

February 2018

Economic Indicators and Comment:

U.S. economic growth slowed slightly more than initially thought in the fourth quarter. GDP expanded at a 2.5% annual rate in the final three months of 2017, instead of the previously reported 2.6% increase, the Commerce Department said in its second GDP estimate. This is a deceleration from the third quarter's 3.2% increase. The downward revision to the Q4 GDP growth estimate largely reflected a smaller inventory build than previously reported. It was in line with economists' expectations. Economists report that economy appears to have lost further momentum at the start of the year, with recent data showing retail sales, home sales, durable goods orders and industrial production declining in January. In addition, the goods trade deficit widened in January as exports fell.

U.S. industrial production fell 0.1% in January for the first time in 6 months, dragged down by a 1% decline in mining output. Utilities output rose 0.6%. The industrial sector has received support over the last year from a strengthening global economy. Manufacturing output was held back by output declines of 0.2% at aerospace factories, 0.5% for those producing plastics and 0.4% in food industries. Output rose modestly overall for goods made to last at least six months, with gains in production of primary metals, computers, and motor vehicles.

Seasonally adjusted GDP rose by 0.6% in both the euro area (EA19) and the EU28 during the fourth quarter of 2017, compared with the previous quarter, according to a flash estimate published by Eurostat, the statistical office of the European Union. In the third quarter of 2017, GDP grew by 0.7% in both zones. Compared with the same quarter of the previous year, seasonally adjusted GDP rose by 2.7% in the euro area and by 2.6% in the EU28 in the fourth quarter of 2017, after a 2.8% increase in both zones in the previous quarter. Eurostat also said industrial production in the EA19 rose 0.4% mom for a 5.2% yoy gain. Economists polled by Reuters had expected a 0.2% monthly and 4.2% annual rise.

According to the ONS's second estimate of growth, the UK's GDP grew 0.4% in the fourth quarter of 2017 down on the first estimate of 0.5%, released in January. On an annual basis, GDP grew by 1.4% on a year-to-year basis in the quarter, once again below the previous estimate, which was 1.5%. Services, which account for roughly 80% of UK output, accounted for the majority of growth over the data period. A number of very small revisions to mining, energy generation and services were enough to see a slight downward revision to quarterly growth overall, despite headline services output being unchanged. While the downward revision does not mark a big drop, it is nonetheless significant as it reverses the optimism brought by January's suggestion that the economy ended 2017 with growing momentum. It also pushes the UK back to the bottom of the G7 growth tables, making it the slowest growing major economy in the world in 2017. The growth of 1.4% is lower than that of Japan and Italy, the other weakest nations in growth terms last year. UK GDP has now grown in 20 consecutive quarters.

Companies:

Aurubis AG, Europe's largest refined copper producer posted a more than fourfold surge in fiscal first-quarter operating earnings and stood by its expectation of stable earnings in its new year. Significantly higher concentrate throughput and increased refining charges for copper scrap helped the results, the company said. The Group generated operating earnings before taxes (EBT) of €79 million in Q1 of fiscal year 2017/18 (previous year: €18 million). Revenue in the Group increased during the first three months of the fiscal year to €2,872 million (previous year: €2,462 million), which can primarily be attributed to the increased copper price. Operating ROCE (taking the operating EBIT of the last 4 quarters into consideration) was up 15.4%. Copper rod production in the quarter was reported at 181Kt, up 11% compared to the previous years' quarter of 163Kt. The company also said it is in advanced negotiations to sell its Flat Rolled Products division to semi-finished product manufacturer Wieland-Werke. The deal will see Aurubis offload the division, which had

revenues of €1.3 billion last year and produced 230,000t of copper products across sites in the U.S., the Netherlands, Finland and Germany.

Norwegian aluminium producer Norsk Hydro reported fourth-quarter core earnings below forecast blaming one-off costs related to the acquisition of aluminium products firm Sapa, but its key unit's figures met or were above forecasts. The firm's fourth-quarter core underlying earnings before interest and taxes rose to 3.56 billion Norwegian crowns (US\$459.91 million) from 1.83 billion crowns a year earlier but missed expectations of 3.79 billion crowns based on a Reuters poll of analysts.

