

# Metals Newsletter

**June 2018**

## **Economic Indicators and Comment:**

June witnessed an inconclusive and awkward G7 meeting followed by accusations traded between both the US and China and the US and its 'allies' and seemingly the rest of the world over the imposition of tariffs. The US sought to justify its stance as an attempt to 'seek structural changes' and 'create further negotiations' that lead to changing policies and the opening of markets. 'What we have to do is create an environment where it is more painful for these parties that have these huge trade barriers, both tariff and non-tariff, and to make it more painful for them to keep those barriers than to get rid of them. In the particular case of China, it's compounded by their disrespect of intellectual property, the forced technology transfers and cybersecurity breaches', according to Commerce Secretary Wilbur Ross.

In response, China's commerce ministry accused the United States of being "capricious" over bilateral trade issues and threatened tariffs with 'equal scale, equal intensity', targeting US farm imports.

India increased duties on a range of farm products, steel and iron imported from the US.

Russia said it would impose import duties on U.S. road-building machinery.

The Japanese government said it has joined the EU to push to set up dispute resolution talks with the US under the World Trade Organisation framework.

The EU imposed import duties of 25% on €2.8 billion (US\$3.2 billion) of EU imports of a range of U.S. products on a range of U.S. products while in a tit for tat response, President Donald Trump threatened to impose a 20% tariff on all EU-assembled cars.

The U.S. economy slowed more than previously estimated in the first quarter amid the weakest performance in consumer spending in nearly five years. GDP increased at a 2% annual rate in the January-March period, instead of the 2.2% pace it reported last month, the Commerce Department said in its third estimate. The economy grew 2.9% in the fourth quarter. The downgrade reflected weaker consumer spending and a smaller inventory accumulation than the government had estimated last month. A \$1.5 trillion income tax cut package, which came into effect in January, is seen spurring faster economic growth in the second quarter, putting annual GDP growth on track to achieve the administration's 3% target. Economists, however, caution that the administration's "America First" policies, which have heightened fears of trade wars, are casting a pall over the economy's prospects. Growth estimates for the second quarter are as high as a 5.3% rate. Meanwhile, May U.S. industrial production unexpectedly dropped and was down 0.1% on April.

China's industrial production rose by 6.8% yoy in May of 2018, missing market consensus of 6.9% and following a 7% gain in the previous period. Production increased at a slower pace for manufacturing (6.6% from 7.4% in April). Output of electricity, gas and water production rose by 12.2%, following an 8.8% growth in a month earlier. Mining output grew by 3%, recovering from a 0.2% fall in April. On a monthly basis, industrial production went up by 0.58%.

Worries over protectionism and turbulence in several key economies has weighed on growth, according to the European Central Bank, forcing it to trim back its growth forecasts. Economic growth this year is now seen at 2.1% versus an earlier forecast of 2.4%. For both 2019 and 2020 the forecasts are unchanged at 1.9% and 1.7% respectively.

Industrial production in the Euro Area rose by 1.75% yoy in April 2018, following an upwardly revised 3.2% gain in the previous month but missed market expectations of 2.8%. It was the smallest increase in industrial production since last April, as output growth slowed for intermediate and consumer goods while energy production fell.

UK GDP growth in the first quarter of 2018 was unexpectedly revised up on the back of less weak construction activity. The Office for National Statistics said that growth in the three months to March was 0.2%, rather than its previous estimate of 0.1%. The ONS said that the GDP growth revision was based on 'later construction data, and significantly improved methods for measuring the sector'. ONS data showed that the key services sector, which accounts for about 80% of the UK's economy, grew by 0.3% in April, the fastest monthly rate since last November.

## **Companies:**

Prysmian Group announced that it had completed its acquisition of General Cable having acquired all the outstanding shares of General Cable common stock for \$30.00 per share in cash. It subsequently announced the launch of its new organisation and the beginning of its integration with General Cable. The newly created Group is a world leader in the energy and telecom cable systems industry with global headquarters located in Milan, sales of over €11 billion and approximately 30,000 employees at 112 plants and 25 R&D centres in over 50 countries. North America will now account for approximately a third of the Group's sales, with the North American head office located in Highland Heights, Kentucky, and 23 plants throughout the Region with about 5,800 employees.

