

December 2016

Economic Indicators and Comment:

The OECD's composite leading indicators (CLIs) point to growth momentum picking up in several advanced economies and strengthening in major emerging economies. Signs of growth gaining momentum have emerged in the CLIs for the U.S., Canada, Germany and France. In the UK, there are also signs of improvement in the short term, although uncertainty persists about the nature of the agreement the UK will eventually conclude with the EU. Growth is expected to gain momentum in China and India, in particular, and also in Brazil and Russia, albeit from low levels. In the OECD area, as a whole, Japan, and the euro area as a whole, the CLIs point to stable growth momentum. In Italy, the CLI show signs of easing growth.

The U.S. economy expanded more than previously reported in the third quarter. GDP rose at an annualized rate of 3.5%, compared with a prior estimate of 3.2%, Commerce Department figures showed. The revised growth estimate reflected updated figures on research and development expenses from companies, spending by non profit institutions and use of financial services. This is the last of three estimates for the quarter before annual revisions in July.

The Federal Reserve reported that US industrial production declined 0.4% from a month earlier due largely to unseasonably warm weather, as a decline in electricity use offset a pickup in mining. Economists surveyed by The Wall Street Journal had expected a 0.2% drop. Industries produced far less than their potential output in November. Manufacturing output, the biggest component of industrial production, slipped 0.1% in November after rising in September and October. A drop in production of long-lasting durable goods, particularly motor vehicles and parts, drove the overall decline. Output by utilities fell 4.4%, as warm weather reduced demand for heating.

China's Industrial Output expanded 6.2% yoy in November thanks to a strong performance in the electronic equipment and automobile sectors. The growth rate is 0.1% higher than in October according to the National Bureau of Statistics (NBS). Output in the first 11 months of the year grew 6% from the previous year.

The EU's statistics office Eurostat said industrial production in the single currency bloc decreased in October by 0.1%, although it was up 0.6% year-on-year. This was the second consecutive monthly fall and confounded market expectations - a Reuters poll had forecast an average monthly rise of 0.2% for a 0.8% increase year on year. The figures for September were revised to minus 0.9% mom for a 1.3% increase from a year earlier, compared with the initial estimates of minus 0.8% and 1.2% respectively. The monthly fall of production in October was mostly due to a 1.5% drop in the output of non-durable consumer goods, such as clothing. Intermediate good production fell by 0.5% while output of durable goods, such as cars or fridges, picked up 1.5% after a sharp 5.5% decline in September. Production of capital goods, such as industrial machinery, and of energy rose by 1% and 0.8% respectively.

Companies:

German based Aurubis Group generated a result that 'was within the company's and the market's expectations', achieving operating earnings before taxes (EBT) of €213 million in fiscal year 2015/16 (previous year: €343 million). Operating ROCE amounted to 10.9 % (previous year: 18.7 %). The result was impacted by significantly reduced refining charges for copper scrap accompanied by a lower copper scrap supply, as well as significantly weaker sales prices for sulfuric acid. A lower metal gain accompanied by decreased metal prices, a lower cathode premium and the scheduled shutdown in its Pirdop smelter in Bulgaria, with a lower resultant throughput also negatively impacted profits. Higher treatment and refining charges for copper concentrates with an improved input mix, stable sales volumes for continuous cast wire rod and shapes and the strong US dollar had a positive effect. Copper rod sales of 758,000t compared with 764,000t in the previous financial year; shapes, flat rolled products and speciality wire production was 390,000t compared with 386,000t in 2015.

Market Commentary and News:

The global world refined copper market showed a 15,000t deficit in September, compared with a 156,000t surplus in August, the International Copper Study Group (ICSG) said in its monthly bulletin. For the first 9 months of the year, the market was in an 84,000t deficit compared with a 28,000t deficit in the same period a year earlier. World refined copper output in September was 1.96 million tonnes, while consumption was 1.97 million tonnes. Bonded stocks of copper in China showed a 55,000t deficit in September compared with a 138,000t surplus in August.