The world's biggest miner BHP Billiton, reported a 25% rise in underlying half-year profit helped by robust metals prices, and said its focus remains on cutting debt and boosting shareholder returns. BHP said its plan to sell its onshore U.S. shale assets, which it has in its books at \$14 billion, was progressing to plan with initial bids expected in the June quarter.

Glencore Chief Executive Ivan Glasenberg hailed the group's results as its "strongest on record" bolstered by a recovery on commodity markets and said it had the assets to meet future demand including from electric vehicles. Glasenberg said there were "emerging inflationary pressures," but they had been offset so far by strong prices for by-products, such as cobalt, and Glencore was able to contain costs. The mining and trading company posted full-year overall adjusted profit of US\$14.76 billion. Glencore's trading business, rose 3% to exceed US\$3 billion for the first time since 2008.

Market Commentary and News:

The global refined copper balance for the first eleven months of 2017 indicates a deficit of about 195 000t, some 27% wider than at the same time a year earlier, the latest data from the International Copper Study Group (ICSG) shows. It attributed the widening deficit to an almost stagnant growth in world refined copper supplies, adding to a 40,000t month-on-month widening of the copper supply gap. World mine output is estimated to have fallen by 2.4% in the first eleven months of 2017 to 18.11 million tonnes of copper. The decline in world mine production was mainly owing to a 1.6% decline in production in Chile, which was negatively affected by the strike at the Escondida mine. World refined copper production is estimated to have slightly increased by 0.5% to 21.4 million tonnes in the first eleven months of 2017, with primary production declining by around 1.5% and secondary production increasing by 9%. World apparent refined copper usage is estimated to have increased modestly by 0.6% to 21.6 million tonnes, as improved scrap supply constrained world refined copper use growth globally in 2017, the ICSG said. As of the end of January, copper stocks held at the major metal exchanges totalled 670.55kt, a 24% increase from stocks held in December at 128.02kt.

Analysts at Thomson Reuters GFMS published their analysis of the global copper market outlook for 2018. They said the copper surplus could widen modestly this year despite major supply disruptions hitting in early-2017 and widespread talk of deficits. This is before contracting as the end of the decade approaches. A resurgence in bullishness resulted in copper making further gains in the December 2017 quarter, with LME three-month contracts reaching a near four-year high of US\$7,313 per tonne in late December and the quarterly average rising by 7% and 30% on a sequential and year-on-year basis, respectively, during the period. It added that, on an annual basis, copper averaged \$6,200/t in 2017, up 27% year-on-year, with influence from a weaker US dollar, robust Chinese economic data and an expected property market slowdown pushed out to later in 2018. GFMS expects copper prices to rise by a further 8.1% this year to average \$6,700/t and reach \$7,500/t by 2020. The analysts said copper prices were likely to be supported by supply constraints, such as Chinese scrap import restrictions, potential labour disputes at large mines and a looming shortage further ahead. GFMS analysts said provisional estimates indicated global copper mine output could have dipped slightly in 2017, but output was forecast to be stronger in 2018. However, it pointed out that the market was likely to be nervous about the large number of labour contracts expiring this year, including at Chile's Escondida mine where there was a 44-day strike last year. Steadily growing consumption is also a bullish factor for prices, with the added risk of more demand on the faster-than-expected adoption of electric vehicles. In China, demand was likely to be driven by power demand and greater investment in electricity infrastructure. This could be offset by the country's property market slowing down after growth fell to 7.7% in 2017, from 22.5% the previous year. A dip in railway construction could also dent demand. Expectations elsewhere were high, especially in the US and India. Overall, GFMS expected the supply surplus to widen in 2018 and 2019, although not enough to "dampen spirits," especially with a deficit looming at the turn of the decade.

China imported 314.5kt of refined copper in January, up 13.0% on the previous year.

Zambian copper production will climb 6.8% to 839,240t this year, according to a forecast from the Ministry of Mines. Output is expected to rise from 785,648t last year and 770,588t in 2016, the ministry said in a statement.

Peru's annual copper output rose 3.9% to a record 2.44million tons, according to data released by the Energy and Mines Ministry. December copper production was 224,651t, the largest of the year and 6.3% up on the same month last year.

