Metals Newsletter

June 2016

Economic Indicators and Comment:

The UK's decision to quit the European Union, described as creating 'the biggest global financial shock since the 2008 economic crisis', probably sparked the country's biggest impact on global commodity markets in decades - the result of the referendum sent gold surging and oil plunging and disrupted world stock, bond and currency markets. In reality, the U.K. has not had any real influence on commodities for some time. Today, almost every major commodity is sold in dollars and while the prospect of life outside the EU has weakened the pound and raised questions about the British economy that probably will not significantly alter the global supply and demand of raw materials, because the U.K. is not a major buyer or producer. The country ranks 15th among the world's oil consumers, is not a major user of base metals and trails most of the top growers of grain, industry data shows. As recently as the 1980s, British politics and economic policy played a more significant role in valuing the world's raw materials. Today, oil, natural gas, electricity, metals - including copper since 1993 - and nearly every agricultural commodity are priced in U.S. dollars. Britain's decision to leave the EU however, will certainly have an impact, especially if it means slower growth around the world. The U.K. has the world's fifth-largest economy, and London has been a global financial hub for decades. The vote already has led investors to unload assets perceived as more risky - a category which usually includes raw materials. Few analysts expect any major long-term impact, though the actual process of leaving the EU may take years and the specific conditions of that departure are not yet known. Global demand for oil, the biggest commodity by value traded, probably will not be affected much, according to the International Energy Agency who have said that the fundamentals of demand and supply remain unchanged.

The World Bank has downgraded its 2016 global growth forecast to 2.4% from the 2.9% projected in January. The move is due to sluggish growth in advanced economies, stubbornly low commodity prices, weak global trade, and diminishing capital flows. According to the latest update of its Global Economic Prospects report, commodity-exporting emerging market and developing economies have struggled to adapt to lower prices for oil and other key commodities, and this accounts for 40% of the downward revision. Growth in these economies is projected to advance at a meager 0.4% pace this year, a downward revision of 1.2% from the January outlook. Among major emerging market economies, China is forecast to grow at 6.7% in 2016 after 6.9% last year. India's robust economic expansion is expected to hold steady at 7.6%, while Brazil and Russia are projected to remain in deeper recessions than forecast in January. The continuing contraction in Russia is keeping the forecast growth rate for the Europe and Central Europe region at 1.2% in 2016, a 0.4% downward revision from the January outlook. Growth projections for the eastern part of the region have been revised down as countries adjust to lower prices for oil, metals, and agricultural commodities. Activity in the western part of the region will benefit from moderate growth in the Euro Area and strengthening domestic demand, helped by subdued fuel costs.

U.S. economic growth slowed in the first quarter but not as sharply as previously estimated, with gains in exports and investment in software partially offsetting weak consumer spending. GDP increased at a 1.1% annual rate, rather than the 0.8% pace reported last month, the Commerce Department said in its third GDP estimate. First-quarter GDP growth has now been revised higher by six-tenths of a point since the advance estimate was published in April. The economy grew at a rate of 1.4% in the fourth quarter.

U.S industrial production decreased more than expected in May – down 0.4% month on month - after increasing 0.6% in April. Declines in the indexes for manufacturing and utilities were slightly offset by a small gain for mining. The output of manufacturing moved down 0.4%, led by a large step-down in the production of motor vehicles and parts; factory output aside from motor vehicles and parts edged down 0.1%. Total industrial production in May was 1.4% below its year-earlier level.

According to Eurostat, industrial production made a return to growth in the Eurozone in April, growing by a better than forecast 1.1% compared to the same month a year earlier. The month on month growth of 0.1% was however, less than expected following a steeper than previously thought 0.4% decline in March. Factory output was better than the 0.8% expansion expected by economists and followed an unexpected 0.7% contraction in March. Production levels were driven higher by a 2.3% rise in durable consumer goods and a 1.9% rise in capital goods. German industrial production rebounded in April, rising 0.8% month-on-month as compared to an upwardly revised 1.1% drop in March and market expectations of a 0.7% rise. Industrial Production in the Euro Area averaged 0.89% from 1991 until 2016, reaching an all-time high of 9.2% in December 2010 and a record low of minus 21.7% in April of 2009.

