

## July 2017

### Economic Indicators and Comment:

Composite leading indicators (CLIs) continue to point to a stable pace of expansion in the OECD area. Stable growth momentum remains the assessment for Japan, Canada and for the euro area as a whole. However, in the U.S., the UK and Italy tentative signs are emerging that growth may be easing. The CLI for Germany continues to point to growth gaining momentum, which is now also the assessment for France. Amongst major emerging economies, the CLI for Brazil continues to signal growth gaining momentum with similar signs now emerging in China. In India, the CLI points to stable growth momentum, while tentative signs of easing growth are emerging in Russia.

The U.S GDP grew at a 1.9% annual pace for the first half, below the 2.2% average rate through the end of 2016, according to the Commerce Department. Stripping out trade and inventories - the two most volatile components - so called final sales to domestic purchasers rose 2.4% in the April-to-June period, the same as in the first quarter. With a solid labour market keeping household spending positive and business investment and trade providing further help, demand looks set to expand around the rate it has achieved so far this year. The results also indicate President Donald Trump has some way to go to achieve his 3%-plus goal.

Federal Reserve data showed U.S. total industrial production increased 0.4% after revised 0.1% in June. Factory output was up 0.2% after falling 0.4%. Industrial production has strengthened for five months in a row amid robust domestic demand and stronger growth abroad - the longest stretch of improvement since 2014. The data showed manufacturing posted a modest gain, in line with a gradual improvement despite the weak output of motor vehicles, business equipment and construction supplies. Capacity utilization reached the highest level since August 2015.

U.S. President Donald Trump's plan to restrict imports of steel and aluminium for national security reasons came under fire at the World Trade Organization, with China, the EU, Brazil, Australia, Taiwan and Russia raising concerns. Trump's plan is to restrict imports of goods deemed critical to national defence. Some trade experts believe that invoking national defence justifications could make it easy for countries to escape their international trade obligations and will incur the criticism of the WTO.

Industrial output in the euro zone rose by more than expected in May, aided by a spike in the production of capital goods and consumer durables, European statistics office Eurostat said. Compared to the previous month, industrial production in the area increased by 1.3% for a 4% annual increase - the biggest increase since August of last year. Growth was strongest for capital good and durable consumer goods, such as cars and household appliances, which rose 2.3% and 1.8% respectively compared to the previous month. Industrial production rose most sharply in Lithuania and Ireland, with France being the largest riser among the bloc's main economies. Eurostat also revised down its reading for April, to growth of 0.3% from a previous estimate of 0.5%.

Official figures from the Office for National Statistics estimate the UK economy expanded 0.3% in the second quarter of the year, up from 0.2% in the first quarter. Year on year growth slowed to 1.7% from 2%. The slowdown this year comes as inflation has climbed to a four-year high, reducing consumer spending and raising import prices. The bulk of the second quarter growth came from the service sector (which makes up just under 80% of the economy), which grew 0.5% following a 0.1% expansion at the start of the year. Construction and manufacturing contracted by 0.9% and 0.5% respectively.

## Companies:

Prysmian's first half 2017 results showed Adjusted EBITDA was up to €362 million (up 4.3% on the first half of 2016 at €347 million). Sales of €3,936 million were 1.5% down on the corresponding period in 2016 but up 0.6% in the second quarter thanks to continued improvements in the Energy Projects, Telecom and Industrial sectors. Net profit attributable to the owners of the parent were €113 million, in line with €115 million in the first half of 2016. The full year 2017 outlook is confirmed with an increase of Adjusted EBITDA forecast in the range of €710-€750 million. "The first half of the year has seen a sharp increase in profitability, with improving margins in the strategic Energy Projects and Telecom businesses," explained CEO Valerio Battista. "Sales have posted a marked improvement in the second quarter after a poor start due to adverse phasing in the Energy Projects business. The Group's profitability has continued to grow thanks to the contribution of the Telecom and Energy Projects businesses. The Industrial business has also enjoyed a positive trend with an order backlog providing a strong outlook for the rest of the year".