Copper production in Democratic Republic of Congo, Africa's biggest producer, rose 6.9% in 2017 to 1.09 million tonnes, the country's chamber of mines said

Boliden CEO Lennart Evrell believes "reports of the commodity super cycle's death may have been greatly exaggerated", at least for industrial metals like copper and zinc. Steady global demand and constrained supply can take copper prices to "very high" levels, he said in an interview. Evrell painted a positive picture for demand, with mature economies playing a bigger role as global electrification accelerates. New energy systems, the push from fossil fuels toward renewables, and the rechargeable-battery revolution are part of a new normal for copper and other base metals. On the supply side, producers are facing bottlenecks, long lead times, heightening environmental scrutiny and falling ore grades. Those constraints, combined with steady demand, mean supply will play a bigger role in determining prices than in previous cycles. The copper market is tightening and will move into a deficit soon, he said. Later in the month, Boliden announced it will invest \$308 million over the next two years to expand its copper-nickel production sites in Finland. The company will spend €80 million (\$98.65 million) to raise output at its Kevitsa copper-nickel mine and €45 million to expand capacity of the Harjavalta copper-nickel smelter.

Russian aluminium exports to countries outside the Commonwealth of Independent States (CIS) decreased in 2017, while copper exports increased, official customs data showed. The Federal Customs Service provided the following data for Russian aluminium and copper exports (in tonnes) in 2017;

	2017	2016
Aluminium	3,208,100	3,481,400
Copper	589,900	511,100

Russian aluminium giant United Company Rusal Plc said its 2017 aluminium production increased 0.6% from a year ago to 3.707 million tonnes. Rusal said its aluminium sales rose 3.6% year on year in 2017 to 3.955 million tonnes and the average realized price jumped 21.5% to \$2,105/t. Rusal posted a 42% jump in fourth-quarter core earnings, helped by higher aluminium prices, and announced billionaire Oleg Deripaska would step down as president, as expected. Fourth-quarter (EBITDA) rose to \$586 million from \$412 million in the last quarter of 2016. Analysts had expected core earnings of \$598 million.

China's exports of unwrought aluminium and aluminium products rose for a third straight month in January, making the most of a favourable difference between the SHFE price and the LME price. Exports stood at 445,000t, up 1.1% from December and up 14.1% from 390,000t a year ago, reaching their highest level since June.

Norwegian aluminium maker Norsk Hydro has been told by a Brazilian regulator to cut output from its Alunorte alumina refinery by 50% until it complies with an order to safeguard the environment, the company said. The cutbacks follow recent claims by Brazilian federal and state prosecutors of a waste spill at one of Alunorte's bauxite refuse deposits after heavy rain. Hydro reiterated that it found no evidence of any such pollution.

The LME is likely to make fee cuts permanent on short and medium dated carry trades after volumes on those trades rose in January, despite slightly weaker overall turnover, it said. The LME cut fees on short-dated carries in October and on medium-dated carries in November in a bid to revive volumes after total turnover on the exchange fell by 4.3% in 2015 and 7.7% in 2016.

The LME could remove companies from its list of approved metal suppliers if they fall short of industry standards following an outcry about cobalt mined by children in Africa, industry sources said. The exchange will issue principles for responsible sourcing in coming months and producers will have to show their metal meets industry standards that conform with the new LME guidelines.

LME Commentary:

2018 has witnessed growing metal stocks held in the exchange warehouses of the LME, Comex and SHFE;

- Copper stocks held in warehouses registered with COMEX in the U.S. stood at 208,994t at February month end, up 9.2% from the start of the year figure of 191,391t and compares with just below 90,000t at the start of 2017. Record high

stocks of copper in land-locked Arizona and Utah are a reflection of soaring transport costs in the U.S. and weak demand for the industrial metal produced in the Americas, copper industry sources say. Trucking costs are generally higher and premiums currently about \$130/t in the U.S. are still not high enough to cover the costs of transporting the copper to the country's industrial heartland in the Midwest or to consumers in Asia. Sources said the cost of taking copper from a warehouse in Arizona, loading it into a container, then onto a truck, driving it to a seaport, unloading the container there and loading onto a vessel could cost between \$120 and \$150/t. That is about double the level at the end of 2016.

