Metals Newsletter

November 2017

Economic Indicators and Comment:

Composite leading indicators (CLIs) continue to point to stable growth momentum in the OECD area as a whole. Stable growth momentum remains the assessment for the U.S., Japan, Canada and the euro area as a whole, including France. The CLI continues to point to growth gaining momentum in Italy, and now also in Germany. In the UK, however the outlook has weakened as signals of easing growth have intensified. Amongst major emerging economies, the CLIs point to growth firming in Brazil and to signs of growth gaining momentum in the industrial sector in China. Stable growth momentum is anticipated in India and Russia.

The U.S. Commerce Department in its second estimate said that U.S. GDP expanded at a 3.3% annual rate in the third quarter - its highest rate since the third quarter of 2014 and a pickup from the second quarter's 3.1% rate. This was the result of increases in business investment in inventories and equipment, boosted by a rebound in government spending and offset by a moderation in consumer spending. It was the first time since 2014 that the economy experienced growth of 3% or more for two straight quarters. Excluding inventory investment, the economy grew at a 2.5% rate.

U.S. industrial output meanwhile rose more than expected in October as industries affected by recent hurricanes resumed normal operations. Overall industrial production increased 0.9% following a slightly upwardly revised 0.4% rise in September. Industrial output data for the third quarter was also revised higher, with production declining at a 0.3% annual rate. That compared to the previous estimate of a 1.5% drop.

China's economy cooled further last month with industrial output, fixed asset investment and retail sales missing expectations as the government extended a crackdown on debt risks and factory pollution. Industrial output rose 6.2% yoy in October, the National Bureau of Statistics said, missing analysts' estimates of a 6.3% gain and lagging a 6.6% increase in September. Fixed-asset investment growth also slowed to 7.3% in the period from 7.5% in the first nine months. China's economy has surprised financial markets with robust growth of nearly 6.9% in the first nine months of this year, underpinned by a recovery in its manufacturing and industrial sectors thanks to a government-led infrastructure spending spree, a resilient property market and unexpected strength in exports.

Eurostat, the European Union statistics office, confirmed a preliminary estimate that euro zone GDP grew 0.6% from July to September from the previous quarter and on a year on year basis was 2.5% higher. This was higher than the 2.3% yoy rate for the U.S. economy, which had been growing faster than the euro zone. This makes 2017 the best year for the currency area since financial markets crashed a decade ago. Economists now predict the euro zone will likely outpace both the U.S. and UK in terms of GDP growth in 2017. Earlier in the month, the EU's executive Commission had said it expected eurozone growth this year of 2.2%. Euro zone GDP grew 3% in 2007, and reached 2.1% in 2010 and 2015. The strong euro zone growth was powered by the biggest economy Germany - seasonally adjusted German GDP rose 0.8% on the quarter which was also the second-quarter growth rate. France grew 0.5% on the quarter and 2.2% in annual terms. Italy beat expectations with a 0.5% quarterly, and 1.8% annual growth, supported by exports and domestic demand. The Netherlands, the fifth biggest economy, grew an expected 0.4% on the quarter after a record jump of 1.5% in the previous three months, putting it on track for a 3.3 percent expansion this year, the strongest since 2007. Euro zone growth also exceeded that of the UK which expanded 0.4% on the quarter and just 1.5% annually. Separately, Eurostat said euro zone industrial production fell by 0.6% mom in September but rose 3.3% yoy.

Forecasts from the European Commission show the UK is set to have the lowest growth of almost any EU country when it leaves the bloc in 2019. Brussels' latest set of economic forecasts predict that UK growth will fall to 1.1% in 2019, only marginally ahead of Italy and far behind the 1.9% growth predicted for the euro area. The commission said the downbeat assessment reflected the impact of higher inflation on the economy and that growth was "expected to remain subdued over the forecast horizon".