Nexans 2017 first-half results showed organic sales growth of 2.4%, driven by a strong increase in submarine high-voltage operations (around 40%) and despite a 32% decline for Oil & Gas sector activities. An operating margin of €140 million showed a slight improvement on first-half 2016 (€135 million) but up 36% on the second half of 2016 (€107 million). Net income before tax was €126 million, up by €80 million of which €65 million resulted from the core exposure effect. Net income was €92 million euros versus €29 million in first-half of 2016. CEO Arnaud Poupart-Lafarge said that despite a persistently tough economic environment (particularly in the oil sector and the South American market), the very good performance of the high-voltage activities enabled the company to stay on track in the first half of 2017 and operating margin held firm compared with first-half 2016 - a period that saw exceptionally high margin contributions.

## Market Commentary and News:

The global world refined copper market showed a 53,000t deficit in April, compared with an 18,000t deficit in March, the International Copper Study Group (ICSG) said in its monthly bulletin. For the first 4 months of the year, the market was in an 80,000t surplus compared with a 185,000t deficit in the same period a year earlier, the ICSG said. World refined copper output in April was 1.94 million tonnes, while consumption was 2.00 million tonnes. Bonded stocks of copper in China showed a 58,000t deficit in April compared with a 22,000t surplus in March.

China's refined copper demand fell 4% year on year to 5.1 million tonnes in the first half of this year, because of a slowdown in investment growth rates in the domestic infrastructure sector, Jiangxi Copper said in a report. The producer said despite a stable GDP growth of 6.9% in the second quarter, investment growth in the manufacturing and infrastructure sectors during H1 2017 had fallen. The company said that the real estate sector would offer limited support to copper demand in H2 2017. State-run metals consultancy Antaika had previously said that copper stockholders in China have become less active, with the domestic downstream copper processing sector adopting a wait-and-see stance, with a reduced volume of trade due to market participants' cautious attitude. China's refined copper output in June rose 12% year on year to 768,000t - the highest level since December 2015, data from the National Statistics Bureau showed.

China is reported to be planning a ban next year on some imports of machinery waste and other low-grade scrap products for the purpose of extracting metals scrap, which would cut supply. The move, aimed at cutting pollution, will probably reduce imports of low-grade copper scrap, according to state-backed researcher Antaika and increase smelter's requirement for higher-grade scrap and improved grades of concentrates.

Mineworkers at Freeport-McMoRan's Grasberg copper mine in Indonesia have extended their strike for a second time to protest against a massive layoff. The strike began at the start of May and will continue until July 31, a union spokesperson said, hinting at the possibility of a third extension if the dispute was not resolved. Freeport laid off 4,000 employees at the copper mine following a two-month long strike by workers belonging to the All-Indonesia Workers Union Confederation in Mimika regency, Papua.

The Australian Department of Industry, Innovation and Industry has estimated that the country's mined copper production reached 944,800t in the year ended June 30 - 4.5% less than the 990,000t produced in the previous (fiscal) year. Australian production, however, is expected to rebound by 4.6% in FY 2017-2018 to 988,700t. as output of Australia's largest copper mine, BHP's Olympic Dam, is expected to rise. The amount is anticipated to creep higher by 0.4% in FY 2018-2019 to 992,600t.

At the end of the month, Chilean copper miner Antofagasta signed a wage deal with workers at its Zaldivar operations, averting industrial action which had been threatened following month-long discussions and an earlier failure to reach a wage deal.

Chilean state copper commission Cochilco has forecast average global copper prices of \$5820/t in 2017, a slight upward revision from its previous estimate of \$5732/t due to greater demand in China (LME cash averaged \$5978.60 in July). The commission also predicted 2017 copper production in Chile of about 5.6 million tonnes, a 0.8% rise from the previous year and roughly in line with its previous forecast in April. In 2018, Chilean copper production should rise to 5.9 million tonnes.