UK industrial production posted its biggest monthly gain in almost four years in April as manufacturing surged. Output climbed 2% following a 0.3% rise in March, figures from the ONS showed. Factories increased production by 2.3% in April, which was also the biggest gain since July 2012. The main driver behind manufacturing was the pharmaceuticals sector, where output rose 8.6%. Domestic sales boosted car production, lifting output of transport equipment by 4.7%. Overall, 10 out of 13 manufacturing sectors increased production in April. There was a 3.9% jump in gas and electricity production while oil and gas extraction fell 1.3%. Industrial production rose 1.6% from a year earlier, while manufacturing increased 0.8%.

Market Commentary and News:

The global world refined copper market showed a 40Kt deficit in March, compared with a 29Kt surplus in February, the International Copper Study Group (ICSG) said in its latest monthly bulletin. For the first 3 months of the year, the market was in a 42Kt surplus compared with a 143Kt surplus in the same period a year earlier. World refined copper output in March was 2Mt, while consumption was 2.04Mt. Bonded stocks of copper in China showed an 18Kt surplus in March compared with a 94Kt surplus in February. World refined copper production expanded by 9% in March, to 2.002Mt from 1.837Mt in February but this was offset by growing consumption, with world refined usage up 13% to 2.042Mt. World usage increased around 7% to 5.765Mt in the first quarter, attributed largely to higher Chinese imports of refined copper. Excluding China, world usage declined around 1.5%. World mine production is estimated to have increased around 4.5% in the first quarter to 4.788Mt.

LME copper stocks closed the month at 189,125t, up 34,775t in the month following an unexpected surge in deliveries in Asia. Traders said most of the metal came from China, reflecting waning demand there as banks and merchants unwound financing deals. Most of the metal arrived in Gwangyang and Busan in South Korea and Singapore. The exchange witnessed its biggest two days of deliveries in percentage terms since July 2005 after 43,000t of metal landed in storage in the first week of the month. Copper stocks delivered to Asian locations, particularly Singapore, have benefited from large incentives of between US$50-65/t being offered by some warehouse companies. Buyers in China, having signed 2016 annual premiums of US$98/t are making use of these incentives and diverting stocks instead of adding to the increasing stockpiles in Shanghai. According to Metal Bulletin, Shanghai-bonded warehouse stocks stood at 620,000t in June, up from 250,000t in October last year. Some analysts believe LME copper stocks in Asia could jump by around 50% in the next month.

Total copper held in warehouses tracked by exchanges may rise above 1 million tonnes in 2017, Bloomsbury Minerals Economics says in a report. Copper stockpiles tracked by LME, Comex, SHFE are currently at 472.3Kt. The estimates are based on assumption that half of the surplus will be absorbed by China’s State Reserve Bureau. BME is assuming that most of the rest will show up on the exchanges. BME forecasts a refined copper surplus of 550Kt in 2016, 450Kt in 2017.

Iran's Imidro, the state-owned Mines and Mining Industries Development and Renovation Organization, is considering two options for development of its copper industry. One option is to establish a joint venture between a foreign investor and the National Iranian Copper Industries Company (NICICO) for joint investment in growth while the other is to sell part of NICICO to foreign investors to help implement development plans. The preference is to strike ventures and partnerships rather than merely buying and selling agreements. Iran's general plan for copper is to increase the country's production capacity of cathode copper to 440Ktpa by 2025 - production was recently put at about 200Kt. Talks were recently held in Hamburg and Zurich with potential investors including Aurubis, Glencore and Trafigura and a technical-economic team from each company is expected to visit Iran shortly.

Chile's central bank has cut its forecast for copper prices this year and next on weak Chinese manufacturing and growing global stocks. The bank predicted that copper prices would average US$4740/t in 2016 and US$4960/t in 2017, down from the respective US$4850 and US$5071 it predicted three months ago. LME cash copper finished the month at US4827/t with the YTD average standing at US$4699/t.

Chilean mined copper output hit in April the lowest level in more than three years, as some mines in the central area of the country were affected by heavy rains. Production fell 8.1% year-on-year in April, to 431,300t, according to figures from the country's copper commission, Cochilco. This is the lowest monthly performance since February 2013, when the country produced 422,300t of mined copper.

