

November 2016

Economic Indicators and Comment:

The OECD lifted its global growth forecasts for 2017 and predicted expansion in 2018 will reach its fastest pace in half a decade as Donald Trump's planned fiscal stimulus provides a boost to major economies. World GDP will now expand 3.3% next year, up by 0.1% from September's forecast, the organization said in its semi-annual report at the end of the month. The OECD sees the global economy expanding 3.6% in 2018, the fastest pace since 2011. The president-elect's promises of spending on infrastructure as well as tax cuts should lift U.S. demand, spurring investment and boosting overall output, increases that should also spill over into the rest of the world. Forecasts increased for all major economies in 2017. The U.S. itself will grow 2.3% in 2017 and 3% in 2018, while the euro area will expand 1.6% and 1.7%, respectively. Growth will now be 6.4% and 6.1% in China and 1% and 0.8% in Japan.

Composite leading indicators (CLIs) point to stable growth momentum in the OECD area as a whole but to improving growth momentum in major emerging economies. Stable growth momentum is anticipated in the U.S., Japan and the euro area as a whole, including France and Italy. Stable growth momentum is also expected over the short-term in the UK, though uncertainty persists about the nature of the agreement the UK will eventually conclude with the EU. In Germany and in Canada, the CLIs indicate growth gaining momentum. Among major emerging economies, the CLIs point to growth gaining momentum in China and India, and also Brazil and Russia, albeit from low levels.

The U.S. economy grew faster than initially thought in the third quarter, achieving its best performance in two years, buoyed by strong consumer spending and a surge in soybean exports. GDP increased at a 3.2% annual rate instead of the previously reported 2.9%, the Commerce Department said in its second estimate. Growth was the strongest since the third quarter of 2014 and followed the second quarter's 1.4% pace. Growth was also lifted by upward revisions to business investment in structures and home building. Meanwhile, September US industrial production was revised downwards from plus 0.1% to minus 0.2%.

Industrial production in the Euro Area increased 1.2% year-on-year in September of 2016, following an upwardly revised 2.2% gain in August and better than market expectations of a 1% rise. On a monthly basis, production declined 0.8%, compared to forecasts of a 1% drop, mostly due to a fall in durable goods.

The UK economy grew by 0.5% in the third quarter, the Office for National Statistics official figures confirmed - up 0.9% against the second quarter, although it was down on last year. There will be a third estimate of the figures in December. The Q3 figure was helped by export growth and stronger consumer spending while business investment grew by more than expected. Investment by businesses held up well in the immediate aftermath of the EU referendum, though it's likely most of those investment decisions were taken before polling day," the ONS said. The services sector keeps the economy growing - services increased by 0.8% - driven by a continued strong performance on the high street as sales continue to boom. All the others sectors of the economy, manufacturing, agriculture and construction, are contracting. It is expected that the effects of the fall in sterling will begin to feed through in the coming months. The Office for Budget Responsibility, which provides independent economic forecasts and analysis, said that it expected the economy to grow by 1.4% in 2017, down from the 2.2% it predicted in March. It cut its forecast for growth in 2018 to 1.7%, down from 2.1%.

Companies:

Nexans announced its third quarter 2016 results. Sales for the quarter amounted to €1,404 million (versus €1,520 million for third-quarter 2015). At constant metal prices, the sales figure came to €1,071 million, representing an organic decrease of 3.3% year on year - of which the contraction in sales in the Oil & Gas sector represented an impact of almost 2.4%. Sales related to the Oil & Gas sector were down by 39% on an organic basis for the third quarter and down 27% for the first nine months. Sales for the first nine months of 2016 were down 0.9% on an organic basis compared with the same period of

2015 - sales came to €4,366 million at current metal prices and €3,355 million at constant metal prices. Excluding sales related to the Oil & Gas sector, sales rose by 1.1%.

The general trends seen in the third quarter of 2016 were:

- Slowing sales in the Oil & Gas sector
- The Project business (excluding umbilicals) showing positive developments with sales up 6.6% for the quarter.
- Telecommunications cables for private networks (LAN) and public networks (Operators) continued their positive first-half momentum.
- General demand in Europe showed signs of weakening (after a good start to the year) both for cables for the building sector and cables for energy operators.

