

October 2017

Economic Indicators and Comment:

In its twice-yearly World Economic Outlook, the International Monetary Fund singled the UK out as a “notable exception” to an improving global economic outlook as it cut its forecast for UK growth and warned the long-term negative effects of Brexit were beginning to show. The IMF reduced the UK’s growth forecast for 2017 by 0.3% to 1.7% - well below the average growth rate in other advanced economies. The Fund also sharply reduced its estimate of the UK’s long-term growth outlook. An extract from the report shows GDP projections as;

IMF - World Economic Outlook

| <i>Projections - percentage changes</i> | Projections | | | Difference from Previous Forecast (July 2017) | |
|---|-------------|------|------|---|------|
| | 2016 | 2017 | 2018 | 2017 | 2018 |
| World Output | 3.2 | 3.6 | 3.7 | 0.1 | 0.1 |
| Advanced Economies | 1.7 | 2.2 | 2.0 | 0.2 | 0.1 |
| United States | 1.5 | 2.2 | 2.3 | 0.1 | 0.2 |
| Euro Area | 1.8 | 2.1 | 1.9 | 0.2 | 0.2 |
| Germany | 1.9 | 2.0 | 1.8 | 0.2 | 0.2 |
| France | 1.2 | 1.6 | 1.8 | 0.1 | 0.1 |
| Italy | 0.9 | 1.5 | 1.1 | 0.2 | 0.1 |
| Spain | 3.2 | 3.1 | 2.5 | 0.0 | 0.1 |
| United Kingdom | 1.8 | 1.7 | 1.5 | 0.0 | 0.0 |
| Japan | 1.0 | 1.5 | 0.7 | 0.2 | 0.1 |
| Russia | -0.2 | 1.8 | 1.6 | 0.4 | 0.2 |
| China | 6.7 | 6.8 | 6.5 | 0.1 | 0.1 |
| India | 7.1 | 6.7 | 7.4 | -0.5 | -0.3 |
| ASEAN | 4.9 | 5.2 | 5.2 | 0.1 | 0.0 |

The UK economy expanded 0.4% in the third quarter – up from 0.3% in the previous quarter and better than the 0.3% predicted by analysts. The economy however, is still growing at a slower pace than it was last year and is now on track for its worst annual growth performance since the recession after growing 1% in the first nine months of the year, its slowest rate for the January to September period since 2009. The services sector, which accounts for the majority of the UK economy continued to drive GDP growth, the ONS said. Manufacturing also boosted the headline GDP figure after improving from a weak second quarter but the construction sector fell into recession after shrinking for the second quarter in succession. In September, the OECD had predicted UK growth of just 1% next year, reflecting a collapse of business investment in the face of a “no deal” Brexit and a sharp cut in household spending.

The OECD's composite leading indicators (CLIs) continue to point to stable growth momentum in the OECD area as a whole. CLIs anticipate stable growth momentum in the U.S., Japan, Canada and the euro area as a whole, including France. In Germany, the CLI points to stabilising growth momentum while in Italy growth is expected to gain momentum. The CLI for the UK however, continues to signal easing growth. Amongst major emerging economies, the CLIs point to growth gaining momentum in Brazil and in the industrial sector in China, while stable growth momentum is now anticipated in India. Signs of easing growth persist in Russia.

China's central bank governor said the economy could grow 7% in the second half of this year, accelerating from the first six months and defying widespread expectations for a slowdown. The Chinese economy grew at 6.9% in the first half with growth of 6.8% year on year reported for the third quarter. Many economists and investors had expected momentum would start to fade later in the year based on higher borrowing costs, increasing curbs on home buying to cool soaring prices and shutdowns of some factories in coming months to reduce winter air pollution. But the driving force behind growth has been mainly rising household consumption. The growth forecast came just days ahead of a Communist Party Congress, where President Xi Jinping was re-elected.

The U.S. economy unexpectedly maintained a brisk pace of growth in the third quarter as an increase in inventory investment and a smaller trade deficit offset a hurricane-related slowdown in consumer spending and a decline in construction. GDP increased at a 3% annual rate in the July-September period after expanding 3.1% in the second quarter, the Commerce Department said. Economists polled by Reuters had forecast the economy growing at a 2.5% pace in the third quarter. Meanwhile, U.S. industrial production picked up in September and was 0.3% higher than in August.

