

March 2018

Economic Indicators and Comment:

As anticipated, President Trump signed an executive memo imposing import duties of 25% on steel and 10% on aluminium while granting a five-week waiver to the EU, Canada, Mexico, Brazil, Argentina, Australia and South Korea. An exclusion for those countries beyond the beginning of May will depend on the status of "discussions of satisfactory long-term alternative means to address the threatened impairment to U.S. national security," the White House said. The U.S. will impose 25% duties on other targeted Chinese products to compensate for "the harm caused to the American economy from China's policies", according to US authorities.

This came despite warnings from China and the rest of the world that any trade war with the US will only bring disaster to the world economy. Forty-five U.S. trade associations representing some of the largest companies in the country had also urged Trump not to impose tariffs on China, warning it would be "particularly harmful" to the US economy and consumers.

In anticipation, the European Commission had called for industry views on a list of US products it could impose import tariffs on and demanded a permanent EU exclusion from US tariffs, keeping alive a threat to retaliate and highlighting persistent risks of a trans-Atlantic trade war. Talks between the respective US and EU authorities are on-going.

Elsewhere, talks continue on the US granting possible exemptions to steel and aluminium tariffs with South Korea which will be carried out within the context of existing trade negotiations. India has also asked the US to exempt it from higher metal tariffs, saying Indian exports of the two products did not pose a security threat to America.

Meanwhile, U.S. industrial production jumped 1.1% in February, the largest increase in four months, due to a weather-related rebound in construction and a rise in output from the nation's oil and gas fields and mines. Manufacturing output rose 1.2%, the biggest gain since October, the Federal Reserve said in its monthly report.

China's industrial production rose by 7.2% yoy in January-February of 2018, following a 6.25% gain in December. It was the steepest increase in industrial output since June last year, as production rebounded for manufacturing (7.0% from 6.5% in December) and electricity, gas and water production (13.3% from 8.2%). On a monthly basis, industrial production grew by 0.57%. Industrial Production in China averaged 12.28% from 1990 until 2018, reaching an all-time high of 29.4% in August of 1994 and a record low of -21.10% in January of 1990.

Euro zone industrial production was weaker than expected in January, mainly due to a sharp drop in the output of energy, data from the European Union's statistics office showed. Production in the zone fell 1.0% mom in January for a 2.7% yoy rise. Eurostat also revised upwards year-on-year data for December to 5.3% from the previously reported 5.2%. Energy had the biggest downward pull on the aggregate number because its production fell 6.6% on the month and 10.4% from a year earlier.

Companies:

Nexans published its financial statements for 2017, the highlights of which were;

- Organic growth of 5.1% driven by submarine high-voltage operations;
- Operating margin of €272 million, reflecting a €30 million growth (+16% at constant FX and scope);
- Operating cash flow of €277 million, up €53 million versus 2016;
- Attributable net income of €125 million versus €61 million in 2016;
- Net debt of €332 million, an increase of €121 million after share buybacks and dividends (€34 million) and acquisitions (€22 million).

Organic growth accelerated to 8.2% in the second half of the year from 2.4% in the first half, despite slowdowns in businesses in South America and in Oil & Gas business in Asia. Growth was led by a strong 45% increase in sales by the submarine high-voltage business, continuing a trend that was also a feature of first half performance, and by a second half recovery in cable sales to the building industry and energy operators. The performances of the project-based businesses

helped to drive a €30 million increase in the Group's consolidated operating margin (to €272 million in 2017 from €242 million in 2016) and a €36 million increase in EBITDA (to €411 million from €375 million).

Prysmian reported its 2017 full year results, the highlights of which were;

- stable organic growth during the year (-0.1%), markedly improving in Q4 (+2.9%);
- improvement in profitability with adj ebitda at €733m (+3.1%);
- higher margins for energy projects (17.8%) and telecom (17.0%);
- net financial debt improving to €436m (€537m at the end of 2016).