Commenting on the performance, CEO Arnaud Poupart-Lafarge said: "Our performance in the third quarter of 2016 was mixed and seems to indicate that overall organic sales for the full year will be rather flat, as in 2015. In these circumstances, the Group remains focused on implementing the strategic initiatives under way, which we are confident will significantly improve operating margin for both 2016 and 2017."

Prysmian S.p.A. also reported its nine months 2016 results. Sales rose to €5,660 million – an organic growth of plus 1.8% and in line with the first half of 2016. The Group reported that:

- project execution capability is driving growth by energy projects (+20.9%)
- the positive trend for telecom was confirmed (+8.4%)
- there was an improvement in profitability by all businesses, except oil & gas

On this basis, adjusted ebitda climbed to €527 million (+11.5%), with margin at 9.3% (8.5% at 30/9/2015). The Full Year 2016 guidance was confirmed with a target at the upper end of an adjusted ebitda range of between €670 to €720 million.

Commenting on the results, CEO Valerio Battista said; "Our capability to execute the major power transmission projects and confirmation of the solid growth trend by Telecom have driven the Group's results. Sales revenue has grown in line with the first half of the year, but we have seen another leap in profitability, with rising margins in almost all our businesses except for Oil & Gas, still affected by the very poor market conditions. The market trend is confirmed as solid for the strategic businesses of power transmission, interconnections, offshore windfarms and optical cables for broadband telecom networks".

Aluminium Bahrain (Alba), owner of one of the world's largest aluminium smelters, reported a 65.1% rise in third-quarter net profit. Net income for the three months to the end of September was 14.3 million dinars (US\$38.0 million), it said in a statement, up from 8.7 million dinars in the third quarter of 2015.

Russian aluminium giant Rusal posted a better-than-expected 22% rise in third quarter core earnings and lifted its forecast for global aluminium consumption. Rusal's third-quarter EBITDA increased to US\$421 million from US\$344 million in the second quarter and US\$420 million a year ago. Analysts had forecast third quarter EBITDA of US\$390 million.

Market Commentary and News:

The International Wrought Copper Council (IWCC) – the international copper fabricators association - sees the copper market broadly balanced in 2016 and 2017. It expects demand to meet supply while there is a chance of stronger than expected demand in China. It is forecasting a 120Kt deficit this year, narrowing to 60Kt in 2017. Refined production in 2016 is expected to rise 2% from 2015 to 22.38Mt while global demand for refined copper will climb 2.6% to 22.26Mt. In 2017, refined copper production is expected to rise 1.7% to 22.77Mt while demand will rise to 22.71Mt. Demand in China is forecast at 10.5Mt in 2016 – up 4.1% on 2015 – with 2.4% growth, up to 10.75Mt anticipated in 2017. Refined copper demand in the EU is forecast up 0.5% to 3.15Mt in 2016, rising to 3.19Mt in 2017. The IWCC sees lower demand for the U.S. and Japan in 2016, although demand will stabilise in Japan in 2017 and recover in the U.S. to 1.82Mt. Global mine production in 2016 is expected to grow 1.4% to 19.2Mt rising another 2.1% to 19.61Mt in 2017.

The global world refined copper market showed a 154Kt surplus in August, compared with a 144Kt surplus in July, the International Copper Study Group (ICSG) said in its latest monthly bulletin. For the first 8 months of the year, the market was in a 91Kt deficit compared with a 10Kt surplus in the same period a year earlier. World refined copper output in August was 2Mt, while consumption was 1.84Mt. Bonded stocks of copper in China showed a 137Kt surplus in August compared with a 134Kt surplus in July.

Codelco has cut its 2017 term copper cathode premiums to China by more than a quarter. The company said it had agreed next year's premium for the physical delivery of metal at US\$72/t. This is down from the 2016 premium of US\$98 and is the lowest there since 2009. This is the first time the Codelco premium in China is lower than in Europe where Codelco are

offering premiums of between US\$80 and \$85. Codelco will also reduce the amount it charges for physical deliveries to the U.S. next year, according to traders. The company will offer \$55/t for material delivered to southern U.S. ports. This compares with \$66/t in 2015 and \$88/t in 2014.