The market was confounded by the 'unusual' movement in registered LME copper stocks at the start of the July. Stocks jumped by 41,700t or 15% up to 319,975t in the first four days of the month. This was the fourth time since December that LME copper stocks have seen huge inflows, confusing a market that is trying to work out whether it is in supply surplus or shortfall and distorting any pricing signal stocks would usually provide. These inflows have happened largely in Asian locations - Busan in South Korea, Singapore, Kaohsiung in Taiwan and Port Klang in Malaysia. The stocks however do not stay in warehouse for long – by the end of the month stocks had fallen to close at 295,925t. It seems that metal is being shuffled between LME and off-market storage and between geographic locations. LME stocks however, are only one third of the visible copper stocks scenario. The other two components are the stocks in Shanghai Futures Exchange (SHFE) and CME (COMEX). SHFE stocks have tended to move inversely to those registered with the LME - the net stocks change across the two exchanges over the first half of 2017 was a decline of just 3,528t. Since China sits at the centre of the Asian physical and arbitrage markets, this is not coincidental. COMEX warehouses meanwhile, are filling up with total deliverable stocks at month end at 155,414t - their highest since May 2004. The COMEX warehouse system however, has only U.S. good delivery points.

China is forecast to add new aluminium smelting capacity of 2.39 million tpa in the second half of this year, Shanghai Metal Exchange said in its aluminium sector report. The country added 2.06 million tpa of new aluminium smelting capacity in H1, or 46% of the estimated 4.45 million tpa total new national capacity for 2017, data from SME showed. SME's forecast of new Chinese national aluminium output capacity this year is close to that predicted by state-run metals consultancy Antaika. The agency estimates that China is to add 5 million to 5.5 million tpa of new aluminium smelting capacity in 2017, in the provinces of Shandong, Shanxi, Guizhou, as well as the autonomous regions of Inner Mongolia and Xinjiang.

Around 12 million tpa of installed aluminium smelting capacity in China may be in breach of government rules, the China Nonferrous Metals Industry Association said. China had total aluminium output capacity of 43.2 million tpa as of the end of 2016, with 36.5 million tpa operational, but only around 30 million tpa of that capacity complied with government standards, according to CNIA. Key Chinese aluminium producer Hangzhou Jinjiang Group said in its aluminium sector report issued in early July that after the Ministry of Environmental Protection's April circular notifying the start of emissions control check over one year in the cities of Beijing, Tianjin, and 26 cities in the Beijing-Tianjin-Hebei and their surrounding areas, an estimated aluminium smelting capacity of 430,000 tpa in 2017 and 1.14 million tpa capacity in 2018 (710,000 tpa in H1 2018, and 430,000 tpa in H2, 2018) is seen reduced, not taking into account the upcoming rise in mainland China's national aluminium smelting capacity and operating capacity.

Aluminium producer Norsk Hydro said sanctions imposed on Qatar had had a limited effect on its activities there. Norsk Hydro and Qatar Petroleum co-own the Qatalum smelter where shipments were disrupted last month as a result of sanctions imposed by the United Arab Emirates, Saudi Arabia, Bahrain and Egypt. Norsk Hydro has also agreed to take full ownership of aluminium products maker Sapa by buying a 50% stake from conglomerate Orkla, the companies said. The transaction values Sapa at 27 billion Norwegian crowns (\$3.24 billion) on a debt-free basis. Hydro predicted it would see annual synergies of 200 million crowns, and that the deal would immediately be accretive to earnings and secure strong cash generation.

Russia's Rusal has resumed construction of its long-stalled Taishet aluminium smelter project in Siberia in expectation of a widening global aluminium deficit, the company said in the month. The world's second-largest aluminium producer needs a further US\$700 million to complete the project, having invested about US\$800 million in Taishet before it was halted because of falling aluminium prices.