- LME copper stocks were up 23,325t in the month, closing at 328,000t – up 127,350t or 63.5% from the year's opening stock of 200,650t.
- Copper stocks in China's SHFE closed February at 218,352t up 45% or 68,043t on the start of the year.
- LME stocks of aluminium surged by almost a quarter of a million tonnes – up 241,600t over the month, closing at 1,322,150t. Most of the increase was recorded over a 5 day period in the middle of the month with one day showing a huge input of 166,225 tonnes. The closing figure compares with the start of the year at 1,101,375t - a 20% or 220,775t increase.

The early-February sell-off in LME base metals prices saw the January 2018 gains wiped out by the knock-on impact of sharp global equity market declines. Turmoil in stock markets was the catalyst, as both copper and aluminium prices hit 10-week lows at £4887.78/t and £1528.03/t respectively. Analysts were quick to point out that none of this has significantly changed the micro-fundamental outlook for base metals in the longer-term. Those fundamentals are broadly positive – rising demand in China and other key economies, some questions over supply prospects for the likes of copper and increased investment interest. Inevitably, volatility in wider financials ripples through to the LME complex. For over a year, equities markets have enjoyed almost uninterrupted advances, so a correction, even a technical retracement, has been possible for some time.

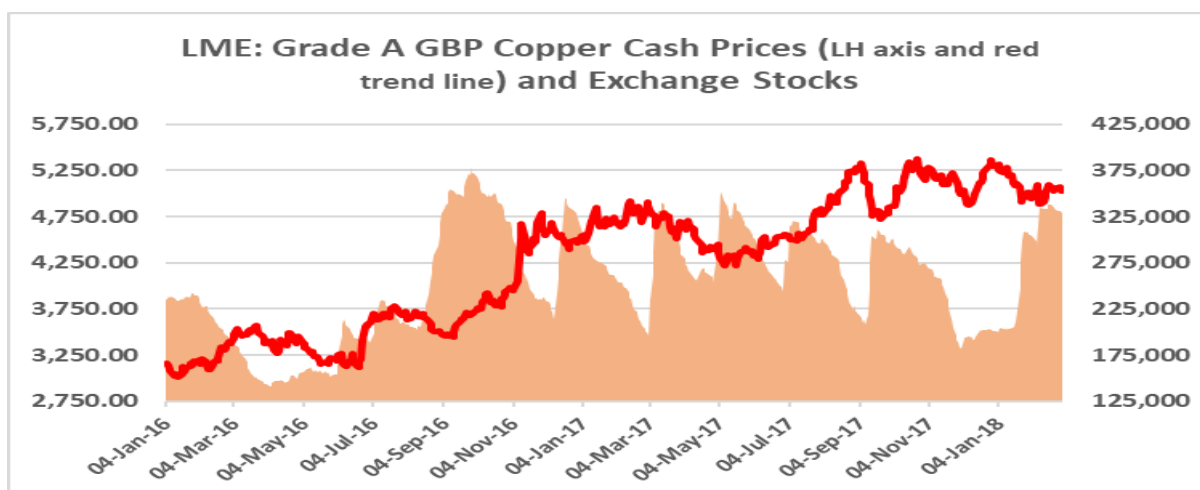
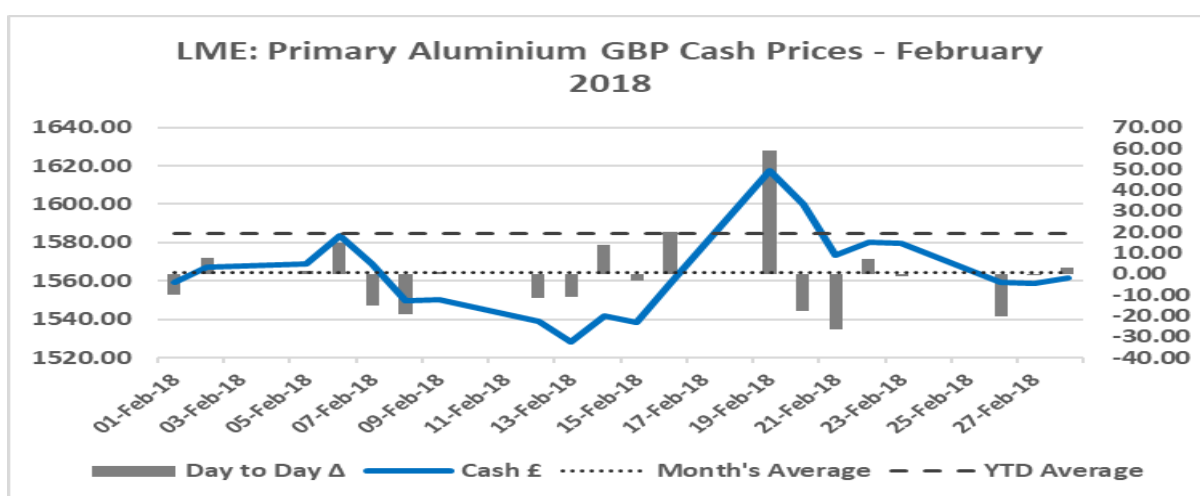
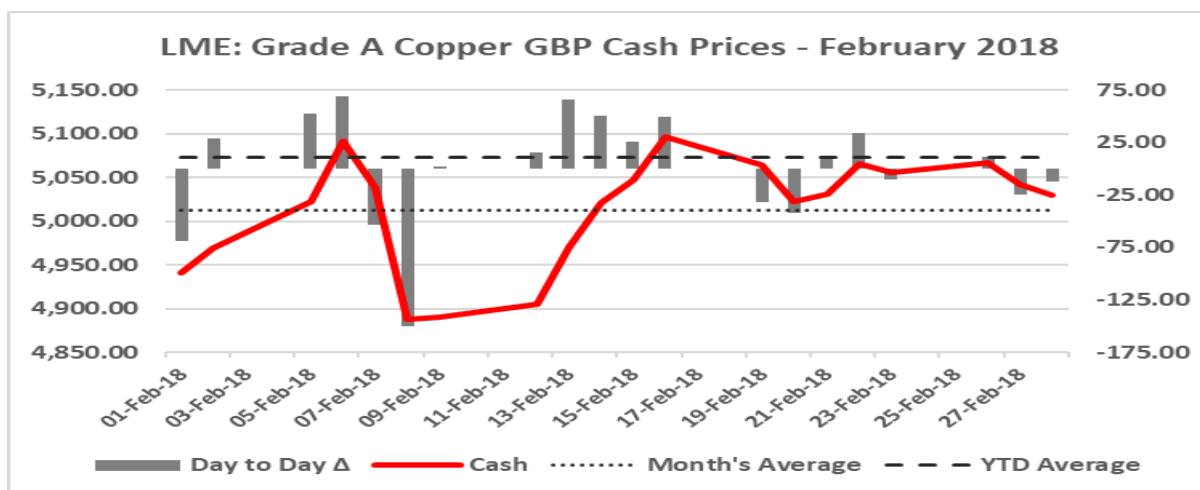
The market fundamentals were largely featureless in February and prices were additionally affected by the Chinese New Year holidays. Prices struggled to recover over the month, hindered by the surge in exchange stocks but strongly supported by a weaker dollar and a broad recovery in global equities.

