Metals Newsletter

March 2017

Economic Indicators and Comment:

The U.S. economy grew in the fourth quarter at a faster pace than previously reported on higher consumer spending, Commerce Department data showed. GDP rose at a 2.1% annualized pace, revised from the previous estimate of 1.9%. Consumer spending, the biggest part of the economy, rose 3.5%, revised from 3%, and added 2.4% to growth. The data reinforce the underlying story of the U.S. economy: the seven-year expansion continues to be led by consumers, who are cushioned by a firm labour market and rising confidence. At the same time, rising corporate profits could provide continued momentum for hiring and support further capital investment. Analysts expect first-quarter growth of about 1.9%, while the Trump administration has said its policies will eventually result in a 3% pace or greater.

Figures released by the Federal Reserve showed that U.S. industrial production was unchanged in February following a 0.1% decrease in January. In February, manufacturing output moved up 0.5% for its sixth consecutive monthly increase. Mining output jumped 2.7% but the index for utilities fell 5.7%t as unseasonably warm weather reduced demand for heating. Total industrial production in February was 0.3% above its level of a year earlier.

China's factory and construction sectors began the year positively, based on the latest set of real economy indicators released by the National Bureau of Statistics. Fixed-asset investment grew 8.9% in January and February, beating economists' expectations for an 8.3% rise. An 8.9% increase in capex in the real estate sector marked a substantial advance on 2016's 6.9% growth. Industrial production growth of 6.3% just beat the 6.2% median estimate of analysts polled by Bloomberg. Retail sales expanded at a 9.5% rate. The figures confirm what China's head statistician Ning Jizhe had told the media; that the economy shows signs of improvement with little risk of a hard landing.

Euro zone industrial output increased less than expected in January as firms' higher investment in machinery was partially offset by a drop in the production of consumer goods, estimates from the European Union statistics office showed. Eurostat said industrial production rose in January by 0.9% compared to the previous month and by 0.6% year-on-year. Industrial production in December was revised to a fall of 1.2% on the month - less than the 1.6% drop initially estimated. The monthly output rise in January was mostly due to a surge in production of capital goods which went up by 2.8%. Energy output also rose by 1.9% on the month but production of durable goods, such as cars or refrigerators, went down by 0.4% in January, after a 3% surge in December while production of non-durable consumer goods was down by 0.7%. At national level, a 3.3% surge in Germany's monthly output was partly offset by a 0.3% fall in France and a 2.3% fall in Italy.

The third estimate from the Office for National Statistics showed the UK's GDP climbed 0.7% quarter on quarter in the fourth quarter of 2016, unrevised from the previous estimate released in February. The third quarter growth was revised down by 0.1% to 0.5%. Growth in the fourth quarter was broad-based but once again the services industries contributed by far the most to the headline growth rate, the ONS said. On a yearly basis, GDP climbed 1.9% in the fourth quarter instead of 2%. In 2016, the economy expanded 1.8% as previously estimated, versus 2.2% in 2015.

Companies:

Aurubis AG, Europe's biggest copper smelter, plans a new corporate strategy involving expansion into production of other non-ferrous metals alongside its traditional copper business. CEO Juergen Schachler told the group's annual shareholders' meeting that Aurubis should become a "multi metals producer." He also said the group's new corporate strategy, called Vision 2025, could involve acquisitions of suitable metal production companies but that an expansion into mining will not be a part of the strategy. Aurubis' last acquisition was in 2011 when it took over the rolled copper operations of the Luvata group.

Russian aluminium producer Rusal reported that its fourth-quarter core earnings jumped by more than a third due to a recovery in metal prices, and forecast the market to remain in good shape this year. Quarterly EBITDA rose to US$412 million, up 35% from a year earlier, beating analyst expectations for a 31% rise to US$400 million.

