January 2018

Economic Indicators and Comment:

U.S. GDP expanded at a 2.6% annual rate in the fourth quarter - an unexpected slowdown as the strongest pace of consumer spending in three years resulted in a surge in imports. Growth was also restrained by a modest pace of inventory accumulation, the Commerce Department said in its advance fourth-quarter GDP report. This followed a 3.2% increase in the third quarter. Rising imports underscore the challenges that the Trump administration faces in its quest to boost annual GDP growth to 3%. Strong domestic demand is part of a synchronized global rebound that includes the euro zone and Asia. Demand has also been buoyed by President Trump's promise of hefty tax cuts following the largest overhaul of the tax code in 30 years, effected in December. The economy grew 2.3% in 2017, up from 1.5% in 2016.

Preliminary data released by Eurostat, the EU's statistics office, showed GDP in the 19-country euro zone rose 0.6% quarter-on-quarter in the last three months of 2017, representing a 2.7% year-on-year gain. Eurostat said that this was the fastest growth rate since a 3% rise in 2007. The high growth in Q4 means that the carry-over effect for 2018 is very favourable. Eurostat revised upwards growth data for the third quarter to 0.7% quarter-on-quarter from the previously reported 0.6%

Eurostat also reported that industrial production in the euro zone rose 1% in November compared to October and was 3.2% higher than a year earlier. The stronger than expected growth was mainly due to a surge in the production of capital goods as well as intermediate goods and durable consumer goods.

According to the ONS, the UK economy grew at a faster rate than expected in the final three months of 2017, despite pockets of weaker and more uneven growth triggered by the Brexit vote. GDP grew by 0.5% in the fourth quarter after expansion of 0.4% in the previous three months. City economists had forecast growth of 0.4%. However, officials said the rate of expansion for the year as a whole was the slowest since 2012, having fallen from 1.9% in 2016 to 1.8%. The ONS also said the bigger picture showed weaker and more uneven expansion. An FT survey published earlier in the month expected UK GDP to slow to 1.5% in 2018.

Companies:

Aurubis AG, Europe's biggest copper smelter, has agreed to take 100% control of German copper rod and wire producer Deutsche Giessdraht by acquiring the 40% stake held by Chile's Codelco. Aurubis had held the remaining 60% of Deutsche Giessdraht while Codelco held the remainder through Codelco Kupferhandel GmbH. The final transfer of ownership is subject to approval by the German federal anti-trust office. Both parties have agreed not to disclose the purchase price. DG produces around 240,000tpa of copper wirerod, branded Rhein-Rod, and employs about 110 employees. In its financial year 2016/2017, Aurubis produced 719,000t of wirerod (including around 140,000t from its DG allocation) compared to 758,000t in the previous year. Both Aurubis and Codelco Kupferhandel will fulfill their own supply contracts in 2018. Thereafter, Aurubis will assume sole marketing of the brand.

Market Commentary and News:

The global world refined copper market showed a 2,000t deficit in October, compared with a 113,000t deficit in September, the International Copper Study Group (ICSG) said in its latest monthly bulletin. For the first 10 months of the year, the market was in a 175,000t deficit compared with a 143,000t deficit in the same period a year earlier. World refined copper output in October was 1.97 million tonnes, while consumption was 1.97 million tonnes. Bonded stocks of copper in China showed a 12,000t deficit in October compared with a 128,000t deficit in September.

China's refined copper output jumped by 16.7% year on year to a record high in December, as smelters looked to produce as much metal as possible ahead of a fall in treatment charges for copper concentrate. Production of 865,000t of refined copper beat the previous high of 833,000t set in December 2014, according to data from the National Bureau of Statistics. December volume was up 10% from November. Annual refined copper output also hit a record at 8.89 million tonnes. The new monthly peak casts doubt on whether smelters have actually cut production to comply with winter curbs on industrial output. Copper has not been as affected as other metals such as aluminium in this regard, and China's major primary copper smelters are located outside the northern regions subject to the restrictions. China meanwhile, imported 328,300t of refined copper in December, down 10.6% on the previous year.

Chile's state copper commission, Cochilco, raised its estimated 2018 average price for the metal to $6746/t from its previous forecast of $6504/t, pointing to the potential for global supply disruptions in the coming year. The end of January price closed at $7100.50/t. Cochilco highlighted the large number of anticipated labour negotiations in Chile and Peru (there are between 20 and 25 collective negotiations expected in South America) which in combination with new Chinese environmental regulations and curbs on scrap copper imports, is likely to make prices rise more quickly than originally anticipated. Given the potential for supply issues, Cochilco predicted a global copper supply deficit of 175,000t in 2018, versus 67,000t in 2017. Cochilco expects Chile to produce 5.74 million tonnes this year, up 4.9% from the 2017, when a strike at BHP's reduced output. Production would rise slightly to 5.91 million tonnes in 2019, the agency said.