The Chilean Copper Commission (Cochilco) expects Chilean copper production to rise to 6.354Mt in 2021, up 10% from last year's levels. Output in 2015 was 5.774Mt. The forecast comes off the back of a 165Kt drop in output this year, mostly due to technical issues at BHP Billiton's Escondida mine. Production costs have dropped and large amounts of capital expenditure are expected in 2018, which will lead to higher output in 2021, Cochilco said.

Citibank has said that its outlook on Chinese demand is much better than at the start of year. It estimates Chinese demand in 2016 to grow at between 5% to 7%, compared to its view of between 0% and 3% at the start of 2016. It said copper demand from China's power grid which accounts for nearly half its copper consumption surged 33% yoy in the first 8 months of the year.

China's refined copper imports were 190Kt in October, up 3.3% year to date.

China's construction, power, transport, home appliance and manufacturing sectors are forecast to consume a total of 29.2Mt of refined copper in the 13th Five Year Plan period (2016-20), up 14% from the 12th Five-Year Plan period (2011-15), according to a report in Platts.

The Chinese electric car sector's refined copper demand is forecast to hit 280,000t by 2025, surging from an estimated 38,400t in 2016, the China Nonferrous Metals Industry Association said in a report. China's new energy vehicle, or NEV, output in the first nine months of this year hit 461,000 units, up 84% year on year. According to CNIA's report, China's electric car output is expected to be 4.76 million units by 2025 - based on an estimated annual domestic output growth of 25%.

An earthquake caused rockfalls deep underground in Europe's largest copper mine, killing five, the mine's operator KGHM said. The tremor hit the Rudna copper mine in Poland causing extensive damage, but the mine remained mostly open.

Japan's copper cable shipments including sales and exports in October fell 10.8% to 56,800t on an estimated basis from a year earlier.

A joint venture between the UAE and Singapore plans to invest US\$120 million in Abu Dhabi's industrial zone to manufacture aluminium rolled products, the company said. The United Arab Emirates is investing billions of dollars in industry, tourism and infrastructure as it diversifies its economy away from oil.

Some aluminium producers are seeking a premium of \$95-\$110/t from Japanese buyers for primary metal shipments in the January to March period, up 27%-47% from the previous quarter, sources involved said. Japan is Asia's biggest importer of the metal and the premiums it agrees to pay set the benchmark for the region.

Twelve U.S. senators urged that a national security review panel reject Chinese aluminium giant Zhongwang International Group's proposed US\$2.3 billion purchase of U.S. aluminium products maker Alaris Corp. The senators asked Treasury Secretary to launch a review of the deal by the Committee on Foreign Investments in the United States and "ultimately reject it" on grounds that it would damage the U.S. defence industrial base.

Russia's exports of alloyed and non-alloyed aluminium ingots in 2016 is estimated at 3.78Mt – up 5.8% on 2015. Exports in 2015 were down 12.71% at 3.57Mt. Sales in 2014 were 4.09Mt.

Guest speaker at this year's LME Dinner, Michael Farmer, founding partner of metals hedge fund Red Kite (and a 40-year metals trading veteran with such firms as Phillip Brothers, Salmon Brothers, Metallgesellschaft, MCC and Enron) criticised high-frequency or algorithmic traders who use powerful computers to execute orders at ultrafast speeds and who the LME appeared to want to encourage. He found huge support from many involved in the physical side of the business. He maintained that high-frequency trading "appears to have no other purpose than to make money from the trading of other participants by jumping ahead of them," - effectively accusing them of illegal front running. He suggested that the LME was in danger of alienating its traditional physical base and support, citing also high exchange fees, and warned that there were a number of other parties waiting in the wings to take on the business.

The LME has discontinued its liquidity provider programme in its aluminium premium contracts due to a lack of interest, it said. Aluminium premium contracts will continue to be offered by the exchange, but it will not renew its LP programme which has expired. The aluminium premium contracts were launched as part of the exchange's warehouse reform programme and were designed to reduce queues at LME-approved warehouses and corresponding record high premiums.