Market Commentary and News:

The global world refined copper market showed a 17,000t surplus in December, compared with a 3,000t deficit in November, the International Copper Study Group (ICSG) said in its latest monthly bulletin. For the first 12 months of the year, the market was in a 55,000t deficit compared with a 164,000t deficit in the same period a year earlier. World refined copper output in December was 2.03 million tonnes, while consumption was 2.01 million tonnes. Bonded stocks of copper in China showed a 4,000t surplus in December compared with an 18,000t deficit in November.

Workers at the world's biggest copper mine - BHP's Escondida mine in Chile which produced more than 1 million tonnes of copper in 2016 - ended their strike on March 23 after 43 days out but without reaching agreement on a new collective contract. The union said the 2,500 workers would return to work under a little used clause in Chile's labour code that allows employees to demand an 18-month extension to their current contract. The workers downed tools on February 9 after prolonged pay talks ended without agreement. Analysts estimate that the strike has cost owner BHP Billiton an estimated US$1 billion and probably left it in a weaker position for negotiations next year. Factoring in a gradual ramp-up to full production, analysts reckon some 230,000t - 240,000t of production will have been lost.

Chile's state copper company Codelco produced 1.83Mt of copper in 2016, 1.71Mt of which came from its wholly-owned mines, down 1.4% from a year ago, the company reported. The company posted 2016 pre-tax profit of US$435 million, with a production cost per pound of copper of US$1.26/lb or US$2778/t.

Global copper prices will rise to close to US$3/lb ($6614/t) by the end of 2017 due to limited supply and expected increased demand from China and the U.S., said Oscar Landerretche, chairman of Chile's state-run Codelco. In an interview, the chairman of the world's largest copper producer said the prospects for copper prices had changed radically due to better economic data from China and the new U.S. administration's plans to boost infrastructure spending.

On March 21, Freeport McMoRan Inc's resumed production of copper concentrate at its giant Indonesian Grasberg mine, the world's second-biggest copper mine, ending a more than one-month stoppage. "We have begun to resume operations in stages," Freeport Indonesia spokesman Riza Pratama said, confirming that copper concentrate production had resumed. Exports of concentrate however, remain suspended because of a dispute with the government.

Workers at Peru's biggest copper mine, Freeport-McMoRan Inc's Cerro Verde, resumed work on March 31 after ending a three-week strike. The workers' union said that the strike had disrupted the mine's copper output of some 40,000tpm, though the company said there was no material impact on production.

With the market dominated by news of supply disruptions at Escondida, Grasberg and Cerro Verde, LME copper stocks increased sharply in the month. Stocks were up 83,175t in the month – mostly absorbed by storage facilities in Taiwan, South Korea and Singapore, which may point to weaker Asian demand. Global exchange stocks of copper (LME, Comex and SHFE) surged by around 167,000t in the month – up to 750,000t - the highest level since mid-2013. CIF Shanghai copper premiums dipped to their lowest point since October 2012 - Metal Bulletin assessed CIF Shanghai copper premiums at US$30/t to $45/t in the month - their lowest levels since October 2012.

Christophe Allain, Nexans SA's non- ferrous metals purchasing manager, said at a conference interview that the supply of both refined copper cathode and scrap metal in Europe has recently increased. Scrap in particular has flooded into the market as dealers rushed to cash in on rallying prices, he said. The increased supply adds to already conflicting signals for copper, as traders weigh the impact of mine interruptions against slowing Chinese demand growth. While the surge in LME stockpiles suggested an excess of the metal, orders to withdraw copper from storage also rose sharply. Aurubis, the world's largest copper recycler, processed 36% more scrap in the three months through December compared with a year earlier, as availability increased. For Nexans, metal availability and purchasing terms are the most favourable they've been in years, Allain added. While the Nexans buys only small volumes of scrap, it has benefited from a surge in supply of copper cathode because other buyers are turning to scrap instead. Comparing the first quarters of 2016 and 2017, the underlying US copper price has risen nearly 25% and while some copper dealers need to sell scrap continually to generate cash, others can wait for higher prices, Allain said. A lot of that metal has now been entering the market. Users are seeing ample supplies even as a strike at Escondida extends into a second month and exports from Grasberg remain halted. Inventories of lower-grade forms of copper cathode that can't be delivered on to exchanges have been increasing as well, Allain said. "I believe we have a surplus of cathode today," he said. "There's a lot of standard-grade material that people have a lot of difficulty accounting for; if you add scrap to that, the surplus is even bigger."

