

December 2017

Economic Indicators and Comment:

The ECB revised its forecast for GDP growth in the euro area upwards to 2.4% in 2017 and 2.3% in 2018 this compares with its estimate in September – from 2.2% and 1.8% respectively. ECB President Mario Draghi said that the economic expansion in the area continued in the third quarter of 2017, when real GDP increased by 0.6% quarter-on-quarter and that the latest data and survey results point to solid and broad-based growth momentum.

Eurozone industrial production increased unexpectedly in October, after falling in the previous month, data from Eurostat showed. Industrial production rose a seasonally adjusted 0.2% month-on-month in October, reversing September's 0.5% fall, which was revised from a 0.6% decline reported earlier. Among components, production of non-durable consumer goods advanced 0.5% and energy output edged up by 0.1%. At the same time, durable consumer goods output registered a decline of 1.9%. Growth in Germany recorded a 1.4% fall mom, while France, Italy and Spain reported growth of +1.8%, +0.5% and 0.6% respectively. On a yearly basis, industrial output growth accelerated to 3.7% in October from 3.4% in the prior month, revised up from 3.3%. The growth was forecast to slow to 3.2%. In the EU28, industrial production grew 0.3% monthly and by 4.2% annually in October.

The IMF expects UK growth of 1.6% this year, down slightly from its previous forecast of 1.7%, slowing further next year to 1.5%. IMF chief Christine Lagarde said uncertainty over the Brexit deal was causing UK firms to delay investment plans. She also said rising inflation, caused by the fall in the pound, and stagnant wages were squeezing spending power. She said that the government had made "significant progress" in reducing the deficit but added that relative to growth in the rest of the world, "the UK is losing out as a result of higher inflation, pressure on wages and incomes and delayed investment". "If you look at investment alone, with 2.1% of GDP in investment, with the global economy as it is, and the space the UK economy has in that global economy, it should be rolling at 6%". The IMF has made dramatic changes to its growth forecasts for the UK since the Brexit referendum. Immediately after the vote in June 2016, it slashed its forecast for 2017 from 2.2% to 1.3%. It then revised it sharply upwards at the start of this year, but since July has been steadily cutting it again.

The UK economy grew 0.4% quarter on quarter in the three months to September of 2017, unrevised from the second estimate and following a 0.3% expansion in the previous period. Household consumption rose at stronger pace while fixed investment growth softened. The services industries increased by 0.4%, the same pace as in the previous period. The largest contribution came from business services and finance (0.7% from 0.1% in Q2), followed by distribution, hotels & restaurants (0.5%, the same as in Q2). Industrial output increased by 1.3% (from -0.1% in Q2), boosted by: manufacturing (1.3% from -0.1%); mining and quarrying (2.9% from 1.1%); and electricity, gas, steam and air conditioning supply (1.4% from -0.2%). Construction output shrank by 0.5%, following a 0.3% contraction the previous period.

Companies:

Prysmian Group will acquire U.S. based General Cable for \$30 per share in cash, in a deal that values the group at about \$3bn including debt. The deal, which was approved by each company's board, is expected to close by the third quarter of 2018 and is subject to the approval of General Cable's shareholders as well as meeting regulatory approvals and other customary conditions. "The acquisition of General Cable represents a landmark moment for Prysmian Group," Prysmian Group chief executive officer Valerio Battista said in a statement on December 4. "Through the combination of two of the premier companies in the cable industry we will be enhancing our position in the sector, by increasing our presence in North America and expanding our footprint in Europe and South America," he added. The combined group, which had

sales of more than €11 billion (US\$13 billion) for the 12 months to the end of September, will operate in more than 50 countries and have approximately 31,000 employees. Prysmian said it expected synergies of €150m, mainly from procurement and cost savings, over the next five years.

Market Commentary and News:

The global world refined copper market showed a 132,000t deficit in September, compared with a 94,000t surplus in August, the International Copper Study Group (ICSG) said in its latest monthly bulletin. For the first 9 months of the year, the market was in a 181,000t deficit compared with a 167,000t deficit in the same period a year earlier. World refined copper output in September was 1.98 million tonnes, while consumption was 2.11 million tonnes. Bonded stocks of copper in China showed a 132,000t deficit in September compared with a 79,000t surplus in August.

