

February 2016

Economic Indicators and Comment:

According to the International Monetary Fund, the world's biggest economies urgently need to come up with new ways to support demand and contain risks as the outlook for global growth deteriorates. The G20 policy makers "must act now to implement forcefully" existing growth strategies while also planning for unified support for demand through fiscal spending, IMF staff said in a report ahead of the Feb. 26-27 meeting of finance ministers and central bankers in Shanghai. The IMF is likely to further cut its global-expansion outlook in the next update in April, according to the report. The report builds on calls for greater coordination to support a world economy coping with China's slowdown and falling commodity prices.

The OECD's composite leading indicators (CLIs), designed to anticipate turning points in economic activity relative to trend, continue to signal a mixed outlook across major emerging economies and stable growth momentum in the OECD area. The CLIs for Brazil and China confirm the tentative signs of stabilisation flagged in last months' assessment. In India, the CLI points to firming growth while a loss in growth momentum is anticipated in Russia. In the Euro area as a whole, and in Germany and Italy, CLIs signal stable growth momentum while in France the outlook is for firming growth. CLIs continue to point to easing growth in the UK and the U.S. with similar signals emerging in Canada and Japan.

China set a range for its economic growth target for the first time in two decades, saying the economy would expand 6.5% to 7% this year, slower than last year's target of 7%. While downward pressure on the economy is "relatively big" in the first quarter, China can meet the goal, the chairman of the country's top economic planner National Development and Reform Commission said. The country also plans to take steps to curb excess industrial capacity and deal with unprofitable "zombie companies".

U. S. industries ramped up production in January as strong car sales helped buffer factories against a global economic slowdown, but the outlook remains muddled. According to the Federal Reserve, U.S. industrial production increased 0.9% in January from a month earlier. Production had not expanded by more than that in a single month since May 2010. The boost reflected a surge in electricity generation due to last month's cold weather as well as higher manufacturing output to meet strong demand for new cars. Overall output has been declining over the past year and economists say it is unclear if the January surge was a blip or the start of a broader rebound.

Industrial output in the Eurozone unexpectedly fell in December, with energy the biggest drag, data from Eurostat showed. Output was down 1% compared with a 0.5% drop in November and much weaker than the 0.3% increase forecast by economists. Energy fell 2.4%, while capital goods were 1.9% lower. Both intermediate goods and non-durable consumer goods declined 0.3%, while production of durable consumer goods rose by 1.4%. Compared with December 2014, industrial production fell 1.3%, versus economists' expectations for a 0.9% increase.

Germany posted moderate economic growth in the final quarter of 2015, the Federal Statistics Office said, as higher state spending offset a drag from foreign trade. Quarterly GDP grew 0.3% in the final three months of 2015 and at the same rate as in the previous quarter. The overall growth rate for 2015 was 1.7%. Unadjusted data showed the economy grew by 2.1% on the year in the fourth quarter, falling short of the consensus forecast for 2.3% growth. German industrial production however, unexpectedly fell for a second month in December. Data from the Economy Ministry showed output fell 1.2 % from November, when it declined by a revised 0.1%. The reversal comes as record-low unemployment and low fuel costs are bolstering consumer spending but slowing growth in China and emerging market economies are counteracting those positive trends.

Official data showed that UK industrial output suffered its sharpest monthly drop in December 2015 since 2012, driven down by declines in mining, oil and gas extraction and manufacturing. The ONS also revised down its estimate for industrial output in the fourth quarter to show a 0.5% drop from a 0.2% decline previously forecast. It said this would have a negligible impact on its previous estimate of economic growth. Industrial output fell 1.1% month-on-month in December after a 0.8% drop in November. Overall, the manufacturing sector failed to contribute to British economic growth in 2015.

Output in manufacturing in December fell for a third month in a row for the first time since early 2009, dropping 0.2% on the month after falling 0.3% in November. Both industrial and manufacturing output showed their biggest annual declines in December since mid-2013.

Companies:

Prysmian Group published its 2015 full year results reporting sales of €7,361 million (an organic growth of 5.3%), an excellent performance by energy projects which were up 15.8%, a solid trend for telecom - up 9.9% and recovery by energy & infrastructure - up 3.0%. The Group's profit objectives were achieved with an adjusted EBITDA at €623million - up 22.6% on the previous year while net profit increased to €214 million from €115 million in 2014.

Nexans posted its 2015 full year results. Operating margin was up 32% year on year to €195 million despite a 1.7% organic decrease in sales volumes - sales of €4587 million compared to €4604 million in the previous year. Net debt was down to €201 million at year-end due to a lower working capital and despite a cash outflow of €104 million related to restructuring plans. The Group reported a net loss of €194 million after restructuring costs of €100 million and €142 million of asset impairment. All businesses contributed to improving profitability through the continuation of the Group's strategic initiatives.

