

## July 2018

### Economic Indicators and Comment:

The U.S. economy grew at its fastest pace in nearly four years in the second quarter as consumers boosted spending and farmers rushed shipments of soybeans to China to beat retaliatory trade tariffs before they took effect in early July. GDP increased at a 4.1% annual rate as government spending picked up, the Commerce Department said. That was strongest performance since the third quarter of 2014. January-March quarter GDP growth was revised up to 2.2% from the previously reported 2% to account for new source information and methodology improvements. Compared to the second quarter of 2017, the economy grew 2.8%. Output expanded 3.1% in the first half of 2018, putting the economy on track to achieve the administration's target of 3% annual growth. U.S. industrial production meanwhile recovered in June and was up 0.6% on May.

China's economy expanded by 6.7% in the second quarter, its slowest pace since 2016, as the impact of an aggressive deleveraging campaign curtailed investment in infrastructure and manufacturing. The pace of annual expansion is still above the government's target of 'about 6.5%' growth for the year. The slowdown comes as Beijing's trade war with the U.S. adds to headwinds from slowing domestic demand. GDP grew at 6.8% in the previous three quarters.

The euro zone economy grew more slowly than expected in the second quarter, preliminary data showed, but headline and core inflation accelerated with unemployment stabilising at a lower level. Eurostat estimated that GDP in the 19 countries sharing the euro expanded 0.3% quarter-on-quarter in the April-June period and was 2.1% higher against the same period of 2017. Meanwhile, industrial production in the area rose by 2.4% year-on-year in May 2018, following a 1.7% advance in the previous month and beating market expectations of 2.1%. Output growth picked up for intermediate and non-durable consumer goods while production of energy and durable consumer goods fell. On a monthly basis, industrial output surged 1.3%, recovering from April's 0.8% decline and beating forecasts of 1.2% gain.

The narrative relating to U.S. protectionism and tariff wars continued through July. Analysts suggest that the uncertainty is taking its toll on confidence, with companies around the world getting more worried about the damage a full-blown trade war could do to business. Amid a flurry of retaliatory threats, the U.S. launched five separate World Trade Organization dispute actions challenging retaliatory tariffs imposed by China, the European Union, Canada, Mexico and Turkey following U.S. duties on steel and aluminium. By month end and in what EU chief Barnier called a "major concession," President Trump agreed to refrain from imposing car tariffs while the two sides launch negotiations to cut other trade barriers, easing the threat of a transatlantic trade war. At month-end it was reported that the U.S. and China were trying to restart talks - 'to reengage in negotiations' - aimed at averting a full-blown trade war.

### Companies:

Nexans issues its financial statements for the first six months of 2018. Sales at €3.28 billion were down 1.6%, with a 14% quarter-on-quarter growth in the second quarter. Cable and wire activities were up 2.7% (up 3.7% excluding Oil & Gas activities). High Voltage & Projects activities were down 19.6%. EBITDA of €153 million (versus €211 million in first half 2017) included a €9 million negative currency effect. The company also announced the appointment of Christopher Guérin as its new CEO effective July 3, 2018. Commenting on the Group's results, the new CEO said: "I have full confidence in the fundamentals of our Paced for Growth plan, and in our Group's potential to create value. However, the disappointing performance thus far in 2018 requires corrective and transformative measures to simultaneously improve our short-term profitability and to stimulate growth over the longer term. Our teams are already working to define these measures with a view to announcing them in October 2018."

German copper products company Mansfelder Kupfer und Messing (MKM) announced earlier in the month that a deal has been signed for the sale to fellow German copper producer KME for €80 million of its Hettstedt operations. MKM last year produced over 270,000t of copper rolled products, tubes, copper rods and wire rods at its plant near Leipzig. By month end

however. the European Commission said it had started an in-depth investigation into the deal noting it was concerned such a deal would reduce competition. The Commission said it was worried the combination of the two companies could lead to higher prices for rolled copper products and sanitary copper tubes. "The transaction would eliminate competition between the companies in many EU countries where the supply of sanitary copper tubes is already particularly concentrated," the Commission said. The Commission now has until November 29 to assess the deal.