A Reuters poll concluded that supply problems including strikes at copper mines will ensure deeper shortages of metals this year but that weaker Chinese demand may ‘weigh’ on higher prices. It suggested that a weaker Chinese property market could reduce copper demand but that the market was at risk from the supply side with more than 20% of supply capacity due for wage negotiation this year – as miners report increased profitability. Their analysts are forecasting a deficit of 45,500t this year, from a previous (November 2017) forecast of a 93,000t surplus. The median price forecast for 2018 was an average LME cash price of $6684/t, down 6% from the November forecast.

For aluminium, the Reuters poll showed an expectation of further closures with the market remaining tight although it anticipated global sentiment to be adversely affected as capacity restarts gather momentum, preventing faster price growth. Analysts upped their forecast of a primary aluminium deficit in 2018 to 361,000t from the previous forecast of 100,000t. The median price forecast was for an average of $2097/t in 2018, down 5.7% from the end of January.

KGHM, Europe’s third largest copper cathode producer, will suspend one of its two production lines at the Glogów copper smelter and refinery facility in Poland from April to June, the company said. The Glogów facility in Poland generates a total of 465,000t copper cathodes every year - the Glogów II plant, produces 235,000t while the older Glogów I plant, operates on an annual capacity of 230,000t. The company plans to undergo a three-month maintenance at Glogów Copper Smelter II in the second quarter of 2018.

An affiliate of Qatari conglomerate Aamal Co plans to build three factories to produce copper wires, aluminium bars and drums for cables, projects that could make the country more self-reliant in the face of an embargo by other Arab states. The factories will be established by Senyar Industries Qatar Holding, owned 50% by Aamal and 50% by Egyptian cable maker El Sewedy Electric Co, Aamal said in January.

China's primary aluminium production rebounded in December after five months of decline despite winter output restrictions imposed on smelters, pushing total 2017 output to record levels. According to the National Bureau of Statistics, China produced 2.71 million tonnes in December, up 15.3% from 2.35 million tonnes in November and its highest level since June. Full year output achieved a record of 32.27 million tonnes. China's central Henan province produced more aluminium than neighbouring Shandong for the first time in years, becoming the nation's top-producing region - illustrating how Beijing's crackdown on pollution and efforts to streamline bloated industries is transforming the nation's industrial landscape.

Unionized workers at Alcoa Corp's aluminium smelter in Becancour, Quebec rejected the company's latest contract offer. About 80% of the workers rejected the contract offer but the president of the local steelworker's union urged the company to continue negotiations.

Aluminium has made significant inroads into copper's share of the heating, ventilation and air conditioning market in recent years, to the point where it now has a dominant position in the North American indoor coil sector according to US aluminium heat transfer components manufacturer Brazeway. In the last five years, aluminium has made "significant" gains in the indoor coil market, with about 85% of the market transitioning to all-aluminium construction. The situation in the outdoor coil market is slightly different, with around 20% of the market transitioning to aluminium. A key supportive factor for the switch to aluminium in recent years has been the price spread between copper and aluminium.

U.S. aluminium products makers have sought new trade protections against Chinese imports, accusing China Zhongwang Holdings Ltd and its affiliates of evading U.S. anti-dumping and anti-subsidy duties by shipping aluminium products through Vietnam. In a filing with the U.S. Commerce Department, the Aluminum Extruders Council said that aluminium extrusions from Zhongwang affiliate Global Vietnam Aluminum Co should be subject to the same U.S. import duties as Chinese extrusions.

Stocks of industrial metals in LME warehouses fell more than 40% last year and further declines are expected in 2018, which should in theory signal tighter supplies and fuel a strong price rally. But, according to Societe Generale, rising inventories of metals at smaller rival exchanges suggest the real supply picture is more mixed. Stocks of metal in warehouses monitored by the Shanghai Futures Exchange (ShFE) more than doubled last year with aluminium stockpiles surging 649% to a record high of 754,133t as output in China jumped. Copper stocks in CME warehouses in the U.S. meanwhile leapt 139% to a record 232,777t. The picture of more plentiful supply is borne out in the spreads between longer and shorter dated contracts. The structures of LME copper and aluminium forward spreads, signal comfortable availability of near-term supply.

As China tightens restrictions on imports of foreign waste, Chinese metal recyclers and even smelters like Jiangxi Copper are increasingly looking to use Southeast Asian countries as an alternative location for the processing of copper scrap. China relies on imports for around half of its scrap copper needs but told the World Trade Organization last year that it would stop accepting certain types of foreign solid waste, including metals, from 2018 if they did not meet stricter impurity thresholds.

