

August 2016

Economic Indicators and Comment:

The Eurozone's recovery lost traction in the second quarter of the year as GDP expanded at the slowest pace seen in two years. Growth was reported at 0.3% over the previous quarter, half of the first quarter's 0.6% increase, according to figures published by Eurostat. Overall, the big picture remains bright according to the agency and GDP in H1 increased a healthy 0.4%, supported by loose monetary policy and an improving labour market. Growth patterns within the individual countries however, were divergent in Q2. France's economy reported zero growth (compared to a first quarter growth of 0.7%) as labour protests hampered production. Italy's economy also stagnated, amplifying concerns over the country's fragile banking sector. Germany's GDP grew at 0.4% (compared to a first quarter growth of 0.7%). Spain continued to be one of the region's top performers with a quarter growth rate of 0.3% following a fall in first quarter of 0.1%.

Industrial production in the Eurozone rose 0.4% year on year in June 2016, following a downwardly revised 0.3% rise in May and missing market expectations of 0.7% gain. On a monthly basis, IP went up 0.6%, rebounding from a 1.2% drop in the previous month and better than market expectations of a 0.5% gain.

Germany plans to spend nearly €270 billion (\$302.7 billion) on maintaining and upgrading its transport infrastructure by 2030, according to the German Transport Ministry. Approximately 1,000 projects with a total value of €269.6 billion will be carried out in the next 14 years, according to the plan. Of this, €132.8 billion will be invested in federal highways, €112.3 billion in railways and €24.5 billion euros in waterways.

Industrial production in the U.S. rose 0.7% in July after moving up 0.4% in June. The advance in July was the largest since November 2014. Manufacturing output increased 0.5% in July for its largest gain since July 2015. The index for utilities rose 2.1% in July while the output of mining moved up 0.7%. Total industrial production in July was up 0.5% from a year earlier. According to Japan's Ministry of Economy, Trade and Industry, industrial output in July was unchanged from the previous month on a seasonally adjusted basis, but down 3.8% YoY. Industrial production rose 2.3% in June, after falling 2.6% in May.

Companies:

Aurubis, Europe's largest copper producer, reported its results for the first nine months of fiscal year 2015/16. Revenues of €7,076 million were down on the previous year of €8,467 million primarily due to a lower copper price. Operating EBT was €148 million (previous year: €262 million). For the nine-month period, cathode output was 813,000t, down 4.9% on the previous year while copper rod output was up 3% at 588,000t. The company noted that contrary to the fears of a slight slowdown, the demand trend for copper rod continued to be positive - this robust development was supported equally by the cable, automotive and enamelled wire industries.

Global mining giant Rio Tinto Group reported its worst profit since 2004 as depressed prices for iron ore, aluminium and copper eroded earnings. Underlying profit fell 47% to US\$1.56 billion in the six months through June, compared with US\$2.92 billion a year earlier. The company has cut costs, reined in spending and sold underperforming assets in a bid to weather the commodities.

Dubbed one of the heaviest losses in Australian corporate history, BHP Billiton Group is posted a full-year headline loss of about US\$6.385 billion, as the mining major took a hit from weak metal prices, write-downs on its assets and provisions. In the previous year, the mining giant recorded an attributable profit of US\$1.91 billion, down from the US\$13.83 billion in fiscal 2014. The loss reflects the write-down of US\$4.88 billion on the company's petroleum assets in the U.S., between US\$1.1 billion to US\$1.3 billion for its share related to the Samarco tailings spill in Brazil and US\$175 million in charges associated with redundancies and closures.

Poland's KGHM reported a bigger than expected fall in net profit in the first half of 2016 on the back of losses on its foreign assets driven by rising costs and falling copper prices. The state-run miner, reported a 75% fall in its consolidated net profit to 296 million zlotys (US\$77.57 million).

Market Commentary and News:

The global world refined copper market showed a 65,000t deficit in May, compared with a 144,000t deficit in April, the International Copper Study Group (ICSG) said in its latest monthly bulletin. For the first 5 months of the year, the market was in a 222,000t deficit compared with a 39,000t deficit in the same period a year earlier. World refined copper output in May was 1.93 million tonnes, while consumption was 1.99 million tonnes. Bonded stocks of copper in China showed a 68,000t deficit in May compared with a 126,000t deficit in April.