China's Ministry of Commerce in July called for a global approach to tackling problems in the aluminium market as it noted the findings of a probe by the U.S. into the sector. The U.S. International Trade Commission (USITC) released a report in June that examined China's aluminium market from 2011 to 2015. The report said the country encouraged aluminium production "through low tariffs on imports of raw materials, as well as a variety of programs that provide direct support to aluminium smelters". This came as the Japanese aluminium industry body expressed fears that unilateral action by the U.S. could have severe implications for the rest of Asia and the world.

Japan's copper cable shipments, including sales and exports, in June rose 3.1% from a year earlier to 57,800t on an estimated basis, the Japan Electric Wire and Cable Makers' Association reported in July.

The LME's average daily volumes (ADVs) fell by 9.3% in June with copper seeing another large drop. The decline comes as the exchange considers potential changes to its fees and other factors impacting its volumes as part of a discussion paper. LME data shows that copper's ADV dropped by 26.5% year-on-year to 137,164 lots, marking another month of decline for the metal. Copper ADV had fallen by 16.5% in May and 13.5% in April. The largest traded metal remained aluminium, although its ADV dropped by 5.4% year-on-year to 210,087 lots in June. Total exchange ADV for the month was 594,151 lots, a decline of 9.3% year-on-year.

The LME is the favourite to clear trades for the new base metals platform NFEEx as it would be the most efficient option for those wanting to use both venues, trade sources said. The new exchange, which will offer trading in base metals such as copper and aluminium, is aiming to go live by the end of the first quarter of 2018 with contracts that mimic the LME's.

