

April 2018

Economic Indicators and Comment:

The threat of trade war was further escalated at the start of the month when, having already announced tariffs on steel and aluminium coming into effect in March, the Trump administration said it would hit China with 25% tariffs on some 1,300 industrial technology, transport and medical products as part of its drive to force changes in Beijing's intellectual property practices. The U.S. Trade Representative's office unveiled an initial list of mainly non-consumer products representing about \$50 billion, later expanding it to include as much as \$150 billion worth of annual imports.

With China threatening to take counter-measures of the "same proportion" and warning that it would fight back "at any cost" if the U.S. imposed further tariffs, Trump expressed optimism the U.S. will be able to reach a deal with China that diffuses trade tensions between the world's two biggest economies. Trump said his administration will "probably" come to an agreement with China to resolve a dispute.

In an attempt to defuse an escalating trade dispute with the U.S., Chinese President Xi Jinping promised to open the country's economy further and lower import tariffs on products including cars. Xi said that China will sharply widen market access for foreign investors, a chief complaint of the country's trading partners and a point of contention for the U.S. administration.

The World Trade Organization subsequently reported that the EU had joined China and India in seeking compensation from the U.S. for tariffs on steel and aluminium, despite Washington's assertion that they are not subject to WTO rules. The EU said it did not accept the "national security" justification for the U.S. tariffs but said they had been imposed just to protect U.S. industry.

The U.S. then announced major sanctions against 24 Russian individuals, mostly allies of President Putin, to punish Moscow for what it called a range of "malign activity," including alleged meddling in the 2016 U.S. election. The action freezes the U.S. assets of "oligarchs" such as aluminium tycoon Oleg Deripaska, the major shareholder in Rusal. The sanctions are largely a reply to what U.S. intelligence agencies say was Russian interference in the presidential election, although the Treasury Department described them as a response to a series of adversarial actions by Moscow.

Russia also requested consultations with WTO to compensate Russian manufacturers for lost trade. The tariffs are expected to affect \$823 million worth of Russian steel and aluminium exports to the U.S., according to analysts. Russian companies likely to be impacted by the U.S. tariffs include: Severstal OAO, Novolipetsk Steel OJSC, Mechel, Magnitogorsk Iron and Steel Work and United Co Rusal PLC. Russia's approach follows the same initial procedural step that China, the EU Union and India used to confront Trump's tariffs within the context of the WTO. If the U.S. rejects Russia's request it could lead to a WTO dispute and retaliatory tariffs against U.S. products. Russia said it considered President Trump's metal tariffs to be "in essence" safeguard measures, which are temporary trade restrictions that help countries protect their domestic producers from a sudden surge of imported products.

The U.S. economy grew at an annual rate of 2.3% in the first three months of 2018 - down from the 2.9% growth rate in the final quarter of 2017 - as consumers reined in spending on cars and other products, the Commerce Department said. This was slightly above Wall Street analysts' forecasts of 2%. The report was the first since President Trump's tax cut took effect in January which aimed to boost investment and jobs. So far, there is little sign of the promised investment boom with weakness in consumer spending and government outlays while nondefense capital goods orders falling 0.1% in March and preliminary results from earlier months being revised lower. U.S. industrial production in March meanwhile was up 0.5% from the previous month.

The UK economy grew by much less than expected in the first quarter of 2018, according to preliminary estimates from the ONS. GDP rose 0.1% in the period, its slowest growth since Q4 2012 and down from 0.4% in the previous quarter. The

figures were driven by a sharp fall in construction output, a sluggish manufacturing sector and weaker consumer spending. The ONS said that the UK is growing at an annual rate of 1.2%, its weakest since 2012.

According to a preliminary flash estimate published by Eurostat, GDP rose by 0.4% in both the euro area (EA19) and in the EU28 during the first quarter of 2018, compared with the previous quarter. In the fourth quarter of 2017, GDP had grown by 0.7% in the euro area and by 0.6% in the EU28. Compared with the same quarter of the previous year, seasonally adjusted GDP rose by 2.5% in the euro area and by 2.4% in the EU28 in the first quarter of 2018, after increases of 2.8% and 2.7% respectively in the previous quarter.

Euro zone industrial production was much weaker than expected in February, pointing to slower economic growth in the first quarter. Eurostat said industrial production in the 19 countries sharing the euro fell 0.8% mom for a 2.9% yoy rise. Industrial production accounts for some 20% of euro zone GDP. The weaker February result was due to falling production in intermediate goods, capital goods, durable and non-durable consumer goods. Energy output surged 6.8% on the month after a 1.1% decline in January.