Group Sales amounted to €7,901 million, an organic variation of minus 0.1% assuming the same group perimeter and excluding metal price variation and exchange rate effects. Fourth-quarter performance was of particular note, with organic growth of +2.9% reflecting strong sales of optical cables and gradual recovery for the E&I and Industrial & Network Components businesses. The solid market trend for Energy Projects was confirmed with order intake for cables and submarine systems amounting to approximately €1 billion in 2017, boosting the Group's global leadership in this market. Sales were largely stable for Energy & Infrastructure, with building wires (Trade & Installers) slightly improving. Industrial & Network Components turned in an overall positive performance, while Oil & Gas underperformed due to lower volumes for SURF (Subsea, Umbilicals, Risers Flowlines), only partially absorbed by a recovery in Core Oil&Gas Cables. Lastly, the Telecom segment continued to enjoy vigorous growth, with underlying sales driven by strong global demand for optical cables. Prysmian also announced that the proposed acquisition of General Cable Corporation has been cleared for US antitrust purposes. The transaction remains subject to other regulatory approvals and customary conditions.

Market Commentary and News:

The global world refined copper market showed a 17,000t surplus in December, compared with a 41,000t deficit in November, the International Copper Study Group (ICSG) said in its latest monthly bulletin. For the 2017 full year, the market was in a 163,000t deficit compared with a 150,000t deficit in 2016. World refined copper output in December was 2.13 million tonnes, while consumption was 2.11 million tonnes. Bonded stocks of copper in China showed a 7,000t surplus in December compared with a 26,000t deficit in November.

The Metal Bulletin International Copper Conference held at the beginning of March saw industry participants meet and discuss the state of the market. Some key points and topics that came out of the event were;

- Mining companies are facing greater hurdles to develop new projects, leading to a reluctance to sign off capex at a board level and could exacerbate the forecast mine deficit. Codelco commercial vice president Rodrigo Toro said that to build a large volume project from the outset until production is at least ten years, so the capacity today for the mining industry to react to increased demand is not as it was before."
- A spokesman for Cochilco, Chile's national copper commission, said that among the supply risks is the record number of labour contract negotiations due this year - around 2.5 million tonnes of copper output is exposed to high disruption risks this year in Chile. The main disruption this year comes from the country's 34 labour agreement negotiations that are in process.
- Marco Calamia of Italian semi products maker KME Group said a downside risk to prices is the heightened protectionism among international governments, which looms over global growth and, in turn, copper prices. He said that if there is a tariff for steel and aluminium, it will arrive soon on copper.
- Atlantic Copper chief executive officer, Javier Targhetta, said that Chinese copper smelting capacity could also go the way of aluminium in the region where older, outdated smelters are shuttered at the same time as expansions of new production. He suggested that shuttering might make sense, not only because of oversupply in China but because of environmental inefficiency of copper smelting capacity in China – where old and small smelters all are far from meeting even modest environmental requirements.
- Halcor's commercial director, Panos Lolos, said a \$6000 per tonne copper price is the optimum level for the industry so that it can avoid substitutions from other materials. "We acknowledge the need for miners and smelters to be sustainable and viable but that tipping point is necessary for the manufacturers, because there is always a need for new product research and that is the destiny also for the commodity products," he said. Substitution to plastics only took case in products like plumbing tubes when prices were high, Lolos said
- Copper demand derived from the shift to EVs is expected to be constrained by the availability of other key metals, including cobalt. "Cobalt is a seriously important part of battery technology." Tim Biggs, the sector leader of metals and mining at Deloitte UK, said, adding that the current availability of cobalt will be enough for about 5 million EVs by 2030.

- A key theme running through the conference was copper scrap. China's scrap ban, which came into effect this month, has already begun to affect flows and prices for scrap and other materials in the copper markets, a panel of experts said. "We have seen a rise in exports of the other grades to satisfy demand, because demand is still strong in China," EMR director Murat Bayram said.
- China's domestic copper scrap output is expected to double over the next seven years to fill the supply gap arising from import restrictions, according to Jinrui Futures general manager, Lu Ganping. "It will almost completely offset the supply gap arising from the restriction of category-7 copper scrap," he said.

China's refined copper demand this year will rise 3.34% to 11.1 Mt, state-run metals consultancy Beijing Antaika forecast in a report. The power sector will be the key demand driver, on the commissioning of new power networks, with demand also from the air conditioner, new energy vehicle and housing sectors. Domestic copper demand was better than expected in 2017 with copper demand estimated at 10.74 Mt, up 4.2% on 2016. In 2017, domestic power and air conditioner consumed 5.46 Mt and 1.65 Mt of copper, respectively, while the transport sector used 980,000t. Antaika forecast national refined copper output in 2018 would be 8.34 Mt, up 4.1%. China is forecast to add 650,000tpa of refined copper output capacity in 2018, raising its refined copper output capacity 11.57 Mtpa, by the end of 2018. China was forecast to import 3.1 Mt of refined copper in 2018, up from 3.195 Mt last year, with exports of 300,000t this year, down from exports of 322,000t in 2017. China was forecast to have a refined copper surplus of 40,000t this year, narrowing from surplus of 144,000t last year, Antaika said.