Japan's copper cable shipments including sales and exports in May fell 6.5% from a year earlier to 48,600t on an estimated basis, the Japan Electric Wire and Cable Makers' Association said.

After signs China was curbing aluminium output late last year, the world's biggest producer is gradually increasing output again. The production restarts and new capacity come as local prices and demand rise and are earlier than some experts expected. Chinese production and exports of semi-finished products hit six-month highs in May, after decade-low prices had caused widespread curtailments in December. Beijing based consultancy AZ China meanwhile sees 3 million tonnes of new Chinese aluminium capacity opening this year - Hongqiao Group, the world's largest producer of aluminium, is on track to expand production capacity by 1 million tonnes to around 6.2 million tonnes this year. CRU expects China's exports of value added aluminium products to reach more than 8 million tonnes by 2020 from 6 million tonnes this year.

Alcoa Inc said it will spin off its traditional aluminium smelting business as part of its planned company split, with up to 19.9% of the new company owned by its business that serves aerospace and transportation industries. The company to be spun off will be named Alcoa Corp and the "value-added" business that makes engineered products for growth markets will be named Arconic Inc.

Japanese aluminium buyers have agreed to pay premiums of US$90/t for metal to be shipped in the July-September quarter, sources directly involved in the quarterly pricing talks said. The deals, which mark a 22-23% fall from a US$115-117/t premium in the previous quarter, is the first drop in three quarters, in line with a slide in overseas surcharges for physical aluminium.

The head of the LME said the exchange's falling volumes could be linked to a fee-hike introduced early last year but added that the main reason for the decline was a downturn in the global economy. Trading fees were raised last year by an average 31%. LME volumes fell in 2015 and have dropped by 9% in the first quarter. Volumes at rivals the U.S Comex and Shanghai Futures Exchange have grown. The drop in LME trading volumes in near-term, or so-called tomorrow/next day trade, was also due to lower volumes of metals in its warehouses.

Meanwhile, former LME CEO Martin Abbott is talking with brokers about creating a trading platform that could provide an alternative to the LME. A study group is being formed to explore the potential for a metals marketplace that could include an exchange. It follows months of discussions between brokers and other users about the need to build an alternative to existing venues, he said. LME users are considering alternative venues as it becomes more expensive to trade on the bourse. "There is certainly more dissatisfaction with the LME and its fee structure and general attitude than I can ever recall," one director of a UK based said, suggesting that many clients are seeking alternatives to the LME. Abbott will supervise the study group and interested parties are invited to join and fund research looking at various ways of developing a platform, he said adding, "At this stage, it's a blank piece of paper. One of the possible outcomes could be to conclude there is no feasible way to create a new market."

Several metals storage companies are set to support an option floated by the LME to limit the amount of rent they can charge, marking a huge change after years of jostling for advantage, sources said. In recent years, the LME has imposed a series of warehousing reforms after complaints by consumers paying rent to store metal trapped in backlogs. The discussion paper said the exchange's provisional view was that legal issues were no longer an obstacle arguing that warehouses do not compete on the basis of headline charges but instead on discounted rates.

Hong Kong Exchanges and Clearing confirmed it was pushing ahead with plans to start a metals trading platform in southern China, looking to build its commodity business there. Qianhai, a new free trade zone near Hong Kong is set to host the platform for trading metals before stretching into other commodities, pending regulatory approval. A mainland presence would come after a years-long struggle by the LME to break into China. The construction of the Qianhai platform would include setting up an IT system for completion by the end of the first quarter of 2017, as well as building warehouses within 12 months.

LME Commentary:

LME copper prices weakened over the first half of the month reaching their lowest levels since early February 2016. Investors exercised caution, fretting over tepid physical demand in China, the outcome of the upcoming U.S. Federal Reserve's policy meeting over interest rates and the looming British vote on exiting the European Union. Indeed, the sudden arrival of 47,000t of copper into LME warehouses in Asia reaffirmed concerns about demand from China as the cash to 3-month spread returned to a contango for the first time in almost six months.

Underlying USD aluminium prices meanwhile ignored the volatility of copper prices and performed steadily through the month as inventories continued to decline and despite concerns about Chinese aluminium production increases.