Market Commentary and News:

On April 6 the U.S. government announced its decision to impose sanctions targeting seven high-profile Russian businessmen and the 12 companies they own or control - including Rusal, the biggest aluminium producer outside China. Russian magnate Oleg Deripaska, a close associate of President Putin, holds the majority holding in Rusal which produces around 6% of the world's aluminium.

In the wake of the announcement, international trading houses and the biggest traders and financiers of the global aluminium trade appeared to have stopped buying aluminium from Rusal, reluctant to navigate the grey area of U.S. sanctions. According to market commentators, traders have been advised by their banks and lawyers that they should not continue trading with the Russian company. Although restrictions do not apply to metal produced by Rusal before the sanctions were imposed, those products have become less desirable in the U.S. and Europe as consumers try and cut their risk of exposure. According to analysts, this has put an estimated US\$3 billion of aluminium into limbo.

Rusal subsequently asked customers to "immediately withhold all payments" to the company, according a copy of a letter sent by its head of marketing and reportedly, has activated a contingency plan which asks customers to pay in euros instead of dollars to try to skirt round U.S. sanctions.

By month end there were reports that Rusal was stockpiling large quantities of aluminium at one of its plants in Siberia. With the firm's own storage space filling up with unsold aluminium, Rusal has had to rent out additional space in Sayanogorsk, in southern Siberia to accommodate the surplus stock, sources told Reuters.

Meanwhile, U.S. customers of Rusal scrambling to figure out how to replace supply from the Russian company after U.S. sanctions caused prices to spike to a seven-year high, received some relief when the administration gave American customers of Rusal more time to comply with the sanctions. Morgan Stanley estimates Rusal supplied approximately 9% of U.S. aluminium imports in 2017.

On April 10 the LME issued a temporary conditional suspension notice that with effect from April 17, any metal owner wishing to place metal of any Rusal brand on warrant "may only do so where the metal owner is satisfied and can demonstrate to the reasonable satisfaction of the LME, that it will not involve any breach of the sanctions." In using the directive, the LME "was seeking to ensure that the metal delivered on its market did not trigger sanctions concerns for its members or their clients," the exchange said, adding that preliminary discussions with the market had indicated that users were comfortable to take receipt of metal of Rusal brands which had been supplied by Rusal before April 6, but were not comfortable to take receipt of metal of Rusal brands which had been supplied by Rusal on or after April 6.

CME Group, which trades a parallel exchange aluminium contract in the U.S. also blocked deliveries of Rusal metal into its warehouses. Rusal is still listed as a registered brand on the Chinese Shanghai Futures Exchange.

While exchange aluminium prices had risen sharply by mid-month, they are expected to diverge in the U.S from those traded on the LME as analysts expect large amounts of Rusal metal produced before April 6 to be warranted for delivery against the LME's aluminium contract - a move expected to result in sliding or stagnating LME prices.

Moscow held off taking retaliatory measures against the U.S., hoping the EU can persuade Washington to ease restrictions against Rusal, sources told Reuters. Indeed, by month end, Oleg Deripaska had agreed in principle to sell down his stake in holding company EN+ to relinquish control of Rusal and overhaul its board and management in an attempt to release the

company from crippling US sanctions. The proposal, announced in a statement to the London Stock Exchange, has yet to be accepted by the US Treasury.

Some analysts have pointed out that restarts in U.S. capacity and excess capacity in China and the rest of the world should in time compensate for anticipated lower Russian exports. By month end, market analysts were reporting that multiple shipments of alumina were being exported from China, with major suppliers agreeing deals of up to 500,000t, in a rare move prompted by sanctions imposed on Rusal. China is the biggest global producer and consumer of alumina.

Aluminium producer Norsk Hydro denied its Alunorte alumina refinery in Brazil had contaminated local waters, contradicting the findings of a Brazilian public health group. Alunorte operates the world's biggest alumina refinery in Barcarena. Local residents and Brazilian authorities accused the company of causing a toxic leak in February that polluted the water supply. Citing an internal study and a report commissioned from green consultancy SGW Services, Hydro said no evidence was found of overflow from its bauxite deposits or of any significant or lasting environmental impact.