## **Market Commentary and News:**

Analysts suggest that a full-blown trade war between the U.S. and China could negatively affect the metals and mining sector in several ways. China could respond to U.S. tariffs by cutting imports of raw materials, hurting corporate revenue and weighing on metals prices. If it also hikes domestic production of resources like copper and aluminium, the boost to supply could be a double-whammy for prices. Meanwhile, U.S. tariffs on a huge range of equipment and parts could feed inflation, driving up miner's costs. Despite this - and a sell-off in metals equities - many miners have opted to say nothing. Some metal producers opted to deliver carefully measured statements. "It's not clear at this point if the proposed tariffs will have any material impact on our costs or operations," a spokesman for U.S.-based Newmont Mining Corp., said. "We would have to analyse the proposed list and see what if any of the targeted products are sourced in China." Alcoa Corp.'s commentary was slightly more direct. "Alcoa encourages the administration to engage China in addressing the critical issue of global overcapacity," the largest U.S. aluminium producer said.

The World Bureau of Metal Statistics (WBMS) reported that copper market has recorded a deficit of 213kt during the initial four-month period of the year - this compared to a deficit of 235kt for the whole of 2017. Reported stocks climbed higher to close at 262kt higher than the 2017 closing level. World copper mine production during Jan-Apr '18 totalled 6.7 million tonnes - 4.7% higher than the corresponding four-month period in 2017 at 6.4 million tonnes. Refined copper production was up by almost 3% yoy to 7.77 million tonnes with China and Chile recording significant production jumps. Production in the EU region fell marginally by 1%. Refined copper output totalled 1.95 million tons in April this year. Global copper consumption edged higher by nearly 5% yoy from 7.64 million tons to 7.99 million tonnes. Chinese imports of refined copper totalled 1,193kt during the first four months of 2018, 18% higher than in 2017. Chinese demand was 4,262kt, higher by 17% over the previous year and accounting for almost 53% of the global copper demand. EU copper demand was 4.6% higher than the Jan-Apr '17 total. Global refined copper consumption totalled 2.0473 million tons in April 2018.

The global world refined copper market showed a 55,000t surplus in March, compared with an 87,000t surplus in February, the International Copper Study Group (ICSG) said in its latest monthly bulletin. For the first 3 months of the year, the market was in a 153,000t surplus compared with an 84,000t surplus in the same period a year earlier. World refined copper output in March was 2.03 million tonnes, while consumption was 1.97 million tonnes. Bonded stocks of copper in China showed a 48,000t surplus in March compared with a 90,000t surplus in February.

Negotiations at BHP's huge Escondida copper mine in Chile began in the month. The talks come little more than one year after a 44-day strike that halted production. The latest reports suggested that the company and unions have reached some level of consensus on 18 "basic" points. Meanwhile, workers at BHP's Spence copper mine in northern Chile have agreed to a new collective labour contract.

Workers at Codelco's Chuquibambilla copper mine in Chile, the miner's second largest by output, are threatening to walk out soon to protest plans to transform the century-old open pit into an underground mine, a union leader said. Four of

Chuquicamata's six workers' unions voted to go ahead with strikes, alleging the company's plans to overhaul the mine – part of its \$39 billion 10-year drive to update its aging deposits - had failed to address the concerns of the mine's nearly 5,664 workers.

Elsewhere, Codelco said that workers' unions at its small Salvador copper division had rejected an early wage deal from the company, pushing off further negotiations until later this year when its contract expires, the company and the union said.

Ten people were killed and another 10 injured when a Zambian dump for copper mining waste collapsed according to local police. Informal "artisanal" miners have taken to re-excavating copper and other metals from the waste site in the town of Kitwe in Zambia's Copperbelt. In February the government's mining investment arm gave a 10% stake in the operation to such small-scale miners.

The Democratic Republic of Congo produced 296,717t of copper in the first quarter of 2018, up 8.2% over the same period last year, the central bank said in a report.

According to analysts, copper imports into India are about to rise fourfold as the closure of a huge smelter in the south of the country slashes local supply at a time when demand is starting to accelerate. Imports are set to climb to 170,000t in the year through March from about 40,000t in the prior 12 months, analysts said. Asia's third-biggest economy is facing shortages after Vedanta's Tuticorin 400,000tpa smelter was closed permanently in the wake of deadly protests over alleged pollution. Even if the other major Indian producer Hindalco Industries can boost its production, a third of its output is committed for export, the analysts added.