Companies:

Nexans released its 2017 third quarter results. Sales for the third quarter of 2017 amounted to €1,544 million (versus €1,404 million for third-quarter 2016). At constant metal prices, third-quarter sales were €1,109 million, representing year-on-year organic growth of 6.7%. For the first nine months of 2017, sales were €4,750 million at current metal prices and €3,444 million at constant metal prices, representing a 3.8% organic increase. Third quarter sales were led by submarine high-voltage operations with stable sales for non-project-related business (up 0.6% year on year). There was an upturn in business in Europe and the Middle East/Africa region, offsetting weakness in America and for Oil & Gas sector activities. Growth for sales of cables to telecommunications operators was up 7.2% but there were negative trends for LAN cables and systems where sales were down 8.8%. Commenting on the third-quarter performance, CEO Arnaud Poupart-Lafarge said: *"*Our performance in the third quarter of 2017 was in line with that for the first half of the year, with growth fueled by high-voltage submarine project operations. Business for all of our other activities has stabilized, thanks to a gradual upturn in Europe."

Prysmian's consolidated results for the first nine months of 2017 showed sales of €5,865 million (an organic growth of minus 1.1%, sequentially improving to -0.4% in Q3 compared to last year). Adjusted EBITDA climbed to €545 million (up 3.3% on the year). The Group reported a positive trend for Telecom (up 5.9%) and stable for Energy Products (down 0.2%) with major improvement in margins respectively of 17.6% and 17.2%. Net profit attributable to owners of the parent was €196 million (+4.3%). Full year adjusted EBITDA was confirmed in the range of €710 to €750 million. Commenting on the results, CEO Valerio Battista said; "The results for the first nine months of 2017 display an improvement in profitability despite broadly stable revenues, showing signs of some upward movement in the third quarter," "In particular, we're seeing significant growth in volumes and margins for Telecom … and improving margins for Energy Projects thanks to progressive insourcing of submarine cable installation services. Cable technology is demonstrating it can make a significant contribution to digitization projects, with the development of new broadband networks, and to the use of renewable energy sources, by helping make sectors like offshore wind farms more and more competitive. The market scenario in which we're operating therefore offers good opportunities that we intend to pursue by focusing on product and service innovation".

Market Commentary and News:

The global world refined copper market showed an 85,000t surplus in August, compared with a 7,000t deficit in July, the International Copper Study Group (ICSG) said in its latest monthly bulletin. For the first 8 months of the year, the market was in a 52,000t deficit compared with a 139,000t deficit in the same period a year earlier, the ICSG said. World refined copper output in August was 2.01 million tonnes, while consumption was 1.92 million tonnes. Bonded stocks of copper in China showed a 70,000t surplus in August compared with a 7,000t deficit in July.

Antofagasta plc sees the global copper market balanced or in a small deficit this year, with the situation continuing into 2018, its chief executive officer said. Refined copper demand is growing at a "healthy rate" of 4% this year and new production "has largely already been absorbed in the market", Ivan Arriagada said at the Asia Copper Conference in Shanghai.

Chilean state copper producer Codelco said it produced slightly less copper in the January to September 2017 period than it did in the same period a year ago but rebounded from a year-earlier loss as prices for the metal improved. Codelco Chief Executive Nelson Pizarro said the company produced 1.24 million tonnes of copper in the January-to-September period, a 3% decline from the same period last year.

A major talking point during the annual LME Dinner week held in London at the start of the month was the impact of 'the green technology revolution' - in particular, electric vehicles. "Electric vehicles are a great long-term story for industrial metals", according to Colin Hamilton, head of commodities research at BMO Capital Markets.

Chilean copper commission Cochilco said that growing copper demand from China and the arrival of electric vehicles to the mass market will support prices of the metal. The commission sees the market in balance and any variation of supply or demand will impact the price. Supply, it says, will not be able to respond to the incipient demand coming from electric vehicles and restriction of fossil fuels in some countries. Cochilco estimates Chile copper production to increase about 1.1% a year through 2030; 2.2% if all mining projects on pipeline are built.

The world's biggest miner BHP's response to the electric vehicle debate is to hunt for new reserves of copper and oil, while seeking a buyer for its assets to produce battery-grade nickel and steering clear of lithium and cobalt. Arnoud Balhuizen, chief commercial officer at BHP, has said 2017 marks a "tipping point" for electric vehicles in that they have entered the mainstream of metals demand forecasting. Exploration not acquisition however, is the best way for BHP to meet any rise in copper demand from electric vehicles. The copper sector faces huge challenges as the ore quality in existing mines deteriorates, while electric vehicles will require high volumes of the metal, Danny Malchuk, president of operations at BHP's Minerals Americas, said.