In the lead up to the Brexit vote, metals and commodity prices were supported by a softer dollar and a rise in risk-appetite as polls suggested that Britain will remain in the European Union.

The comparison of equivalent GBP prices pre and post Brexit were marked as the Pound subsequently collapsed to a 30-year low. The published LME official US: £ exchange rate of 1.4862 on 23.06.16 compared to 1.3675 published the following day, the month's low of 1.3163 on 27.06.16 and the month's closing at 1.3426.

On 23.06.16, the LME copper cash price settled at £3194.05/t - the following day copper cash settled at £3409.87/t – an increase of £216.82/t. By comparison, the underlying USD copper price fell by just $84/t. By month end, with the LME USD copper price reaching a 4 week high at $4827/t, the GBP cash price had closed at £3595.26/t, its highest since July 2015 and some £408.53/t or nearly 13% above the price on the opening day of the month.

Aluminium prices which had risen to $1628/t or an equivalent £1095.41/t by 23.06.16 traded up to $1635/t by month end (an 8 week high) but with a GBP equivalent price of £1217.79/t, the highest for the year, the highest since May 2015 and compares to the price on the opening day of the month of £1116.50/t.

LME Statistics and Charts: June 2016:

	Copper			Aluminium		USD:GBP
	Cash £/t	**3M £/t**	**Stocks**	**Cash $/t**	**Stocks**	
Opening	3186.73	3174.14	154,350	1,544.00	2,520,175	1.4438
Average	3263.63	3266.59		1,592.20		1.4210
High	3595.26	3598.54		1,635.00		1.4862
Low	3114.26	3119.36		1,541.00		1.3163
Range	481.00	479.18		94.00		
Closing	3595.26	3598.54	189,125	1,635.00	2,382,100	1.3163
Opening:Closing Δ	408.53	424.40	34,775	91.00	-138,075	
YTD Average	3282.37			1520.10		
YTD High	3595.26			1673.00		
YTD Low	3005.51			1453.00		

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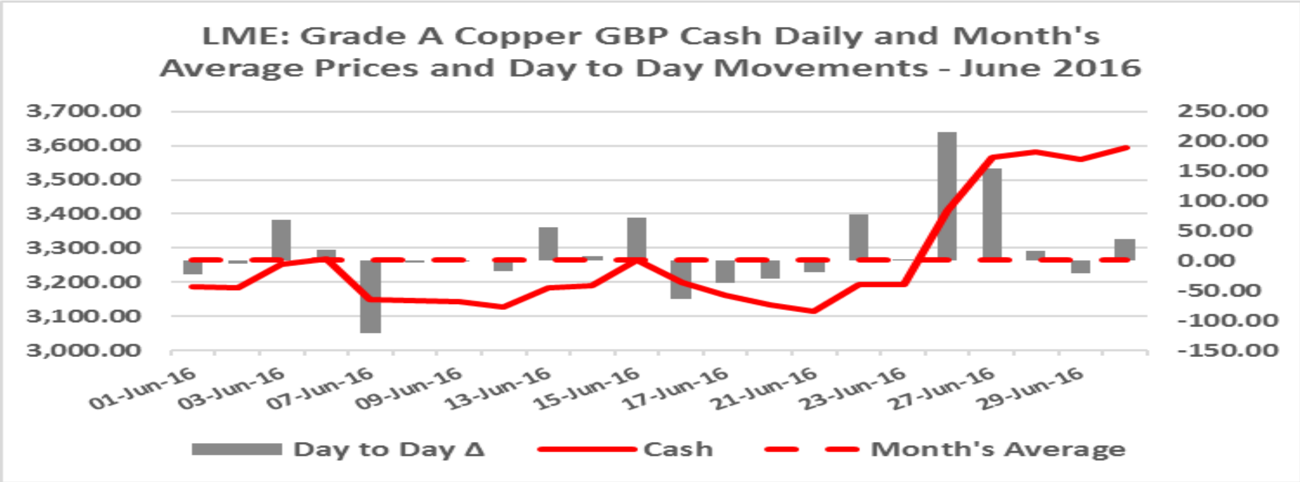