Warehouse queues however, have since declined and premiums have trended lower – as such, the contracts have yet to trade.

The LME is looking at lithium, ferrochrome and some minor metals as potential contracts, but the process of assessment is still in its early stages according to Chief Executive Garry Jones told Reuters.

According to an LME report, the waiting time for aluminium to be delivered out of LME-registered warehouses has dropped overall. Queues at Access World in Vlissingen have dropped to 294 calendar days (203 working days) as at the end of October from 320 calendar days a month previously. The queue in Busan, South Korea, fell to 10 calendar days for copper, lead and aluminium at the P Global Services NV warehouse, having previously been 14 calendar days. A new queue of seven calendar days for copper, lead and aluminium has emerged at the P Global Services NV warehouse in Port Klang, Malaysia. The 13-calendar-day queue that developed in September in Kaohsiung, Taiwan, for copper, lead, aluminium and zinc at the P Global Services NV warehouse has disappeared. There were no queues at other LME-registered locations as of that date, according to the report.

LME revenue fell by 11% in the first nine months of the year to HK\$1.178 billion (US\$152 million) from HK\$1.322 billion a year ago.

LME Commentary:

Copper and aluminium traded relatively quietly in the opening days of the month with the market largely awaiting the outcome of the US presidential elections. Metal prices on the three major commodity exchanges - LME, Comex and SHFE - burst into life as the surprise result of the election became known, pushed higher by a surge in China steel and coal prices and a massive surge in investor activity. Speculation that Donald Trump's infrastructure spending plans will boost demand for the metal and huge speculative buying from Chinese investors (fuelled partly by new investment from small investors) saw global metals price rise sharply with the move feeding on itself as shorts bought back positions and momentum-chasing funds joined the action.

The LME copper cash price exploded on the upside, with the underlying US\$ cash price hitting a 15-month high of \$5,900/t on 10 November as the Sterling cash price hit £4671.42/t – its highest since June 2013. Between 7 and 11 November, LME Sterling copper prices rose £711.95/t or 17.6% - its biggest weekly rally in over 35 years.

Not surprisingly, the momentum stalled and the markets calmed down, albeit briefly, as traders and technical analysts warned that the weight of speculators piling into the market would metals vulnerable to a short-term reversal.

The lull however, was brief as hedge funds and money managers again raised their bullish stance with Chinese investors believing infrastructure spending and government reforms will keep copper in particular well supported this year and into 2017. US Dollar copper hit a further high at \$5935.50/t on 28 November while the Sterling price reached £4789.40/t – a 41 month high. To put that Sterling price into some context; it compares with the 2016 ytd average of £3533.38/t – a difference of £1256.02/t (or 35.6%), it represents a £1642.38/t (or 52%) increase on the price on the opening day of the year and shows an £657.36/t increase in the month of November.