All six main industrial metals - copper, aluminium, nickel, zinc, lead and tin - had deficits in the first half of the year, according to figures from the World Bureau of Metal Statistics. The LME's LMEX Index, which tracks their performance in a single gauge, has risen 9.5% so far in 2016, rebounding after three years of losses. Zinc has led advances with a rally of more than 40%, while copper and lead lagged far behind.

Costs in Chile's mining industry are continuing to fall as producers continue to adapt to sharply lower prices for copper. Cash costs at Chile's 19 largest mines fell to an average of \$2833/t during the first three months of the year, down 13% from the same quarter of last year.

Chile's mining regulator ordered a halt to all operations at two major copper mines, Codelco's Chuquibambilla and Freeport-McMoran Inc's El Abra, at the end of August to investigate three separate fatal accidents.

China's refined copper output in July was 722Kt. Production for the seven months of the year was 8.18Mt, up 8.2% on the corresponding period in 2015.

Zambia's copper production rose by 8% to 368,371t in the first six months of this year from 340,510t in the same period last year, the country's chamber of mines reported in the month. Full-year copper production in Africa's second-biggest copper producer was expected to rise by 5.4% to 750,000t this year from the 711,515t produced last year.

Trafigura and Indian wire and cable producer Polycab Wires have formed a strategic joint venture to set up a copper wire rod manufacturing facility in India. The 240,000tpa facility is expected to be operational by the end of 2017. This investment is aimed at addressing the rising domestic supply-demand gap in the copper wire rod market extensively used by the construction, power, transport and telecoms industries, amongst others, the company said. The Indian copper wire rod market is estimated to be currently worth US\$3 billion and is expected to grow 12% year on year.

Traders report that European spot cathode premiums were trading at around US\$50/t with a range of between US\$25-65/t. The premium is unchanged from July. Traders said that supplies are ample and producers have metal to sell. They see signs of better demand in Germany.

Japan's copper cable shipments including sales and exports in July fell 6.6% from a year earlier to 56,800t, the Japan Electric Wire and Cable Makers' Association reported.

Norsk Hydro has raised its estimate of global demand in 2016 to between 4% to 5% from 3% to 4% based on strong demand in Europe and the U.S. It believes that a surplus of up to 1.5Mt in China this year will be offset by a deficit elsewhere. Alcoa meanwhile has reduced its 2016 forecast surplus from 1Mt to 775Kt as it now expects demand to grow at 5%, outweighing supply growth at 2.5%. Growing demand from the auto industry has boosted demand for aluminium and the LME price which peaked at a 13 month high at \$1690.50 in August, has shown a gain of 12% in the year.

Russian aluminium producer Rusal estimates that global primary aluminium production (excluding China) reached 13.3Mt during the first half of the year, a gain of 1.5% from H1 2015. The growth was mostly driven by Asia where India and Malaysia boosted output. During the first half of the year China's primary aluminium production rose 1.1% year on year to 15.4Mt. North America saw the largest decline in production, due to production cuts in the U.S. A number of smelters in the U.S. and Europe managed to re-negotiate power contracts that enabled them to remain online during the first half of 2016. Rusal said that China's exports of aluminium semis have been significant enough to put downward pressure on the global primary aluminium market outside of China, even if exports between January and June fell 9.1% to 2.02Mt from 2.22Mt in the same period last year. According to data released by China's customs office, the country's exports of

aluminium bars, rods and profiles totalled 690,845t over January-July, netting an increase of 9.5% from the same period last year.

In China, primary aluminium inventories at the 5 major exchanges – Shanghai, Wuxi, Hangzhou, Gongyi and Nanhai are at their lowest in 7 years. China produced 2.96Mt in June, down 2.4% year on year. China's first half refined aluminium production was 15.1Mt unchanged from 2015, government figures showed.