China needs to eliminate outdated copper capacity to avoid oversupply as new plants come on stream, according to an executive with one of the country's top smelters. The nation should "strengthen supply-side reform" to idle old facilities before around 1.5 Mt of new capacity comes on line in the next two years, throwing the domestic market into surplus from a "weak balance," said Ding Shiqi, vice general manager at Tongling Nonferrous Metals Group Co.

Zambia has revised its 2017 copper production figure upwards to 800,000t from 786,731t announced by the central bank last month. Zambia's Ministry of Mines said the copper production figure was revised upwards after including the output of small scale producers. The country produced 774,290t of copper in 2016.

Rising copper demand from clean energy and transport will add to an already tight market in the next decade to benefit producers of the metal, according to producer Antofagasta Plc. It conservatively estimates use for electric and hybrid vehicles will rise to 2 Mt by 2030, or about 8% of demand, from about 200,000t now, Chief Executive Officer Ivan Arriagada said. In a very tight market like copper, the sort of numbers quoted will have a significant impact in the industry, the company said.

Japanese aluminium buyers have agreed to pay producers a premium of \$129/t for metal to be shipped during the April to June quarter, reflecting surging U.S. spot premiums, trade sources said. The deals represent a 25% increase from the \$103 per tonne premium in the previous quarter. The premium is the highest in three years and marks the second consecutive quarterly rise.

Some Chinese aluminium producers that shut smelters during a winter crackdown on pollution may not reopen this spring once output curbs are lifted, as planned new capacity by state-run companies threatens to overwhelm demand and cut into profits. China, the world's biggest producer of aluminium ordered smelters in 28 of its smoggiest northern cities to cut output by 30% from mid-November to mid-March - affecting an estimated one million tonnes of annual output.

The Alunorte refinery in northern Brazil, owned by Norway's Norsk Hydro ASA, will start shutting down half of its alumina capacity in the next two weeks to preserve equipment. The world's largest alumina refinery, situated in Brazil's Amazon region, was forced to halve its output under a judicial order last month after allegations of a toxic leak, pushing up global prices in an already tight market.

Aluminium Corp of China, known as Chalco, increased net profit by 274% last year as supply-side reforms and an environmental crackdown lifted aluminium prices. Chalco, the listed arm of state-run aluminium producer Chinalco, made net income of 1.38 billion yuan (\$218 million) last year, against a revised net profit of 368.4 million yuan in 2016, it said in a filing to the Shanghai stock exchange.

Metals related revenues generated by banks in 2017 exceeded their earnings from the oil sector for the first time since 2014 as low and relatively stable crude prices discouraged hedging activity. Banks' commodity revenue has been on a steady downward path in recent years as they have exited or slimmed down their commodity businesses due to heightened government regulation and a poor performance from the sector. The world's 50 biggest investment banks made revenue of US\$1.6 billion from trading, selling derivatives and other activities in metals last year, compared to US\$1.4 billion in oil, according to Coalition, a financial industry analytics firm. That is the lowest for both in at least a

decade and down from US\$3.9 billion for metals and US\$5.6 billion for oil in 2008 when the commodity super-cycle peaked. Oil-related revenue has dwindled since 2015 as a period of low prices reduced interest from producers and consumers in financial instruments that offer protection against price volatility, Coalition said.

Japan's copper wire and cable demand is expected to rise to 706,000t for the year starting April, the Japan Electric Wire & Cable Makers' Association said in statement. Domestic demand is estimated to have risen 3%, up to 686,000t, with exports flat at 20,000t. Demand for the current business year is seen rising 0.9% to 686,000t. In January Japan's copper cable shipments including sales and exports rose 0.8% from a year earlier to 55,800t, the Association said.

The LME will introduce a financial over-the-counter (OTC) booking fee. Following a consultation period with the market, the exchange announced that it will set a OTC booking fee of \$1 per equivalent LME lot which will be paid by financial institutions for each OTC trade executed in place of an LME client.

