# Metals Newsletter



## May 2018

### Economic Indicators and Comment:

The IMF at the start of the month sounded the alarm on excessive global borrowing, warning that with a total of US$164 trillion owed, the world's public and private sectors are deeper in debt than at the height of the financial crisis a decade ago. Global debt is now more than twice the size of the value of goods and services produced every year and at 225% of global GDP, it is now 12% higher than at its previous peak in 2009. The fund said there was now an urgent need to reduce the burden of debt in both the private and public sectors to improve the resilience of the global economy.

Despite the threat from the EU, Canada and Mexico, of imposing counter-measures, the US began levying tariffs on imports of steel (25%) and aluminium (10%) from those countries, effective 1st June, in a move that many fear will take the Trump administration further down the path to a trade war with longstanding US allies. In a statement, Commerce Secretary Wilbur Ross said that the US would allow exemptions granted to the EU and partners in the North American Free Trade Agreement to expire after negotiations with those economies failed to result in deals that Washington could accept. A spokesman for the EU said that despite "keeping contact at all levels", it would not negotiate "under threat" and would need to consider its response.

Meanwhile, US and Chinese officials continued trade discussions with their Chinese counterparts through the month, intent on "rebalancing the United States–China bilateral economic relationship, improving China's protection of intellectual property, and identifying policies that unfairly enforce technology transfers," according to a White House statement. The US had previously said that it plans to impose 25% tariffs on $50bn worth of Chinese imports "shortly after mid-June" and this threat was repeated at month end despite the on-going dialogue. US Commerce Secretary Wilbur Ross is scheduled to travel to China at the beginning of June.

The World Trade Organisation had previously warned that rising trade tensions may already be having an effect on the global economy. In its latest forecast the WTO said it expected global trade volumes to expand by 4.4% in 2018 after growing 4.7% last year but also said it was detecting signs that rising trade tensions may already be having an impact on business confidence and investment decisions. It warned that any escalation in the sort of tit-for-tat tariff wars that the US and China have threatened in recent weeks would undermine the global recovery.

The eurozone's economy slowed in the first quarter of 2018, according to the latest official data. Eurostat estimated that quarterly growth in the 19-member single currency area slipped to 0.4% in the three months to March, down from the 0.7% expansion rate in the final quarter of last year and the weakest expansion rate since the middle of 2016. On a year-on-year basis, the eurozone's GDP growth slowed from a rate of 2.8% to 2.5%. GDP in Germany, the eurozone's largest economy, was reported at 0.3%, softer than forecast and the lowest in a year. France's statistics agency has reported a Q1 growth decline from 0.7% to 0.3% while growth in Spain was estimated to be unchanged at 0.7%.

ONS figures showed UK GDP rose a disappointing 0.1% in the first three months of 2018, down from 0.4% in the previous quarter and its slowest growth since Q4 2012. The result was driven by a sharp fall in construction output – down 3.3% and the manufacturing sector which slowed to 0.2%. Consumer-facing industries, including retail, fell sharply amid an ongoing spending squeeze caused by higher inflation and slow wage growth. The Bank of England, along with most City economists, had been expecting growth of 0.3%. ONS data shows the UK's economy growing at an annual rate of just 1.2%, the weakest since 2012.

### Companies:

Nexans published its 2018 first quarter results in May. Sales amounted to €1,538 million (versus €1,570 million for first-quarter 2017). At constant metal prices, sales at €1,028 million, represented a year-on-year organic decrease of 4.6%. The fall was due to a 2.2% increase for cables excluding Oil & Gas sector activities, a 30% decrease for High Voltage project activities excluding umbilicals and a 35.5% decrease for Oil & Gas sector activities. The company reported a sharp contraction in sales for High Voltage project activities, a slight sales growth for cable activities reflecting a slow start to the year, with business picking up from March, mainly in Europe and a strengthening order book for cable activities, suggesting a gradual upturn during the year.

Prysmian Group announced its first quarter 2018 results. Group Sales amounted to €1,879 million – an organic growth of +3.1%. The Energy Projects segment recorded increased volumes and sales (organic growth of +14.8%) thanks to favourable phasing of submarine cable project execution and to strong demand in the High Voltage Underground business. Within the Energy Products segment, the Industrial & Network Components business posted a significant growth in sales (organic sales increase of +10.7%), while the Energy & Infrastructure business saw a market recovery by building wires, although partially absorbed by lower Power Distribution volumes and sales (organic sales –2.5%). Lastly, the Oil & Gas scenario remained negative, reflected in a decline in organic sales (-9.1%). Telecom also performed well (organic sales growth of +1.7%) underpinned by steady growth in demand for optical cables. Profitability was stable with adjusted EBITDA at €153m compared to €154m in Q1 2017.