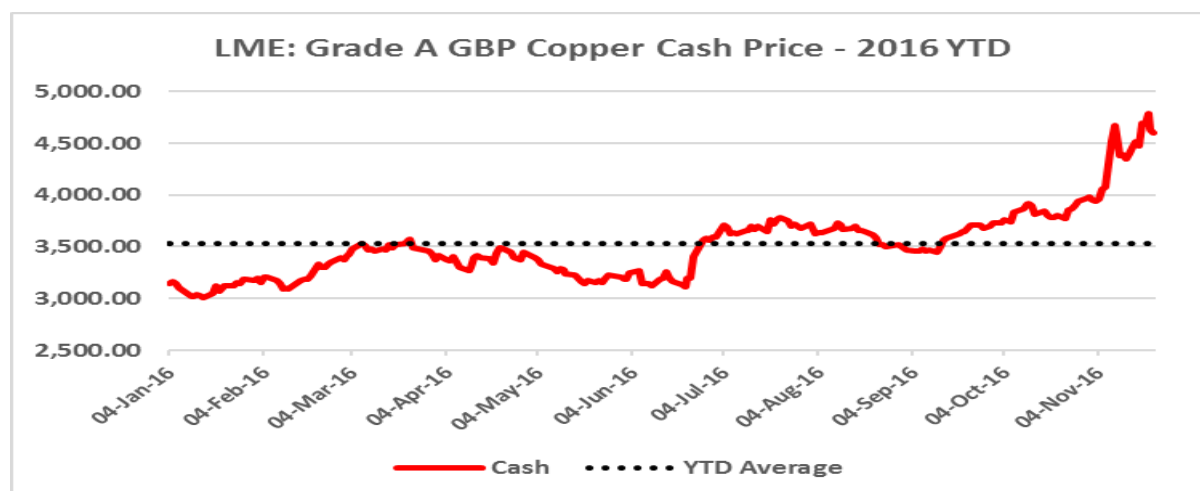
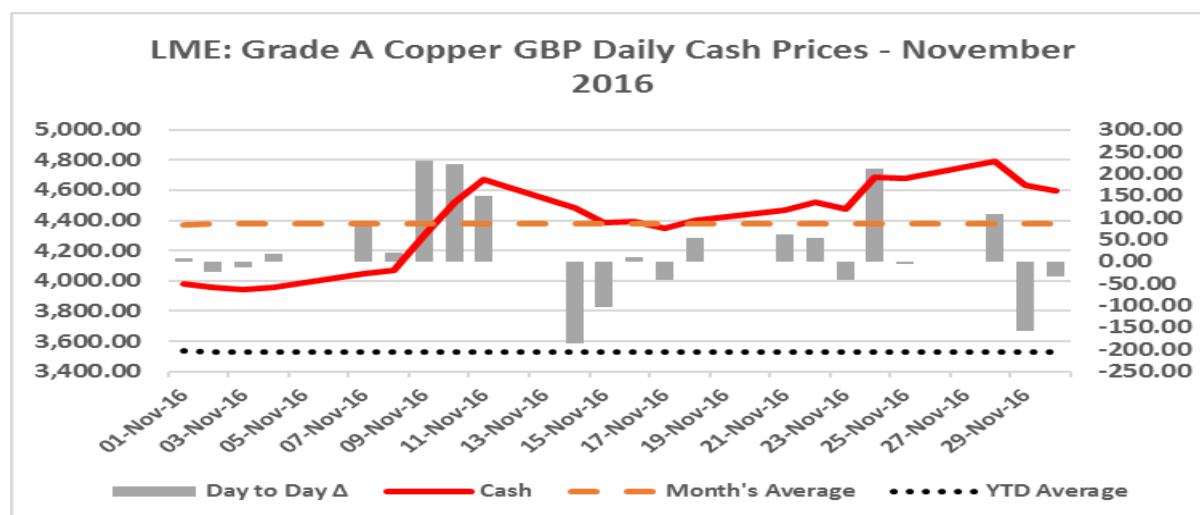
LME primary aluminium cash peaked at \$1777/t on 11 November – its highest since May 2015. Like copper, it stalled and then rallied towards month end but failed to break through the earlier high reaching \$1774/t and closed the month at \$1722.50/t, down \$9.50/t on the month. The high of \$1777/t represents a \$311/t (22%) increase on the price at the start of the year and a 10.9% or \$173.94/t increase on the year to date average. In Sterling-equivalent terms, the year's high of £1425.47/t achieved on 24 November represents a 43.5% or £432.25/t increase on the price at the start of the year.

LME lead and zinc prices also set new multi-year highs in the month. Lead traded up to \$2,523/t, breaking through its 2013 highs to set a new record going back to September 2011. Zinc closed the month at \$2,900/t, approaching its highest level since October 2007.

November's price movements will clearly prove to be tough on industry users who have to manage higher prices as well as the volatility – the average daily movement in the LME Official copper cash price in November was £84/t. The warnings made earlier in the month concerning the impact of high volume/frequency trading seem to have come true as massive speculative trading drove both volatility and direction.

