

May 2016

Economic Indicators and Comment:

The OECD's composite leading indicators (CLIs), designed to anticipate turning points in economic activity relative to trend, point to stable growth momentum in the OECD area as a whole. Stable growth momentum is anticipated in Canada and the euro area as a whole, including Germany and France. Signs of growth stabilisation are also emerging in Japan. On the other hand, CLIs continue to point to easing growth in the U.S. and the UK, with the outlook for easing growth now confirmed in Italy. Amongst the major emerging economies, the outlook has improved since last month's assessment. Signs of a positive change in growth momentum are now emerging in Brazil and Russia, while in China and India CLIs point to stable growth momentum and firming growth, respectively.

U.S. industrial production increased 0.7% in April after decreasing in the previous two months. Manufacturing output rose 0.3% after declining the same amount in March. The index for utilities jumped 5.8% in April, as the demand for electricity and natural gas returned to a more normal level after being suppressed by warmer-than-usual weather in March. The monthly increase in industrial production was the best in 18 Months

Industrial output in the Eurozone contracted by 0.8% mom in March. The figures from Eurostat are worse than the 0% expected by economists. Measured on a yearly basis, Eurozone industry managed to expand by just 0.2%. Ireland, which has seen substantial economic growth over the last 18 months, suffered the sharpest contraction, with industrial production down by 11.2%. Spain, currently the Eurozone's second fastest growing economy, was the best performer, but output still only rose 1.3%. Across the EU's 28 member states, production levels fell 0.5% in March.

Figures from the Office for National Statistics showed that UK industrial production grew less than forecast in March as manufacturing barely rose and oil and gas output shrank. Output rose 0.3%, less than the 0.5% gain predicted in a Bloomberg survey. It followed a 0.2% decline in February. Factories increased production by 0.1% in March. The report also confirmed that industrial production dropped 0.4% in the three months through March, a second straight quarterly decline. Manufacturing, which makes up 70% of industrial production, has been hard hit by the crisis in the steel sector, with output almost 2% lower in March 2016 than it was a year earlier. Manufacture of basic metals and metal production has dropped by 4% over the past year, contributing to the steepest fall in industrial production since May 2013. Industrial production is 10% lower than it was when the UK entered recession in early 2008.

Companies:

Nexans announced its 2016 first quarter results. Sales for the quarter amounted to €1,433 million (versus €1,601 million for Q1 2015). At constant metal prices, the sales figure came to €1,104 million, representing an organic decrease of 1.5% year on year but 2.4% organic growth compared with the fourth quarter of 2015. The year-on-year organic growth figure – in line with the Group's expectations – is mainly due to the anticipated effect of project timings in the submarine high-voltage business. The company reported Ongoing robust growth in the first quarter for automotive harnesses and LAN cables & systems, offsetting the continued deterioration in the oil and mining sectors. Sales for the submarine high-voltage business were down 14%, due to the effect of project timings. There were signs of a recovery in sales of medium- and low-voltage distribution cables to European energy operators. The Group reported satisfactory progress for all of its strategic initiatives.

Commenting on the Group's performance, Arnaud Poupart-Lafarge, Nexans' CEO, said: "The Group's performance for the first quarter of 2016 does not reflect any surprises in terms of trends and developments in our sales or markets. As we are still operating in the same lackluster market environment as in 2015, our key aim now is to deliver the expected results of our strategic initiatives, particularly in relation to their three main objectives: reducing fixed and variable costs and optimizing margins. We are therefore confident that by continuing to implement our current action plan, the operating margin as a percentage of sales should considerably be pushed up, even if sales volumes do not increase."

Prysmian published its Q1 2016 results which showed Group Sales amounted of €1,810 million – an organic growth of +2.3% assuming the same group perimeter and excluding metal price and exchange rate effects. There was an ‘excellent performance’ for Energy Projects (up 26.4%) and a ‘positive trend’ for Telecom (up 3.3%). The Energy & Infrastructure sector was stable while the Industrial and NWC showed a slight improvement (up 1.4%). The Group reported a marked improvement in profitability with ADJ EBITDA at €150 million (+25.4%).

"The results of the first quarter of 2016 basically reflect an uptrend in sales accompanied by a marked improvement in profitability," commented CEO Valerio Battista. "In particular, our technological leadership and project execution capability underpin the excellent performance of the submarine cables and systems business. The Telecom business has also made a good contribution, especially towards profitability, partly thanks to the reduction in optical fibre production costs. The Oil & Gas business has been affected by the industry crisis, with performance nonetheless in line with expectations. We are confident that the new organisation will better focus the strategies of this high value-added business in order to reinvigorate it. We are confident of being able to achieve the challenging profitability targets we set ourselves for 2016, with an ADJ EBITDA in the range of €670- €720 million."

