

April 2017

Economic Indicators and Comment:

Growth figures released at the end of the month from the U.S., UK and France were all weaker than expected;

The U.S. economy in Q1 2017 expanded at the slowest pace in three years as weak auto sales and lower home-heating bills dragged down consumer spending, offsetting a pickup in investment led by housing and oil drilling. GDP rose at a 0.7% annualized rate after advancing 2.1% in the prior quarter, the Commerce Department said. The median forecast of economists surveyed by Bloomberg had shown a 1% gain. Consumer spending, the biggest part of the economy, rose 0.3%, the worst performance since 2009. The figures support economists' general scepticism that growth will reach President Trump's goal of 3% to 4% on a sustained basis. Analysts' estimates indicate a 2.2% to 2.3% annual growth through 2019. Economists' forecasts for overall growth ranged from zero to 2.2%. The GDP estimate is the first of three for the quarter, with the other releases scheduled for May and June.

French economic growth lost momentum at the start of 2017. France's quarterly GDP growth slowed to 0.3% in the first quarter of the year, from 0.5% in the fourth quarter of 2016 and below a median forecast of 0.4% from economists surveyed by Bloomberg. GDP growth in the fourth quarter was however revised up from 0.4%. Annualised growth showed 0.8%, according to a first official estimate from Insee – the worst performance since 2014.

The UK economy suffered a slowdown in the opening months of this year, as a rise in living costs took its toll on British households and hit consumer spending. GDP growth fell more than expected to 0.3%, the slowest for a year, and down from 0.7% in the previous quarter, the Office for National Statistics said. Many economists expect the slowdown to continue as higher inflation dents consumer spending, a key driver for the UK economy. While one quarter of slow growth is not definitive proof that the economy is suffering but the pressure on consumers' incomes looks set to build this year as retailers pass on higher import prices. Economists had predicted a more modest slowdown to 0.4% growth, according to a Reuters poll.

Earlier in the month the IMF predicted the UK economy will expand this year by 2%, a sharp increase of 0.5% from the forecast it made in January. The IMF also upgraded its UK forecast for next year, from 1.4% to 1.5%. The IMF's new forecast ranked the UK as the world's second fastest growing major advanced economy for this year, behind the U.S., which is expected to grow at 2.3%. However, the IMF's forecast for next year would put the UK joint fourth in a G7 league table, with the U.S., Canada and France all predicted to grow more quickly in 2018. Before the EU referendum last year, the IMF predicted the UK economy would grow 2.2% in 2017 but cut the forecast to 1.3% last July, weeks after the Brexit vote and downgraded it further to 1.1% in October. The new IMF prediction is the same as the forecast published in March by the Office for Budget Responsibility, the UK government's fiscal watchdog.

China's economy grew at an annual rate of 6.7% in the first quarter of the year, according to the government. It is the slowest quarterly growth in the Chinese economy in seven years, but in line with expectations and China's own growth target of 6.5%. In the final quarter of last year, the economy expanded by 6.8%. There are pockets of growth however - investment in industrial assets and infrastructure registered a 10.7% increase in the three months to March, when compared to the same period last year and consumers also appear to be spending, with retail sales showing a robust 10.5% jump for March.

Market Commentary and News:

The global world refined copper market showed a 51,000t surplus in January, the International Copper Study Group (ICSG) said in its monthly bulletin. This compared with a 44,000t surplus in the same period a year earlier. World refined copper output in January was 1.98 million tonnes, while consumption was 1.93 million tonnes. Bonded stocks of copper in China

showed a 76,000t surplus in January compared with a 13,000t surplus in December. The ICSG said that the copper market should see a deficit of 147,000t this year and a deficit of 169,000t in 2018.

According to the World Bureau of Metal Statistics (WBMS), copper and zinc were the only base metals with a recorded surplus in January to February 2017. Following a surplus of 215,000t in the whole of 2016, the copper market recorded a surplus of 335,000t. Stocks rose during February and closed 72,000t higher than at the end of December 2016. Global consumption was down at 3.52 million tonnes, compared with 3.70 million tonnes for the same months of 2016.