Aurubis, Europe's biggest copper smelter, increased operating earnings before taxes (EBT) by approximately 58% to €86 million in the first half of fiscal year 2017/18, compared to the previous fiscal year (previous year: €118 million). The operating return on capital employed increased by 10.4 % in the previous year to 14.9 %, primarily due to the improved operating results. Revenues also increased in the first half of the fiscal year to €5,770 million (previous year: €5,428 million), which is particularly attributable to higher copper prices. The company said it expects positive conditions to continue in copper markets in the coming months and anticipates strong demand for copper products. "In the next few months, we expect good sales of rod and high, stable demand for shapes, although the strong euro could have a negative impact on exports," it said. Production of copper cathodes in the second quarter rose to 291,000t from 288,000t in the previous year. Production of copper rod rose to 209,000t, up from 192,000t in the previous year and registered 390,000t in the first 6 months of the (financial) year, up from 355,000t in the previous year's period.

Poland's KGHM, one of the world's biggest copper and silver producers, plans to invest more than 11 billion zlotys ($3.03 billion) in Poland from 2018-2022, it said. The company also said it plans to reduce investment in overseas assets and focus on domestic operations.

## Market Commentary and News:

The global world refined copper market showed a 33,000t surplus in January, compared with a 14,000t surplus in December, the International Copper Study Group (ICSG) said. This compared with a 37,000t surplus in the same period a year earlier. World refined copper output in January was 2.05 million tonnes, while consumption was 2.02 million tonnes. Bonded stocks of copper in China showed a 28,000t surplus in January compared with a 11,000t deficit in December. In February the global world refined copper market showed an 86,000t surplus. For the first 2 months of the year, the market was in a 109,000t surplus compared with a 125,000t surplus in the same period a year earlier, the ICSG said. World refined copper output in February was 1.86 million tonnes while consumption was 1.78 million tonnes. Bonded stocks of copper in China showed an 89,000t surplus in February compared with an 18,000t surplus in January.

The copper market is moving into a deficit that is forecast to widen to more than 4 million tonnes per year by 2026, according to an executive of Freeport-McMoRan, despite positive changes in efficiencies through technology and other methods. He told the American Copper Council's Copper College meeting that the average copper grade for global mining operations last year was down to 0.85-0.9%, meaning that producers have to process more and more material just to make the same amount of copper. New discoveries are rare, he added, those that are producing today date from the late 1800s and very few significant copper mine projects are in the pipeline.

An Indian state of Tamil Nadu ordered the permanent closure of the Tuticorin copper smelter controlled by London-listed Vedanta Resources after 13 people protesting to demand its shutdown on environmental concerns were killed. "We have taken a decision to permanently shut down the plant and issued government orders to do the same," Edappadi K Palaniswami, the state's chief minister said. The plant is India's largest with a capacity of 400,000tpa and the shutdown will reduce India's copper production by about half. Industry executives and analysts say this is likely to lead to an increase in prices of a wide range of products from power cables to electronic appliances, and televisions to auto parts, as manufacturers will have to rely more on imported copper and are bracing for a rise in costs which they will look to pass on to customers.

Chile's copper production increased 18.9% in the first quarter of 2018 from the same period a year earlier, Chilean copper commission Cochilco said. Production this year was boosted by a low basis for comparison following an historic strike last year at BHP's Escondida copper mine. Escondida tripled its production in the first quarter of 2018 to 322,700t. Between January and March, Chile produced 1.42 million tonnes of copper. In March, the South American country's copper production increased 30.8% year-on-year to 487,900t.

Copper mine production in Peru grew by 5.8% year on year in March. Output totalled 200,482t in the month, compared with 189,426t in March 2017, according to the latest figures published by the country’s energy and mines ministry, MEM

Refined copper output in China in April was 737.8Kt, up 4% from a year ago.