Aurubis has received authorization from the German federal antitrust office for its planned acquisition of the 40% of copper wire rod producer Deutsche Giessdraht it does not already own, the German copper producer said. Currently, Aurubis holds 60% and Codelco Kupferhandel holds 40% of the joint venture. In January, the two companies entered into a purchase agreement for the acquisition of all shares by Aurubis. The purchase price was not disclosed. The competition authority's consent is a prerequisite for completing the acquisition, Aurubis said, adding that the closing will take place on July 31. Deutsche Giessdraht produces around 240,000tpa of copper wire rod. Aurubis produced 390,000t of rod in the six months to March 31, the first half of its 2017-18 financial year.

## **Market Commentary and News:**

The global world refined copper market showed a 98,000t deficit in April, compared with a 66,000t surplus in March, the International Copper Study Group (ICSG) said in its latest monthly bulletin. For the first 4 months of the year, the market was in a 61,000t surplus compared with a 6,000t surplus in the same period a year earlier. World refined copper output in April was 1.95 million tonnes, while consumption was 2.04 million tonnes. Bonded stocks of copper in China showed a 95,000t deficit in April compared with a 58,000t surplus in March.

Chile produced 498,423t of copper in May, up 6.4% from the same month of last year, government data showed. Statistics agency INE said the sharp increase reflected the impact of last year's strike at the BHP-controlled Escondida copper mine, as well as adverse weather conditions in the north of the country. Production during the first five months of 2018 totalled 2.385 million tonnes, up 13.4% from the same period of last year.

Chinese refined copper production in June was 776Kt, giving a year to date production total of 9.110Mt - up 5.4% on the corresponding period in 2017.

Management at BHP's Escondida copper mine in Chile, the world's largest copper mine, said on 24 July that it had made a final offer in talks with the union representing its rank-and-file workers that includes an enhanced contract signing bonus and a 1.5% increase in wages. The company offered a final signing bonus of \$27,700, compared to its previous offer of \$23,000. The 1.5% salary increase compared to a previous offer of a flat salary with increases only for inflation. The union however, rejected the company's final contract offer and agreed to vote on whether to go on strike, according to Reuters. The workers concluded that the company's offer does not meet union demands and creates "prejudicial" labour conditions. Union members had until 1st August to vote on the company's proposal. In the event of a rejection vote, either party can call for a period of government-mediated arbitration that could last for up to 10 days.

Meanwhile, the main union at Chile's Caserones mine has rejected operator Lumina Copper's final contract offer and workers have approved strike action. The strike was scheduled to begin on August 7 after a compulsory mediation period.

Chile's state copper agency Cochilco revised its 2018 average copper price prediction downwards by \$132/t to \$6614/t, citing the trade war between the U.S. and China as a reason for a drop in the price. The actual LME July month end USD cash price was \$6213/t while the year to date average cash price was \$6816.68/t. Cochilco said it expected the price to edge back upwards to \$6834/t in 2019. It estimated production would be 5.7 million tonnes in 2018 and 5.94 million tonnes in 2019.

Freeport-McMoRan said it will sell a majority stake in the world's second-biggest copper mine to the Indonesian government, seemingly ending a long-running dispute via a series of complex deals worth \$3.85 billion. The agreement will see Freeport give up majority control but remain the operator of the Grasberg mine, located in the country's eastern province of Papua, as Jakarta seeks to gain greater control over its mineral wealth.

Global aluminium production growth ground to a standstill in the first half of this year. The world's smelters produced 31.76 million tonnes of metal in January-June, a 1% decline on the first half of 2017, according to the International Aluminium Institute (IAI). Expressed in annualised terms, global output in June was almost two million tonnes lower than a year earlier.