The meeting of the copper industry at the annual CESCO meeting in Santiago Chile at the start of the month produced a series of 'producer' statements and comments;

- The copper market is likely to see a small shortage as early as this year because of a lack of new supply and the removal of up to 800,000t over the past 18 months in response to modest prices, according to Arnaud Soirat, Rio Tinto's CEO of Copper and Diamonds. But he says his company will take a bullish view, he said in a speech at CRU's World Copper Conference in Santiago. "We've seen the copper market rebalance in response to lower prices," he says. "In the last 18 months, the industry has seen around 700,000-800,000t of price-related cutbacks and we now see the market moving into a small deficit this year,". Soirat had previously said the copper market would go into deficit by 2020, just when Rio extension to the giant Oyu Tolgoi copper mine in Mongolia comes onstream. He also cites that few new greenfield projects are foreseen over the next three to five years. Combined with ore grade declines and end of life closures over the next few years, Rio sees overall mine supply potentially plateauing before the end of the decade with a substantial supply gap at the start of the next.
- According to Chile's minister of mines, the world refined copper market is in a deepening deficit due to several disruptions in Chile, Peru and Indonesia. The forecast market deficit for 2017 has widened to 110,000t, Aurora Williams told CRU's conference, citing strikes at the Escondida and Cerro Verde mines as well as export issues at Grasberg. The deficit is expected to remain for 2018, albeit at a smaller 45,000t, she said. After averaging \$4850/t in 2016, the copper price is forecast to average \$5512/t to \$5622/t in 2017, Williams added. "These levels could be maintained in 2018, given current expectations for sustainable market conditions," she told delegates. Chile's copper production, which reached 5.545 million tonnes in 2016, is expected to reach 5.94 million tonnes this year. Capex for mining projects fell alongside prices, Williams noted. A lag effect will now be felt while prices start to rise amid a lack of new or brownfield projects in the pipeline, she added.
- The broad consensus from producers' executives was that the copper business will recover from crisis mode after plummeting prices for the metal resulted in output cuts but they expect that incipient recovery will be slow. While views varied from extremely wary to bullish, the overall atmosphere was more positive than in recent years. Most agreed that fundamentals such as a lack of new projects and Chinese demand would likely support the copper price.
- Copper consultancy CRU is forecasting an upward trend in prices through 2021, said its director of copper research, Vanessa Davidson. "We expect pressure on costs to continue but we see copper prices rising faster than operating costs, ensuring that profit margins increase," she said.
- Chile's copper commission, Cochilco, once more raised its price forecast for 2017 to reflect the impact of global supply disruptions. The commission said that it expects the copper price to average US\$5732/t this year, up from its previous estimate of US\$5291/t. The LME copper cash price closed April at US\$5688.50/t with a 2017 YTD average of US\$5802.07/t.
- Cochilco also forecast that Chile would produce slightly less than 5.6 million tonnes of copper in 2017, down from a previous forecast of 5.79 million, due largely to a strike at BHP Billiton's Escondida mine. The strike at Escondida, took 180,000t off the commission's previous estimate in January, it said in its quarterly report. Cochilco's estimate for 2017 production represents a 0.8% increase over 2016.
- Chile produced 378,261t of copper in March, down 23.1% from the year-ago month, as the 44-day strike at the Escondida copper mine bit into output, government data showed. Unscheduled maintenance at another major mine also reduced output during the month, Chile's statistics agency INE said in a statement. The monthly figure marked little changed from 376,948t in February, which also impacted by the strike. Copper production during the first quarter totalled 1.208 million tonnes, down 14.3% on Q1 2016.
- The world's copper market could see a small shortage this year, but the metal's price outlook is uncertain, as risk factors include the possibility of protectionist policy from the U.S., the head of Chilean mining company and

London listed Antofagasta said. "Our outlook is more favourable and the tightening up of the balance between supply and demand, which was expected around 2019-20, we now see that come forward to maybe next year," CEO Ivan Arriagada told Reuters in an interview. "This year we expect a market, which is largely going to be balanced and it may turn into a small deficit." He said producers expect copper prices to be supported by lack of new production and a decline in ore quality, along with demand fuelled by sustainable growth in China.