Russia's second largest copper producer Ural Mining & Metallurgical Co. (UMMC), which sells half its copper for export, aims to restore output of the metal that has been lost in recent years to deteriorating ore quality. The copper content per tonne of ore at Urals-based UMMC's deposits has fallen to 1.2% from as high as 1.6%, leading to a more than 5% drop in production last year to 350,000t, or about 40% of Russia's total output of the metal. The company plans US$1 billion a year of capital expenditure in an effort to restore annual copper production to 380,000t over the next three to five years. UMMC accounts for about 2% of global output of the metal.

Minmetals aims to boost refined copper capacity to more than 1 million tonnes in 5 years from around 650k tons currently, according to China Minmetals Corp Chairman He Wenbo. Minmetals will either expand existing mines production or through use overseas acquisitions to meet target. Minmetals has been looking to expand base metal production capacity.

Japan's copper wire and cable demand is seen as rising 2.8% to 695,000t for the year starting April 2017, Japan Electric Wire & Cable Makers' Association said in a statement. The 2020 Tokyo Olympics and urban redevelopment projects will support copper demand from the middle of next year while demand for the current year is seen falling 3.3% to 676,000t. The Association reported that Japan's copper wire and cable shipments are expected to decrease 5.2% year-on-year to 55,300t in February 2017. Actual shipments were 54,072t in January, a drop of 0.2% year-on-year.

China is aiming to produce 4.4Mt of recycled copper and 9Mt of recycled aluminium by 2020, in line with the central government's goal of using more recycled resources to be eco-friendly, the Henan Provincial Nonferrous Metals Guild said in a report. The 2020 output target is 44% and 57% higher than realized recycled copper and recycled aluminium output of 3.05Mt and 5.75Mt in 2015. The 2016 data is not yet available. Figures from the guild showed that China set a recycled nonferrous metals production goal of 18Mt by 2020, up 54% from realized output of 11.67Mt in 2015. The higher recycled nonferrous metals output is to keep in line with the Ministry of Industry and Information Technology, Ministry of Commerce and Ministry of Science and Technology's guidance notes for speeding up growth in the mainland Chinese recycled resources sector, the guild said. The growing Chinese recycled metal sector has greatly eased the supply and demand imbalance in primary metal resources, helping the country set up a circular economy, cutting emissions and saving energy.

China's "Air Pollution Control" regulation was formally approved in February 20 and came into effect at the start of March with analysts believing it represents a potential redefinition of the global aluminium market. The world's largest producer will force aluminium smelters in four provinces surrounding Beijing to cut output by 30% over the winter heating season, which runs from the middle of November through the middle of March. Some 40% of China's production capacity is potentially affected with analysts calculating a 1.3Mt hit on output. The new directive will also impact raw material suppliers such as alumina refineries and carbon anode plants, sending shock waves down the length of the global aluminium supply chain. It might seem strange that Beijing's war on pollution is going to hit so hard aluminium, a metal that has been at the forefront of the "green" materials revolution. But much of the affected capacity in the provinces of Hebei, Henan, Shandong and Shanxi sources its power from coal, which is the primary target of the new regulations.

