Metals Newsletter

September 2017

Economic Indicators and Comment:

Composite leading indicators (CLIs), continue to point to stable growth momentum in the OECD area. Stable growth momentum remains the assessment for the U.S., Japan, Canada and the euro area as a whole, including Italy, and is now also expected in France. Signs are emerging that growth may be stabilising in Germany. In the UK, the CLI continues to point to signs of easing growth. Amongst major emerging economies, growth is expected to gain momentum in India and Brazil as well as in the industrial sector in China. In Russia, there remain signs of easing growth.

The U.S. Commerce Department said in its third estimate that the U.S. economy expanded faster than previously estimated in the second quarter, recording its quickest rate of growth in more than two years. GDP increased at a 3.1% annual rate in the April-June period. The upward revision from the 3.0% rate of growth reported last month reflected a rise in inventory investment. Economic growth in the quarter was the quickest since the first quarter of 2015 and followed a 1.2% increase in the January-March period. The destruction caused by Hurricanes Harvey and Irma and the resulting disruption are expected to be a drag on third-quarter growth, according to analysts and could cut as much as six-tenths of a percentage point from third quarter GDP growth.

The Asian Development Bank (ADB) raised its outlook for China's economic growth this year on the back of strong domestic consumption, an export recovery and solid growth in services. ADB now expects China's economy to grow 6.7% in 2017, up from a previous projection of 6.5% made in April. The 2018 growth forecast was also raised to 6.4% from 6.2%. China's economy has grown at a faster than expected 6.9% in the first half of this year and is on track to beat the government's target of around 6.5% despite Beijing's efforts to curtail risky forms of investments and rising debt.

The UK expanded at a weaker year-on-year rate in the second quarter than previously thought, statistics released in the month showed, highlighting the "notable slowdown" in growth in the first half of this year. The economy grew 1.5% in the three months ending in June from the same period in 2016, the weakest level since the first quarter of 2013, the Office for National Statistics said. The services sector was the only area to grow in the second quarter, mainly due to increases in computer programming and retail, according to the ONS. Household spending growth continued to slow in the second quarter but revised figures show business investment grew more strongly than previously estimated. The quarter-on-quarter GDP growth rate was left unrevised at 0.3%, matching the pace that was recorded in the first quarter.

Market Commentary and News:

The global world refined copper market showed a 70kt deficit in June, compared with a 50kt deficit in May, the International Copper Study Group (ICSG) said in its latest monthly bulletin. For the first 6 months of the year, the market was in a 75kt deficit compared with a 405kt deficit in the same period a year earlier, the ICSG said. World refined copper output in June was 1.96 million tonnes, while consumption was 2.03 million tonnes. Bonded stocks of copper in China showed a 102kt deficit in June compared with an 87kt deficit in May.

According to World Bureau of Metal Statistics (WBMS) the global copper market recorded a deficit of 191kt during January to July this year. This follows a deficit of 101kt recorded during the whole of 2016. Global mine production during the seven-month period was 11.9 million tonnes – a marginal increase of 0.1% on the corresponding period last year. Global refined copper output registered a slight jump of 1.2% over the previous year to 13.6 million tonnes. The refined copper output by China increased significantly by 348kt during this period. The increased output from China was partially offset by a reduction in output by Chile. The Chilean refined copper output declined by 168kt during this period. Global copper demand during the first seven months of 2017 was 13.79 million tonnes, compared with 13.77 million tonnes during the same period in 2016. Chinese apparent consumption was 6.737 million tonnes, down by 76kt year on year. Chinese demand accounted for just under 49% of the global demand. EU-28 apparent consumption dropped marginally 0.5% from Jan-July '16 levels to 2,049kt. According to the WBMS report, reported stocks of the metal rose by 93kt during the initial seven-month period of the year when compared with 2016 closing. Also, the reported stocks increased marginally during the month of July this year. Refined copper output in July 2017 alone was 1,959.6kt, while consumption totalled 2,044.5kt. Chile produced 508,598t of copper in August, an increase of 10.2% from the same month last year, government data showed. Statistics agency INE attributed the rise to increased throughput and higher-grade ore at one of the country's largest copper mines. The monthly figure also marked an increase of 7.5% from the previous month of July and is the highest monthly figure for Chilean copper production since last December.

