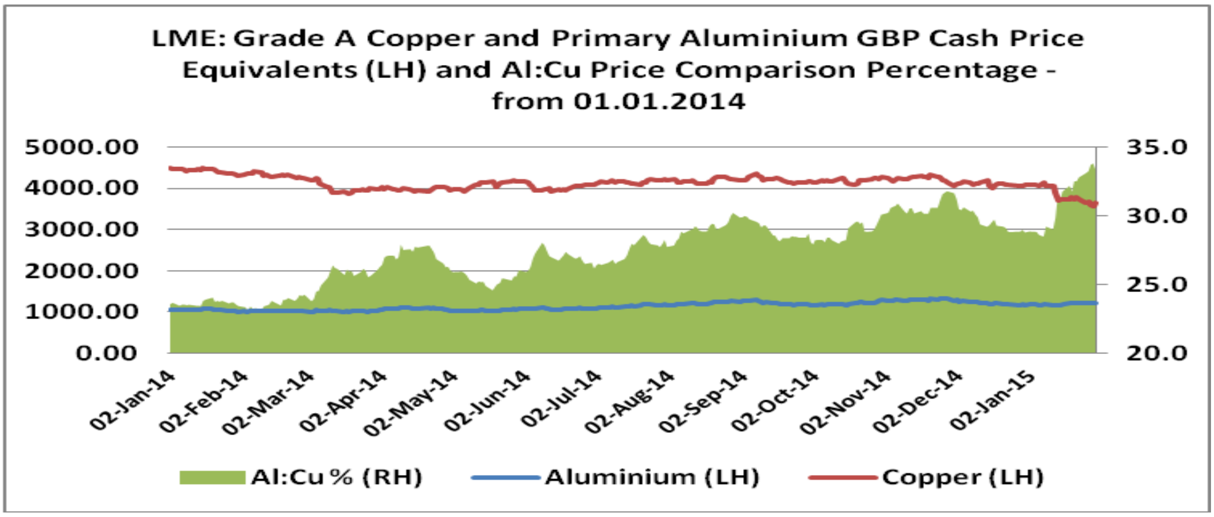






Produced by Neil Bootman of NGB Metal Services.





Produced by Neil Bootman of NGB Metal Services.