Germany, which is home to the world's largest automakers, is Europe's major aluminium market and accounts for about 25% of total aluminium consumption in Europe. German smelters produce about 700,000t of primary aluminium and the country imports most of its aluminium to feed its domestic downstream industries. Germany imported 2.4Mt of aluminium (alloyed & non-alloyed) in 2015, which increased to total at 2.5Mt in 2016. For the first ten months of 2017, the volume is estimated to total at 2.1Mt. The trend shows increasing consumption of aluminium in Germany mostly driven by the automotive parts industry.

A report by market analysts MCR Technology Reports is forecasting that the aluminum wire rod market in Europe will grow at annual growth rate of 1.4% during the period 2017-2021. The report highlights the key players in the aluminum wire rods market in Europe as Alcoa, General Cable, Norsk Hydro, RUSAL, and Vimetco, with other prominent sellers being Hindalco, Hongfan Holdings, INOTAL, Lamifil, National Aluminium Company, NPA Skawina, Oman Aluminium Processing Industries, Southwire, TRIMET Aluminium, and Vedanta. The latest trend gaining momentum in the market is the increase in average capacity utilization levels of conductor manufacturers. Currently, the aluminum conductor and cable manufacturers are operating at 60%-70% capacity utilization levels due to the fluctuating demand. The demand fluctuates because the execution phase of T&D lines is generally long, and the procurement of aluminum wire rods for use in conductors is directly linked to the order cycle of conductors, which is dependent on government investments. According to the report, one of the major drivers for this market is competitive prices and favourable properties of aluminum. Although copper has better conductivity properties than aluminum, there is a possibility that aluminum will replace copper in T&D applications in future. This is attributable to the fact that aluminum is cheaper and its price is not as volatile as that of copper. Aluminum is being successfully used as a conductor in various end-use applications, such as low-voltage transformers. Further, the report states that one of the major factors hindering the growth of this market is volatile raw material prices. Aluminum and copper are the primary metallic raw materials used in cables and conductors. The cost of these raw materials accounts for a major percentage of the total manufacturing cost of power cable vendors. As per the prices of these metals in December 2015, material costs accounted for 75% to 85% of the total production cost. The total cost of copper and aluminum metals account for about 50% of the total production cost.

Japan's aluminium premium for shipments during the April to June quarter has been set at US$128/t, up about a third from the previous quarter due to higher overseas prices, sources involved in the discussions said at the end of March. Japan is Asia's biggest importer of the metal and the premiums for primary metal shipments it agrees to pay over the LME cash price set the benchmark for the region.

Digital commodity start-up TradeCloud Services Pte Ltd is on track to launch its physical commodities messaging and trading platform this summer, and will begin with base metals, the company said in the month. The Singapore-based company's platform will initially cover the most commonly-traded metals: copper, aluminium, zinc and nickel. The platform will allow producers, consumers and traders to submit bids and offers for material securely online, helping to reduce inefficiencies in managing the sale of physical commodities and improve compliance oversight. The company said that the platform will allow clients to communicate on a multichannel basis, in a secure and recorded environment and will have some really innovative features that will be appealing to the commercial teams, as well as their compliance, credit, and finance departments. TradeCloud has plans to provide post-trade services such as logistics, finance, and documents.

The implementation of the first charges under the LME's new charge-capping rule will take effect on April 1. In September 2016, the LME decided to introduce charge-capping measures to reduce queues at LME warehouses and improve the transparency of its warehouse network. Since the start of its warehouse reforms, it has been reported that structural queues have decreased substantially. Charge caps will be frozen for five years. Queue-based rent capping (QBRC) rules are intended to remove the financial incentive for warehouse owners to allow "structural" queues to build up. This means queues should be limited to operational ones, driven by a large load-out request by a particular metal owner (or owners) in a particular location, which can always happen in the ordinary course of warehouse operations, the exchange said. Industry experts noted that queues appear to be driven by such requests for the withdrawal of metal, and to represent operational rather than structural queues.