Volatility in the copper market is luring traders to take bets that prices are headed back toward a record. Call options betting on copper climbing above US$10,000/t by December, 2018, have started trading, LME data showed. In total, traders have spent about $4.5-million on the contracts. Copper has not traded at those levels since 2011. The bulk of the wagers came during the industry's annual gathering in London and suggests traders are becoming increasingly bullish on demand driven by electric cars.

Chilean Minister of Mining, Aurora Williams, speaking at the LME Week industry gathering in London said she sees copper prices averaging $6,504/t next year, citing a persistent market deficit. Copper prices she said have risen some 24% so far this year to average $6114.17/t, helped by strong growth in China, which accounts for about 40% of the roughly 23 million tonnes of copper consumed each year.

Workers for the two largest unions at Southern Copper Corp in Peru said they had started an indefinite strike at month end, demanding a fair share of mining profits, while the company said the stoppage had not affected operations. The unions, which comprise more than 3,000 members, said workers at the company's Cuajone and Toquepala mines and Ilo refinery in southern Peru had laid down their tools. Peru is the world's second biggest copper producer.

China's national refined copper demand is forecast to hit 11.15 million tonnes 2018, up 3.6% from an estimated 10.76 million tonnes this year, state-run metals consultancy Beijing Antaike reported. The agency said that despite an expected slowdown in China's copper demand growth in the 2017-20 period - with average annual demand growth of around 3% to 5% compared with double-digit growth rates seen in the past decade - China will remain the world's key copper demand driver in the next few years. The domestic power sector will continue to be the largest copper consumer in China, due to power network upgrades and rural power network renovation. Future demand will also come from investment in clean energy, as well as new energy vehicles, Antaike said. The agency forecasts China's national refined copper output at 8.6 million tonnes next year, up 5.5% from an estimated 8.15 million tonnes this year. China's refined copper imports will total 3 million tonnes in 2018, down 3.2% from an estimated 3.1 million this year.

China's environmental crackdown is the "biggest uncertainty" facing the nation's copper smelters, as the government steps up inspections and stiffens emissions control standards, an executive at Jiangxi Copper Co Ltd said. "Producers risk being shut down. Supervision teams are everywhere," Yuneng Wu, vice president of the state-owned company, which is the country's biggest integrated copper producer, said at the Asia Copper Conference in Shanghai.

China's primary aluminium production fell for a fourth straight month in October, government data showed, hit by high costs and the closure of illegal capacity, with further decreases expected soon as winter output restrictions kick in. The world's largest aluminium producing country churned out 2.55 million tonnes of the metal last month, down 2.3% from 2.61 million tonnes in September and versus 2.73 million tonnes in October, 2016, according to the National Bureau of Statistics.

Chinalco, China's biggest state-run aluminium producer, is cutting its alumina capacity by 2 million tonnes this winter to comply with pollution-related restrictions on heavy industry, an executive said. The company, formerly known as Aluminum Corp of China, started to make the cutbacks at its alumina refineries in Henan and Shandong last month, vice president Lu Dongliang told Reuters.

China Hongqiao Group, the world's largest aluminium producer, has closed enough smelting pots to comply with industry output restrictions in northern China this winter. All of Hongqiao's nearly 7 million tonnes a year of smelting capacity is in Binzhou, one of 28 northern Chinese industrial cities that face stringent production restrictions over the next four months. The company said it is looking into the possibility of moving recently shuttered smelting capacity overseas, mainly to Indonesia. Hongqiao had to shut 2.68 million tonnes in annual smelting capacity in its home province Shandong at the end of July amid reforms to cut excess supply in China. Chief Executive Zhang Bo said that this would not come back online next year.

Leading aluminium producer Novelis said that global demand for rolled aluminium products is expected to remain strong in next year thanks largely to the automotive sector. The trend towards electric cars is also likely to increase the aluminium content of vehicles as carmakers seek to maximise battery range, said Emilio Braghi, senior vice president and Europe president at Novelis, the world's largest maker of rolled aluminium products.

Norwegian aluminium producer Norsk Hydro launched a low-carbon aluminium brand in November and predicted that customers ranging from carmakers to packaging firms will pay a premium to help slow climate change. Rivals Alcoa, Rio Tinto and Rusal have previously started to seek higher prices for aluminium made at smelters run on renewable hydro-power, rather than high-emissions fossil fuels.