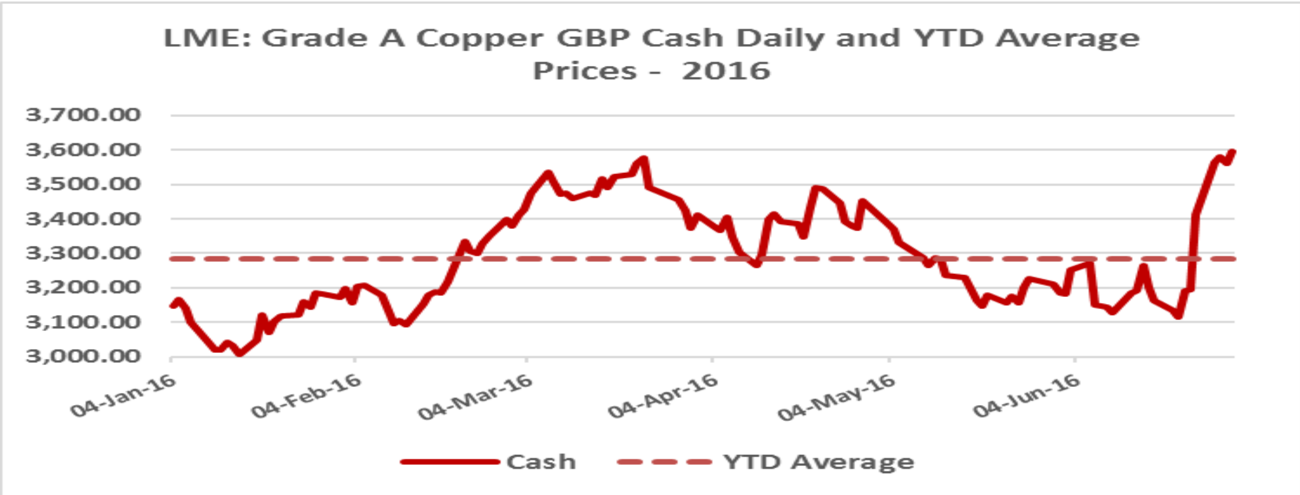

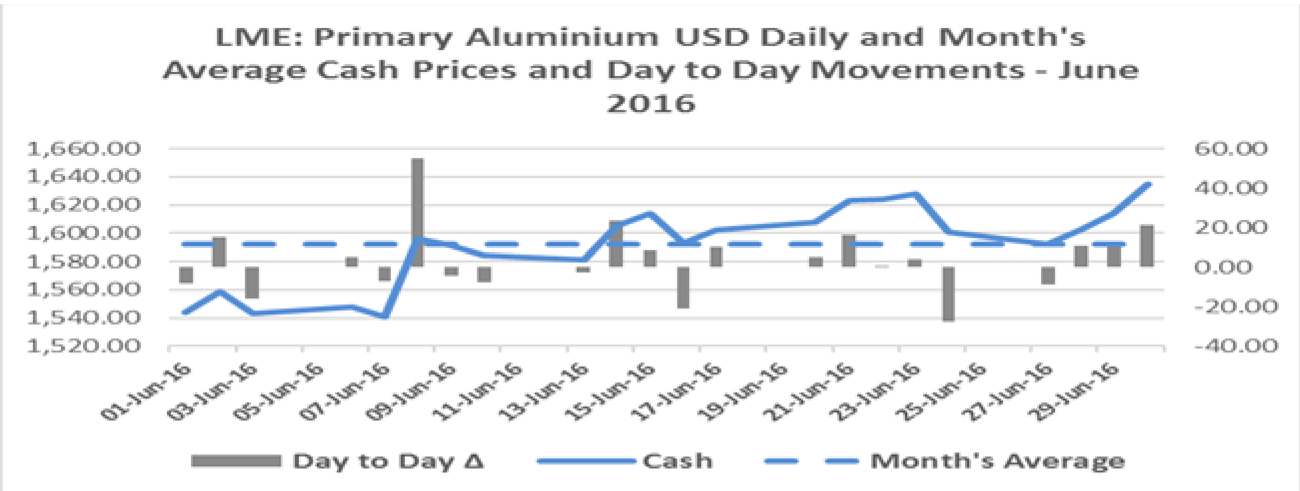