United Company Rusal, the world's second biggest aluminium producer, increased aluminium exports to 197,000t in May, up almost threefold from April, Interfax news agency reported. Citing Russian Railways data, Interfax said January-May aluminium exports totalled 972,000t, down 16% on a year earlier.

Aluminium Corp of China, known as Chalco, is to cut alumina output on some of its production lines in the northern Chinese province of Shanxi because of high bauxite prices and low alumina prices. In a statement, the state-run Chinese producer said that about 770,000t of annual alumina production capacity at its Shanxi New Material unit would be affected by production cuts, with immediate effect.

China's aluminium output in June rose 1.6% from the previous month to 2.83 million tonnes, data from the National Bureau of Statistics (NBS) showed, as a gradual ramp-up of new smelting capacity raised production. On a daily basis, the world's largest aluminium producer churned out 94,000t of the metal last month, compared with 90,000t in May.

Aluminium premiums in Rotterdam in July were at their lowest levels so far this year due to the persistent backwardation in LME forward spreads. Metal Bulletin assessed the Rotterdam duty-unpaid premium at \$80-90/t, down from \$90-100/t in the previous week. The premiums are now at their lowest level since September 2017 and down considerably from the high of \$150-165/t premiums achieved in April.

Aluminium producer Alcoa Corp lowered its forecast for adjusted earnings before interest, tax, depreciation and amortization (EBITDA) for 2018, citing U.S. tariffs on imported aluminium and rising energy costs. The company's shares fell 2% in after-market trading, dragging shares of rival Century Aluminum Co down 1%.

At month end, U.S. Treasury Secretary Steven Mnuchin said the U.S. was in productive talks with Rusal to remove the producer from its sanctions list. In April the U.S. imposed sanctions against billionaire Oleg Deripaska and the eight companies in which he is a large shareholder, including Rusal, in response to what it called "malign activities". By July month end however, the administration was saying that its objective was "not to put Rusal out of business" - the latest indication the administration was trying to aid Rusal, which has taken a series of steps to try to appease the U.S. government and get the restrictions lifted.

The LME will launch a new set of synthetic monthly prices for copper, aluminium, zinc, lead, nickel and tin to make it easier for investors and funds to invest in base metals as the LME battles competition from other exchanges such as those operated by CME Group. The LME said in a statement that "implied" prices for the six main base metals would be provided starting July 30. The new system is expected to appeal to financial investors such as speculators, banks and funds who prefer the standard futures structure with one prompt date each month as opposed to the daily contracts (available for the first 3 months) available under the existing contracts and favoured by trade users.

Two companies have exited the LME warehousing business in the past month while others have significantly reduced their involvement, highlighting concerns over the growing unprofitability of the sector and the lack of on-exchange stock liquidity. 2018 has been particularly challenging due to a lack of available supply and rising operating costs, adding to stringent LME rules. Worldwide Warehouse Solutions (WWS) has gone bankrupt and Katoen Natie closed its LME operations in Asia, while many companies across the world have reduced space dedicated to LME business.

The LME has asked companies that assess prices of battery-grade lithium to submit proposals to supply a reference for the cash-settled contracts it plans to launch next year. Interest in battery metals such as cobalt, nickel and lithium has soared over the past year on the automotive industry's ambitious plans to produce electric cars and cut noxious fumes from vehicles powered by fossil fuels.