Chile's Codelco produced 798,000t of copper during the first six months of the year, down 1.8% from the same period last year as the company struggled with falling ore grades and tougher conditions at its ageing mine operations. The company said it expected to produce 1.7 million tonnes of copper in 2017. Reporting its first half results, Codelco posted earnings of $990 million, compared with a loss in the same period last year, as the company benefited from higher copper prices.

Zambia's copper production is expected to exceed the 770,000t produced last year, Finance Minister Felix Mutati said. He said that copper production stood at 510,369t at the end of August.

Metal Bulletin Research has calculated that major copper producers have lost an estimated 1.85 million tonnes of output in the first eight months of 2017 due to strikes, power outages and lower-than-expected ore grades. Several of the largest producers of the metal by volume fell short of their production targets in the first half, prompting many to lower their output guidance for the rest of 2017. The figures showed;

Producer	H1 output as percentage of full year
Rio Tinto	35.0
Imperial Metals	36.9
Nevsun	39.6
BHP	46.3
Freeport	46.9
Vale	47.2
Glencore	47.4
Capstone	47.7
Anglo American	48.4
Antofagasta	49.0
MMG	49.5

China's national refined copper demand in the fourth quarter is set to hit 2.8 million tonnes, up from estimated demand of 2.75 million tonnes in Q3, according to a forecast by major producer Jiangxi Copper. The power, construction, home appliance and transport sectors were forecast to account for 30%, 25%, 15% and 13% respectively, of China's estimated copper demand of 11.04 million tonnes in 2017, with annual copper demand growth in the four consumer sectors this year estimated to rise 4.5%, 0.7%, 4.6% and 8%. The company forecast China's 2017 national copper demand to grow 3.5% year on year, as compared with annual growth of 4.5% in 2016. It forecast the domestic cable sector becoming ever more concentrated, with high sector utilization rates and with North China replacing coal-fired boilers with electric furnaces or air source heat pumps, this will result in stronger demand for copper by the cable and copper tube sectors. Furthermore, the new energy sectors, including nuclear, solar and wind, were expected to spur domestic copper demand in the years to come. China's Q4 national refined copper output is forecast to be 2.09 million tonnes, up 60,000t from estimated output of 2.03 million tonnes in Q3, according to the producer. China's Q4 net refined copper imports were forecast at 730,000t, stable from the Q3 level, with a national refined copper surplus of 20,000t in Q4, up from a surplus of 10,000t in Q3, estimates from Jiangxi Copper showed. China was forecast to have a national refined copper deficit of 70,000t in 2017, compared with surplus of 170,000t a year ago, according to the producer.

Japan's copper cable shipments, including sales and exports, in August rose 0.4% from a year earlier to 53,500t on an estimated basis, the Japan Electric Wire and Cable Makers' Association said.

Figures from the International Aluminium Institute show that China's primary aluminum production last month fell to its lowest since April 2016 at 2.64 million tonnes. The latest data extract shows output as follows (in 000's tonnes):