Industrial production across the eurozone rose more than expected in August – up 3.8% from the same month in 2016, according to Eurostat data. That was above the 3.6% reported in July and much stronger than the 2.6% forecast by economists. Growth was the strongest in intermediate goods, which go on to be turned into completed products, reported at 5.3%. Capital goods posted growth of 4.9%. Consumer durable and non-durable goods both showed robust increases, while energy slipped 0.7%.

Market Commentary and News:

Aurubis, Europe's biggest copper producer, will offer its customers 2018 copper cathode premiums of US\$86/t, unchanged from 2017, traders said. A company spokesperson said. "After thorough consideration of all factors, this reflects our market expectations for 2018, which is overall quite positive."

Codelco, the world's largest copper producer, raised its 2018 cathode premiums for delivery to its European customers for the first time in four years amid signs manufacturing is strengthening in the region. The Chilean state-owned company is reported to be offering a premium of US\$88/t over the LME basis price for CIF main port delivery. This compares with premiums of between US\$80 to US\$85/t range this year – a 7.3% increase. The Chilean premium provides a benchmark for other producers who are likely to follow suit.

Meanwhile, copper concentrates processing fees are likely to edge down in 2018 to a five-year low in the face of limited supply growth and expanding smelting capacity in China, industry sources indicated. Negotiations between miners on the fees they pay Chinese smelters to process their raw material typically set the benchmark for other deals in the region. The charges are a leading indicator of copper supply. Trader sources told Reuters they expected term 2018 treatment charges to come in around US\$85 to US\$86 a tonne and refining charges at US8.5 cents to US8.6 cents a pound.

The global world refined copper market showed a 35,000t deficit in July, compared with a 70,000t deficit in June, the International Copper Study Group (ICSG) said in its latest monthly bulletin. For the first 7 months of the year, the market was in a 163,000t deficit compared with a 281,000t deficit in the same period a year earlier, the ICSG said. World refined copper output in July was 1.97 million tonnes, while consumption was 2.01 million tonnes. Bonded stocks of copper in China showed a 67,000t deficit in July compared with a 108,000t deficit in June.

Plans to reopen one of the world's biggest copper mines, shut by a civil war on the island of Bougainville in 1989, have run into trouble. The Bougainville populace is scheduled to vote on independence from Papua New Guinea in June 2019 and revenue from the reopening of the Panguna mine is essential for the impoverished island to have any chance of flourishing if it becomes the world's newest nation. But there is now a struggle over who will run the mine between Bougainville Copper Ltd - the previous operator now backed by the Autonomous Bougainville Government and the Papua New Guinea government - and a consortium of Australian investors supported by the head of the landowners who own the mineral rights.

BHP Billiton has reached agreement on a collective wage package with white collar staff at the Escondida copper mine in Chile. The deal was reached several months before the existing agreement was due to expire, reducing the risk of a strike. The open pit mine is the world's largest copper operation, producing more than 1 million tonnes of copper in cathode and concentrates in 2016.

Chilean Mining Minister Aurora Williams expects a moderate increase in the annual average price of copper through the remainder of 2017, but that would not be enough to push it above US\$6614/t for the entire year (compare the October and YTD averages of \$6797/t and \$6040/t respectively). The recent increase in copper prices is good news for the country where copper-related activity can account for up to 15% of GDP. According to its mining association, Chile will likely produce 5.9 million tonnes of copper in 2018, up 7% from this year's estimated output that was reduced by a strike at Escondida. Sonami, the National Mining Society however, warned that some 30 pending negotiations over expiring workers' contracts could change the 2018 forecast if fresh strikes hit the sector. Sonami added that global copper prices will likely average between US\$6393 to US\$6614/t next year.

The increased adoption of air conditioning and cooling technology in less economically developed countries could add 570,000t of copper demand by 2022, Krisztina Kalman-Schueler of DMM Advisory Group said at the International Copper Association meeting in London. Copper used in air conditioning and other cooling devices will account for 2.42 million tonnes of metal demand this year, rising 23.5% to 2.99 million tonnes in 2022, she said. While countries such as Pakistan, India, the Philippines and Nigeria develop economically, concurrent with cheaper air conditioning and cooling facilities production, demand from this segment should grow rapidly. "These countries with a high need for cooling have a very low amount of air conditioners installed, so when prices get lower we expect an increase in sales in these developing countries," she said.