The copper market will slip into a deficit in the 2020's after being in balance for the rest of this decade as major technological change drives demand for the metal and its bi-products, Rio Tinto's copper chief said. Copper prices this year have struggled to maintain gains, reflecting the realisation that increased consumption from new technologies such as electric vehicles is still in the future. Arnaud Soirat, CEO for copper and diamonds, said the outlook was still positive. "Tightening supply and solid demand are combining to produce a positive pricing environment," he told a copper conference in Chile. "We anticipate global market supply and demand will keep close to balance in 2019 and 2020," adding it would slip into a slight deficit in the 2020s. Chile, the biggest copper producing country, and the mining industry have a challenge to meet demand, he said, as the world experiences a transition to electric vehicles and a more electrified economy.

According to CRU analysts, copper bulls predicting a rapidly changing demand landscape due to the electric vehicle (EV) revolution and supply shortages are likely to be disappointed, as the amount of extra metal needed is expected to be small, at least over the next few years. For some years now, copper producers have pushed the idea of surging copper demand as EV sales gain momentum due to governments and consumers around the world looking to cut carbon emissions from fossil fuel cars. While EVs are a great long-term story, demand is only expected to be around 1.5% of world refined copper consumption this year, and even five years out is unlikely to be anything more than 3%. Copper is used in the charging stations needed for electric vehicles and in the rechargeable lithium-ion batteries that power them. Research commissioned by the International Copper Association (ICA), shows more than 40 million charging ports will be needed over the next decade, consuming an extra 100,000t of copper a year by 2027. EVs require between 40kg and 83kg of copper, according to the ICA, while an internal combustion engine needs an average of 23 kg.

Chilean copper commission Cochilco forecast that Chile would produce 5.76 million tonnes of copper in 2018, up 4.3% from 2017, while estimating copper prices at \$6746/t this year. The projections follow a difficult year for Chile after the strike at Escondida, putting a dent in Chile's economy and sending shockwaves through the market. Cochilco said numerous pending labour negotiations at mines in Chile and Peru this year continue to unnerve the market and raise the spectre of supply shortages, but added it was hopeful these would be resolved without issue. The agency said Chile's copper output would jump to 5.94 million tonnes in 2019. Cochilco said it expects copper prices to rise to \$6856/t next year.

Meanwhile, Codelco said that it had reached a deal on a new collective labour contract with a union of professional workers at its Chuquibambilla mine. The new three-year contract, includes a \$12,500 bonus and was approved by 82% of unionized professional workers at the mine, Codelco said in a statement.

Japan's copper cable shipments including sales and exports in March fell 5.9% from a year earlier to 59,100t, the Japan Electric Wire and Cable Makers' Association said.

The LME is working toward producing a set of standards for responsibly-sourced metal, it said in April. The exchange will implement a three-step process of disclosure, engagement and compliance. If a metal brand does not meet the set requirements at the end of this process, the LME can delist it from the exchange, it said.

LME will apply for licenses in EU countries to allow it to continue to offer trading and clearing services for clients in the region, according to CEO Matthew Chamberlain. The exchange will remain domiciled in U.K. after Brexit. 7 out of 49 Category 1 to 4 LME members are based in EEA, with 38 in the UK. The LME's business from Europe makes up less than 20% of total.

LME Commentary:

As U.S. sanctions on Russian producer Rusal and general aluminium tarrrrriffs fuelled concerns over supply, LME primary aluminium cash prices climbed to 7-year highs at mid-month at US\$2602.50/t and £1828.11/t, breaking through the US\$2600/t and £1800/t respective levels for the first time since May 2011. The GBP cash high of £1828.11/t reached on 19.04.18 represented a £397.51/t or 28% surge on the month's opening price and was some £169.71/t higher than the cash price at the start of the year.