General Cable Corporation reported results for the fourth quarter 2015 when the Company generated adjusted operating income of US\$28 million. Reported operating loss was US\$36 million. Fourth quarter adjusted operating income of US\$28 million was down US\$12 million year on year due to unfavourable metals impact in the quarter and weaker unit volume across all regions, partially offset by restructuring savings. In Europe (excluding the impact of restructuring activity including the exit from certain low value add end markets), unit volume for the full year and for the fourth quarter was down 13% and 17%, respectively, year on year principally due to lower demand for industrial and construction products. Year on year demand for electric utility cables was stable during the full year of 2015 and fourth quarter including land and submarine turnkey projects.

Aurubis AG, Europe's biggest copper refiner, reported an operating EBT of €36 million (compared with the previous year of €39 million) for its first-quarter fiscal year 2015/16. This was below market expectations and based on poor copper scrap availability, low precious metals output and lower metal yield with reduced metal prices. Higher sales of continuous cast wirerod and shapes and related higher income from cathode premiums positively impacted the results. Aurubis is still standing by its full-year earnings guidance from December.

Market Commentary and News:

The global world refined copper market showed a 27,000t deficit in November, compared with a 14,000ts deficit in October, the International Copper Study Group (ICSG) said in its latest monthly bulletin. For the first 11 months of the year, the market was in a 51,000t surplus compared with a 544,000t deficit in the same period a year earlier. World refined copper output in November was 1.96 million tonnes, while consumption was 1.99 million tonnes. Bonded stocks of copper in China showed a 24,000t deficit in November compared with a 42,000t deficit in October.

Global miner BHP Billiton expects the copper market to remain in surplus until the end of the decade, according to CFO Peter Beaven. He told a briefing in London that the copper market was not expected to move to balance until about 2019 due to a surge of investment which has created higher supply.

Peru is likely to surpass China as the world's second-largest copper producer after the country's biggest new mine, Las Bambas, began shipments last month. Peru's copper output will increase 19% in 2016 to 1.9 million tonnes, according to the country's central bank, as Las Bambas ramps up to full production in the second quarter. The company said it expects to produce 275,000t to 330,000t from the mine this year.

Copper production in Democratic Republic of Congo dropped for the first time in six years in 2015 and this year could be another tough one as low commodity prices continue to bite, the Central African country's chamber of mines said. Output dropped 3.3% in Africa's biggest copper producer to 995,805t from 1.03 million tonnes in 2014, the first time production fell since 2009.

Zambia's copper production will be around 700,000t this year and next year before rising to 1 million tonnes in 2018, a government official said. Copper production in Africa's second-biggest producer of the metal inched higher to 711,515t in

2015 from 708,000t the previous year mainly due to a new mine owned by Canada's First Quantum Minerals. Zambia's mining ministry said that Zambia's copper production would jump to about 1 million tonnes in 2018 when prices of the metal were expected to start rising.

For the first time in more than a decade there is more metal in Shanghai Futures Exchange warehouses than the LME warehouses as price differences make arbitrage trading profitable and encourage copper imports to China. In Shanghai, stockpiles have more than doubled since the end of August, reaching an all-time high, while LME inventories sank to a one-year low. There is a substantial surplus in China with an excess of refinery and smelter capacity creating a huge overhang of producer stocks. Copper prices in Shanghai has been trading above the LME basis, leading traders to buy metal at LME prices and ship it to China and sell it for a profit. China's imports of refined copper surged in December to the most on record, according to customs data. SHFE inventories have increased by more than 140,000t since the end of August to 277,000t. By comparison, LME tracked stockpiles have fallen by 174,275 in the same period, closing February at 193,475t.

Copper market commentators have suggested that the expected axing of copper miners' loss-making output this year may put a floor under the price of the metal but weaker prospects for demand growth in China should curb any gains. Producers hoping prices would pick up have for months resisted output cuts. Many that are losing money, however, will likely have to slash production over coming months. Data from Thomson Reuters shows around 50% of mines are losing money on a total cost basis with copper prices around current levels near US\$4,600/t. Some miners including Glencore, Freeport and KGHM have already cut output. Consultancy firm CRU anticipates a loss of 610,000t of contained copper from mine production for 2016 when it expects copper prices to average around \$4,600/t. The consultancy anticipates additional cutbacks of another 185,000t this year. It believes any cuts will go some way towards offsetting new capacity of almost 1 million tonnes from mine projects expected to start up in the next year or so. But they are unlikely to be large enough to balance the copper market, which according to a Reuters survey is expected to show a surplus this year of 150,000t. Others commentators agree cuts will be slow to come. Demand growth in 2015 is estimated at only 2% in China, (which accounts for about half of global consumption estimated at 22 million tonnes) because China's growth focus has moved away from manufacturing and heavy industry towards consumption and as a result, investment in infrastructure, property and manufacturing has fallen.

Japan's copper cable shipments including sales and exports in January fell 8.6% from a year earlier to 54,100t on an estimated basis, the Japan Electric Wire and Cable Makers' Association said.

Copper wirerod production in Russia has been hit by a record decline in the past year, falling by 34% to 454,000t in 2015. Six large wirerod producers posted output reductions of varying levels, from 5% to 75%, compared with 2014. The drop is due to the government's decision to end a 10% duty on copper cathode exports in August 2014. Since the duty was lifted, Ural Mining & Metallurgy Co (UMMC) - which owns Katur-Invest - and Russian Copper Co (RCC) - which owns Novgorod and Kyshtym - have cut their copper wire rod production. Norilsk, UMMC and RCC had prioritised wire rod because of the export duty on cathode. The companies have since all shifted their production focus to copper cathodes.