The rebuilding effort in and around Houston in the U.S. state of Texas is producing a noticeable impact on the country's copper wire market, a US wire supplier said, noting that the impact is expected to keep demand robust for several more months. It has been a difficult year for the US copper market, as physical demand has failed to keep pace with the increase in prices and premiums have not moved since May. But demand for bare wire is surging, with 40,000 homes destroyed in the Houston area and upward of 100,000 sustaining some type of damage. The copper industry is also benefiting from the need to replace an estimated 1 million flooded vehicles. This represents a substantial number for the wire industry, because vehicles contain an average of roughly 55 lb of copper.

China's biggest state-run aluminium producer said consumption of the metal is set to increase by 9% to 10% this year on the back of strong downstream demand and keep growing at a faster rate than the country's GDP in 2018. Ge Honglin, chairman of Chinalco, told Reuters that consumption was expected to come in at 26.25 million tonnes in the first three quarters of 2017, up 9% year on the year, with peak end-year demand yet to come.

According to traders, shortages of alumina, the raw material for producing aluminium, may become more severe in the coming months as an environmental crackdown in China is due to shut capacity, forcing smelters to scramble for supplies and pushing up prices. Alumina prices have already increased by 73% since May and could see further gains, but they are likely to ease early next year as Chinese refineries resume output again following the winter shutdowns at the same time new operations elsewhere ramp up.

Russian aluminium producer Rusal said third- quarter aluminium production rose 1.1% from the previous quarter, but that sales were cut by limited transport capabilities. Third-quarter aluminium output reached 931,000t, with Siberian smelters accounting for 94% of total output, it said in a release to the Hong Kong bourse, where the company's shares are traded.

Japanese aluminium buyers will pay up to 21% less in primary premiums for imports in the October-December quarter to reflect a slide in spot premiums, traders report. The aluminium premium was set at US\$94 to US\$95/t for metal to be shipped in the fourth quarter, down from US\$119/t in the previous quarter, the sources said.

Japan's copper cable shipments, including sales and exports, in September fell 0.2% from a year earlier to 60,000t on an estimated basis, the Japan Electric Wire and Cable Makers' Association said.

Following Japanese steel maker Kobe Steel admission that data was fabricated to falsely show that aluminium and copper products met customer specifications, the company later reported that a Japanese Industrial Standards (JIS) certificate for some products made at its Hatano copper tube plant near Tokyo has been revoked because of data falsification and improper quality management at the plant.

Digital metals trading platform TradeCloud launched at the beginning of October, covering the most commonly traded base metals - copper, aluminium, zinc and nickel. This includes refined metals, refined metal products and scrap, the

company said. TradeCloud's platform is designed to give companies on all sides of the metals market the ability to trade and access an overview of global business in one place. A key aspect of the platform is the visibility of conversations between companies conducting business with each other and discussions in sales teams, negotiations, bids, offers and deals, organised into one place through a chat function.

The LME, which has lost volumes to over-the-counter trading, is looking at forging alliances with online platforms for industrial metals to recoup profits from the growing OTC business, its CEO Matthew Chamberlain said. Large numbers of new electronic metals trading sites have recently popped up or are preparing to launch, while industry sources say established online venues Trayport and EBS are poised to expand into base metals.

The LME will introduce several contracts in the second half of 2018, including additions to aluminium and for the battery materials market according to CEO Matthew Chamberlain. The LME will introduce regional cash-settled aluminium premium contracts in the second half of next year to include a US premium, a European duty-unpaid premium, a European duty paid premium and a main Japanese port (MJP) premium.

Average daily trading volumes across all metals on the LME totalled 749,103 contracts in September, up 16% from the previous month, data on the website shows. That follows a 10% increase in August. The following is an extract of LME trading volumes for futures and options and comparisons with the prior month:

| Metal | September | August | percent change |
|--------------|------------------|---------------|-----------------------|
| Aluminium | 259,823 | 223,736 | 16% |
| Copper | 163,152 | 139,973 | 17% |
| Nickel | 105,298 | 91,140 | 16% |
| Zinc | 145,658 | 130,978 | 11% |
| Tin | 3,949 | 4,889 | -19% |
| Lead | 59,923 | 46,134 | 30% |
| Total metals | 749,103 | 646,410 | 16% |
| LME Select | 179,167 | 179,790 | -0.4% |

In a single day in mid-September, more than US\$130 billion in metals changed hands on the LME. About 1.8 million contracts in copper, aluminium and other metals traded on 15 September, according to statistics - a record in the exchange's 140-year history and triple the normal level of daily activity. About US\$37 billion of aluminium and US\$48 billion of copper changed hands during the day.