## **LME Commentary:**

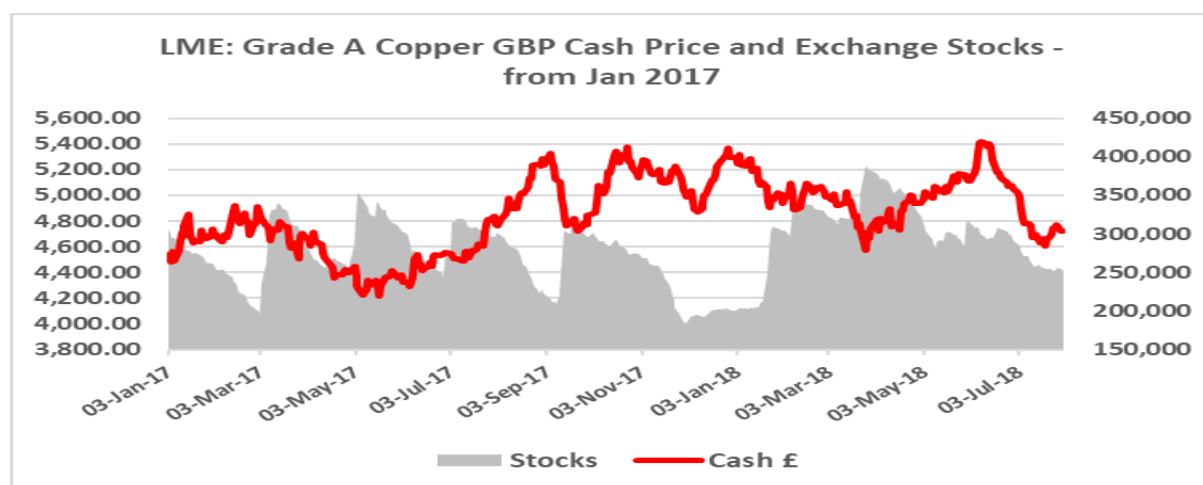
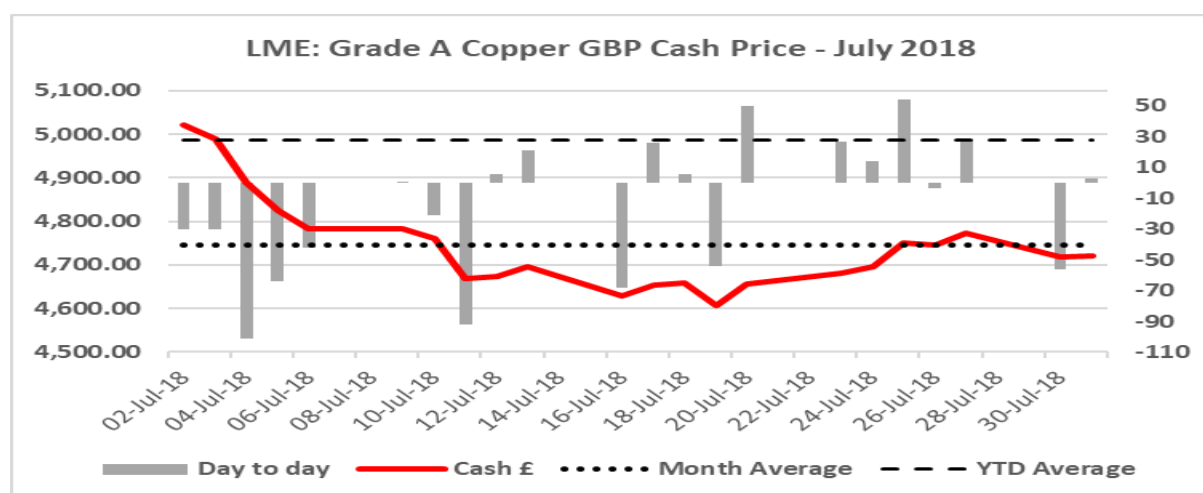
LME metal prices fell in the month as macro concerns outweighed micro or trade narratives. Escalating trade tensions between the U.S. and China raised concerns about demand and with uncertainty heightened after data showed China's manufacturing growth slowed in June, there was a noticeable exit by funds and investors.