Russia's January-March aluminium and copper exports in the first quarter of 2017 rose year on year, official customs data showed. The Federal Customs Service said aluminium exports at 931.9Kt were up 8.4% (from 859.4Kt) while copper exports at 175.9Kt were up 18.9% (from 147.9Kt) from the same period last year.

The uncertainty concerning supplies from Rusal continues to dominate the aluminium market. At the beginning of May, the U.S. Treasury Department said it was extending the deadline for Russian billionaire Oleg Deripaska to divest from En+ and related entities until June 6. It said it would be authorizing transactions necessary to divest or transfer debt in United Company Rusal Plc, EN+ Group and GAZ Group by stakeholders with 50% or more until June 6. Deripaska was the investor that fitted the description. The action aimed to clear a path for other investors to unwind their dealings with Deripaska and reduces disruption to the aluminium market. By month end however, the U.S. Treasury Department had moved its deadline for U.S. consumers to wind down business with Rusal from June 5 to October 23 and said it would consider lifting sanctions if Rusal's major shareholder, Deripaska, ceded control of the company. Deripaska had announced he had stepped down as a director of Rusal as part of a choreographed series of steps which he hopes will persuade the U.S. government to rescind sanctions. Deripaska is now actively preparing the next step: reducing his stake in En+, the group which controls Rusal, to a level where Washington would be willing to remove his businesses from its sanctions blacklist, sources familiar with the discussions said. By month end, trade sources reported that Rusal had resumed shipping aluminium to some customers following an extension of the deadline.

According to market analysts, the implementation of US tariff on imports of European aluminium is unlikely to have any immediate effect on prices and premiums in Europe. Market participants have taken much of the first half of the year to prepare for potential tariffs on EU-origin aluminium, which is why premiums are expected to remain stable for now. EU aluminium exports to the US are also limited in volume, making the immediate effect of tariffs on the market even smaller. In 2017, the US imported roughly 27,200t of unwrought aluminium from EU countries, according to the US International Trade Commission. This was a relatively small amount compared with imports from other nations and regions – Canada exported 2.4 million tonnes to the US in 2017.

Two global aluminium producers have offered Japanese buyers a premium of US$159-160/t for primary metal shipments for the July-September quarter, up 23-24% from the current quarter, sources said. Japanese buyers’ primary metal premiums set the benchmark for the region.

A 109-day queue for aluminium out of the ISTIM warehouse in Port Klang developed at the end of April following a series of large cancelations on the LME, according to LME data. On-warrant aluminium stocks in Port Klang fell 66% during April leaving 110,496 of available stock at the ISTIM warehouse. The cancellations followed the announcement of US sanctions against Rusal, leading to traders trying to get hold of non-Russian metal held in Asian warehouses. Some 108,000t of material were freshly cancelled in Port Klang in one day on Friday April 13, with the metal presumed to be Indian material, which is in high demand. This is the longest queue for aluminium since early 2017 when the wait for metal out of the Vlissingen warehouse was over 100 days. At the ISTIM warehouse in Port Klang, there is a 22-day wait for copper, lead and zinc while at Henry Bath in Port Klang there is a three-day wait for copper, lead, aluminium and zinc. At H&M Metal Warehousing in Taiwan there is a 10-day queue for copper, lead, aluminium and zinc delivery. There is also a 10-day queue for the same metals at H&M in Busan.

Louis Dreyfus Company said it had completed the sale of its metals business to a Chinese investment fund NCCL Natural Resources Investment Fund for $466 million, as part of a push to revive profits by focusing on its core agricultural markets. The metals business is one of the largest copper, zinc and lead concentrates merchants worldwide and has been one of the group's most profitable activities in recent years.

Shanghai Futures Exchange (ShFE) said it would launch China's first real-time platform for trading physical commodities as it seeks to improve transparency and challenge rivals in the global futures market. The platform will set physical premiums and discounts for cash-settled futures warrants depending on the commodity's location, quality and brand. The platform would only be available to companies and not individuals, suggesting the bourse wants to limit the platform to industrial users, helping avoid big physical price swings. Small commodities trading platform investors tend to trade on a short-term basis, often causing price volatility. ShFE's planned platform aimed to make trading more transparent and reduce risks, the bourse said. The move mirrors that of its U.S. rival CME Group Inc, which has launched cash-settled U.S. premium contracts for aluminium and copper in recent years. The LME has said it also plans to introduce cash-settled regional aluminium premiums in the future.