The copper market will go into deficit by 2020, just when Rio Tinto's extension to the Oyu Tolgoi mine in Mongolia comes onstream, the company said. Rio Tinto gave approval in June for a US\$5.3 billion expansion of Oyu Tolgoi, one of the world's largest copper mines and a project central to the major's efforts to become less dependent on iron ore. While the iron ore market is expected to stay in oversupply for the foreseeable future, the copper market faces diminishing supplies and the prospect of increased demand, driven by infrastructure, electric vehicles and other renewable technologies. Chief executive of Rio's copper and diamonds division, Arnaud Soirat, said he took a "cautiously optimistic" view the copper market would go into deficit by 2020. Some analysts think the deficit could be earlier.

Changes in the outlook for copper's supply-demand balances that drove a recent rally in prices support a more "bullish" environment for the metal at least to mid-2017, Goldman Sachs reported. "Although it is tempting to blame this on speculative positioning, the materially stronger fundamental developments that contributed to this surge in speculative interest are likely to underpin a more bullish environment for copper," Goldman analysts reported.

Peru's energy and mines minister said the current copper rally and expectations for better prices in coming years will help unleash new mining investments in the country. Gonzalo Tamayo said he expects mining companies to announce progress on proposed projects in Peru next year and that improving prices for copper was triggering interest in new investments. Peru is expected to become the world's second biggest copper producer in 2017.

Chile's state-owned Codelco, the world's largest copper producer, plans investments of about US\$3.8 billion in 2017 and more cost cutting, Chief Executive Nelson Pizarro said in an interview. "Of that, \$3.143 billion is in projects, and \$651 million is in mine development, which compares to almost \$3 billion in 2016," Pizarro told Chile's El Mercurio newspaper.

Workers at Codelco's Chuquibambilla copper mine accepted a wage deal in December, putting to rest what some industry insiders had feared could be prolonged, tense talks and even the threat of a strike. The wage talks at Chuquibambilla, one of Codelco's largest operations, are seen as a bellwether for the industry and a precursor of contract discussions due at Chile's other copper mines in coming months. Later in the month, wage talks started at BHP Billiton's Escondida, the world's biggest copper mine. Labour talks at Escondida - which is controlled by BHP Billiton with a 57.5% stake, while Rio Tinto owns 30% - are similarly seen as a benchmark for the copper industry at large. The last wage talks four years ago, when copper prices were considerably higher, ended with Escondida offering each worker a bonus worth some \$49,000, the highest ever offered in Chile's mining industry.

Chile's mining development agency ENAMI has used a market mechanism to fix future prices to take advantage of the increase in the copper price and offer a stable price to the country's small mine operations. Through an agreement signed with national mining association SONAMI, the state-owned company will offer a fixed price of almost US\$5900/t on half of the production from small mines during the first six months of 2017, or slightly more than 11,000t.

Russian aluminium exports to countries outside the Commonwealth of Independent States (CIS) increased in the period January-October 2016 while copper exports decreased, according to official customs data released by the Federal Customs Service. Total aluminium exports for the period at 2,916,000t compares with 2,806,900t in the corresponding period 2015 while total copper exports were 427,900t compared with 466,900t in 2015.

Liberty House and SIMEC, owners of Britain's only aluminium smelter, are to invest £120 million in a project at the plant in Lochaber, Scotland to make aluminium wheels for the car industry. Rio Tinto had sold the 47,000tpa smelter in the foothills of Ben Nevis, and two hydro-electric power stations to the two groups in November.

Vedanta Resources plans to invest as much as 200 billion rupees (US\$2.9 billion) over three years to expand its alumina and aluminium producing capacity in eastern India's Odisha state. The company plans to expand the capacity of its Lanjigarh alumina refinery to 5 million tonnes from the current 2 million tonnes and double the capacity of its Jharsuguda aluminium smelter to 2 million tonnes.