LME Commentary:

March saw the underlying LME USD primary aluminium cash price hit a high of US$1955/t - its highest level since December 2014 - while the GBP price high of £1571.72/t attained a 5 year 8 month high, supported by optimism that China would carry out plans to cut supply, falling exchange stocks, higher product premiums and a rebound in the oil price. The March closing GBP cash price at £1558.82/t compares with £1387.12/t at the start of the year – a difference of £171.70/t or 12.4% and £1309.71/t at the end of March 2016 – a difference of £249.11/t or 19%.

Copper prices meanwhile hit the month's highs in the early part of the month as strikes in Chile, Indonesia and Peru grabbed all the headlines and bolstered bullish sentiment. Prices in USD failed to hold above the $6000/t levels achieved in February amidst concerns about weaker Chinese economic growth, higher U.S. interest rates and the possibility that mine disruptions will be resolved. There were sharp increases in LME warehouse stocks – stocks rose 39,000t in one day, the highest daily increase since mid-2013 - as both European and Asian users reported adequate supplies. The subsequent resolution of those mines strikes saw prices come under further pressure while the GBP price was further depressed as the Pound improved against the Dollar.

LME Statistics and Charts: March 2017:

March 2017	Copper			Aluminium			USD:GBP
	Cash £/t	3M £/t	Stocks	Cash $/t	Cash £/t	Stocks	
Opening	4908.57	4905.95	200,725	1934.00	1571.72	2,188,400	1.2305
Average	4716.51	4721.25		1901.57	1540.40		1.2345
High	4908.57	4905.95		1955.00	1571.72		1.2592
Low	4505.64	4511.89		1847.00	1516.54		1.2142
Range	402.93	394.06		108.00	55.18		
Closing	4684.07	4686.78	283,900	1946.50	1558.82	1,877,300	1.2487
Opening:Closing Δ	-224.5	-219.2	+83,175	+12.50	-12.9	-311,100	

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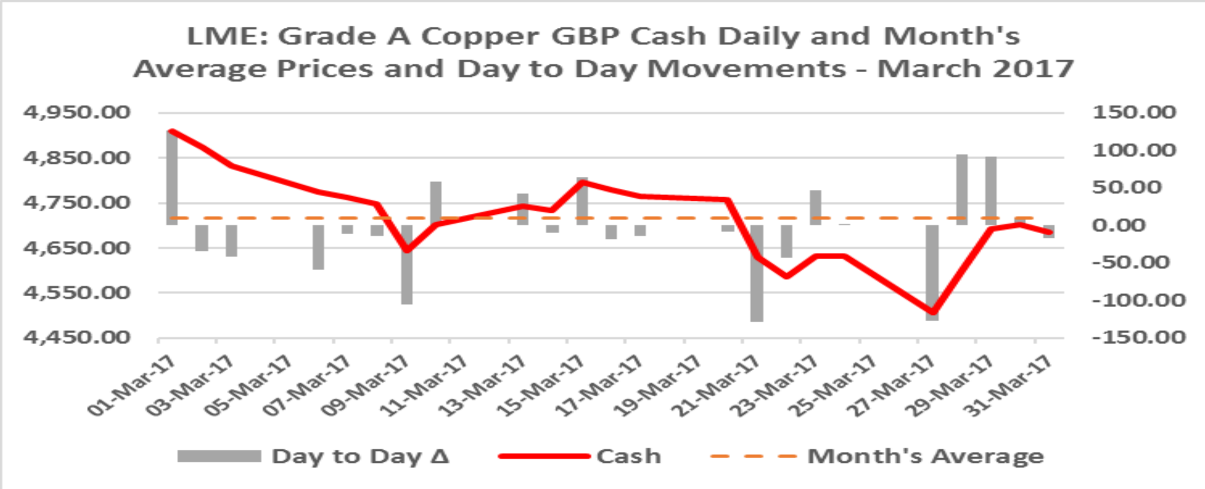