Freeport McMoRan Inc received a limited permit to resume copper exports from Indonesia at the end of the month after a hiatus of more than three months, hours after a state visit by U.S. Vice President Mike Pence, who discussed the copper miner's dispute with Jakarta. Indonesia's trade ministry issued Freeport with a permit to export 1.1 million tonnes of copper concentrate up to February next year, although it was unclear how long shipments would last.

Spot copper premiums in Europe basis CIF Rotterdam are reported to have traded at US\$40/t in March, down US\$2.50/t from the previous month, according to a survey of traders active in market. They report slow spot activity as consumers continue to source scrap instead of cathode. Lower quality copper cathode is also in strong supply, adding to pressure on Grade A premiums.

Total primary aluminium production in top producer China in March rose to 2.707 million tonnes last month from 2.534 million in February, data from the International Aluminium Institute (IAI) showed. Daily average primary aluminium output in China fell to 87,300t in March from 90,500t the month earlier, the group added.

The extract from IAI relating to primary aluminium production shows (in '000's tonnes);

Month:	Africa	North America	South America	Asia (ex China)	West Europe	East & Central Europe	Oceania	GCC	China	ROW Estimated Unreported	Total
Jan-16	141	368	113	277	321	338	169	432	2,480	150	4,789
Feb-16	133	344	107	259	299	317	156	409	2,070	150	4,244
Mar-16	141	329	115	273	321	338	167	435	2,620	150	4,889
Apr-16	135	329	112	264	312	327	162	424	2,569	150	4,784
May-16	142	337	117	281	322	338	168	439	2,675	150	4,969
Jun-16	139	324	107	282	307	326	164	422	2,686	150	4,907
Jul-16	144	336	115	299	315	335	169	439	2,659	150	4,961
Aug-16	145	334	114	301	317	334	168	441	2,713	150	5,017
Sep-16	141	325	112	293	310	325	164	431	2,751	150	5,002
Oct-16	148	337	118	299	320	337	170	447	2,727	150	5,053
Nov-16	139	326	111	301	313	327	164	432	2,800	150	5,063
Dec-16	143	338	120	313	322	339	150	446	2,891	150	5,212
	1,691	4,027	1,361	3,442	3,779	3,981	1,971	5,197	31,641	1,800	58,890
Jan-17	144	337	117	315	320	339	151	447	2,950	150	5,270
Feb-17	130	304	105	289	290	306	132	403	2,534	150	4,643
Mar-17	143	337	118	335	312	338	148	448	2,707	150	5,036

Russian aluminium giant Rusal said its first-quarter aluminium sales rose 6.8% quarter-on-quarter to 985,000t. Rusal, the world's second largest aluminium producer after China's Hongqiao, has been keeping its production stable in recent years after it reduced capacity following a fall in prices for aluminium.

Three new aluminium projects with a capacity of 2 million tonnes have been halted in Xinjiang in western China for violating rules aimed at curbing capacity, the state-owned China Securities Times reported mid-month.

Japanese aluminium buyers will pay a premium for their second-quarter metal deliveries of US\$128/t over the LME cash price. This represents a sharp jump from the US\$95 negotiated for first-quarter shipments. It is also the highest premium since the second quarter of 2015.

Matt Chamberlain has been named LME chief executive, with a mandate from its owner the Hong Kong bourse to reform the market. Chamberlain, had been acting CEO since January, following the resignation of Garry Jones.

The LME wants to attract funds and reverse falling volumes by boosting liquidity on monthly settled contracts using prices from trading on other dates, Matt Chamberlain, the LME's new chief executive, told Reuters. The LME is under pressure to build volumes after they fell 7.7% last year and 4.3% in 2015. As a solution, the LME is considering reforming its complex structure of trading to lure funds, laying bare a schism between those wanting change and core traditional members who do not. By early next month, the Exchange will publish a discussion paper that is expected to include the offer of a simpler alternative to its intricate three-month date structure, sources say.

The LME imposed a US\$1.4 million fine on the metals warehouse unit of commodity group Glencore for falsifying documents detailing zinc movements from New Orleans. The LME said Glencore's Access World agreed to pay the fine without admitting any breaches.