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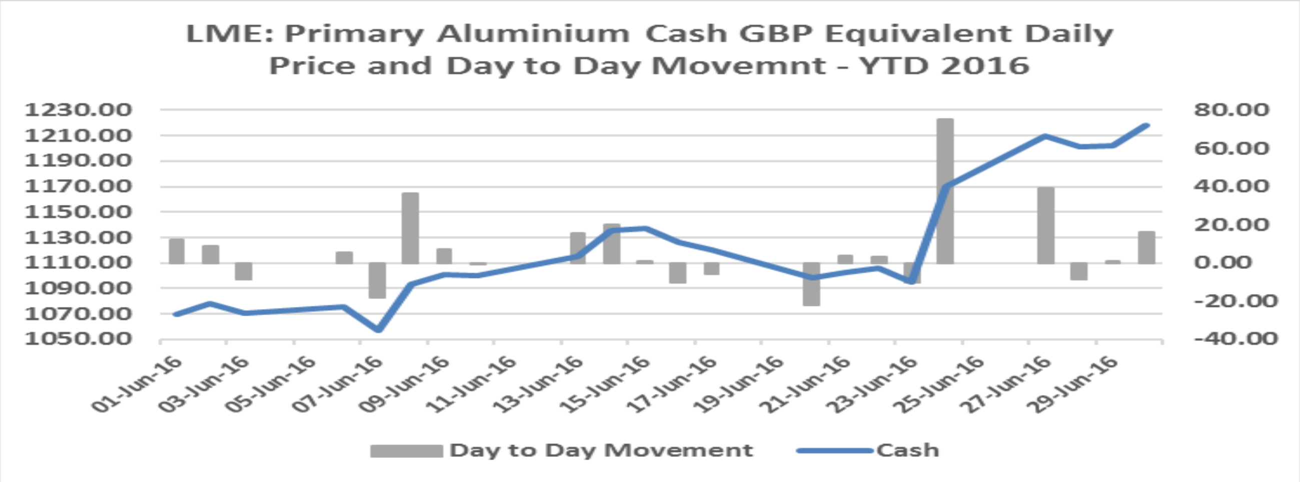