A U.S. appeals court upheld the dismissal of nationwide antitrust litigation accusing banks and commodity companies of conspiring to drive up aluminium prices by reducing supply, forcing them to overpay. By a 3-0 vote, the 2nd U.S. Circuit Court of Appeals in Manhattan said so-called commercial end users and consumer end users lacked standing to sue because their alleged antitrust injuries were too far removed from the alleged misconduct.

Zhongwang USA LLC, backed by Chinese aluminium magnate Liu Zhongtian, said it would buy U.S. aluminium company Aleris Corp based on its view that the nascent U.S. automotive aluminium sector will be the industry's next big growth market. The proposed US\$2.33 billion deal comes as Liu and Zhongwang International Group, are embroiled in a dispute over U.S. import duties amid broader trade tensions between the U.S. aluminium industry and China.

LME owner Hong Kong Exchanges & Clearing (HKEX), posted a 27% year-on-year net profit decline during the first half of the year due to a slowdown in trading volumes on the LME. HKEX's first-half net profit totalled HKD2.99 billion (\$385.5 billion), down 27% compared with HKD4.01 billion posted during the same period of last year. In the first six months, average daily volume of copper traded in the first half was 162,932 lots, down 9% yoy. Average daily volume of aluminium contracts traded on the LME was 231,148 lots, compared with 255,767 lots in the same period of last year.

Eight members of the LME participated in a meeting chaired by its former CEO, Martin Abbott, to determine whether or not to proceed with the possibility of an alternative trading platform. Representatives from five ring dealers and three category II members attended or dialled into the meeting. It is believed that companies were asked to support a feasibility study into an alternative platform project, which has not yet been publicly named.

31 years after London's exchange-traded gold contract was wound up, the LME, along with the World Gold Council and a group of banks and trading firms, are starting a new venture called LMEprecious, which will introduce centrally-cleared gold and silver contracts in the first half of next year, and later add platinum and palladium. Physical delivery will take place in London.

The LME and LMEClear continued to operate from their recovery sites in Chelmsford and Wapping during August – the exchange's new offices in Finsbury Square were closed in July after the building was found to have a structural issue.

The LME has cut fees on short-dated carry trades, which involves buying metal and selling it within 15 days, by 44% starting 01.09.2016. Other changes include limiting charges for position transfers and reducing initial margin costs. The exchange will also review a range of incentives. The Exchange also halved its ring and kerb trade fees after informing members that it will continue to operate from its recovery sites until the end of August. "In light of these unexpected circumstances, and as a goodwill gesture to the members and traders most directly affected by this, the LME is reducing the transaction fee for all ring and kerb trades entered into during the month of August from \$0.50 to \$0.25," the Exchange said. All other fees will remain unchanged.

LME Commentary:

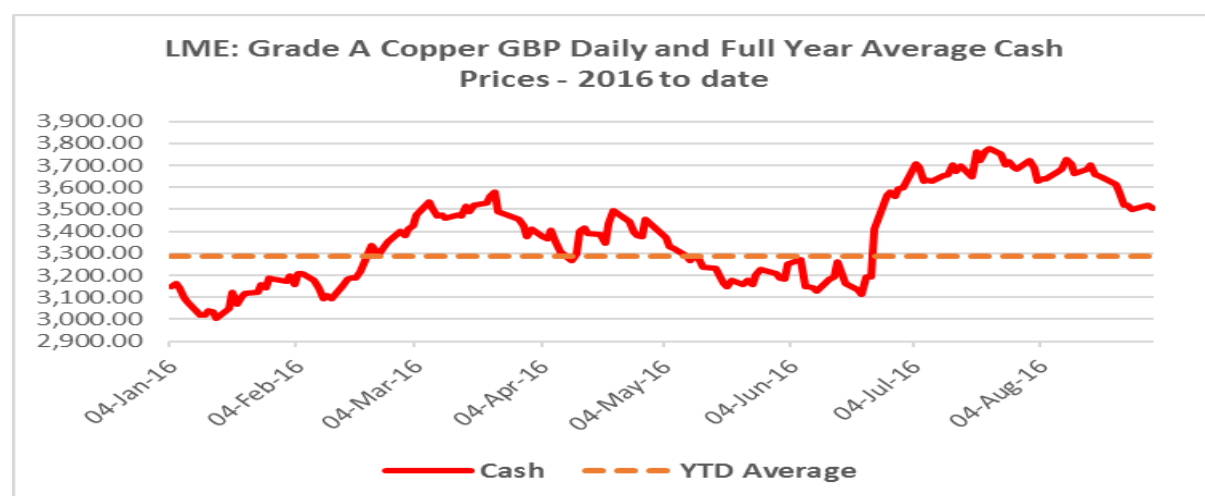
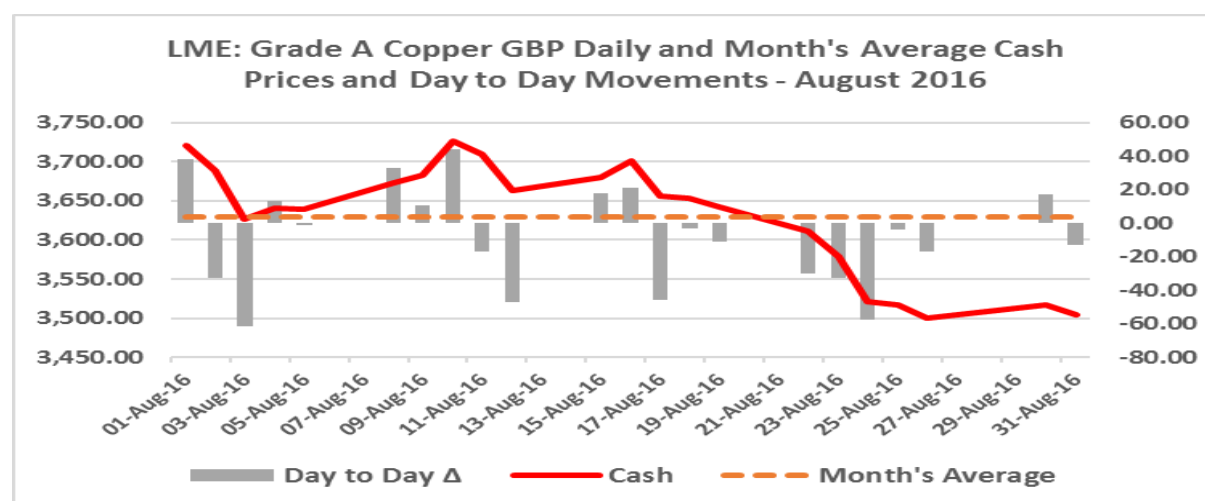
By month end, the LME US dollar cash price had become the worst performer among the six major metals traded on the LME and the only major metal to post a loss this year as the highest stockpiles in almost ten months suggest the market is amply supplied. Over the course of the month copper inventories on the LME rose 94,700t or 45%, to close the month at 304,775t. LME USD copper prices have now lost all their gains in 2016 (end of August closed at \$4602.5/t compared with 2015 year-end at \$4702.00/t) as investors anticipate supply will outpace demand. Sterling copper values however remain relatively strong despite falling in August. The LME GBP cash price which traded down to £3500.19/t at the end of August - a 2 month low - still shows a sizeable increase on the 2015 year-end close of £3172.31. This is substantially due the USD:GBP exchange rate which at the end of August was 1.3177 compared to 1.4822 at the end of 2015.

Primary aluminium prices however continue to increase on improving sentiment based on increased demand and falling exchange stocks. The LME cash price peaked at \$1690.5/t at mid-August, a high for the year and the highest since the end of June 2015. Sterling equivalent prices convert to £1285.75/t for the recent August high compared with £1072.79/t for the

June 2015 price. LME primary aluminium stocks closed the month at 2,227,400t, down 66,400t in the month and 673,800t or 23% in the year.