Australia's 300,000tpa Portland aluminium smelter is operating at below a third of its capacity after power to the plant was temporarily knocked out three weeks ago, operator Alcoa Corp said. The smelter was hit when a power interconnector

between the states of Victoria and South Australia went down, cutting power to both of the plant's pot lines, and raising questions about its long-term future.

The premiums that Japanese buyers pay for aluminium are projected to stay between US\$80 and US\$140/t next year, with a gradual rise later in the year on the back of healthy global demand, Japanese trading house Marubeni said. Japan is Asia's largest aluminium importer and the premiums for primary metal shipments it agrees to pay each quarter set the benchmark for the region.

According to analysts at JPMorgan, one of the fundamental dynamics of commodities markets has been turned upside down, thanks in part to Donald Trump. Industrial metals prices and the dollar are rising in tandem on expectations that U.S. economic growth and inflation will accelerate during Trump's presidency. Usually, they move in the opposite direction as the dollar's strength makes commodities, which are mostly denominated in the currency, more expensive for buyers outside the U.S. The trend is so rare that it's only happened a handful of times in the past decade, and it's one of the many reasons that mining companies are rebounding - benefiting from lower costs and higher metal prices. Analysts noted a trend for Chinese investors to buy dollar-priced commodities like copper and zinc as a hedge against yuan depreciation, strengthening the correlation between metal prices and the dollar,

The LME will keep fees unchanged for trading and clearing for 2017, which includes the August fee reductions for short-dated carries and position transfer caps, it said in December. The LME is also introducing a waiver for physical market users who will now not be charged under its base metals market data usage licence. The usage licence, which came into effect in April, targeted those users of LME prices who do not contribute to the formation of the prices, either as members or as users of LME client contracts. "The LME continues to believe that it is appropriate for financial firms who embed LME prices into structured products to pay for a usage licence. However, following significant industry engagement, the LME also understands that many industrial players, even if they do not directly hedge on the exchange, materially contribute to the value of LME prices by using them in their supply chains and downstream contracts," it said.

The LME announced limits on rent and free-on-truck charges for the year starting April 1, 2017 as part of its new warehousing agreement. Proposals to cap rates for 5 years were put to members in July amid concerns that charges had risen out of line with those at facilities outside of the bourse's network.

Japan's copper cable shipments including sales and exports in November rose 1.9% from a year earlier to 62,300t, the Japan Electric Wire and Cable Makers' Association said.

LME Commentary:

Following the uncertainty and volatility of previous months, December was a relatively quiet month for LME metals. Copper and aluminium prices were initially supported by firmer oil prices and signs that global manufacturing activity will return to a firmer footing next year and as metals attracted fresh interest from investors. Prices later drifted however, as traders unwound speculative positions on doubts that the post U.S. election rally has much further to run and copper and aluminium exchange stocks continued to rise during the month (most notably in Asia). Prices however were supported by strong Chinese commodities import figures, a weaker Dollar and by prospects of a tighter market and rising inflation next year. Towards month-end, the upcoming Christmas holidays drained markets of liquidity and direction.

December's quiet trading conditions contrasted sharply with the uncertainty and volatility of the year as a whole.