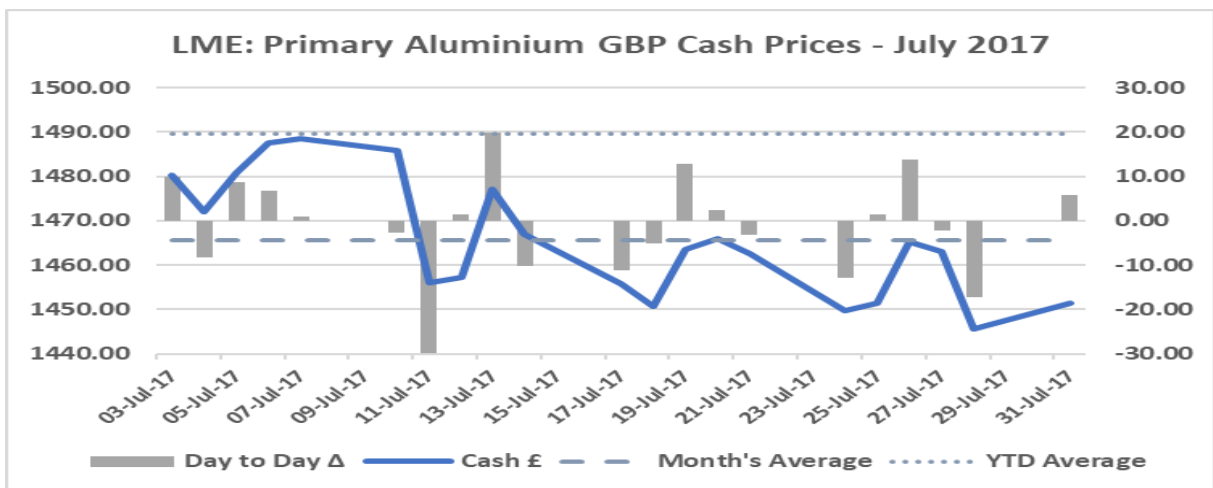
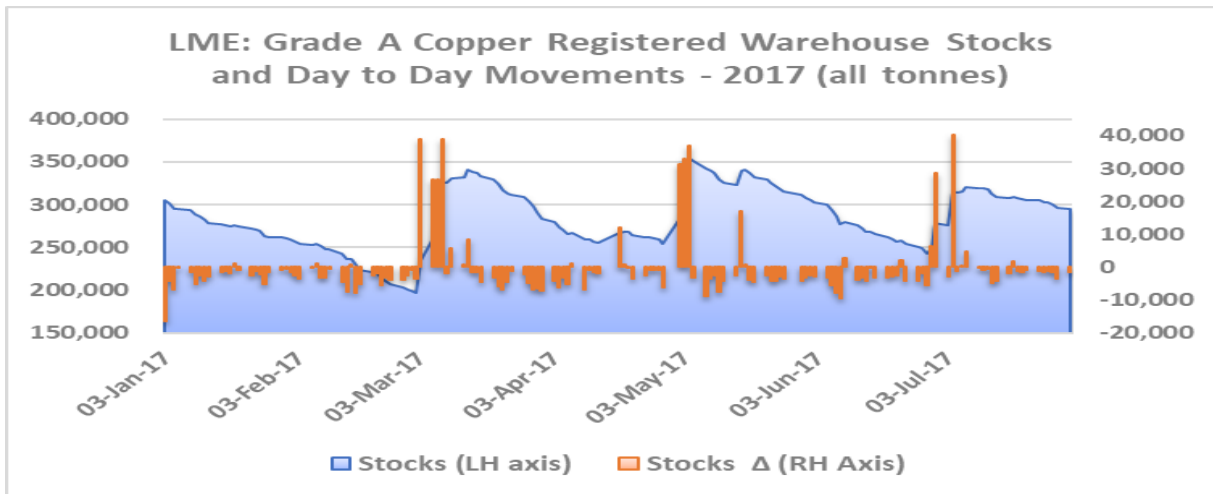
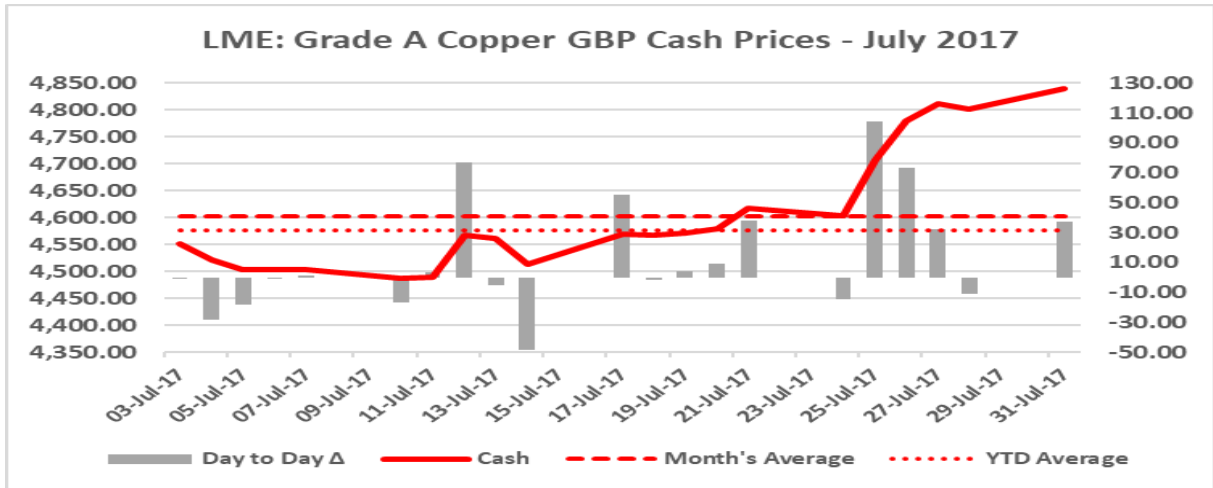
## LME Commentary:

After a steady start to the month copper finished strongly as the underlying US Dollar cash price broke through the US\$6,000/t barrier, peaking at \$6347/t on the last day - its highest since May 2015. Sterling copper prices, softened by a stronger Pound (or more correctly a weaker Dollar), also closed strongly at £4838.39/t on the final day – its highest since mid-February. Prices and market/investor sentiment were supported by strike threats at Antofagasta's Zaldívar operation, brighter factory demand from China, anticipations that China's appetite for refined metal could grow if it curbs scrap imports and a weaker dollar.