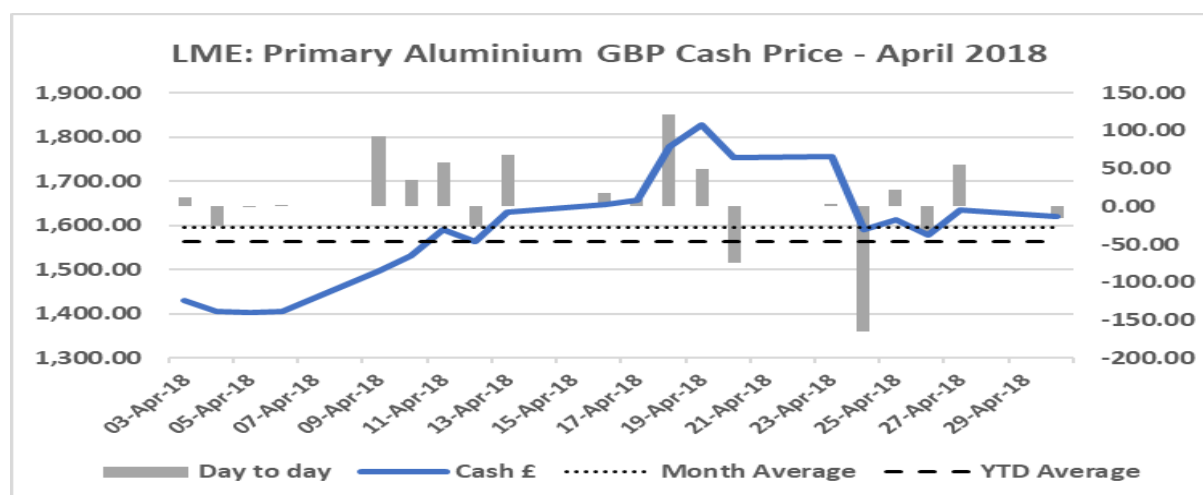
By month end however, prices had retreated sharply after Washington gave U.S. customers of Rusal more time to comply with sanctions, market analysts predicted that LME exchange stocks would increase sharply as traders looked to deliver in Rusal materials and analysts suggested that capacity in China and the rest of the world would in the fullness of time expand to compensate for Russian shortfalls.

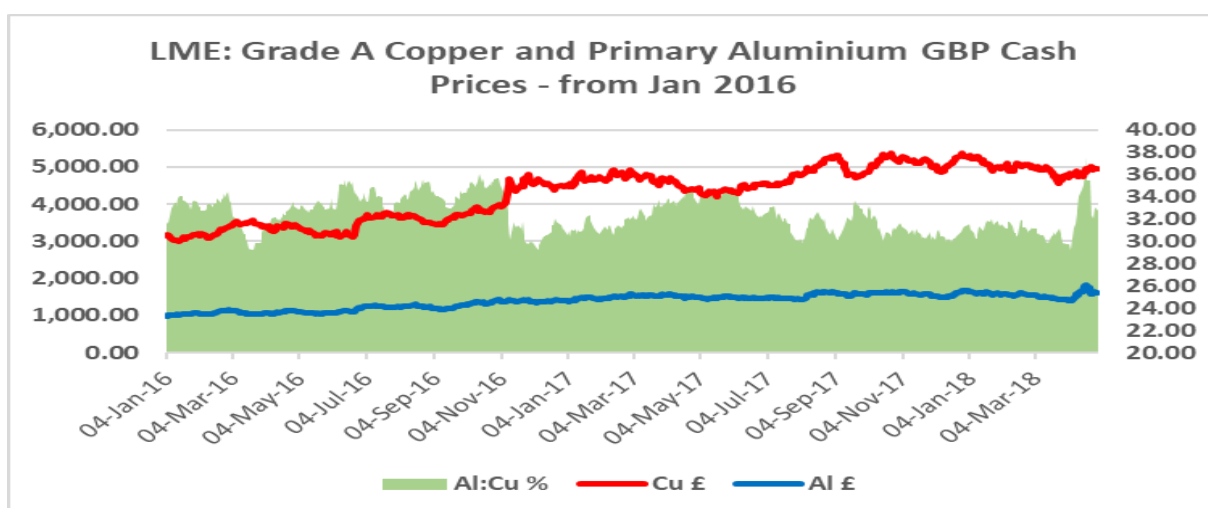
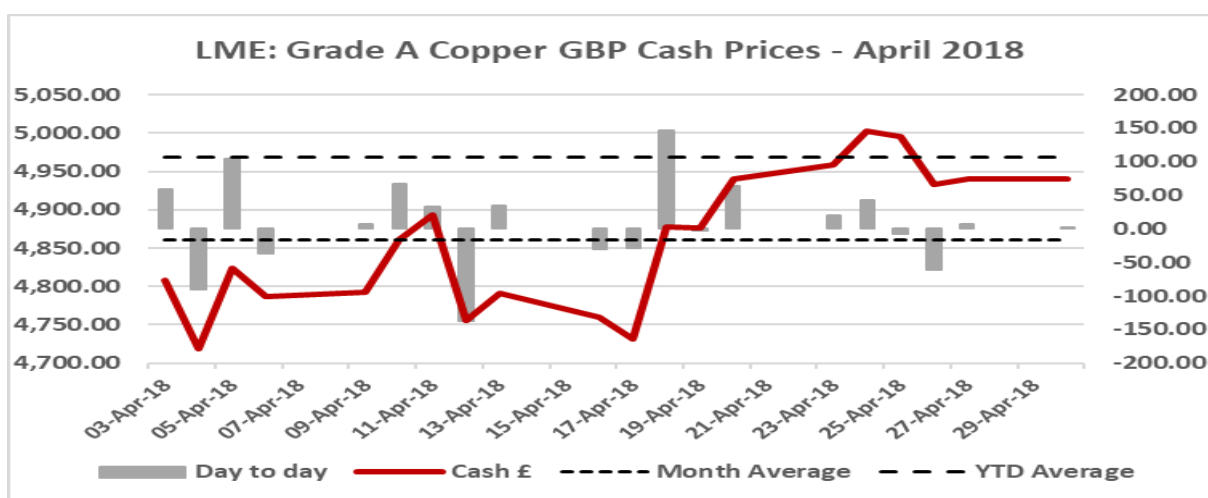
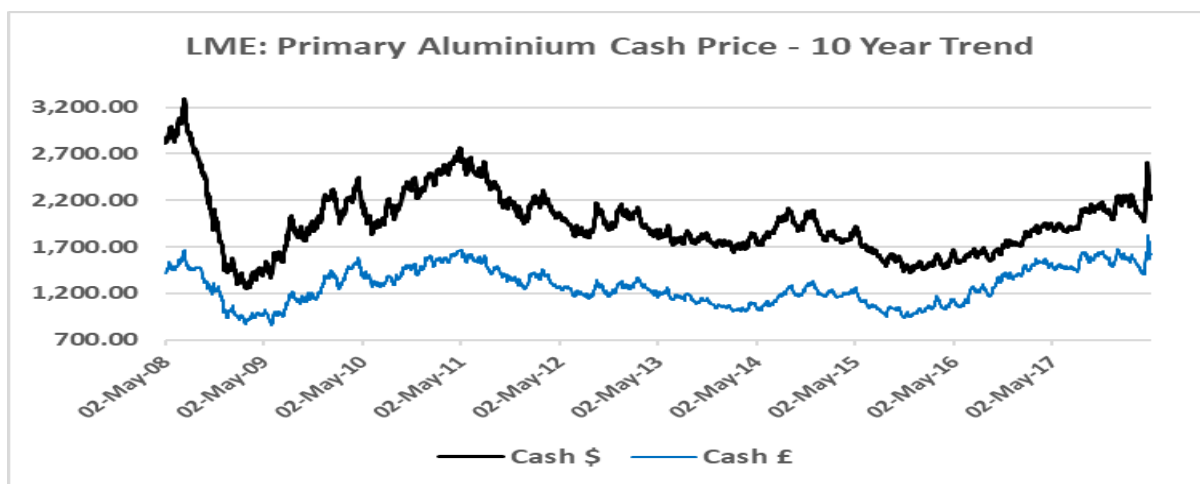
Similarly, later reassurances over primary supply saw the LME primary aluminium cash to 3month backwardation close to month at £5.83/t, having widened out to 18.13/t as the price peaked. Aluminium stocks were up 44,450t in the month and closed at 1,325,925t.