	China	***China YoY Delta***	**GCC**	**East & Central Europe**	**North America**	**West Europe**	**Asia (ex China)**	**Africa**	**Oceania**	**ROW**	**South America**	**Total**	***Total YoY Delta***
Jan-16	2,480		432	338	368	321	277	141	169	150	113	**4789**	
Feb-16	2,070		409	317	344	299	259	133	156	150	107	**4244**	
Mar-16	2,620		435	338	329	321	273	141	167	150	115	**4889**	
Apr-16	2,569		424	327	329	312	264	135	162	150	112	**4784**	
May-16	2,675		439	338	337	322	281	142	168	150	117	**4969**	
Jun-16	2,686		422	326	324	307	282	139	164	150	107	**4907**	
Jul-16	2,659		439	335	336	315	299	144	169	150	115	**4961**	
Aug-16	2,713		441	334	334	317	301	145	168	150	114	**5017**	
Sep-16	2,751		431	325	325	310	293	141	164	150	112	**5002**	
Oct-16	2,727		447	337	337	320	299	148	170	150	118	**5053**	
Nov-16	2,800		432	327	326	313	301	139	164	150	111	**5063**	
Dec-16	2,891		446	339	338	322	313	143	150	150	120	**5212**	
Jan-17	2,950	*+19.0*	446	339	337	320	315	143	151	150	117	**5268**	*+10.0*
Feb-17	2,534	*+22.4*	407	306	304	290	289	130	131	150	105	**4646**	*+9.5*
Mar-17	2,707	*+3.3*	454	338	337	320	336	142	148	150	118	**5050**	*+3.3*
Apr-17	2,766	*+7.7*	418	327	326	312	318	138	142	150	116	**5013**	*+4.8*
May-17	2,825	*+5.6*	429	338	336	321	319	141	144	150	120	**5123**	*+3.1*
Jun-17	2,931	*+9.1*	426	327	323	310	312	141	149	150	114	**5183**	*+5.6*
Jul-17	2,686	*+1.0*	437	339	334	320	324	143	157	150	119	**5009**	*+1.0*
Aug-17	2,640	*-2.7*	411	339	336	320	337	143	160	150	118	**4954**	*-1.3*

China's non-ferrous metal output fell to a one-year low in August, in a sign that Beijing's environmental crackdown is curbing supplies of base metals, with aluminium also hit by efforts to rein in output. Production of 10 nonferrous metals - including copper, aluminium, lead, zinc and nickel - fell 2.2% to 4.42 million tonnes, official data showed, the lowest in a year and the first year-on-year drop since December 2015.

Global aluminium producers have offered Japanese buyers a premium of US$100/t for primary metal shipments during the October to December period, down 15% to 16% from the current quarter, sources involved in pricing talks reported.

Norwegian metals maker Norsk Hydro has warned customers of a shortfall in supplies of bauxite from Brazil, the raw material from which aluminium is made. The Mineracao Rio do Norte (MRN) bauxite mine, where Hydro has 5% ownership and takes a total of 45% of the material, is experiencing problems with its tailing systems due to a water shortage caused by dry weather.

Norwegian aluminium components producer Sapa is reopening a British plant to supply material for the country's first electric vehicle factory that will produce London black cabs.

Hedge fund investment in the metals industry is at its highest since 2011, according to investment data, a sign that investors are hoping to profit from a rise in prices that have spent years in the doldrums. The investment by hedge funds follows a broader inflow of money into industrial metals, where prices are rising after production cutbacks helped to reduce a supply glut.

At the beginning of September, the LME announced a series of substantial reductions in trading fees in an attempt to support its physical user-base and further encourage the use of its daily date structure. The exchange has been battling to reverse declines in volumes partly triggered by large rises in trading fees in 2015 that were introduced to lift profits for its Hong Kong owner. In an interview later in the month, LME chief executive Matt Chamberlain said that: "The core mission of the LME is to provide pricing, risk management and terminal market services to the global physical metals industry". A statement he added that "we haven't always said enough".

The LME's average daily volumes (ADVs) increased for the second month in a row, climbing 16.8% in August from the previous year. Aluminium and lead volumes have climbed considerably compared with last year, with a majority of the base metals complex in positive territory following an uplifting August. Copper's ADV was 2.5% higher than August 2016 at 139,973 lots, on top of a 6.1% yearly rise in July. This follows significant declines in volume over the last few months, which are down 26.5% from June last year. Aluminium saw the largest percentage increase from the previous year, up 24.7% to 223.736 lots following a 7.7% decline last month.

Produced by Neil Bootman of NGB Metal Services.