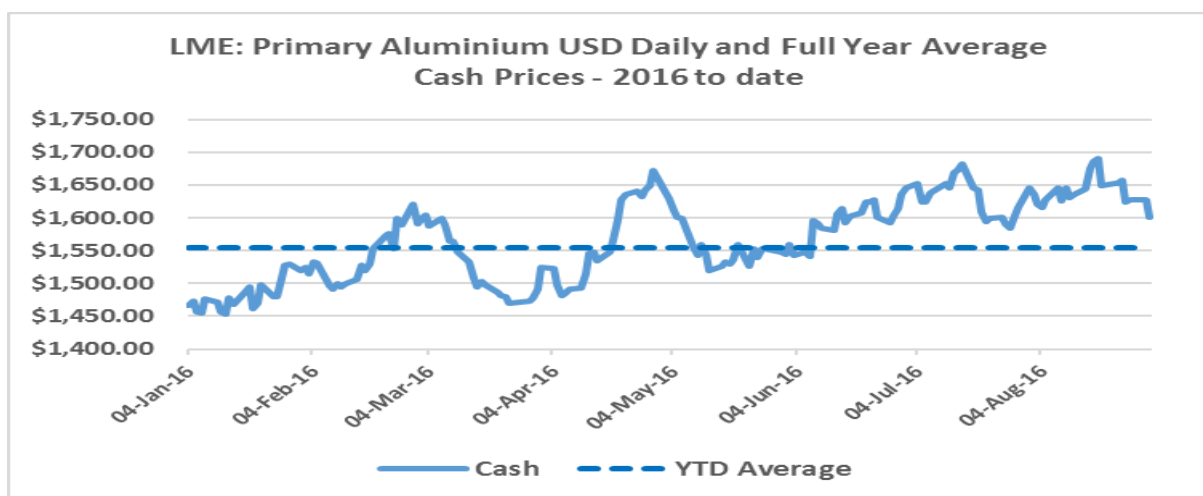
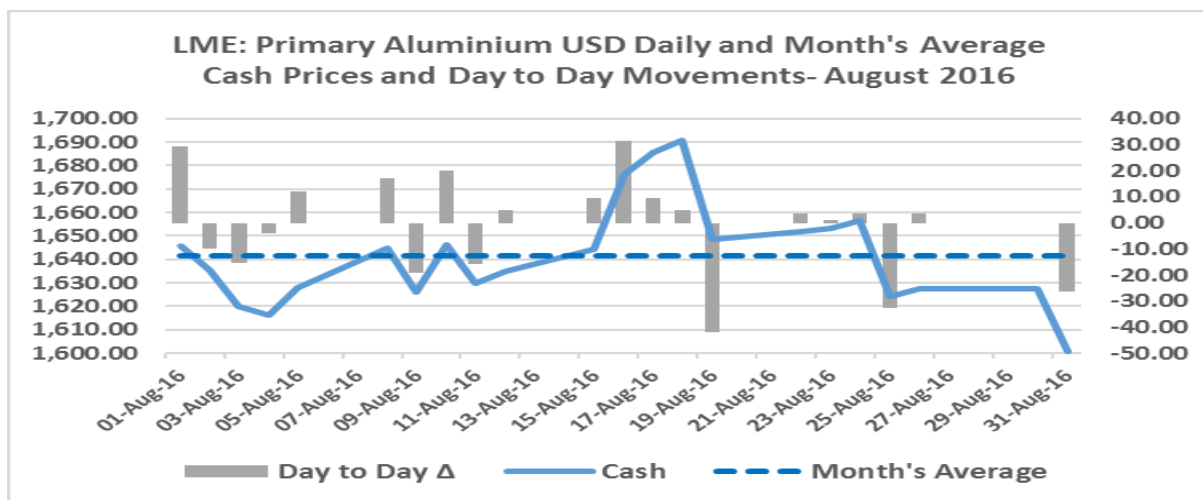
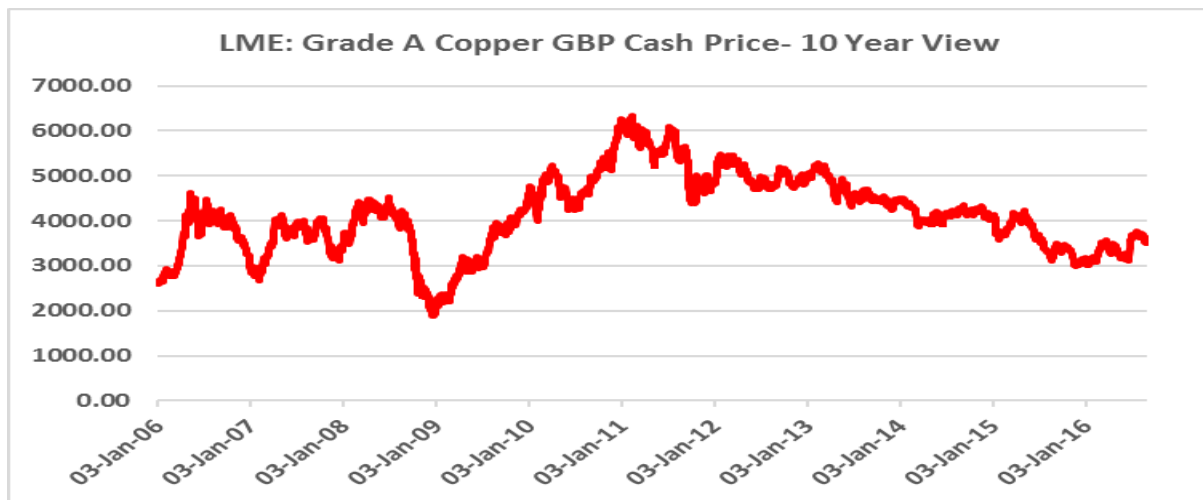
LME Statistics and Charts: August 2016:

	Copper			Aluminium		USD:GBP
	Cash £/t	3M £/t	Stocks	Cash \$/t	Stocks	
Opening	3721.37	3728.33	210,075	1645.00	2,293,800	1.3186
Average	3629.78	3634.16		1641.52		1.3110
High	3726.97	3728.33		1690.50		1.3356
Low	3500.19	3507.18		1601.00		1.2895
Range	226.78	221.15		89.50		
Closing	3504.26	3510.91	304,775	1616.00	2,227,400	1.3134
Opening:Closing Δ	-217.11	-217.42	94,700	-29.00	-66,400	
YTD Average	3378.81			1554.74		
YTD High	3778.88			1690.50		
YTD Low	3005.51			1453.00		



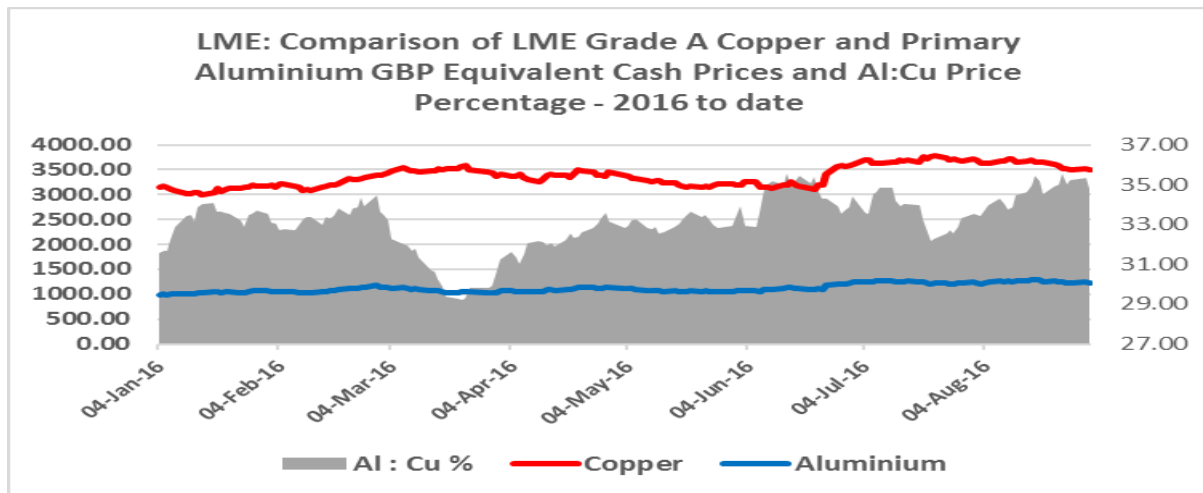
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