The CME Group also recorded explosive market growth on the metals side last month, with volumes averaging 660,000 contracts per day in September 2017, up 72.3% from 383,000 contracts in the same period a year earlier. For the third quarter, metals recorded average daily volumes (ADV) of 611,000 contracts per day, up 41.8% from 431,000 contracts per day in the same quarter 2016. Copper futures and options experienced an 88% growth to 116,000 contracts per day.

Red Kite Management Ltd., the world's largest metals hedge fund has filed a lawsuit against Barclays Plc, alleging the bank manipulated the copper market to its advantage, causing the hedge fund to lose \$850 million. Red Kite alleges that Barclays allowed staff to share confidential information about its positions with the bank's proprietary traders on the floor of the LME and used the knowledge about Red Kite's positions to profit by placing opposing trades. Red kite alleges the bank "sought to manipulate the LME by 'ramping' prices" to manipulate the closing price.

LME Commentary:

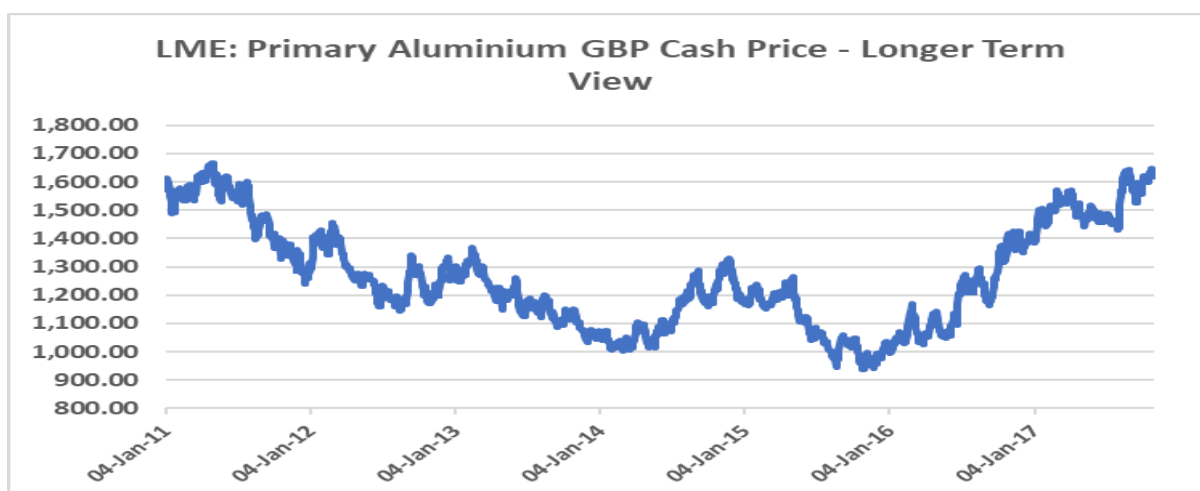
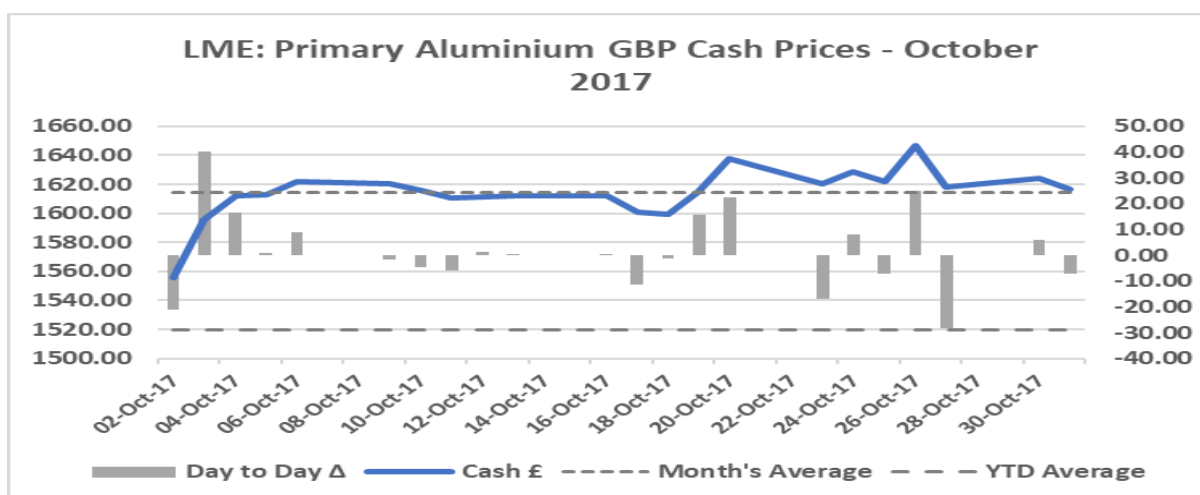
Both LME aluminium and copper prices achieved multi-year highs in October, driven by improving fundamentals (better demand, faltering supply, reducing stocks and better than expected manufacturing and GDP growth rates) and stronger investor sentiment. Some analysts suggest that the price increases have ignited also yet another price rally based on expectations for higher prices and that warn that despite "stronger fundamentals", market metal prices are mostly speculatively driven.