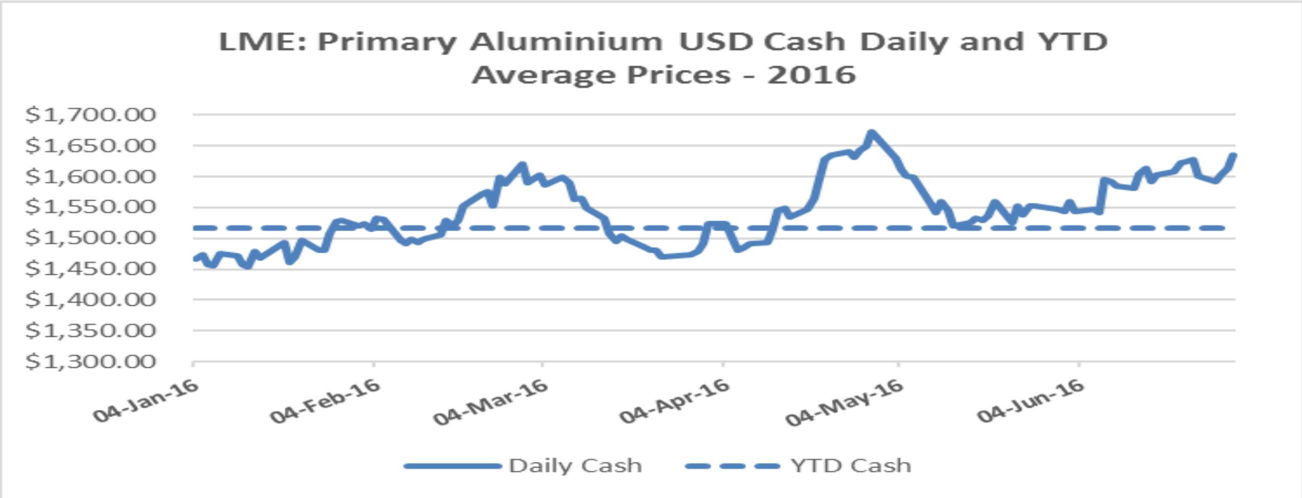

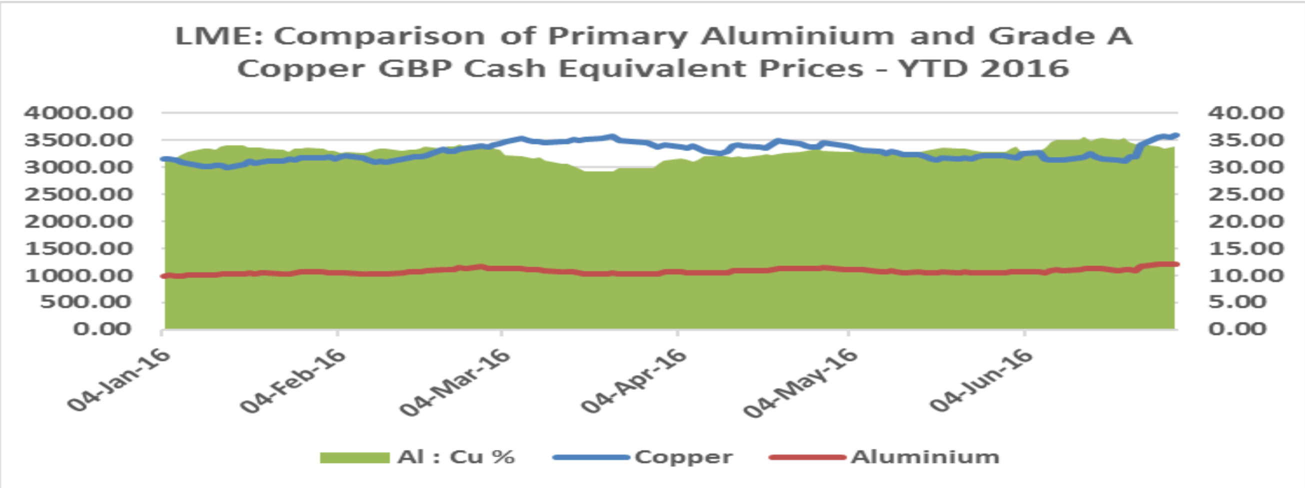

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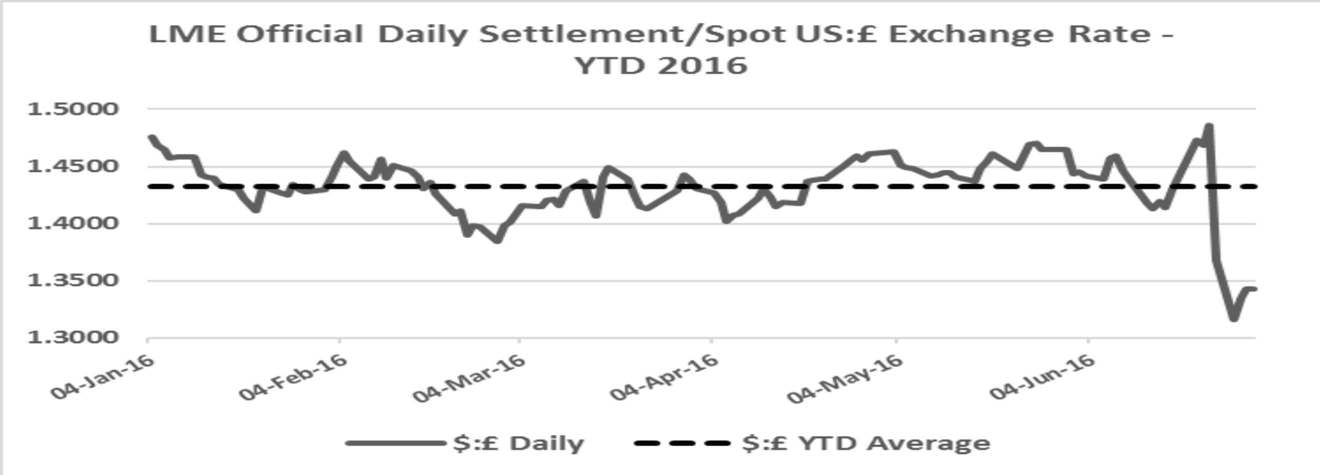

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