First-quarter net profit at Europe's second largest copper producer, Polish KGHM, was more than halved to 161 million zlotys (US\$41.2 million), as lower copper prices hit its results, especially at overseas assets, it said. While net profit came in above analysts' expectations of 90 million, sales at the state-run miner fell on an annual basis by a larger than expected 17% to 3.912 billion zlotys. Analysts polled by Reuters expected 4.26 billion.

Aluminium Bahrain (Alba), owner of one of the world's largest aluminium smelters, reported an 88.6% fall in first-quarter net profit as a result of a collapse in aluminium prices. Alba's net income for the three months to March 31 was 4.2 million dinars (US\$11.22 million) it said in a statement. This compares with a profit of 37.2 million dinars in the prior-year period.

Market Commentary and News:

Around 10% of copper production is ‘under water’ based on current spot prices, a senior research manager at Wood Mackenzie told delegates at the Copper College meeting in Tucson, Arizona. Nick Pickens said that sustaining capital expenditure also becomes an issue during an extended downturn. "The industry has got more fat to trim. Without additional mine cuts, metal stocks will continue to rise in the near term. But we anticipate 480,000t of mine cuts over the next two years, when a slightly more positive pricing picture would emerge," he said. Miners have embarked on a programme of cost cutting and a drive for productivity, he added. He estimated that 4.86 million tonnes of new production capability would be needed from greenfield projects to meet the supply gap out over the next decade.

The global world refined copper market showed a 24,000t surplus in February, compared with a 51,000t surplus in January, the International Copper Study Group (ICSG) said in its latest monthly bulletin. For the first 2 months of the year, the market was in a 76,000t surplus compared with a 134,000t surplus in the same period a year earlier, the ICSG said.

Global miner Rio Tinto and its partners gave the go-ahead for a US\$5.3 billion expansion of the Oyu Tolgoi mine in Mongolia, a key plank in Rio's ambition to become a copper powerhouse. The underground expansion is regarded as one of the world's best undeveloped copper projects and Rio Tinto's most important growth asset, while Oyu Tolgoi is the biggest foreign investment in Mongolia.

China's refined copper output in 2016 will probably remain around last year's levels, as output cuts pledged in December are offset by new capacity, according to the nation's biggest smelter. Planned cuts of more than 400,000t, "based on current conditions," will be matched by a similar amount of new capacity, according to Wu Yuneng, vice general manager at Jiangxi Copper Co. Jiangxi Copper and nine others had agreed to cut production by 350,000t as one measure to weather a collapse in prices. China's refined copper output was about 8 million tonnes in 2015 and the nation accounts for about a quarter of the world's supply, according to Bloomberg Intelligence.

According to Chile's Cochilco copper commission, copper production at Chile's large mines dropped 3% in annual terms in the first quarter of 2016, held back by the temporary closure of a plant at BHP Billiton's Escondida mine, government statistics showed. Production at Escondida plummeted 23.5% to 265,600t, as the company shut a concentrator there in February. The plant is scheduled to be shut for a year, as the company undergoes an ambitious investment plan to boost efficiency. Production at Codelco, meanwhile, rose 8.4% to 469,800t, helped by an ongoing ramp-up at the Ministro Hales deposit and high production figures at the Salvador mine. In April, Cochilco estimated that Chile 2016 copper production would reach 5.77 million tonnes, a marginal increase from 2015. According to the agency,

Chile exported 1.418 million tonnes of copper in the first three months of 2016, down 3.7% year on year, a 1.6% increase in

exports of copper in concentrate to 659,300t was insufficient to offset a 3.2% drop in exports of refined copper to 352,000t and a 28.6% drop in exports of blister copper to 106,900t, the data show. Chilean Q1 exports of copper concentrate to China, its main market, surged 25.7% to 266,000t, but exports to India fell 54.7% to 90,300t. Exports to Japan fell 8.8% to 153,300t. Chile exported 365,000t of refined copper to China, down 10.5% year on year followed by South Korea, which imported 61,800t, up 30.4%; and the U.S. at 57,500t, down 51.6%.