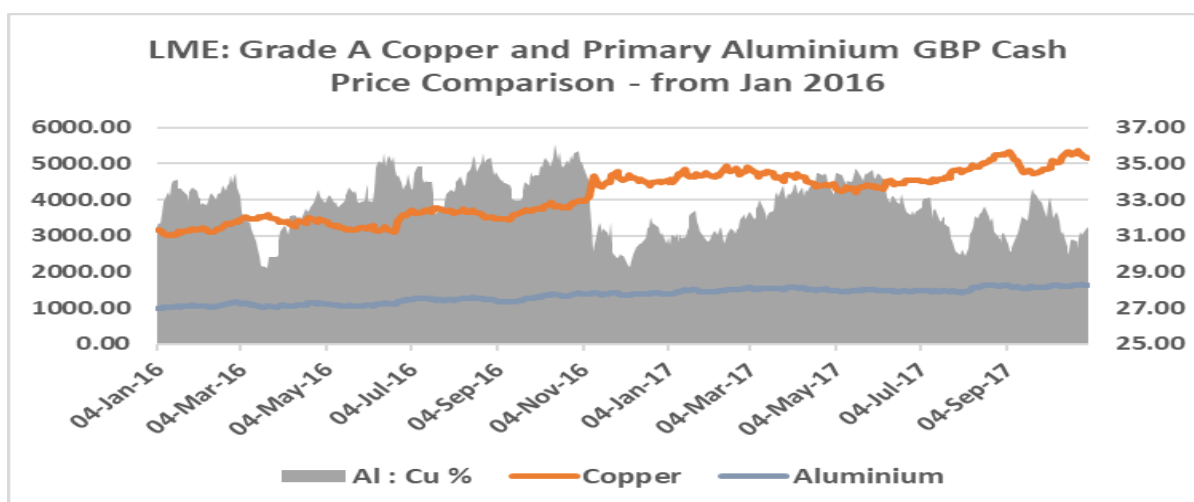
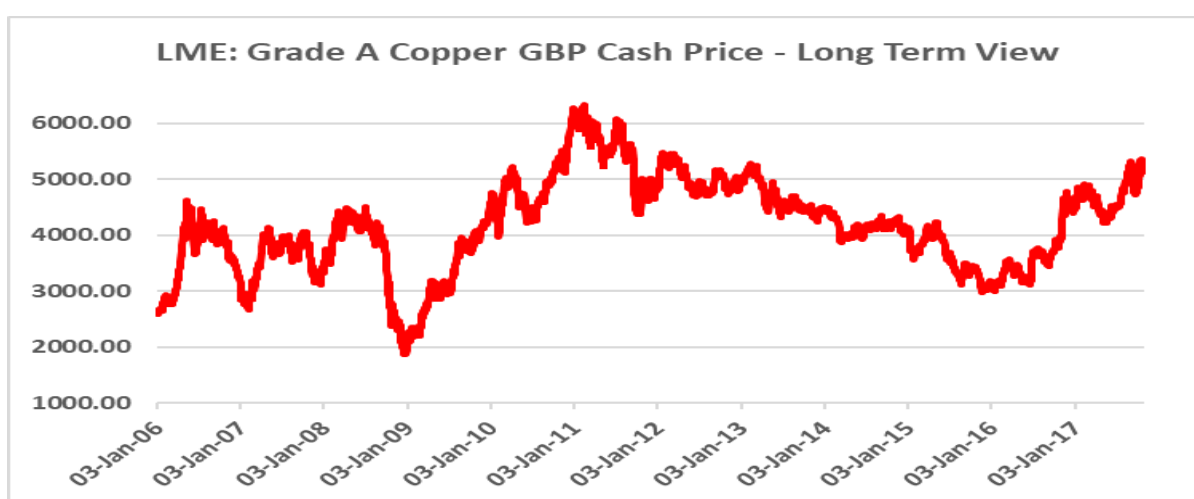
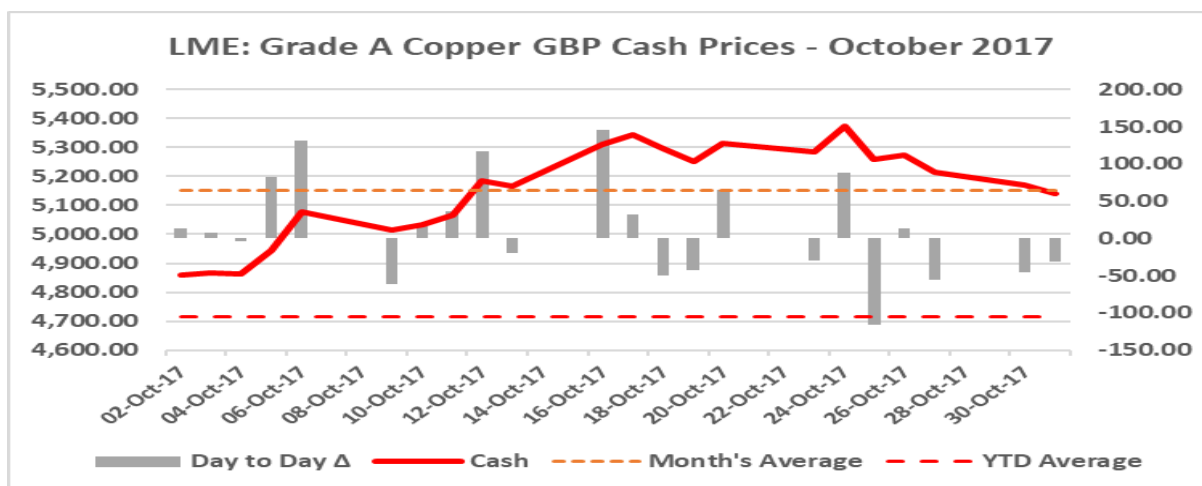
LME GBP copper cash prices achieved a 5½ year high at £5373.77/t on 24.10.17 while the underlying USD price broke through the \$7000/t level in the month for the first time since August 2014. Indeed, the month's GBP high showed an 18.3% increase on the opening day of the year – the USD comparison is even more marked, showing an increase of 27%.