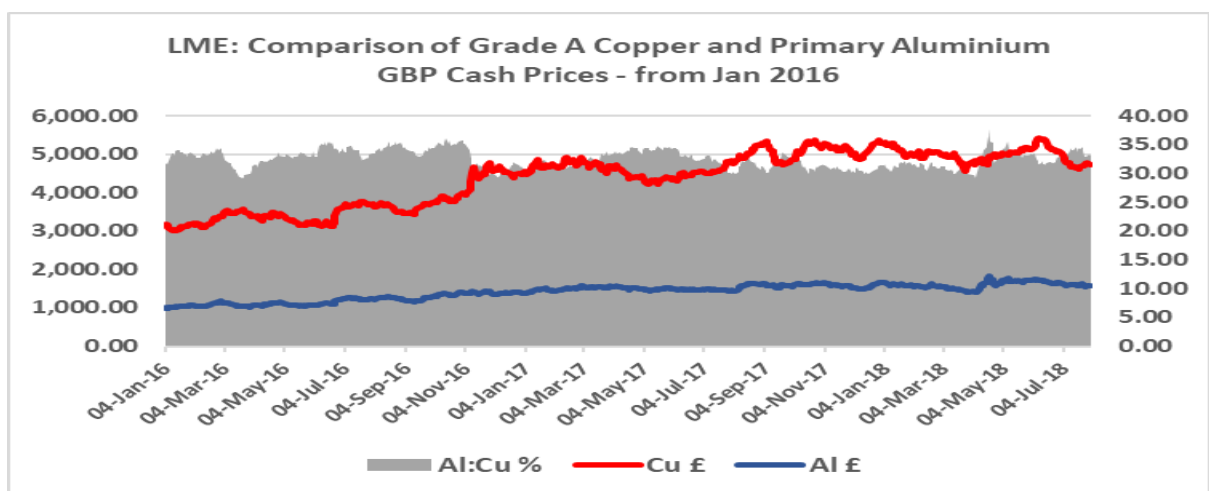
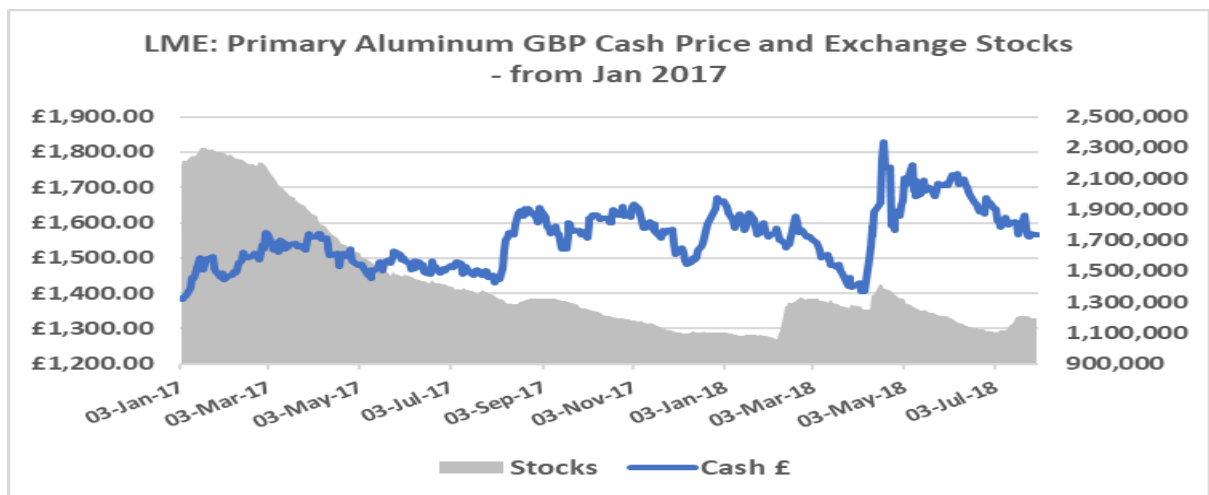
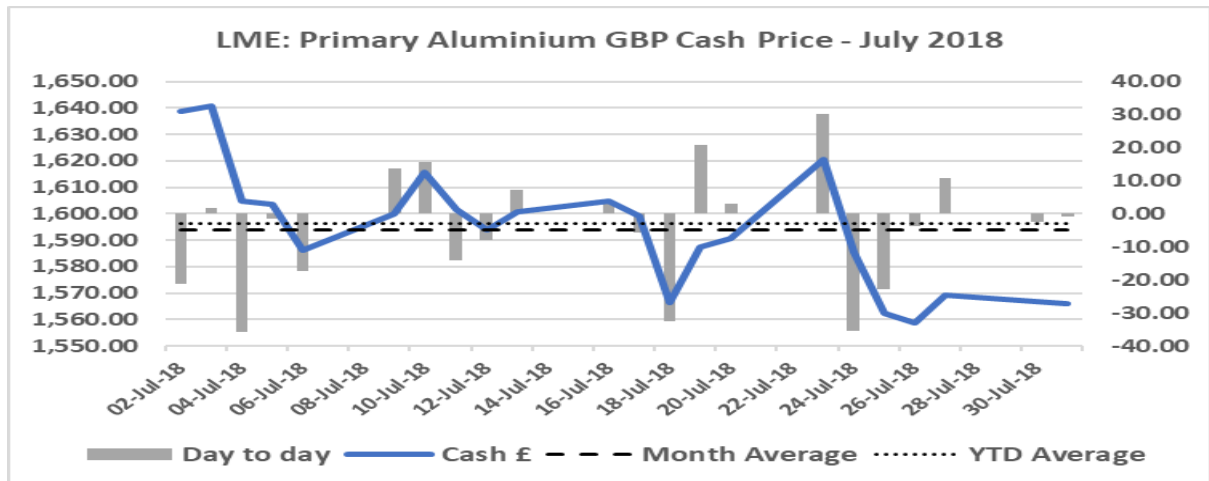
Copper prices fell to mid-month as the USD cash price hit a low of \$5982/t, the first time it had breached the \$6,000/t level since July 2017, while the GBP cash price, supported by a weaker Pound v. Dollar, simultaneously hit a 4-month low at £4605.44/t. The threat of mine strikes in Chile following unresolved labour talks, better than expected U.S. GDP news and a positive outcome from the Trump-Juncker meeting, provided some support as prices made a modest recovery towards month end.