Despite falling stocks and firmer physical premiums, aluminium price sentiment is firmly focussed on Chinese capacity utilisation and output. As the market struggles to quantify the extent of Chinese capacity changes, LME aluminium prices trended lower in the month. The month's high of US\$1925.50/t was achieved early in the period, still below the year's high of \$1962 reached in early April but considerably higher than the year's opening of \$1702/t. In Sterling terms, the month's high of £1488.79/t compares to the year's high of £1571.72/t reached on 1<sup>st</sup> March and the low of £1384.73 at the start of the year. The cash to 3 months spread traded out to £17.33/t (\$28.50/t) – its widest year to date.

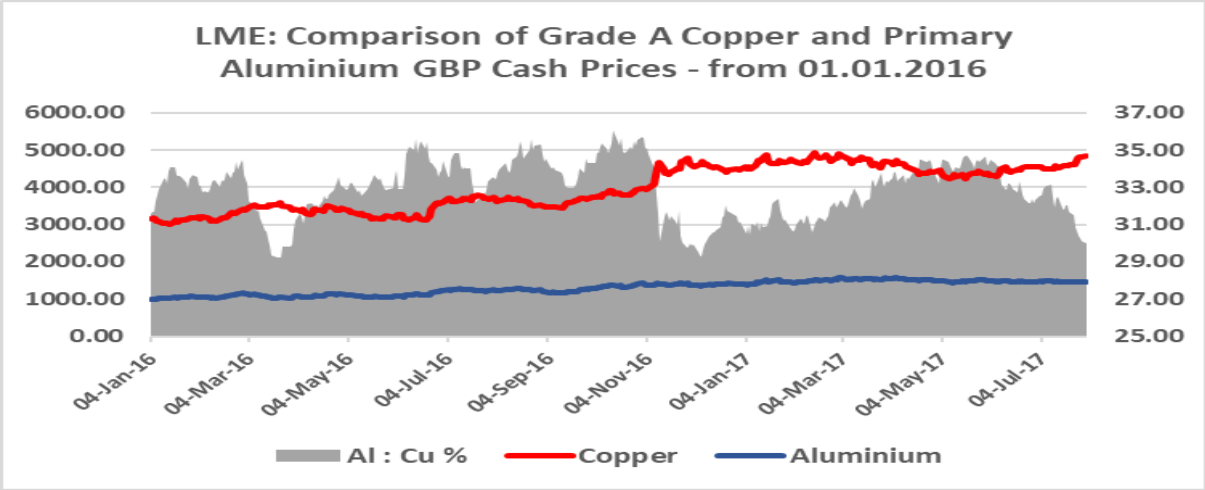
## LME Statistics and Charts: July 2017:

	Copper			Aluminium			USD:GBP
	Cash £/t	3M £/t	Stocks	Cash \$/t	Cash £/t	Stocks	
<b>Opening</b>	4550.30	4555.04	278,275	1917.50	1480.35	1,409,775	1.2953
<b>Average</b>	4602.12	4611.19		1903.62	1465.57		1.2989
<b>High</b>	4838.39	4851.04		1925.50	1488.49		1.3144
<b>Low</b>	4486.88	4499.77		1877.00	1445.71		1.2880
<b>Range</b>	351.51	351.27		48.50	42.78		
<b>Closing</b>	4838.39	4851.04	295,525	1904.00	1445.71	1,349,125	1.2880
<b>Opening:Closing Δ</b>	+288.09	+296.00	+17,250	-13.50	-34.64	-60,650	
<b>YTD Average</b>	4575.60	4582.13		1882.97	1489.66		



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