## LME Commentary:

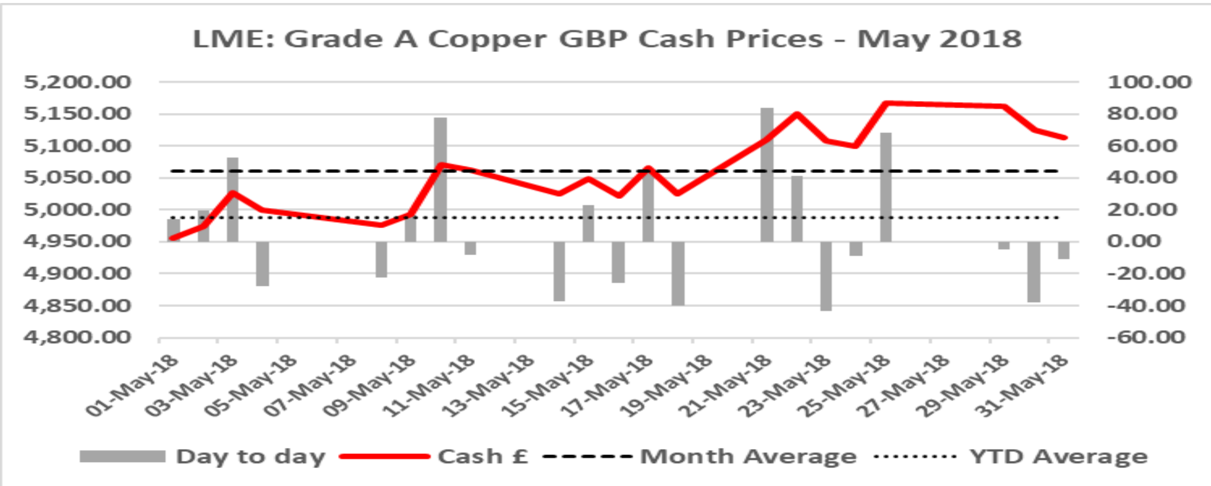
While LME Primary aluminium USD prices in May were unable to sustain the year highs achieved in April, prices nevertheless saw a steady start to the month as continuing concerns about Rusal supplies more than compensated for investors fretting about the impact of metal tariffs and an all-out trade war.

As we moved into the month, an extension to the Rusal deadline and positive vibes coming from on-going trade talks between the US and China seemed to allay market fears. The underlying LME USD aluminium price traded in a relatively narrow range but GBP prices were pushed higher as the US Dollar achieved a six-month high against the Pound and a wider basket of major currencies. LME aluminium stocks fell sharply, closing at 1,206,375t, and well down on the year's high of 1,412,500t seen in April. The cash to 3month spread widened out to a £23.03/t backwardation at mid-month before closing at £7.04/t.

Copper prices saw a fairly lacklustre performance in the month, with investor focus, initially at least, focussed on the aluminium market. The underlying USD copper price, like the aluminium price, was steady, if unspectacular, through the month with a distinct lack of fundamental news. Sterling prices were boosted by the weaker Pound. Stocks were largely unchanged and closed the month at 317,950t, down 7,575t in the month. The cash to 3month spread moved into backwardation at month end, closing at £15.51/t.

## LME Statistics and Charts: May 2018:

| | Copper | | | Aluminium | | | |
|---|---|---|---|---|---|---|---|
| | **Cash £/t** | **3M £/t** | **Stocks** | **Cash $/t** | **Cash £/t** | **Stocks** | **USD:GBP** |
| **Opening** | 4955.04 | 4965.07 | 325,525 | 2257.50 | 1,650.83 | 1,325,925 | 1.3678 |
| **Average** | 5061.09 | 5061.31 | | 2289.55 | 1699.26 | | 1.3480 |
| **High** | 5167.34 | 5156.50 | | 2382.00 | 1765.01 | | 1.3678 |
| **Low** | 4955.04 | 4965.07 | | 2226.00 | 1650.83 | | 1.3253 |
| **Range** | 212.30 | 191.43 | | 156.00 | 114.18 | | 0.0425 |
| **Closing** | 5113.89 | 5098.48 | 317,950 | 2285.00 | 1712.50 | 1,206,375 | 1.3346 |
| **Opening:Closing Δ** | -158.9 | -133.4 | -7,575 | +27.50 | +61.67 | -119,550 | |
| **YTD Average** | 4987.50 | 4995.91 | | 2202.24 | 1590.19 | | |
| **YTD High** | 5316.28 | 5335.54 | | 2602.50 | 1828.11 | | |
| **YTD Low** | 4568.46 | 4586.19 | | 1967.00 | 1403.52 | | |