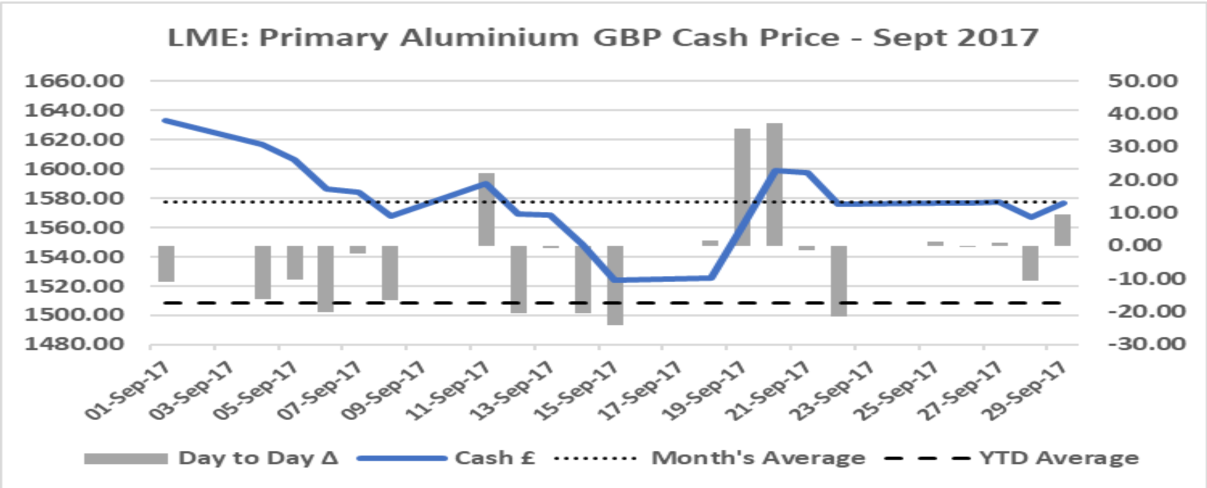
LME Commentary:

Concerns about the environmental crackdown by China's authorities and reports that Chinese producer Chinalco was cutting output two months early, and falling LME inventories pushed the underlying primary aluminium USD cash price to a 5 year high at $2164/t mid-month This represents a 27% increase in the year as the metal continues to be the LME's best price performer of the year. The GBP cash price hit £1633.06/t in the month, just short of the year's high of £1643.85 achieved on the last day of August. Aluminum inventories in LME-approved warehouses closed the month at 1,259,025 tonnes - levels last seen in 2008, down 65,600 tonnes in the month and 937,450 tonnes or 43% in the year.

In the early days of the month the LME GBP copper cash price hit a 5 year high at £5327.98 while the underlying USD hit a 3 year high at $6904.00 as investment flowed into industrial metals amid global manufacturing growth and on expectations of further signs of a healthy economic outlook for China. By mid-month however, copper's bull run had seemingly run out of steam as prices came under pressure from fund selling as Hurricane Irma battered both the Caribbean and the U.S. and investor confidence. Prices were further undermined as warranted copper stocks on the LME rose sharply and the U.S. dollar rallied (amid expectations of one more rate hike this year), raising prospects of higher costs for industrial metals. Copper reached an 8-week low at £4723.10 on 22.9.17 (still some £508/t above the year's low achieved in May) but rallied at month end, buoyed as the oil price recovered and the Asian Development Bank raised its forecast for China's growth. LME copper stocks closed the month at 295,500t – up 74,625t in the month.

LME Statistics and Charts: September 2017:

	Copper			Aluminium			USD:GBP
	Cash £/t	3M £/t	Stocks	Cash $/t	Cash £/t	Stocks	
Opening	5235.67	5248.07	220,875	2113.50	1633.06	1,324,625	1.2942
Average	4946.99	4963.34		2100.48	1577.68		1.3316
High	5327.98	5337.80		2164.00	1633.06		1.3567
Low	4723.10	4743.34		2065.00	1524.29		1.2942
Range	604.88	594.46		99.00	108.77		
Closing	4844.98	4865.17	295,500	2110.50	1576.77	1,259,025	1.3385
Opening:Closing Δ	-390.7	-382.9	+74,625	-3.0	-56.29	-65,600	
YTD Average	4666.28	4674.85		1924.26	1508.47		