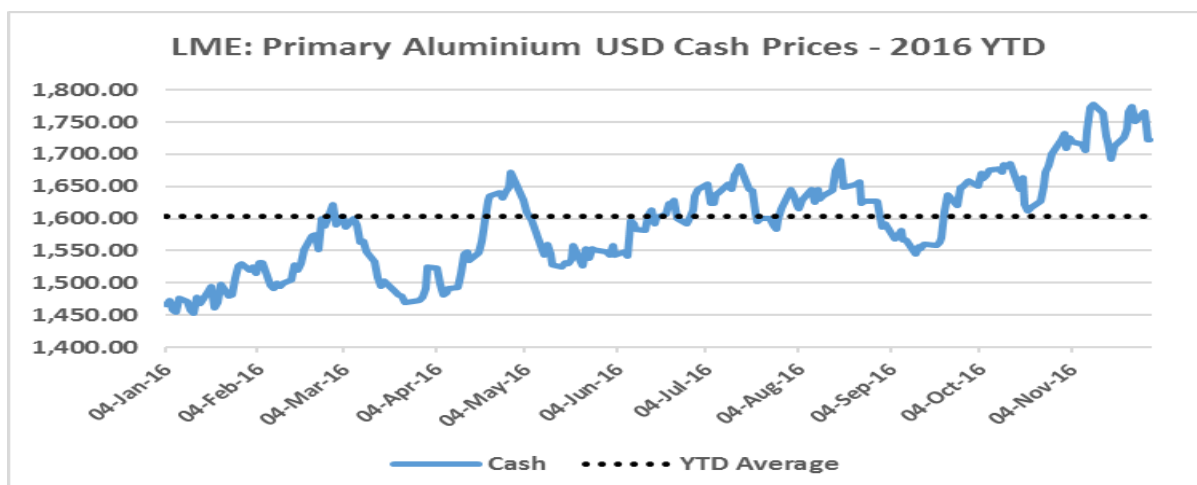
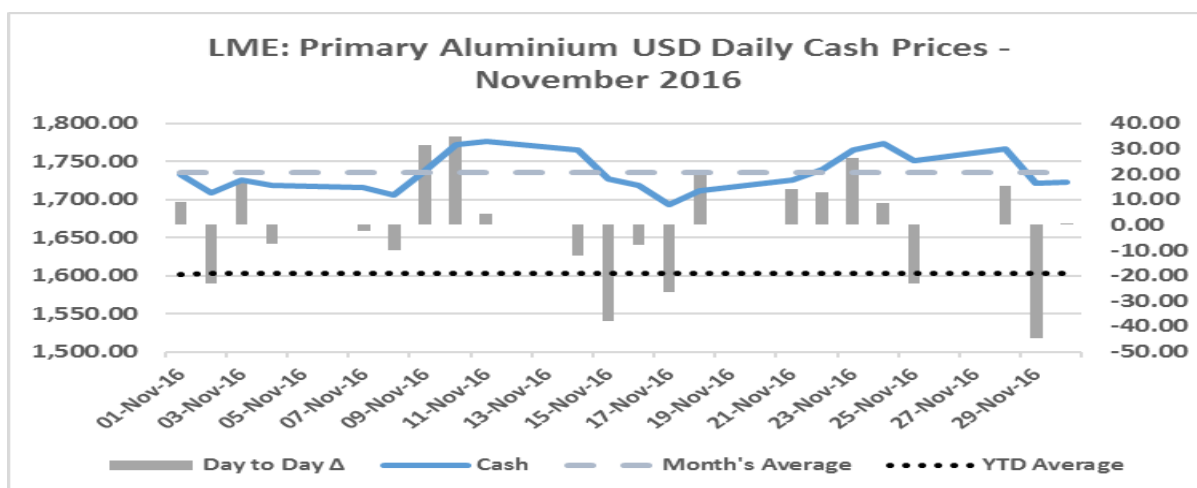
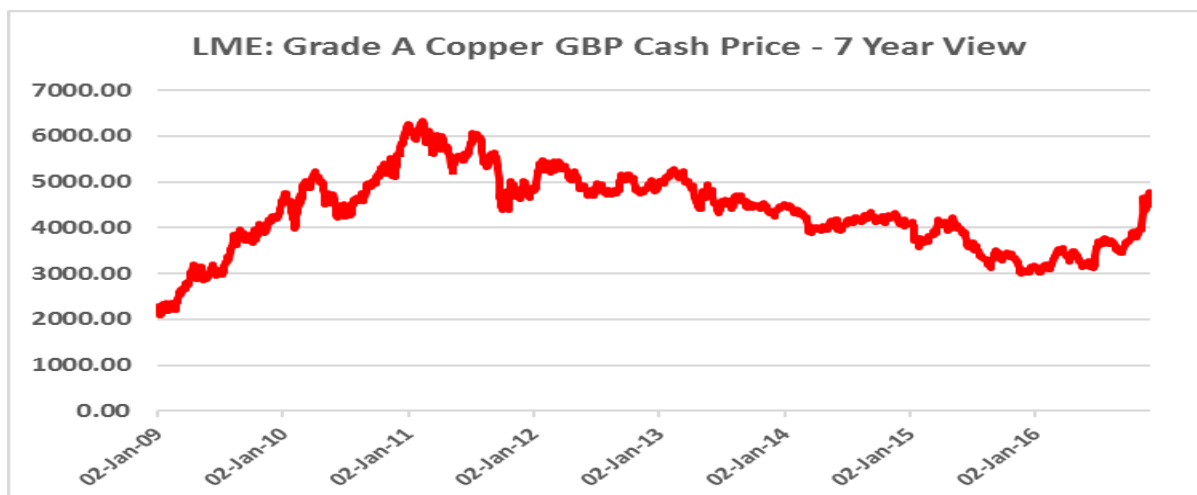
LME Statistics and Charts: November 2016:

	Copper			Aluminium		USD:GBP
	Cash £/t	3M £/t	Stocks	Cash \$/t	Stocks	
Opening	3,978.81	3,983.02	319,475	1732.00	2,140,550	1.2221
Average	4,377.91	4,378.82		1735.30		1.2432
High	4,789.40	4,789.89		1777.00		1.2630
Low	3,942.28	3,941.68		1692.50		1.2221
Range	847.12	848.21		84.50		
Closing	4,598.25	4,599.58	236,675	1722.50	2,144,850	1.2483
Opening:Closing Δ	619.44	616.56	-82,800	-9.50	4,300	
YTD Average	3,533.38			1603.06		
YTD High	4,789.40			1777.00		
YTD Low	3,005.51			1453.00		



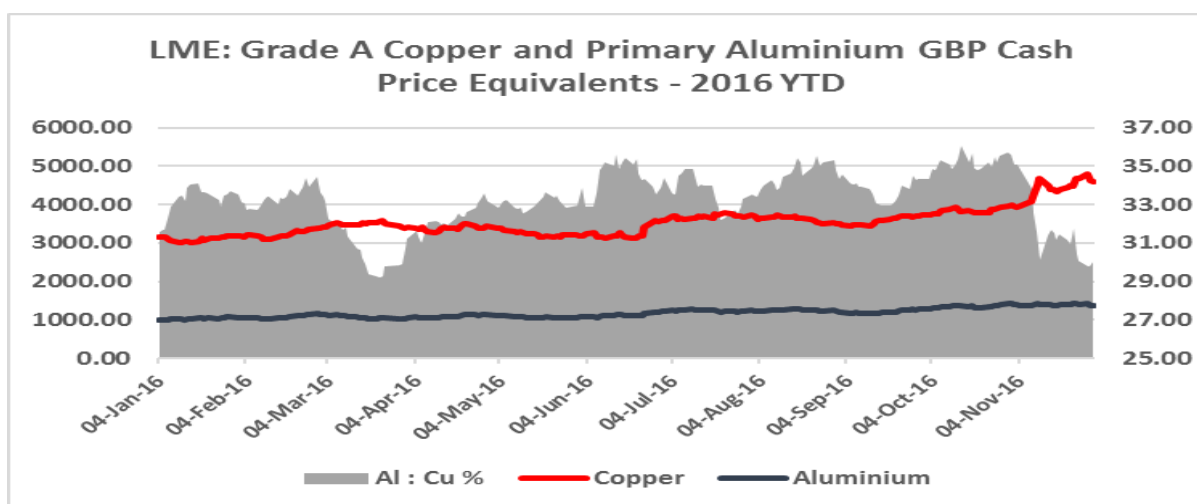
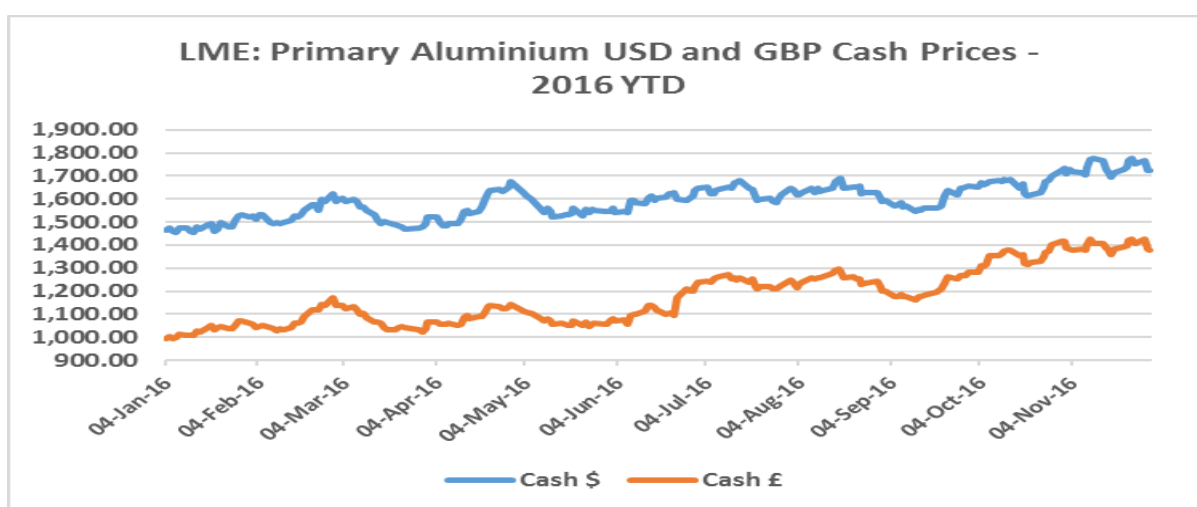
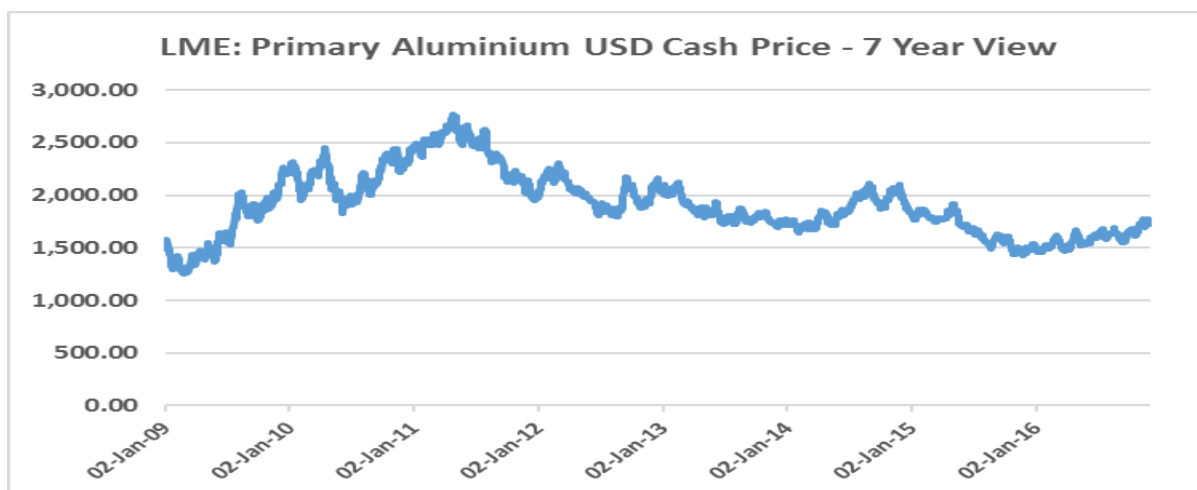
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