LME Commentary:

LME prices, not surprisingly, reacted to market fears that an escalating trade war could slow demand for metals. As investors attempt to assess the full impact of the US tariffs, most industry players believe that eventually there will be a significant impact on exchange prices.

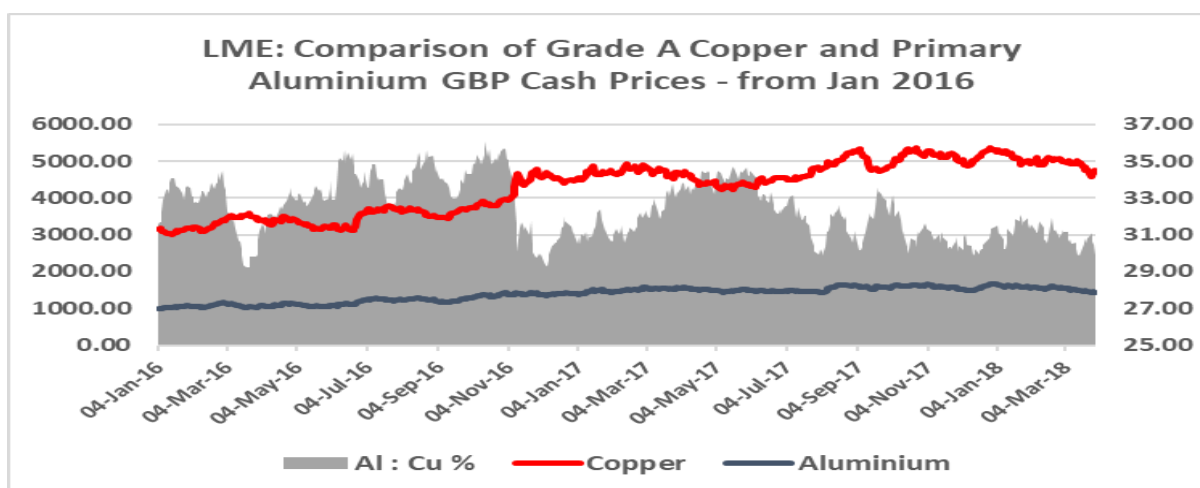
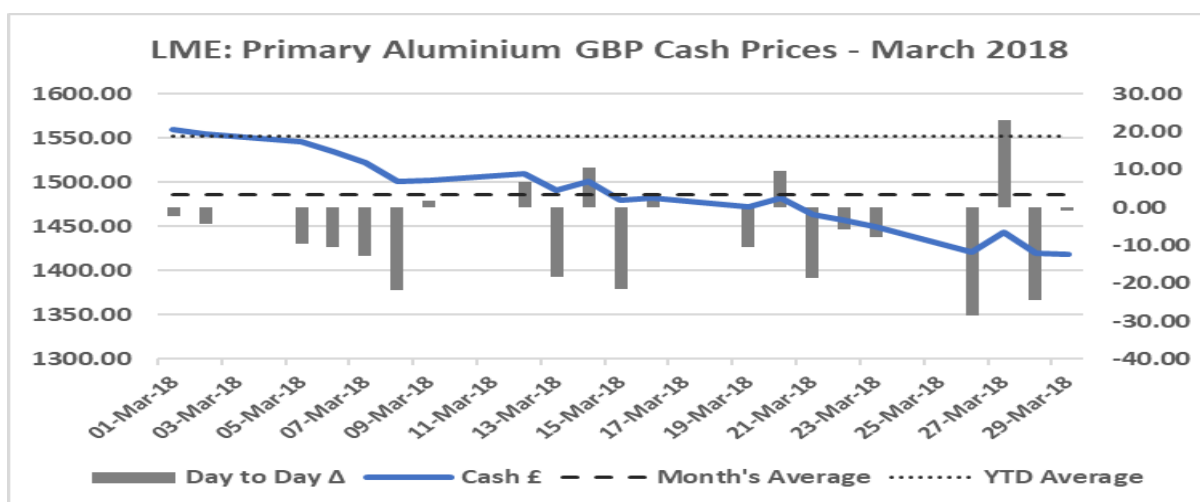
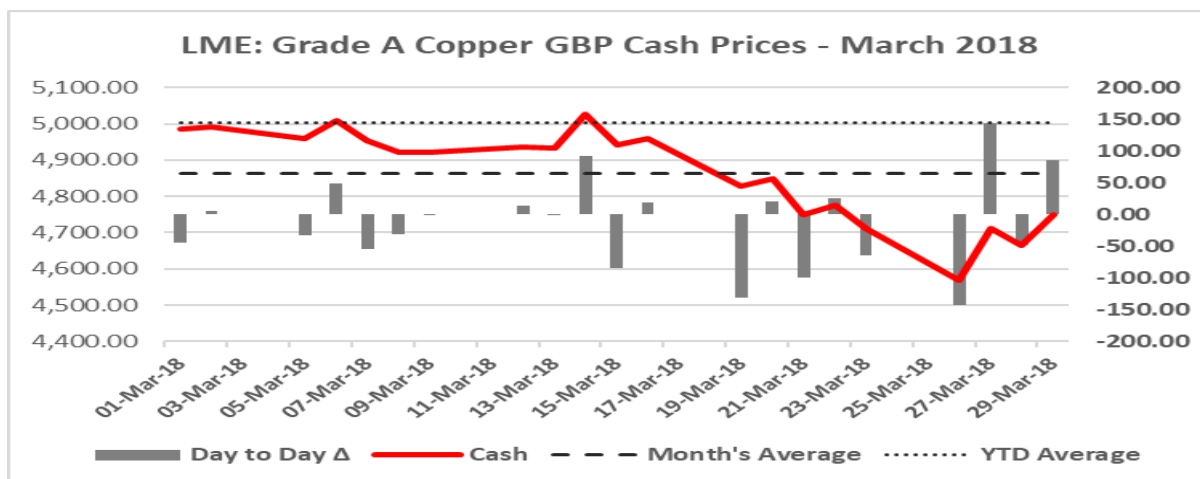
Analysts are suggesting that initially the impact will be much more evident in the physical market and on premiums but the effects will take time to work through and that overall it will be negative for exchange prices. The US imports more aluminium from Russia than it does China and with plenty of metal capacity still in China, Europe is an obvious destination. This could mean some softness in the European physical market in the short term.