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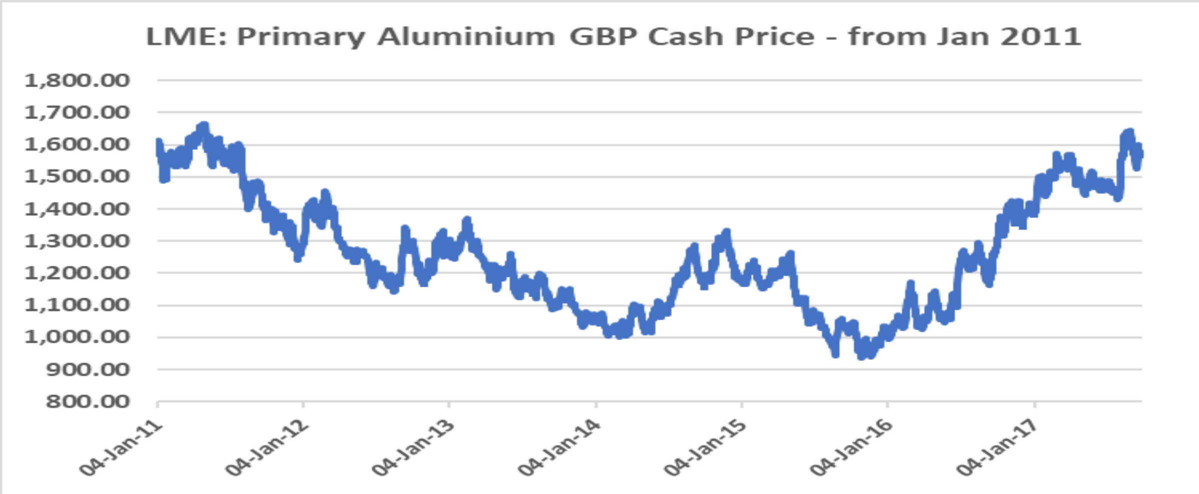