Figures released by the International Aluminium Institute show that world production of primary aluminium hit an 11-month high in May. Production at 5.441 million tonnes was the highest for 2018, 2.6% higher than in April and the highest since June 2017 (5.481 million tonnes). Production in China in May at 3.090 million tonnes was 4.4% lower than the June 2017 figures. The figures below are in thousands of tonnes;

Month	Africa	North America	South America	Asia (ex China)	West Europe	East & Central Europe	Oceania	GCC	China (Estimated)	ROW Estimated Unreported	Total
Jan-17	143	337	117	315	320	339	151	446	3,260	150	5578
Feb-17	130	304	105	289	290	306	131	407	2,814	150	4926
Mar-17	142	337	118	336	320	338	148	454	3,017	150	5360
Apr-17	138	326	116	318	312	327	142	418	3,066	150	5313
May-17	141	335	120	319	321	338	144	429	3,135	150	5432
Jun-17	140	323	114	311	310	327	149	426	3,231	150	5481
Jul-17	142	334	119	324	320	339	156	445	2,996	150	5325
Aug-17	143	336	118	337	320	339	160	423	2,950	150	5276
Sep-17	138	324	111	342	310	329	157	404	2,906	150	5171
Oct-17	142	335	119	352	320	342	161	428	2,856	150	5205
Nov-17	139	322	110	345	311	332	155	424	2,650	150	4938
Dec-17	141	337	111	363	322	343	163	445	3,024	150	5399
Jan-18	138	322	110	369	321	344	162	452	2,993	150	5361
Feb-18	128	285	103	338	282	311	146	414	2,750	150	4907
Mar-18	143	319	112	377	310	345	162	462	3,042	150	5422
Apr-18	138	311	103	355	303	334	156	446	3,007	150	5303
May-18	134	321	94	371	315	345	163	458	3,090	150	5441

According to the latest data released by the World Bureau of Metal Statistics, the calculated market balance for primary aluminium for January to April was a deficit of 91kt which follows a deficit of 1022kt recorded for the whole of 2017. Demand for primary aluminium for January to April 2018 was 19.77 million tonnes, 489kt less than in the same four months of 2017. Production in January to April 2018 fell by 51kt compared with the same period in 2017. Total reported stocks rose by 112kt during March and by a further 17kt in April. The increases included net deliveries into the Malaysian LME warehouses of 208kt. Total stocks at the end of April 2018 were 2757kt which compares with 2346kt tons at the end of 2017. Total stocks held in the four exchanges in London, Shanghai, USA and Tokyo were 2328kt at the end of April 2018 which was 440kt above the December 2017 total. Overall, global production fell in January to April 2018 by 0.3% compared with the first four months of 2017. Chinese output was estimated at 10891kt and this currently accounts for about 55% of the world production total. Chinese apparent demand was 1% lower than in January to April 2017.

Chinese net exports were 103kt in January to March and net exports of unwrought aluminium for the whole of 2017 were 365kt. WBMS estimates that exports of aluminium semi-manufactures by China were 390kt in April bringing the year to date figure to 1527kt which is 34% higher than the comparable period in 2017.

Production in the EU28 was 1.3% higher than the previous year and NAFTA output fell by 5.1%. EU28 demand was 39kt lower than the comparable 2017 total. Global demand fell by 2.4% during January to April 2018 compared with the levels recorded in 2017. (WBMS)

In April 2018, primary aluminium production was 4966.7kt and consumption was 4954.5kt. (WBMS)

The aluminium business of Russian Oleg Deripaska is in close contact with the US Treasury but needs until mid-summer to come up with a plan to meet US requirements to escape sanctions, the chairman of its holding company told Reuters. However, in a bid to free the company from sanctions, the independent directors of the company have hired Rothschild to advise on the sale of Deripaska's stake. Later in the month, Rusal shareholders elected a new board of directors, dominated by independent directors and operational managers, in an effort facilitate the process. By month end, Rusal said it had started shipping bauxite from its Dian-Dian bauxite project in Guinea to its alumina refineries in other countries. It also restarted production at its Friguia alumina refinery in Guinea after a six-year pause. Rusal is the world's largest aluminium producer outside China.