In 2016 Norilsk Nickel, plans to produce 206,000-212,000t of nickel, 88-93t of PGM's and 342,000-352,000t of copper from Russian raw materials. Production of copper in 2017 will increase to 370,000-380,000t and in 2018 to 420,000-440,000t.

Russian Q1 copper exports surged 24% year-on-year to 136,500t, aluminium exports dropped 6.5% to 852,300t, while nickel exports rose 2.7% to 54,100t, Russia's Federal Customs Service reported in the month.

European copper cathode premiums remained stable despite a further fall in Chinese premiums, with Rotterdam warehouses stocks falling as volumes continued to move to Asia. The Platts CIF Rotterdam premium was assessed at \$20-\$30/t over LME cash, while the C&F China premium was assessed at \$40-\$50/t. Freight to Shanghai is around \$50-\$60/t, so even though premiums are very low, it is difficult to send it over there at the moment, according to a European trader. Based on this and the freight estimation, the associated loss of the arbitrage trade stands at around \$30-\$40/t. Traders however, said that premiums for European warehoused material were significantly higher at \$50-\$60/t, due to the associated trucking and logistics involved. Another trader said that imported grade A copper from South America could be sold into Europe at \$30/t CIF Rotterdam.

Russian aluminium giant Rusal warned against Chinese smelters restarting plants to keep from undermining prices that have retreated from 2016 highs as Chinese producers consider launching a fund to deal with the layoffs from closures. Global aluminium prices that rebounded to nine-month highs last month have enticed some Chinese smelters that closed in the past year amid overcapacity in the sector to resume production. Rusal officials also told analysts it was still considering a plan to reduce its total output capacity by 200,000t but has not yet made any decisions. Rusal reported a 57% slump in first-quarter adjusted EBITDA - to US\$312 million compared with the same period a year ago.

Global refined aluminium production figures by quarter as published by the International Aluminium Institute (in 000's of tonnes);

Period	Africa	Asia (ex China)	GCC	China	North America	South America	West Europe	East & Central Europe	Oceania	ROW Est. Un-reported	Total
Q1 2016	415	809	1276	7,170	1,041	335	959	993	492	270	13760
Q4 2015	424	802	1,288	7,889	1,117	328	951	983	499	270	14,551
Q3 2015	427	764	1,282	8,174	1,118	319	941	959	500	270	14,754
Q2 2015	422	740	1,273	8,053	1,117	332	935	949	493	270	14,584
Q1 2015	414	695	1,261	7,556	1,117	346	918	938	486	270	14,001
Q4 2014	425	659	1,268	7,550	1,135	359	922	956	497	270	14,041
Q3 2014	434	595	1,266	7,150	1,144	344	910	948	501	270	13,562
Q2 2014	442	591	1,224	6,805	1,145	392	891	936	525	270	13,221
Q1 2014	445	584	1,074	6,812	1,161	448	873	924	512	270	13,103

An article posted on the Ministry of Transport's website said that China will invest around 4.7 trillion yuan (\$724 billion) in transport infrastructure projects over the next three years. The 2016-2018 plan from China's Ministry of Transport and National Development and Reform Commission (NDRC) will see the country push forward 303 key transportation projects including railways, highways, waterways, airports and urban rail, it said. The investment spending underlines China's reliance on high-levels of public sector spending, credited by economists as being behind recent signs of improvement in the country's economy, but also as creating a risk as debt levels rise. The Ministry said the investment plan would improve the country's high-speed transport networks and inter-city links to meet the demands of China's wider economic and social development. China's first quarter investment in infrastructure surged almost 20%, as the government looks to transport-related sectors to help support wider economic growth. The official Xinhua news agency reported earlier this month that China will invest around US\$12 billion this year in building aviation infrastructure.

Some market commentators are suggesting that the LME is eroding its core client base in physical markets. This comes as

Reuters reports that the LME's core industrial clients, unhappy with the steep rise in trading fees, are taking business to top-tier investment banks and other exchanges. While the LME remains the industry's primary hub, its share of the global market slipped to 76% last year from 83% in 2012. Indeed, LME volumes were down 4% in 2015 and are already 9% lower in Q1 2016. Sources have blamed the average 31% increase in fees imposed by LME's owner HKEX in 2015. OTC (over the counter) business, shunned by many following the Lehmann collapse in 2008 in favour of the safety of exchanges and centralised clearing houses, is reported as rising and taking in between 20% to 50% of total trading activity. Volumes on rival exchange CME meanwhile, where trading fees are approximately 60% of those on the LME, were up 16% in the first quarter of the year. In April, LME copper trading fell 6.8% from a year earlier, compared with a 29% increase on Comex (CME) and a 25% increase in Shanghai. Commentators suggest that the LME's determination and plans to increase fees and raise revenues - such as the recent imposition of the market data usage licence - is likely to further dissuade trade participation.