Chile's Codelco will soon sell its first copper cathodes with pricing that takes into account the environmental footprint of production, its chairman said. The plan would mark a stark change from the traditional pricing model for copper producers where the quality of metal is the price differentiator for what is otherwise a standardized product. The statement failed to explain just how such pricing would be structured.

Chile is set to maintain its position as the world's largest copper producer by increasing annual production by around 1Mt over the next decade, a government report said. The Chilean Copper Commission said that output will rise to 6.325Mt by 2028, up from 5.332Mt this year. Cochilco said production is set to hit 6.0Mt in 2020. Meanwhile, Chile produced 505,568t of copper in November, up 4.8% year on year. Production during the first 11 months of the year totalled 5.046Mt, down 1.4% from the same period in 2016 – a figure that suggests production will surpass the 5.332Mt predicted by Cochilco. Cochilco predicts production will rise 8.0% next year to 5.755Mt as new processing capacity boosts production at Escondida.

China's unwrought copper imports rose by more than 40% in November from the previous month, in a sign that winter production restrictions there are driving up imports. Arrivals of unwrought copper, which includes anode, refined, and semi-finished copper products stood at 470,000t last month, the General Administration of Customs said, the highest level since December 2016. Analysts suggest that the sharp rebound in China's imports of major commodities in November was more of a return to normal service than any sign of a resurgence in demand in the world's largest buyer of natural resources.

Market reports suggest that one of China's major refined copper producers, Jiangxi Copper Co., was told to cut production at month end for at least a week before a new assessment is made on local pollution levels. According to analysts, this raises the prospect of China slowing production while maintaining consumption of the metal which will ensure a strong copper market and underpin the price performance.

Workers at Teck Resources' Quebrada Blanca copper mine in Chile went on an 8-day strike in the month. Work resumed as the parties reached a new wage agreement and agreed a 24-month contract.

Zambia's 2017 copper output is expected to increase to between 800,000t and 850,000t due to stable power supply and higher copper prices from 774,290t in last year, mines minister Christopher Yaluma said. Zambia's copper production is next year likely to increase further to reach 1 million tonnes, Yaluma said, citing improved power generation and higher prices.

China's primary aluminium production fell for a fifth consecutive month in November, official data showed, as the country's winter restrictions on smelters pushed output to its lowest since February 2015. The world's top aluminium producer produced 2.35 million tonnes of the metal last month, down 7.8% from 2.55 million tonnes in October and down 16.8% from a year ago, according to the National Bureau of Statistics.

Some analysts have added a note of caution to the long-term impact of Chinese 'capacity cuts'. They suggest that while the strategy constrains capacity growth and boosts the industry's utilisation rate, it is likely to see China's total output lift too. They suggest China's smelters are making use of 'capacity swap quotas' whereby smelters are swapping capacity or selling it as a quota to western China, where costs are cheaper and the total capacity remains. According to research, China has completed 4.16 million tonnes of refined aluminium capacity swaps in 2017 and is yet to complete another 1.98 million tonnes. Inner Mongolia, Xinjiang and Shanxi provinces topped the list for capacity swaps.

Some Japanese aluminium buyers have agreed to pay producers a premium of \$103/t for primary aluminium shipments in the January to March quarter, reflecting higher spot premiums, sources directly involved in the pricing talks reported. The new premium is between 8.4% and 9.6% higher than the \$94/t to \$95/t premiums in Q4 2017. The rise is the first in three

quarters. Japan is Asia's biggest aluminium importer of primary aluminium and the premiums it agrees to pay set the benchmark for the region.

Emirates Global Aluminium (EGA) said it had signed a three-year alumina supply agreement with a Vietnamese state-owned firm, its first such deal with Vietnam. EGA, owned equally by Abu Dhabi and Dubai investment funds, has signed the deal with Vinacomin for supply of 300,000t of alumina per year, it said in a statement.