The LME said it had agreed a range of waivers and discounts to assuage its members when it starts to charge a fee on off-exchange, over-the-counter (OTC) contracts that reference its prices. A consultation with users on the fee will start on Nov. 22 and end on Jan. 12 with a view to beginning charges from April 2018, the LME said in a statement.

The LME is aiming to lure back investors from the CME Group's Comex exchange, which has seen a surge in copper volumes with the help of its low margin requirements. The LME said its plan to use a new methodology could cut by a quarter its margin requirement. LME copper futures volumes fell 4.1% last year while those on Comex (CME) rose almost 30%. LME margins are double the Comex margins - a significant reason why some funds have been switching to Comex from the LME (the LME requires a margin of $12,525 per 25t lot of copper compared to $6,945 for an equivalent weight on Comex). A spokeswoman for the LME told Reuters that this plan could cut total margin payments for LME members by up to 25%.

A growing number of investors are investing money into commodities, seeking to diversify their holdings on concerns about a stock market correction as equities scale new highs. Low interest rates, solid economic growth across the globe and rising corporate earnings have raised the S&P 500.SPX 16% this year, reaching an all-time high in November. By contrast the S&P Goldman Sachs Commodity Index (GSCI) gained 7% in that same period. In the last five years the S&P has gained 82% in that time, while the GSCI has dropped by 34%. Portfolio managers and investment advisors say that may start to shift. Strong demand in markets like oil and copper, along with tightening supply, is shifting the fundamental outlook, boosting commodity flows. Oil prices recently hit a two-and-a-half-year high, while copper hit a three-year high. While commodity markets pale in size to equities and fixed income, a notable shift toward the asset class could help validate the concerns of those who believe stocks have become overvalued.

LME Commentary:

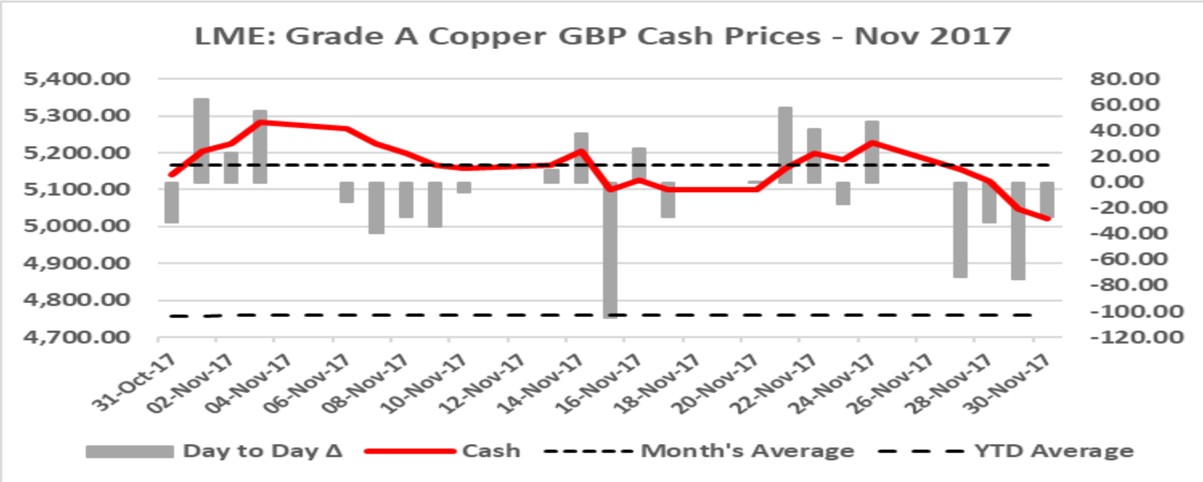
In November, both LME copper and aluminium cash prices failed to maintain the upward momentum of recent months. A bright start to the month quickly saw prices across the metals sector fall as investors fretted over data that showed China's economy cooled in October and a stronger US Dollar.