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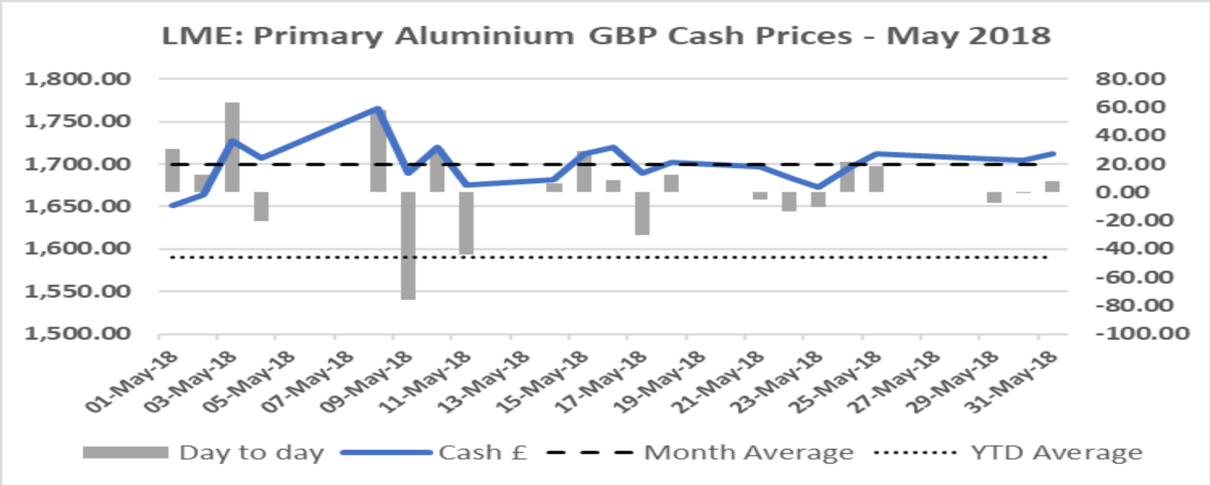


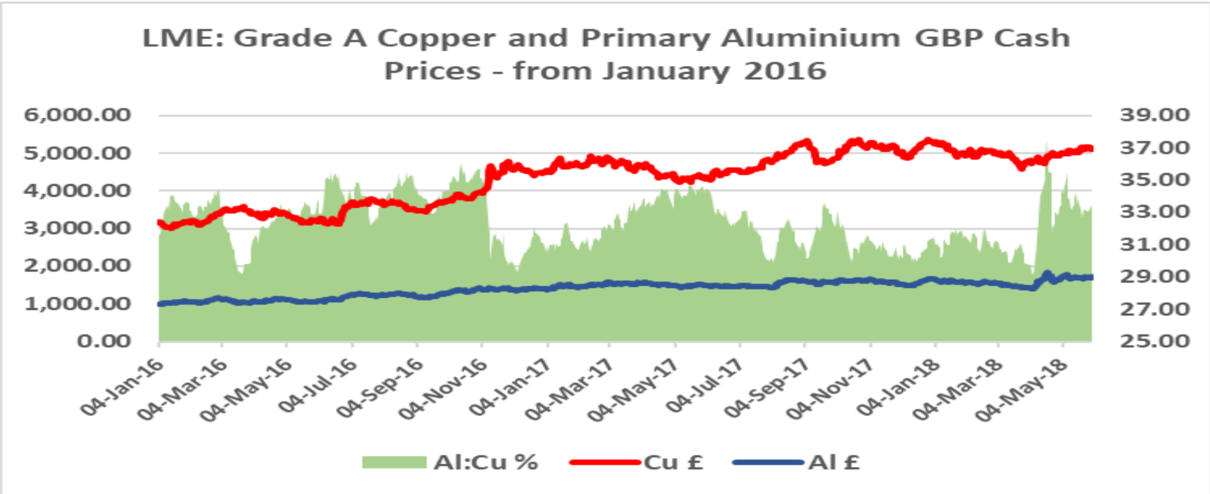


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