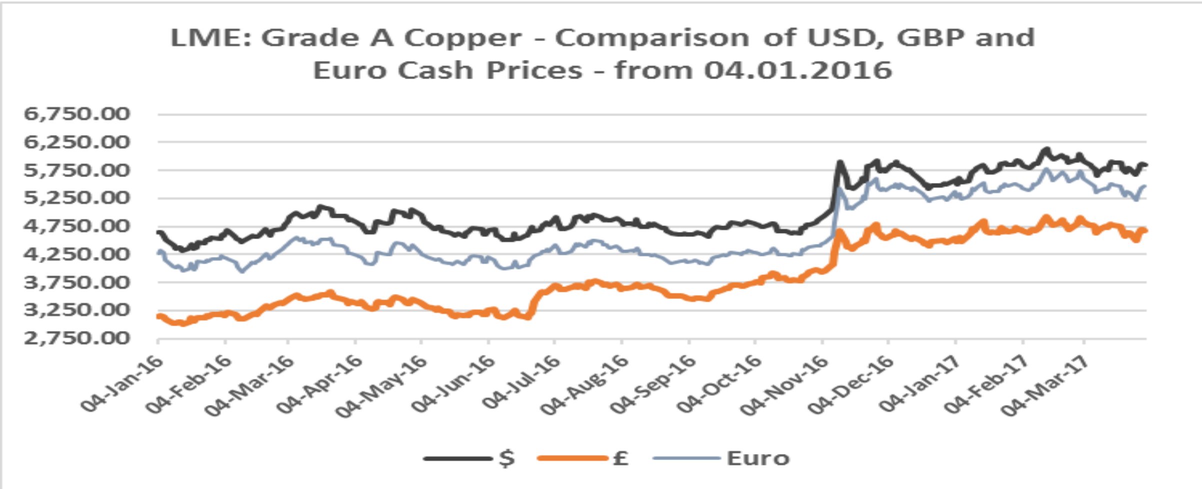

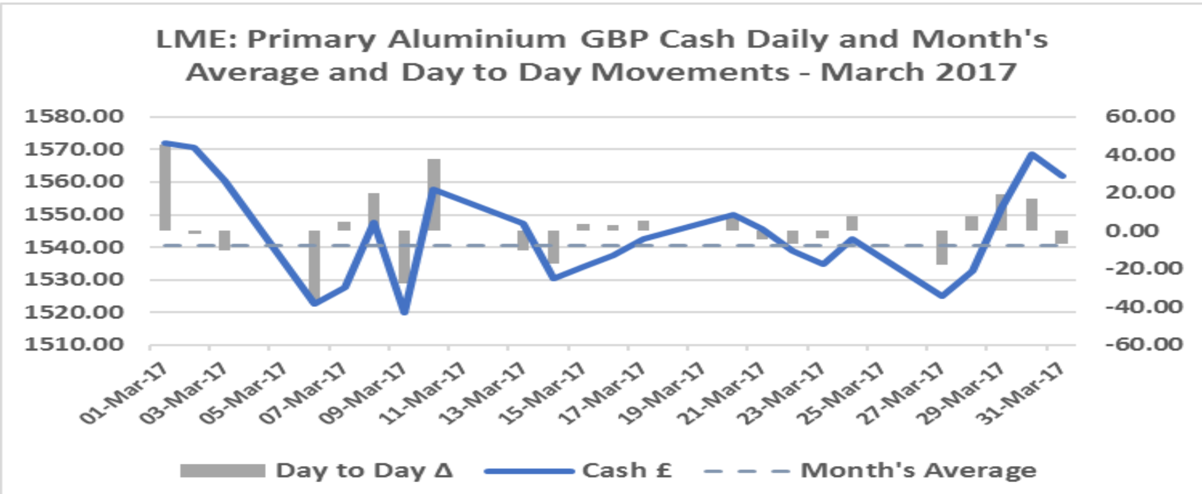

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