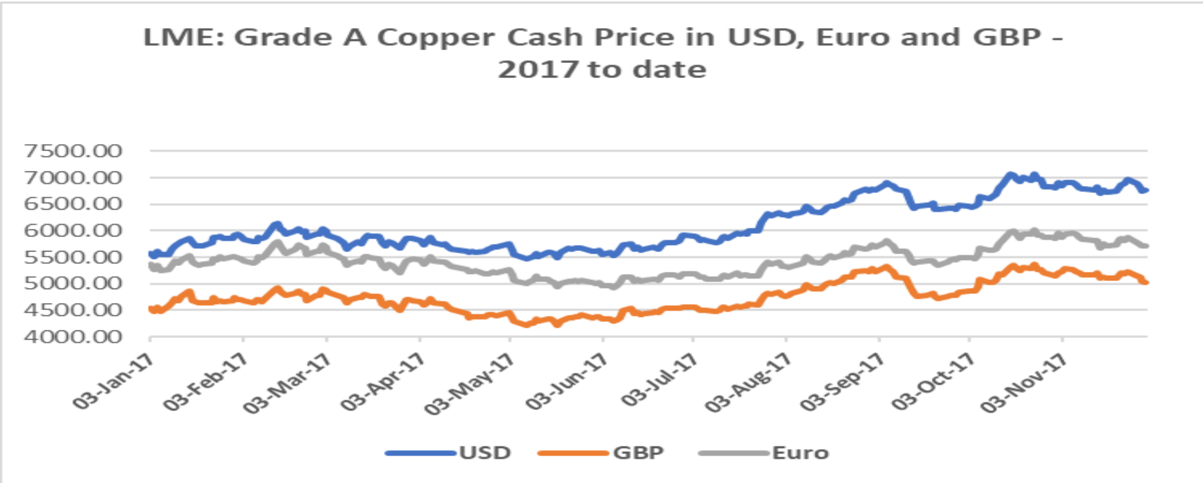
The copper cash price closed the month at the low of £5021.54/t, nearly £120/t down on the end of October and the lowest settlement in nearly 2 months. This was achieved despite the substantial fall in LME warehouse stocks and a miners' strike in Peru at month end.

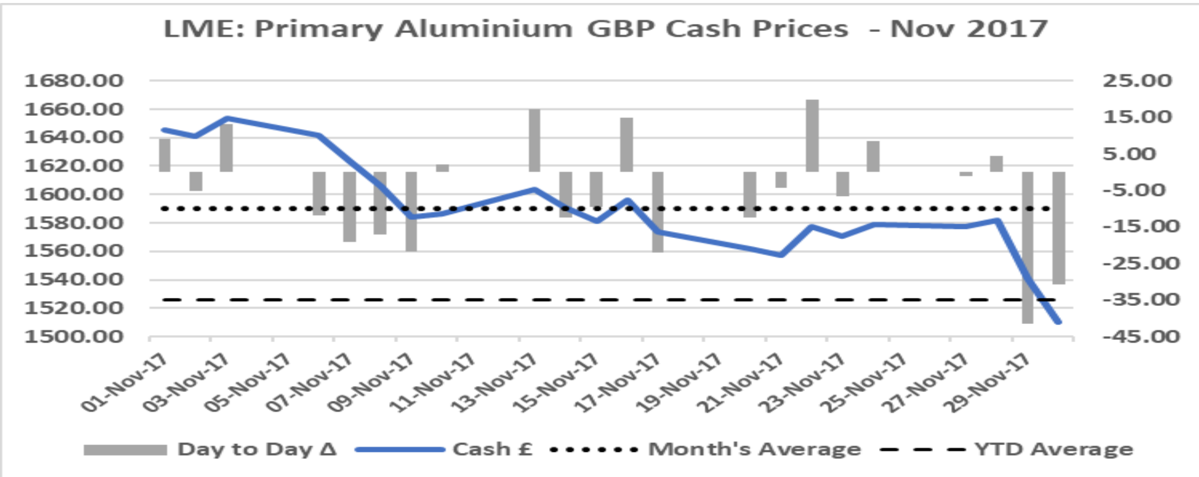
Meanwhile, aluminium cash prices on the LME slid by more than £100/t (compared to the end of October close). The month's close at £1509.95/t was the lowest since 8th August. This followed the general metals sector sell off, helped by reports of a quiet month for the global physical aluminium market, with spot activity largely dormant. Market participants were mostly focused on the effectiveness of purported aluminium production cuts in China.