Analysts are suggesting that winter cuts in China did not curtail aluminium over-production as much as people were expecting, pointing to the sharp increase in ShFE stocks. Current ShFE inventories are at an unprecedented level - in excess of 940,000t - the previous high was 504,974t in March 2013. In conjunction with expectations of Chinese smelter restarts following expiry of the winter controls, aluminium prices came under increasing pressure in March. The month-end LME cash close at £1418.33/t was the lowest close since January 2017 and the underlying US dollar price of \$1997/t was a 7-month low. While LME primary aluminium stocks continue to fall – down 40,675t in the month – they are up 189,100t in the year. The cash to 3month backwardation which developed in February faded away in March.

LME copper prices followed a similar downward trend and despite concerns about the potential for supply disruption to mined production and scrap continuing, traded down to £4568.46/t and US\$6500/t near month-end, their lowest values since July and October 2017 respectively. Price sentiment has been further eroded as copper continues to flow into the world's exchanges in Asia, Europe and the US during a period of seasonally weak demand. LME warehouse inventories closed the month at 383,025t, up 55,025t in the month, 182,375t in the year to date and their highest since December 2013. Additionally, copper inventories stored in Shanghai Futures Exchange warehouses have jumped more than 90% this year and are at the highest level in 11 months, while Comex copper US stocks are up 10%. Taken together, the year-to-date surge in global exchange inventories is the strongest since 2003.

LME Statistics and Charts: March 2018:

	Copper			Aluminium			USD:GBP
	Cash £/t	3M £/t	Stocks	Cash \$/t	Cash £/t	Stocks	
Opening	4986.17	4993.48	328,000	2143.00	1559.45	1,322,150	1.3742
Average	4864.13	4871.70		2076.52	1486.33		1.3974
High	5025.07	5029.24		2144.00	1559.45		1.4228
Low	4568.46	4586.19		1997.00	1418.83		1.3742
Range	456.61	443.05		147.00	140.62		
Closing	4749.56	4756.18	383,025	1997.00	1418.83	1,281,475	1.4075
Opening-Closing Δ	-236.6	-237.3	+55,025	-146.00	-140.62	-40,675	
YTD Average	5003.64	5014.65		2159.12	1552.05		
YTD High	5,316.28	5,335.54		2266.00	1663.47		
YTD Low	4,568.46	4,586.19		1997.00	1418.83		



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