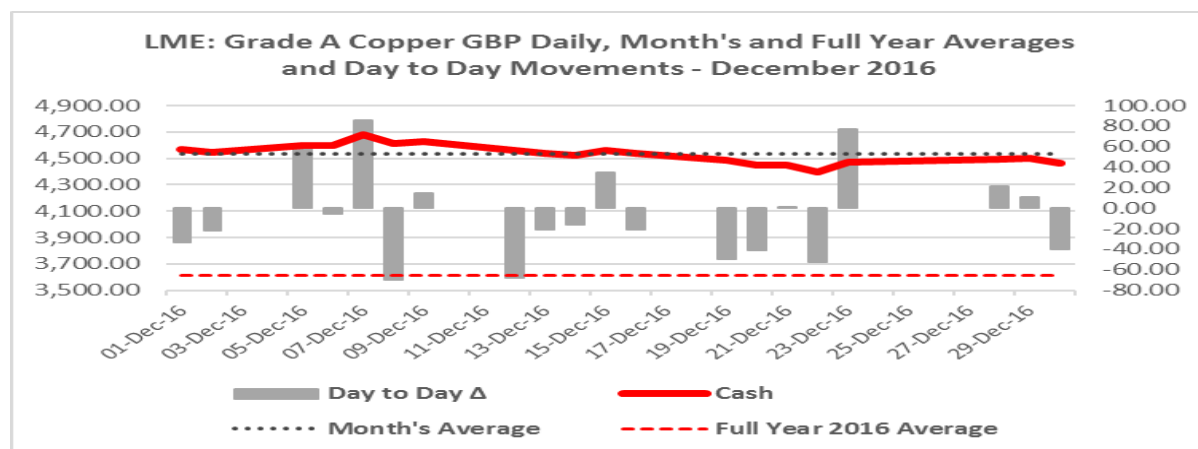
- Both LME copper and aluminium prices in USD dollars and Sterling reached 6 year highs.
- The full year LME Grade A copper cash average price of £3612.35 compares with the year's low at £3005.51, the year's high of £4789.40 and the year end at £4463.29.
- The full year LME Primary aluminium cash average price of £1192.31 compares with the year's low at £994.95, the year's high of £1426.56 and the year-end close at £1390.26.
- The year-end GBP copper cash price showed a 42% increase on the price at the start of the year (the USD cash price was 18% higher).
- The year-end GBP aluminium cash price showed a 40% increase on the price at the start of the year (the USD cash price was 17% higher).
- LME Primary aluminium exchange stocks closed the year at 2,205,925t, down 683,575t or 23.7% in the year.
- LME Grade A copper exchange stocks closed the year at 322,225t, up 87,000t or 37% in the year.