The aluminium industry faces accusations of price manipulation in the US A group of US lawmakers asked Attorney General Jeff Sessions to examine what they call possible "anti-competitive conduct" in the US aluminium market that they say may have inflated prices of the metal. The lawmakers are concerned with what they call "pricing irregularities" in setting the US Midwest premium, or the amount added to have metal shipped to the Midwest.

Japanese aluminium buyers have agreed to pay a premium of \$132 /t over LME cash for shipments in July to September, the highest in more than three years, sources said. That is 2% higher than the \$129/t premium in the current quarter and marks the third consecutive quarterly increase.

Russian aluminium exports declined in the first four months of 2018 while copper exports rose, official customs data showed. Copper exports of 223.9kt compared with 185.9kt in the same period in 2017. Aluminium exports were 1013kt compared with 1085.8kt for the respective periods.

While volatile metals markets have created difficulties for producers and consumers struggling to lock in prices through hedging programs, 10 LME members who participated in a Reuters poll have seen profits improve during the first five months of this year (with an average rise of 30%). The results varied widely but market makers, brokers and traders thrive on volatility. In the words of one broker; "anybody involved in the risk side of things, the market-making side of things, would have had an incredible scary ride through April." Volumes on the LME jumped 31% during the first five months of the year to 80.5 million lots. April, when the U.S. imposed sanctions on Rusal, was the stand out month, with average daily volumes increasing by 63%.

LME CEO, Matthew Chamberlain said the exchange is working to see if it can expand access to under suspension Rusal's aluminium, but the exchange needs "to be cautious". "We are working very closely with all the parties involved to see if we can expand that eligibility, but I think the market does agree that we should put caution first," Chamberlain said.

The LME plans to launch around 15 new contracts, including cash-settled cobalt and hot-rolled coil steel contracts, putting in place the technical capabilities by November and then launching them in January. The exchange said in March that any launch of a new cobalt contract would not be until the end of 2018 or early 2019 but the recent trade tensions including U.S. tariffs on aluminium and steel, bolstered the need for new contracts". The LME already has four regional premium contracts for aluminium, but they are physically delivered and have not been successful. The new ones will be cash-settled, based on reference prices from third-party agencies.

## **LME Commentary:**

Copper prices hit multi year highs early in June, pushed by fears of potential supply disruptions as wage talks started at Escondida, the world's biggest mine and by healthy investor appetite for cyclical assets as stock markets rallied.

The LME GBP cash price hit a 6 1/2 year high at £5407.90/t early in the month (the underlying USD price hit a 4 1/2 year high at \$7262.50/t) but fell to a 5-week low at £5067.57/t towards month end.

Similarly, after a bright start to the month, LME aluminium prices tumbled down to the month's low of \$2152/t - the weakest since April - after data showed world primary aluminium production had increased to 5.441 million tonnes in May. The possibility of some resolve to the Rusal ban, as the US authorities seemed to soften their stance, further aided the sell off.

Despite initially strong import data in China, market sentiment was tempered by a lack of consensus at the G7 summit in Canada. Disappointing Chinese industrial output figures pointed to weaker-than-expected activity there in May while a holiday in China drained buying interest from the market. Prices continued to fall after China said it would firmly respond to any measures by the US States to widen tariffs, escalating trade tensions between the world's top two economies. In short, the deepening trade row between China and the US capped any recovery in risk appetite and saw LME prices fall off toward the month end.

#### **LME Statistics: June 2018:**

	<b>Copper</b>			<b>Aluminium</b>		
	<b>Cash £</b>	<b>3M£</b>	<b>Stocks</b>	<b>Cash \$</b>	<b>Cash £</b>	<b>Stocks</b>
<b>Opening:</b>	5114.95	5100.51	317,950	2271.00	1704.70	1,206,375
<b>Average:</b>	5232.73	5215.27		2240.29	1685.59	-
<b>High:</b>	5421.80	5402.51	-	2331.00	1739.81	-
<b>Low:</b>	5053.99	5032.57	-	2152.00	1624.76	-
<b>Closing:</b>	5053.99	5032.57	294,525	2183.00	1685.59	1,114,125