Aluminium closed the month at £1561.64/t, largely unchanged from the end of January close (@ £1569.64/t) while copper closed at £5030.39/t compared to £5010.23/t at the end of January.

One other feature of note was the emergence of a backwardation in the primary aluminium cash to three-month spread – it traded out to a maximum of £37.76/t before closing the month at £21.07/t - levels not seen since before the global financial crisis. Market analysts suggest that this is most probably a short-term aberration caused by the potent combination of February date shorts clashing with dominant longs, given added impetus and turbulence by shifts in aluminium inventory levels on the LME.

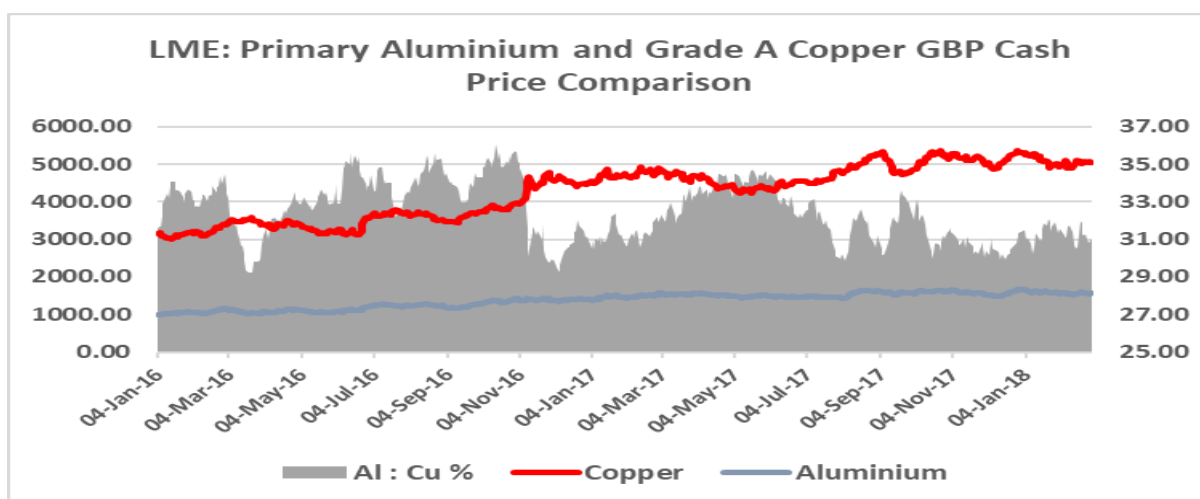
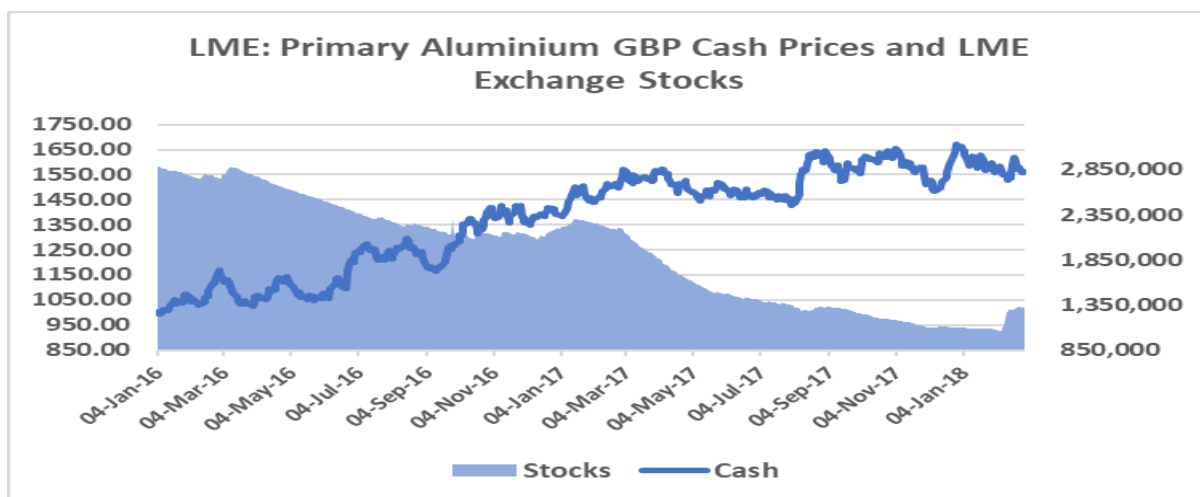
LME Statistics and Charts: February 2018:

	Copper			Aluminium			USD:GBP
	Cash £/t	3M £/t	Stocks	Cash \$/t	Cash £/t	Stocks	
Opening	4940.94	4950.96	304,675	2218.00	1559.56	1,080,550	1.4222
Average	5012.90	5024.30		2184.93	1564.26		1.3968
High	5096.10	5108.86		2266.00	1617.76		1.4222
Low	4887.78	4898.87		2123.50	1528.03		1.3815
Range	208.32	209.99		142.50	89.73		
Closing	5030.39	5036.03	328,000	2158.50	1561.64	1,322,150	1.3822
Opening-Closing Δ	+89.45	+85.07	+23,325	-59.50	+2.08	+241,600	
YTD Average	5073.39	5086.13		2200.42	1584.91		
YTD High	5,316.28	5,335.54		2266.00	1663.47		
YTD Low	4,887.78	4,898.87		2123.50	1528.03		



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