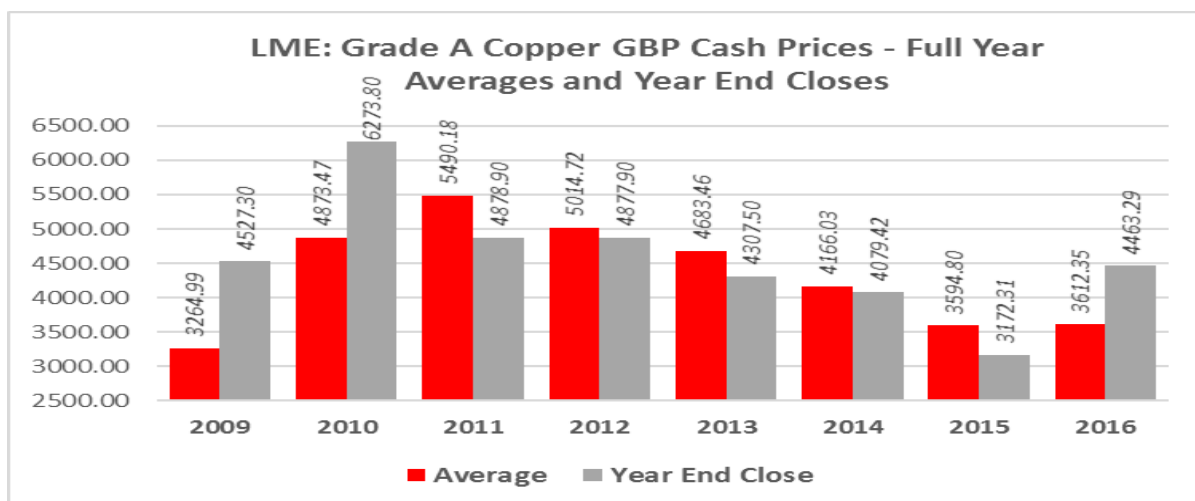
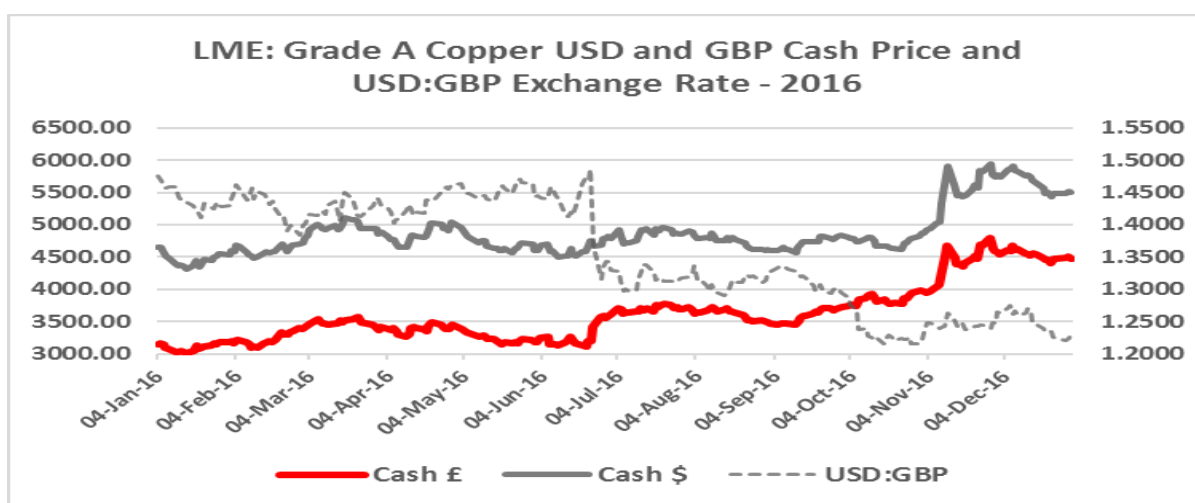
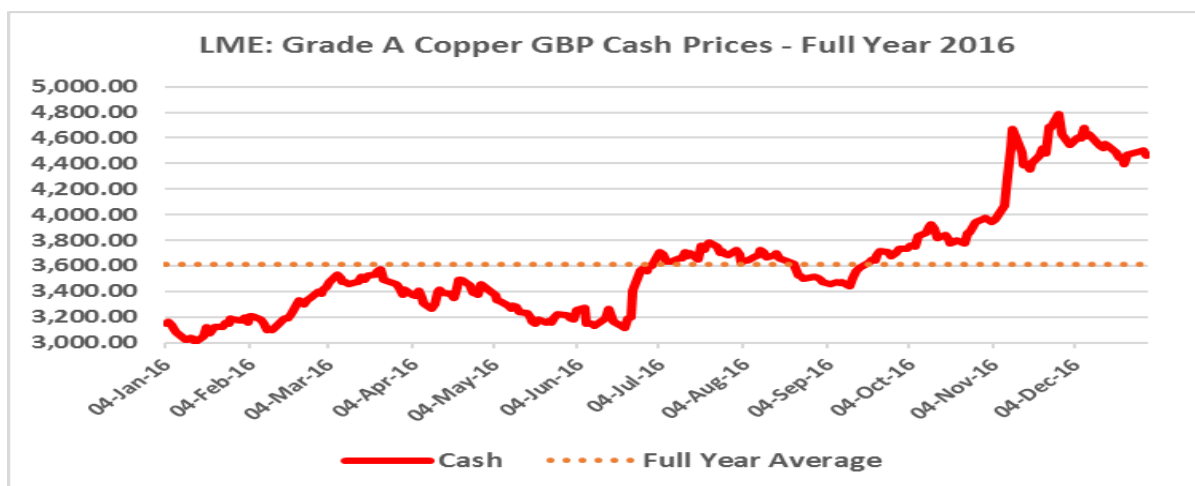
LME Statistics and Charts: December 2016:

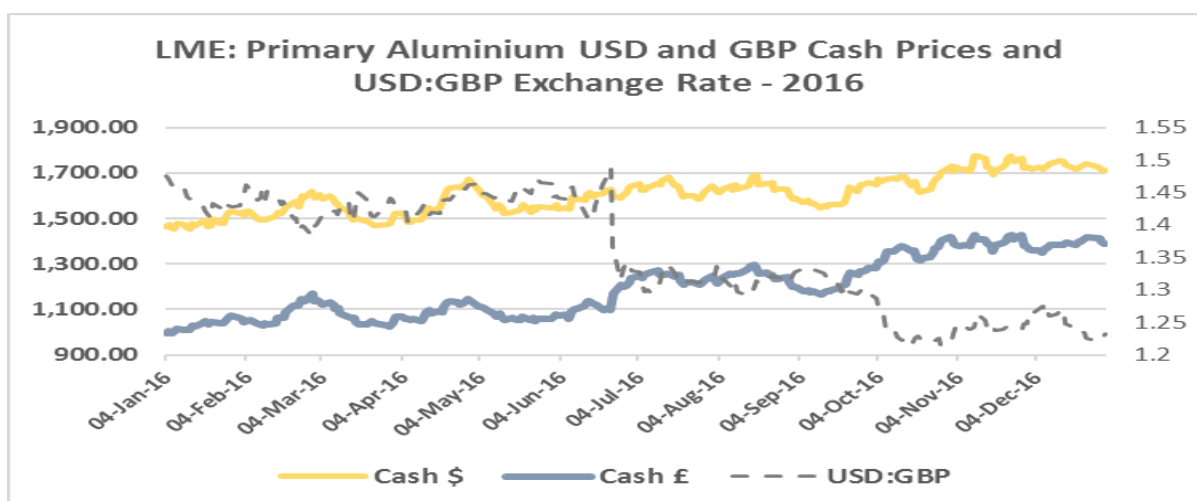
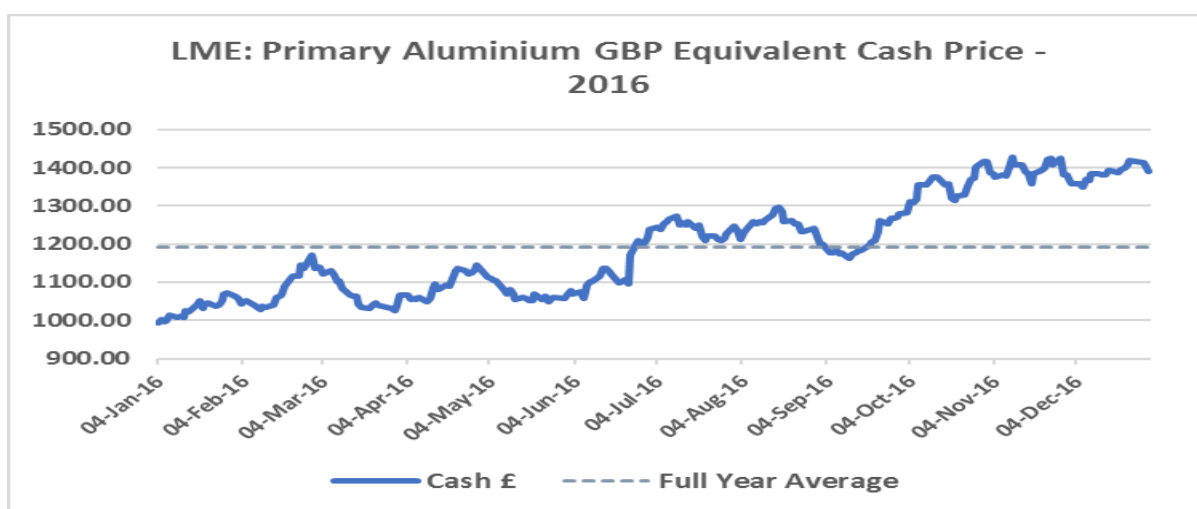
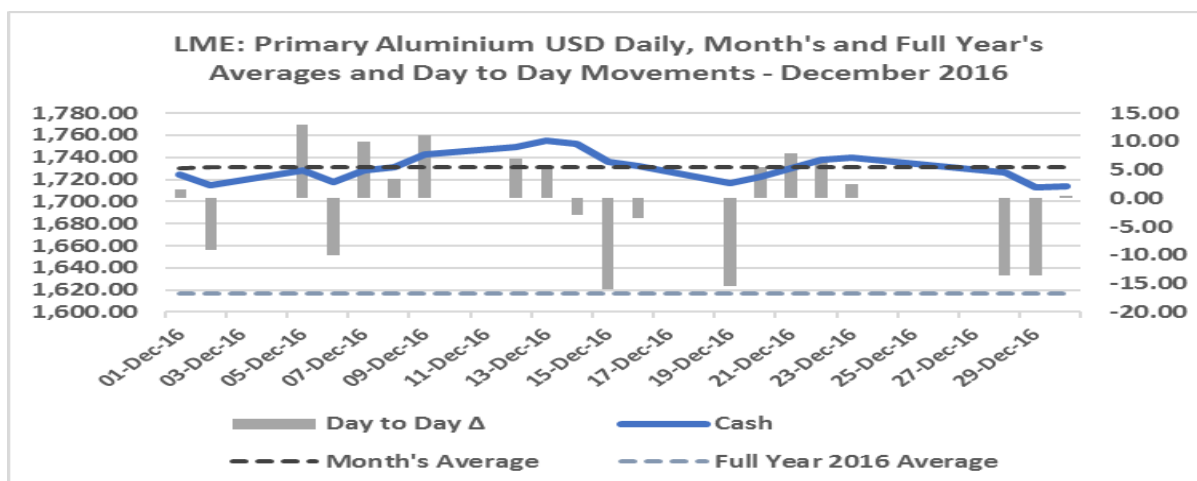
December	Copper			Aluminium			USD:GBP
	Cash £/t	3M £/t	Stocks	Cash \$/t	Cash £/t	Stocks	
Opening	4,565.08	4,556.21	236,675	1,724.00	1363.28	2,144,850	1.2646
Average	4,532.31	4,529.55		1,730.63	1384.72		1.2500
High	4,681.60	4,679.54		1,755.00	1419.48		1.2742
Low	4,394.95	4,395.60		1,713.00	1348.30		1.2209
Range	286.65	283.94		42.00	71.18		
Closing	4,463.29	4,468.55	322,225	1,713.50	1390.26	2,205,925	1.2325
Opening:Closing Δ	-101.79	-87.66	+85,550	-10.50	26.98	+61,075	

LME Statistics and Charts: Full Year 2016:

Full Year	Copper			Aluminium			USD:GBP
	Cash £/t	3M £/t	Stocks	Cash £/t	Cash \$/t	Stocks	
Opening	3147.02	3143.21	235,225	1466.00	993.22	2,889,500	1.4760
Average	3612.35	3611.82		1616.35	1192.31		1.3548
High	4789.40	4789.89		1777.00	1426.56		1.4862
Low	3005.51	3012.06		1453.00	994.95		1.2147
Range	1783.89	1629.50		324.00	431.61		
Closing	4463.29	4468.55	322,225	1713.50	1390.26	2,205,925	1.2325
Opening:Closing Δ	1316.27	1325.34	+87,000	247.50	397.04	-683,575	







Produced by Neil Bootman of NGB Metal Services.

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