Similarly, the LME Primary Aluminium GBP cash price achieved a 6 year high at £1646.36/t on 26.10.17 as the underlying USD cash price at \$2188 reached a 5 year high. October's GBP high represented an 18.7% increase on the first day of the year compared to an 28.65% increase in the USD price.

LME Statistics and Charts: October 2017:

| | Copper | | | Aluminium | | | USD:GBP |
|---------------------|----------|---------|---------|-----------|----------|-----------|---------|
| | Cash £/t | 3M £/t | Stocks | Cash \$/t | Cash £/t | Stocks | |
| Opening | 4858.13 | 4880.68 | 295,500 | 2067.00 | 1555.66 | 1,259,025 | 1.3287 |
| Average | 5150.22 | 5162.63 | | 2130.41 | 1614.13 | | 1.3199 |
| High | 5373.77 | 5374.94 | | 2175.00 | 1646.36 | | 1.3297 |
| Low | 4858.13 | 4880.68 | | 2067.00 | 1555.66 | | 1.3078 |
| Range | 515.64 | 494.26 | | 108.00 | 90.70 | | |
| Closing | 5139.01 | 5145.76 | 273,675 | 2140.00 | 1616.80 | 1,186,450 | 1.3236 |
| Opening : Closing Δ | +280.88 | +265.08 | -21,825 | +73.00 | +61.14 | -72,575 | |
| YTD Average | 4716.73 | 4725.71 | | 1945.76 | 1519.48 | | |





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