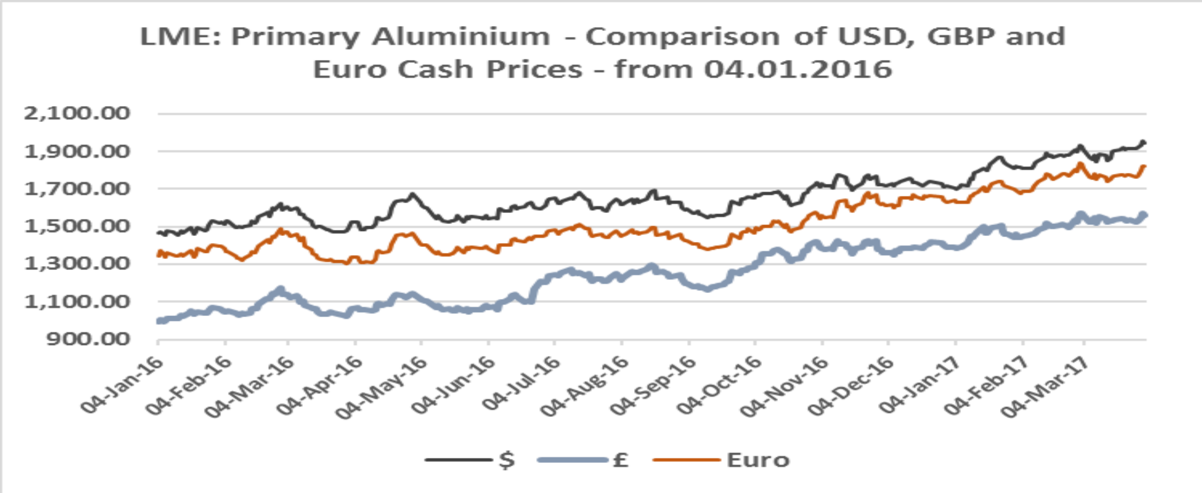

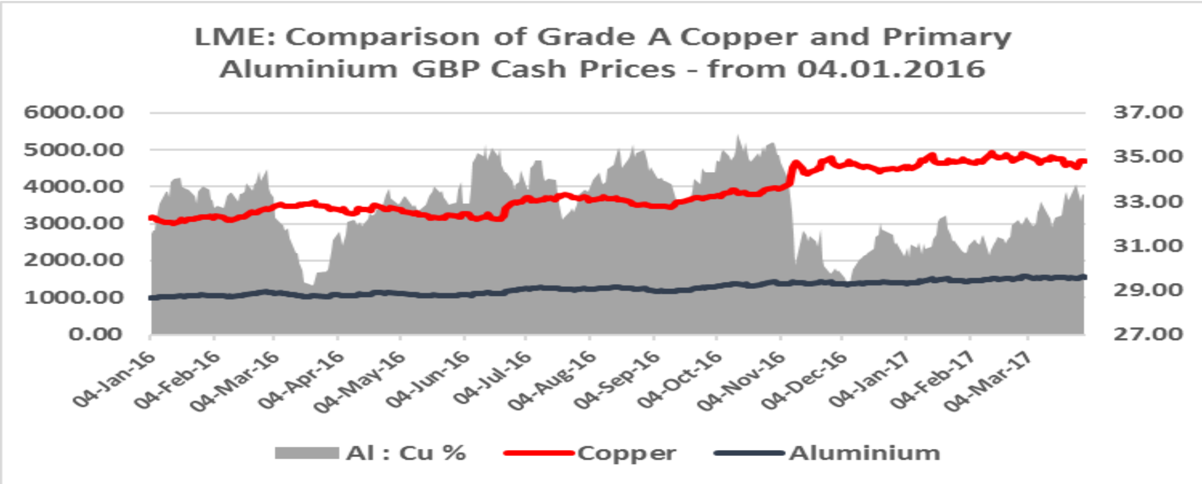

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