Market sources anecdotally report that the LME's Aluminium Premium Contract, introduced in 2015, has 'failed to excite' with disappointing volumes and an apparent lack of interest.

The CME Group will launch a U.S. aluminium alloy futures contract next month. CME has been steadily chipping away at the dominance of the LME after launching a slew of new contracts, including five others in the aluminium sector. CME Group is also talking to several warehouse companies to expand its metal storage network globally. In recent years CME, the world's largest futures market operator, has been steadily building its storage network and has plans to list physical delivery locations in Asia for its copper contracts.

LME Commentary:

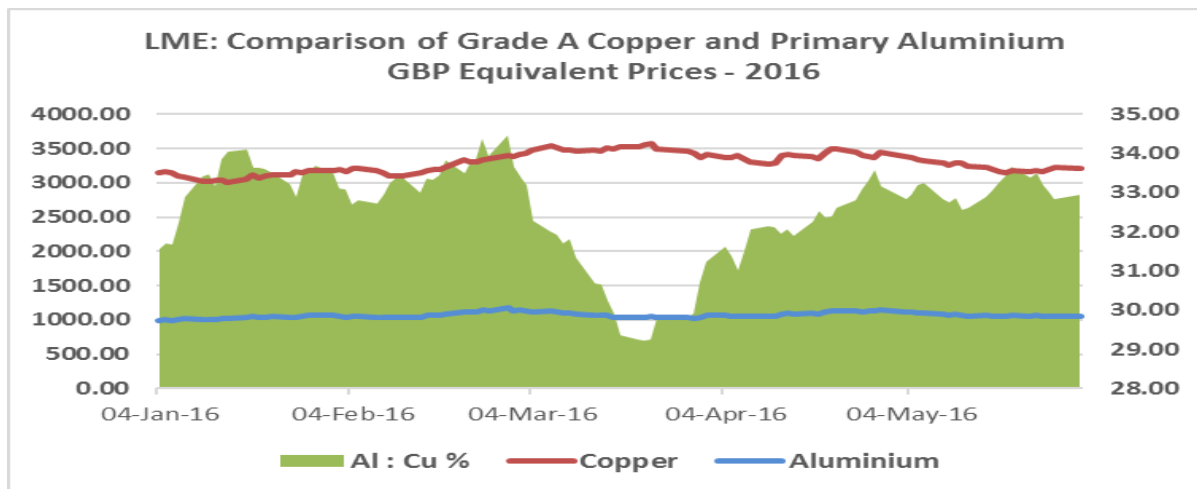
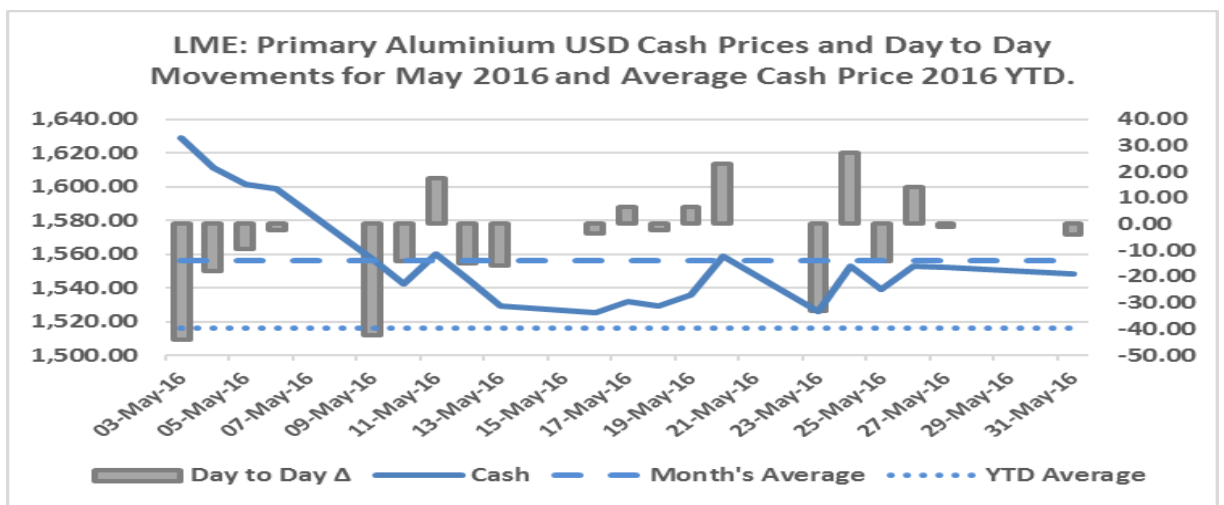
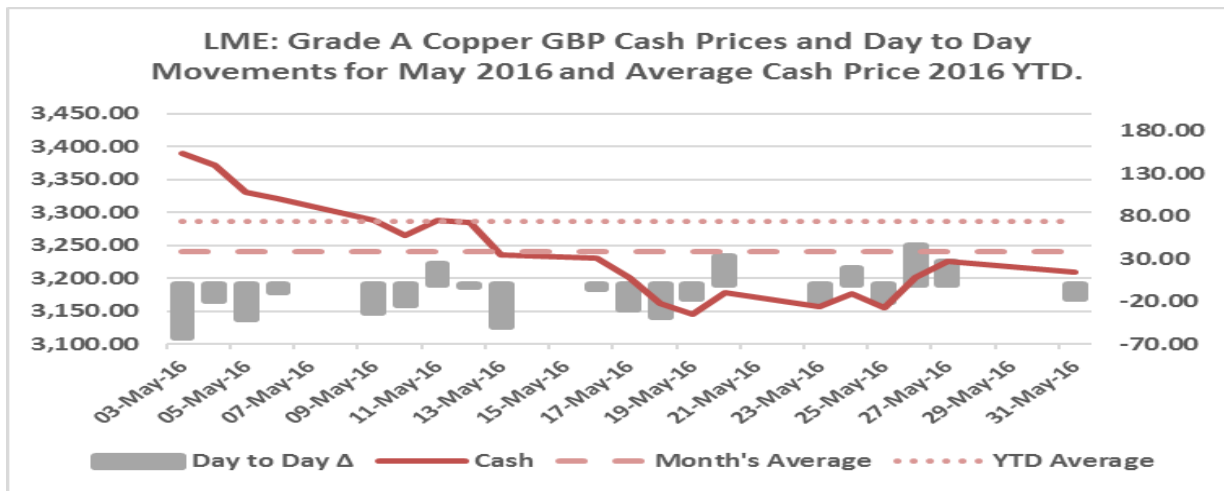
After April's broad-based rally, LME metals eased again on weak global activity data and initially, by a stronger dollar. Investors were further unnerved by conflicting signs coming out of China which alternatively supported signs of a possible pickup then revived nervousness about Chinese economic growth. Elsewhere improving oil prices contrasted with falling steel and iron ore prices to further confuse investor sentiment.