Export of Russian copper surged almost twofold in 2015 while exports of aluminium increased by 19% year-on-year, Russia's Federal Customs Service reported. Russian companies exported 563,200t of copper and 3.5 million tonnes of aluminium, the Customs Service said.

Norsk Hydro, one of the world's largest aluminium producers, cut its 2016 forecast for aluminium global demand, including China, to between 3% to 4% from 4% to 5% previously, as it reported its quarterly earnings. The price of aluminium it reiterated has been hit by concerns about oversupply, compounded by worries over a Chinese economic slowdown.

Russian aluminium giant Rusal is taking advantage of a slide in the country's currency to boost its alumina production capacity despite a global surplus of the material, an executive said in the month. Ramping up production would allow the company to take advantage of higher margins offered by the currency differential, as their costs are in the weaker rouble, while export sales are made in dollars.

The U.S. government has granted aid to workers at Alcoa Intalco aluminium smelter in Washington State, after they complained that Chinese dumping threatened their jobs. The U.S. Department of Labor (DOL) granted Trade Adjustment Assistance to the 500 workers at the 279,000tpa facility, which is expected to suspend production at the end of the second quarter.

Noranda Aluminum Holding Corp, which smelts and refines aluminium and mines bauxite, filed for bankruptcy in February and joined a growing list of commodity-related businesses in Chapter 11. Over the past year scores of commodity-related businesses have filed for bankruptcy as prices for metals, energy and coal have plummeted amid a slowdown in markets such as China and Brazil.

Traders report that premiums for physical aluminium in Europe are likely to continue their recent decline due to lacklustre demand and the threat of more supply becoming available from inventories. The premiums payable on top of the LME cash price for immediate delivery of metal have softened so far this year after rising late last year.

In Asia, traders report that some of the larger aluminium producers are seeking a premium of US\$125-\$130/t from Japanese buyers for April-June primary metal shipments, up between 14% and 18% from the previous quarter. Japan is Asia's biggest importer of the metal and the premiums for primary metal shipments it agrees to pay each quarter set the benchmark for the region.

Goldman Sachs believes that metals, particularly copper and aluminium are set to underperform oil in the near future on subdued global demand growth and a sluggish Chinese economy. "Around mid-2016 and through 2017, we expect that the oil market will adjust, while metals markets are set to weaken further, particularly copper and aluminium, resulting in substantial downside to metals prices relative to oil over the period," the bank said. It added; "the aluminium market continues to, in our view, face the greatest bearish fundamental shock in a generation, and perhaps, in its history." The Wall Street bank is now projecting aluminium will trade at US\$1,350/t on a 12-month horizon, down from its previous estimate of US\$1,550. The LME cash price closed the month at US\$1621.50/t.

LME volumes in January were sharply down on the previous year as the commodities slump continues. Total lots at 13,214,380 (296.7 million tonnes) were down 17.6% year on year. Traded Primary Aluminium lots of 5,239,929 and Grade A Copper lots of 3,149,626 were down 14.7% and 24.8% respectively compared to January 2015.

The LME is giving its approved warehouses the chance to cut rent and free-on-truck charges for the year starting April 1, after saying last year it would look at capping charges due to plans for large rises. Those that want to submit lower rates should do so before February 19 and the LME will publish the revisions by March.

LME Commentary:

Copper and aluminium prices came under pressure in the first half of the month as investor appetite waned on the back of the approaching Chinese Lunar Year holiday and fears about the strength of European banks. The second half however saw a marked price recovery on the back of a return to work in China, hopes of oil price stabilisation as Russia and Saudi Arabia announced a tentative output agreement and a brightening economic picture from the U.S. Despite continued jitters over China's growth, improving oil prices and a successful short-term debt refinancing by commodities giant Glencore bolstered sentiment.

The LME primary aluminium USD cash price on the last day of the month achieved its highest level at \$1621.50/t since the end of July 2015. LME Grade A Copper GBP cash price likewise peaked on the last day at £3398.58/t to achieve its highest level since the end of October last year. Copper's recovery however was in large part due to the weakness of the Pound against the US Dollar - the US Dollar v. Pound traded down to 1.3844, its weakest level since March 2009 - as markets reacted to the UK's position re EU membership.

LME Statistics and Charts: February 2016:

	Copper			Aluminium		USD:GBP
	Cash £/t	3M £/t	Stocks	Cash \$/t	Stocks	
Opening	3170.85	3163.89	239,400	1520.00	2,795,825	1.4299
Average	3214.08	3211.40		1535.62		1.4303
High	3398.58	3387.25		1621.50		1.4617
Low	3092.74	3090.86		1492.00		1.3844
Range	305.84	296.39		129.50		
Closing	3398.58	3387.25	193,475	1621.50	2,755,600	1.3844
Opening:Closing Δ	227.73	223.36	-45,925	101.50	-40,225	
Opening:Closing Δ %	7.18	7.06	-19.18	+6.68	-1.44	