Trading volumes on the London Metal Exchange rose last year for the first time since 2014, a sign that reforms are starting to pay off. Trading volumes across all metals rose 0.5% to 157.4 million contracts last year, up from 156.5 million in 2016. Average daily volumes rose to 694,292 contracts in December, up 10.1% on the prior month, data on the exchange's website showed. The stabilization in volumes came after new CEO Matthew Chamberlain led a campaign to win back custom lost to rival exchanges and other platforms in recent years. The changes include lower trading fees for some of the most popular contracts. "The planned initiatives for 2018 and subsequent years will facilitate further growth for the LME and for the market as a whole," Chamberlain said in an emailed statement. The exchange recognizes that volumes "will also be influenced by broader market and macroeconomic conditions," he said.

A Reuters analysis of exchange data showed CME Group won a bigger slice of the copper market in 2017 from its rivals in London and Shanghai. Trades of CME's Comex copper contract surged 25.7% last year to a record of more than 300 million tonnes, the analysis showed. That makes Comex the world's second-biggest contract by volume.

There were no queues at LME warehouses in December for any metal, according to data released by the exchange. In November, just one queue remained at LME warehouses - ISTIM Metal LLC in New Orleans had an eight-day queue for copper, lead, aluminium and zinc. This follows the end of the infamous Access World Vlissingen queue in September 2017 after six years of queues. At its peak in June 2014, aluminium buyers had to wait 774 days to take delivery of the metal at this warehouse. Meanwhile, the wait was 681 days for aluminium at Metal International Trade Services' warehouse in Detroit. Since 2013, the exchange has implemented multiple warehousing reforms aimed at removing these queues.

LME Commentary:

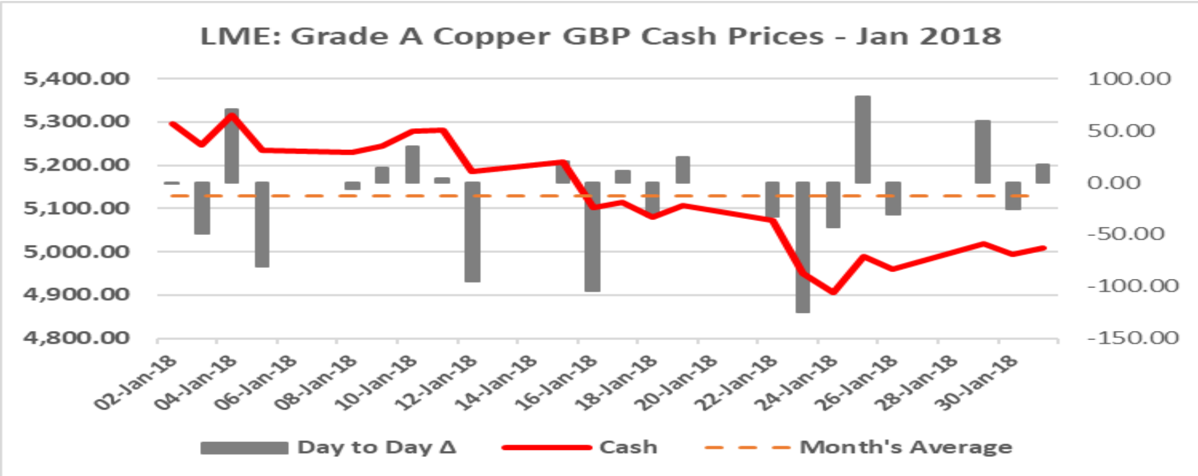
In a relatively quiet trading month, LME copper and aluminium prices failed to maintain the strong start to the year. The initial positive trend for primary aluminium showed signs of slowing down with market sentiment driven by concern over the futility of China's output cut and the growing aluminium output. The LME primary aluminium cash price reached its high of £1663.47/t on the first trading day of the month, falling steadily through the month to hit a low of £1565.97/t on 24.01.18.