By mid-month copper had fallen to a 10 week low while aluminium traded down to a 4-week low, depressed by a stronger dollar after the U.S. Federal Reserve signalled a possible rate hike as soon as next month. The market believes that a rate hike would boost capital costs and encourage investors to bet prices would fall further.

Aluminium prices were supported after the mid-month low as data revealed the lowest Chinese stockpiles in a year were a clear signal of a tightening market for the metal. Stockpiles of aluminium on the Shanghai Futures Exchange fell to the lowest since April 2015 and LME warehouse inventories dropped towards 2.56 million tons - the lowest since January 2009. Copper prices rallied slightly to month end as better economic data in the U.S. forced shorts to cover. The cash to 3 month LME copper spread traded at an average backwardation of £10.53/t but traded out to £19.04 by month end

LME Statistics and Charts: May 2016:

	Copper			Aluminium		USD:GBP
	Cash £/t	3M £/t	Stocks	Cash \$/t	Stocks	
Opening	3390.29	3385.27	154,675	1629.00	2,639,075	1.4630
Average	3240.57	3230.04		1556.33		1.4530
High	3390.29	3385.27		1629.00		1.4704
Low	3145.79	3135.39		1525.50		1.4368
Range	244.50	249.88		103.50		
Closing	3209.51	3190.47	154,350	1548.00	2,520,175	1.4644
Opening:Closing Δ	-180.78	-194.80	-325	-81.00	-118,900	
YTD Average	3286.37			1515.78		
YTD High	3576.58			1621.50		
YTD Low	3005.51			1453.00		



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