Greek industrial group Mytilineos will finalise a \$400 million investment in its home country next month, which it says will make it Europe's biggest alumina producer. Despite Greece's crippling recession between 2008 and 2016, which shrank the economy by a quarter, Mytilineos, whose businesses range from metals production to building power plants, has fared well thanks to overseas expansion and spending hundreds of millions of euros on new equipment to halve production costs.

The LME is unlikely to provide clearing services for proposed new trading platform NFX, market sources said, presenting a significant obstacle to the new exchange before it goes live in 2018. After an initial burst of enthusiasm for NFX, fanned by objections to a sharp rise in trading fees charged by the LME, sources said subsequent cuts to the LME's charges mean members are less keen on the rival exchange.

LME Commentary:

In December, a quiet start to the month soon saw LME non-ferrous metals prices rising towards month end to near-year highs, fuelled by signs of improving economic growth in China, the U.S. and Europe which in turn stimulated investor belief in rising demand and tighter supplies. The outlook for metals got an additional boost mid-month from central banks, as the U.S. Federal Reserve and the European Central Bank increased their forecasts for growth in their economies next year.

Following the Christmas break, prices moved higher again, supported by a weaker U.S. currency, and the LME GBP copper cash price reached an 8-week high at £5369.45/t, just short of the year's high of £5373.77/t seen in October. The year close of £5295.31/t was the highest since 2010. The underlying USD copper cash price reached \$7216/t at month end – its highest level since January 2014. LME primary aluminium prices outperformed copper, with both the GBP and underlying USD cash prices rising to multi-year highs of £1671.26/t and \$2246/t respectively.

Some analysts however, were cautioning that these surges should be viewed cautiously, with much of the rally occurring over the holiday period and on the back of thin trading volumes. Additionally, traders suggested that the rally was most likely the result of momentum-oriented Asian traders, who succeeded in pushing prices still higher.

In the year as a whole, copper and aluminium GBP cash prices have risen 16.6% and 19.6% respectively while their underlying USD equivalent prices have risen 28% and 31.7% respectively. Both copper and aluminium LME prices achieved multi year highs as the base metal sector posted the biggest returns among raw materials in 2017 on the Bloomberg Commodity Index.

LME copper stocks closed the year at 201,725t, up 18,200t in the month but down 120,500t or 38% in the year. Primary aluminium LME stocks closed the year at 1,101,925t, down a modest 6,975t in the month and a huge 1,104,000t or 50% in the year.

LME Statistics and Charts: December and Full Year 2017:

Dec-17	Copper			Aluminium			USD:GBP
	Cash £/t	3M £/t	Stocks	Cash \$/t	Cash £/t	Stocks	
Opening	4988.52	4999.63	183,525	2046.50	1516.14	1,108,900	1.3499
Average	5072.39	5083.94		2070.74	1544.35		1.3408
High	5369.45	5379.45		2246.00	1671.26		1.3516
Low	4868.94	4879.04		1991.50	1483.36		1.3354
Range	500.51	500.41		254.50	187.90		
Closing	5295.21	5305.01	201,725	2241.50	1658.40	1,101,925	1.3516
Opening-Closing Δ	+306.69	+305.38	+18,200	+195.00	+142.26	-6,975	

Full Year 2017	Copper			Aluminium			USD:GBP
	Cash £/t	3M £/t	Stocks	Cash \$/t	Cash £/t	Stocks	
Opening	4542.79	4540.94	322,225	1702.00	1387.12	2,205,925	1.2270
Average	4782.70	4791.80		1968.74	1527.52		
High	5373.77	5379.45		2246.00	1671.26		
Low	4215.29	4217.78		1701.00	1384.73		
Range	1158.48	1161.67		545.00	286.53		
Closing	5295.21	5305.01	201,725	2241.50	1658.40	1,101,925	1.3517
Opening:Closing Δ	752.42	764.07	-120,500	539.50	271.28	-1,104,000	0.1247