LME copper prices by comparison played a minor role in the month's excitements. A distinct lack of fundamental news saw copper prices along with the other exchange metals follow aluminium on its upward trajectory, aided by concerns of trade war and tariff disruptions. The GBP cash price peaked at £5002.51/t (\$6987/t), a 4-week high, as LME stocks fell sharply to close the month at 325,525t, down 57,500t in the month.

LME Statistics and Charts: April 2018:

	Copper			Aluminium			USD:GBP
	Cash £/t	3M £/t	Stocks	Cash \$/t	Cash £/t	Stocks	
Opening	4808.54	4817.44	383,025	2010.00	1,430.60	1,281,475	1.4050
Average	4859.38	4868.19		2246.40	1595.80		1.4075
High	5002.51	5012.12		2602.50	1828.11		1.4337
Low	4718.66	4725.12		1967.00	1403.52		1.3729
Range	283.85	287.00		635.50	424.59		0.0608
Closing	4940.64	4945.62	325,525	2224.00	1619.93	1,325,925	1.3729
Opening:Closing Δ	-132.1	+128.18	-57,500	+214.00	+214.00	+44,450	
YTD Average	4968.88	4979.36		2180.15	1562.59		
YTD High	5,316.28	5,335.54		2602.50	1828.11		
YTD Low	4,568.46	4,586.19		1967.00	1403.52		





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