A platform for buying and selling base metals for physical spot delivery launched last year by German company Metalprodex is expanding into metals trading using price premiums, the company said in the month. Price premium trading contracts have now been launched covering all primary aluminium, lead, zinc and copper products as well as all semi-finished products, according to managing director Janko Linhart.

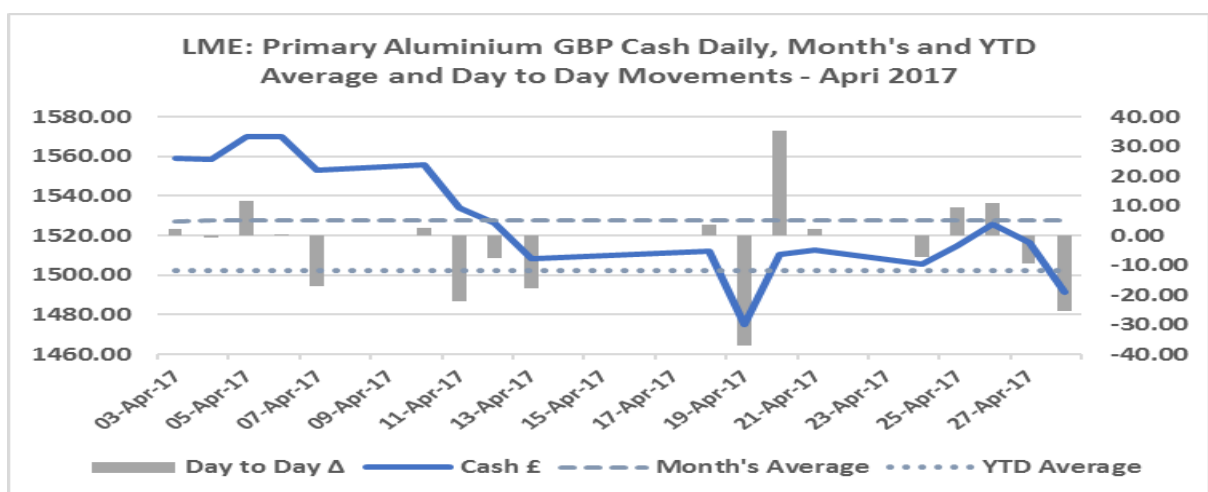
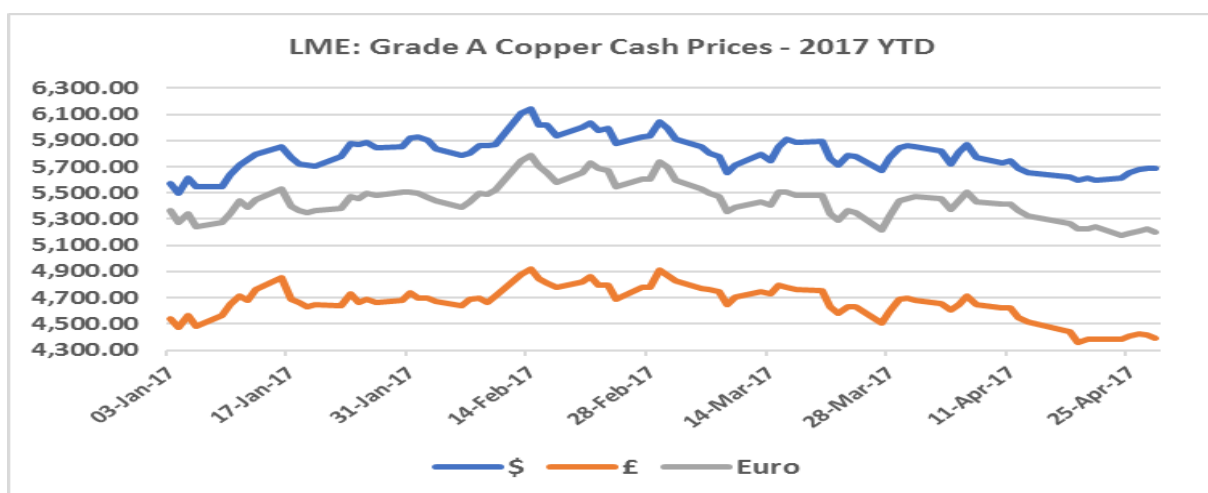
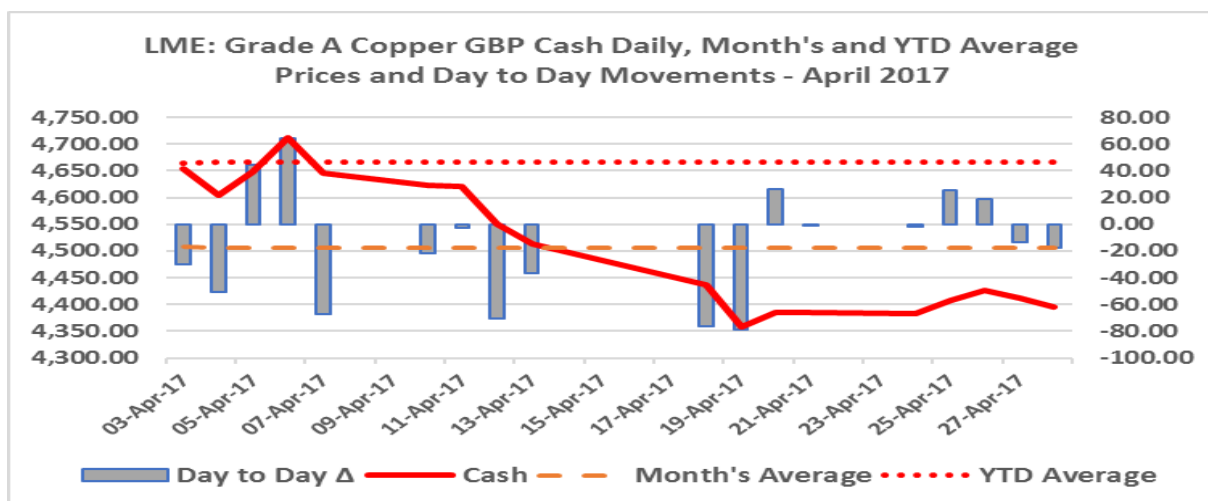
LME Commentary:

The LME primary aluminium price has been the best performer among the core industrial metals traded on the LME so far this year. The USD cash price in the month achieved the year's high (and a 28-month high) at \$1962/t – some \$260/t or 15% higher than the start of the year. Despite general increases in primary production, aluminium prices have resisted the general decline in commodity prices as exchange stocks continue to fall dramatically – LME stocks fell 243,975t or 13% in the month - and spot premiums rise. LME prices in GBP however fell in the month as the Pound recovered against a weakening Dollar.

Copper's bull momentum from the start of the year however, appears to be fading as the supply disruptions at the world's two largest mines unwind and China's refined production surged, underlining ample stocks. While the market responded positively at the start of the month to the producer statements coming out of Chile, latterly it was underwhelmed by the Trump administration's proposed tax cuts as the focus shifted to concerns over China's manufacturing growth with warnings that broader industry sentiment pointed to a weaker outlook. LME copper cash in USD peaked on 5th April at \$5611/t, thereafter falling to its lowest level since January at \$5602/t. In Sterling terms, the month's high of £4712.61/t was achieved early in the month but values fell sharply to bottom at £4358.03/t, the lowest since mid-November last year as Sterling recovered against the Dollar to close the month at 1.2943, its highest since the end of September 2016.

LME Statistics and Charts: April 2017:

	Copper			Aluminium			USD:GBP
	Cash £/t	3M £/t	Stocks	Cash \$/t	Cash £/t	Stocks	
Opening	4654.34	4667.89	283,900	1948.50	1559.05	1,877,300	1.2498
Average	4508.65	4521.58		1930.94	1527.76		1.2642
High	4712.61	4725.69		1962.00	1570.20		1.2943
Low	4358.03	4370.49		1890.00	1474.98		1.2397
Range	354.58	355.20		72.00	95.22		
Closing	4395.04	4403.17	253,675	1930.00	1491.15	1,633,325	1.2943
Opening:Closing Δ	-259.3	-264.7	-30,225	-18.5	-67.9	-243,975	



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