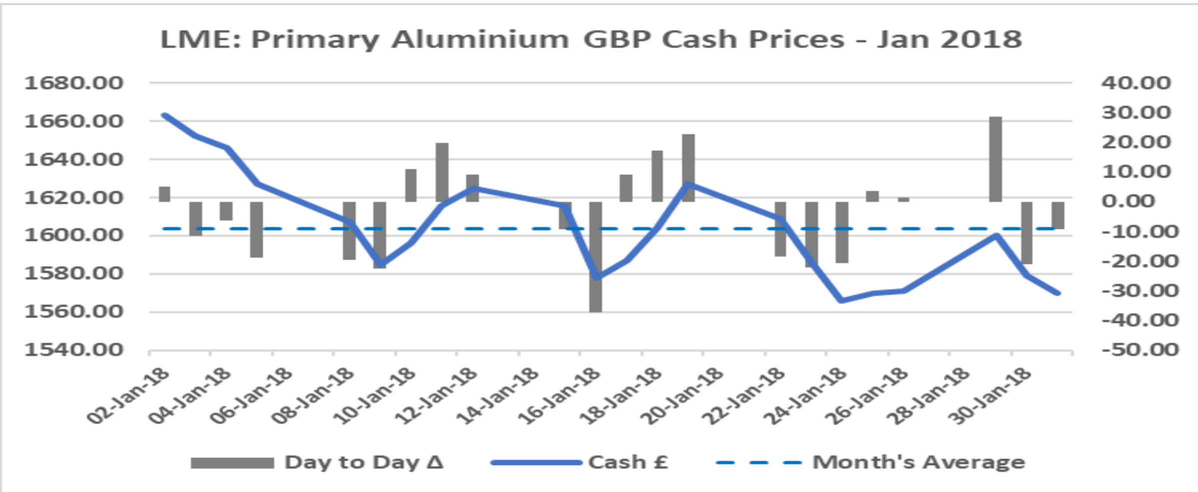
LME copper prices held near 5½ year Sterling highs at the start of trading in the new year, supported by bullish market reports that demand in China will improve in 2018. Prices subsequently fell across the board due to a strengthening U.S. dollar and data that showed China had produced a record volume of refined copper in December (suggesting the world's biggest copper consumer is well supplied). LME copper stocks saw a huge inflow to the end of the month, further depressing sentiment.

Copper reached its high of £5316.28/t on 4.01.18, falling over the course of the month to a low of £4906.37 on 24.01.18. LME stocks closed the month at 304,675t, up 104,250t in the month – most of which were delivered in over the space of 5 days.

LME Statistics and Charts: January 2018:

	Copper			Aluminium			USD:GBP
	Cash £/t	3M £/t	Stocks	Cash $/t	Cash £/t	Stocks	
Opening	5294.94	5313.53	200,650	2256.00	1663.47	1,101,375	1.3562
Average	5128.39	5142.33		2214.50	1603.67		1.3812
High	5316.28	5335.54		2256.00	1663.47		1.4255
Low	4906.37	4920.77		2143.50	1565.97		1.3485
Range	409.91	414.77		112.50	97.50		
Closing	5010.23	5305.01	304,675	2224.50	1569.64	1,080,550	1.4172
Opening:Closing Δ	-284.7	-8.5	+104,025	-31.50	-93.83	-20,825	
YTD Average	5128.39	5142.33		2214.50	1603.67		





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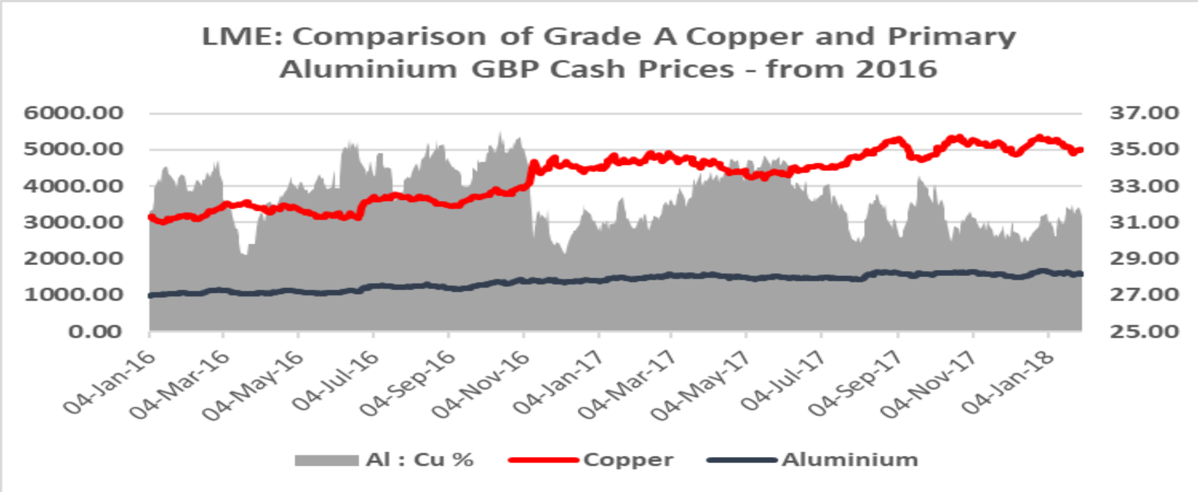

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