LME Statistics and Charts: November 2017:

	Copper			Aluminium			USD:GBP
	Cash £/t	**3M £/t**	**Stocks**	**Cash $/t**	**Cash £/t**	**Stocks**	
Opening	5203.46	5201.72	273,675	2188.00	1645.73	1,186,450	1.3295
Average	5165.20	5173.45		2101.02	1590.03		1.3215
High	5281.47	5289.41		2188.00	1653.68		1.3464
Low	5021.54	5029.24		2033.00	1509.95		1.3092
Range	259.93	260.17		155.00	143.73		
Closing	5021.54	5029.24	183,525	2033.00	1509.95	1,108,900	1.3464
Opening:Closing Δ	-181.9	-172.5	-90,150	-155.00	-135.78	-77,550	
YTD Average	4759.08	4767.98		1960.42	1526.14		







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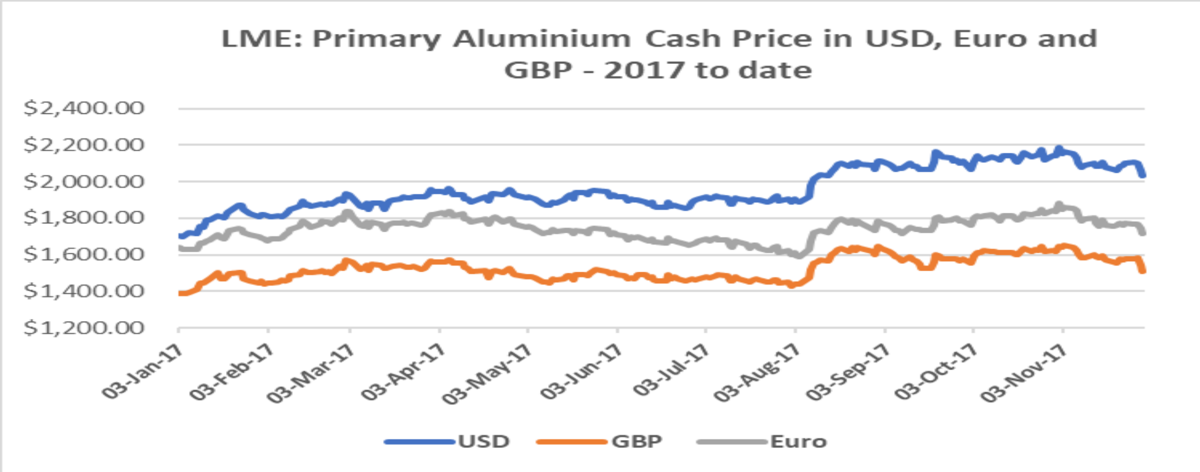

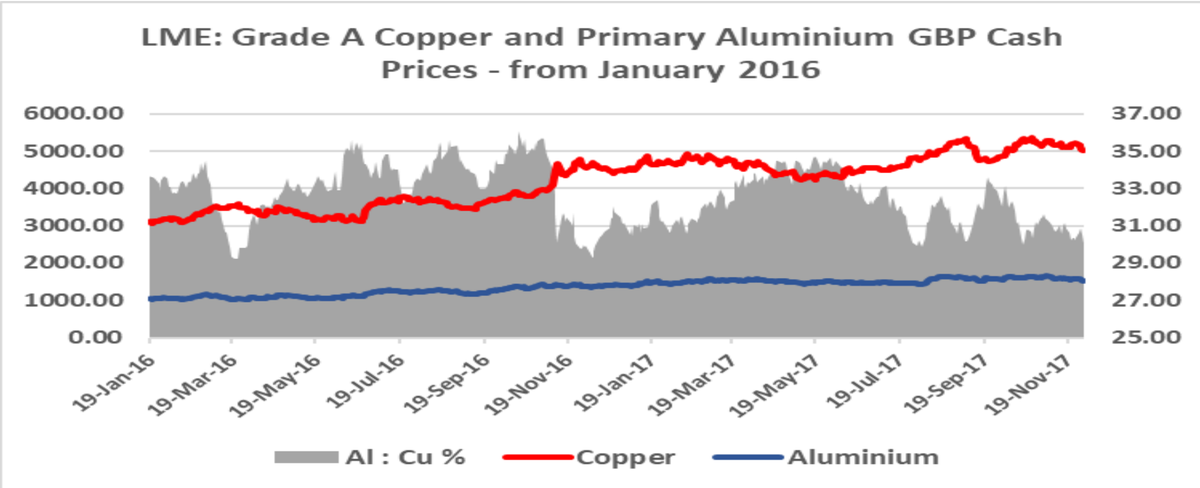

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