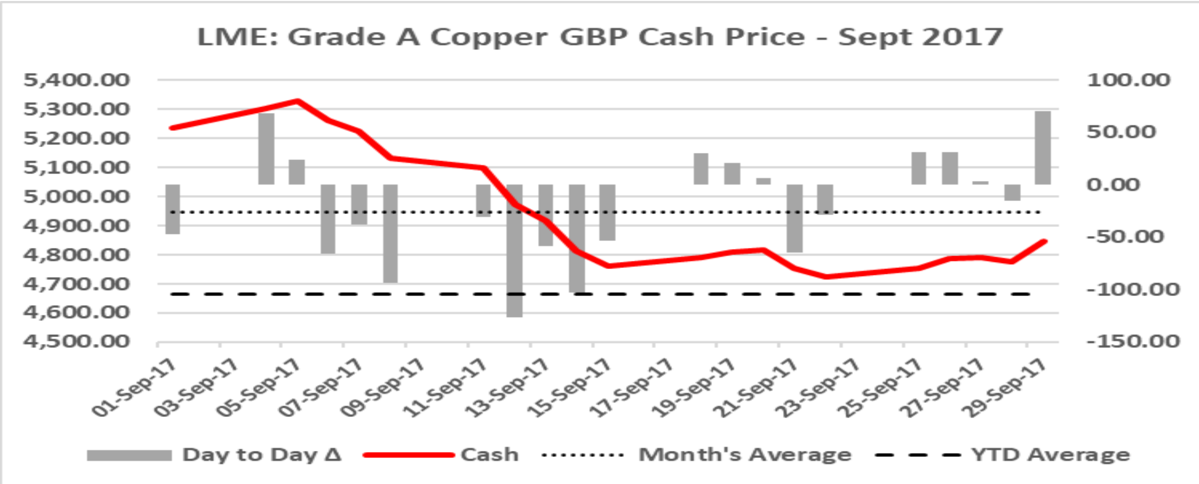

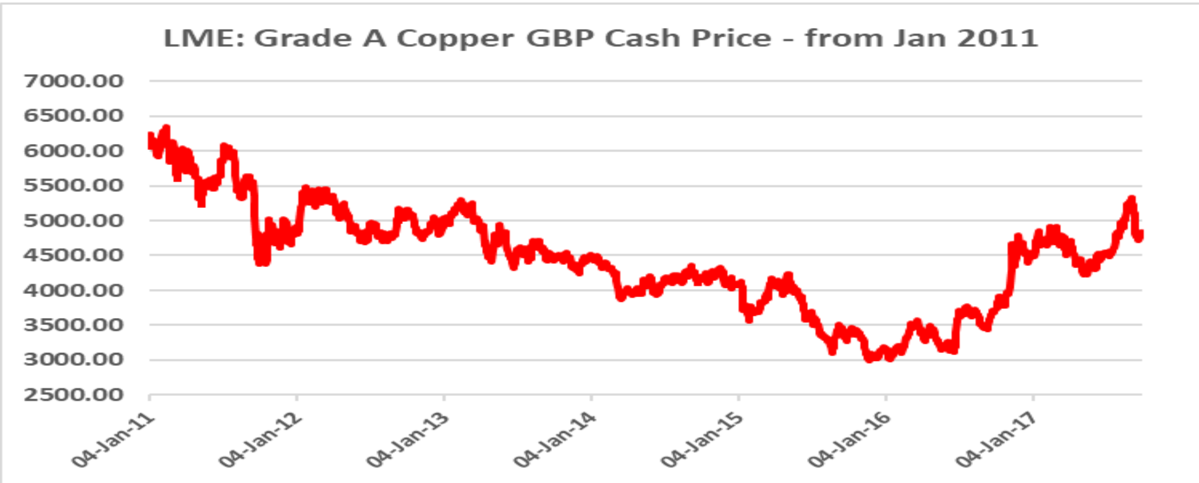

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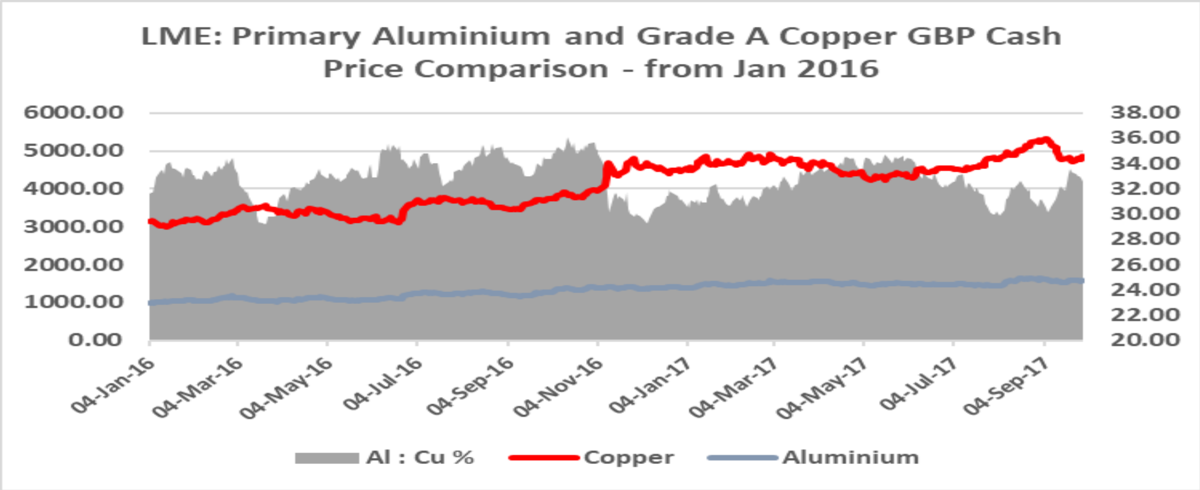

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