LME Primary Aluminium cash prices likewise came under pressure in the month as investors shied away from the metals sector. Support early on did come from technical short coverings as a dominant, long position holder pushed the cash to 3-month spread into a £57.59/t backwardation. As that position matured mid-month, the spread narrowed and moved back into contango. The USD aluminium price hit its low mid-month at \$2040/t while the GBP price bottomed at £1558.54/t later in the month - both hitting 4-month lows. The market believes that the “Russian Premium”, which resulted from the April imposition of U.S. sanctions on Rusal, has been fully unwound as the market anticipates lifting of those sanctions.

## LME Statistics and Charts: July 2018:

	Copper			Aluminium			USD:GBP
	Cash £/t	3M £/t	Stocks	Cash \$/t	Cash £/t	Stocks	
Opening	5020.17	4995.83	289,875	2153.00	1,638.88	1,107,400	1.3137
Average	4744.37	4739.34		2098.93	1593.77		1.3169
High	5020.17	4995.83		2165.00	1640.65		1.3347
Low	4605.44	4605.83		2040.00	1558.54		1.2989
Range	414.73	390.00		125.00	82.11		0.0358
Closing	4720.77	4719.62	251,950	2061.00	1565.99	1,195,150	1.3161
Opening:Closing Δ	+299.40	+276.21	-37,925	-92.00	-72.89	+87,750	
YTD Average	4986.14	4988.85		2192.21	1604.35		
YTD High	5421.80	5402.51		2602.50	1828.11		
YTD Low	4568.46	4586.19		1967.00	1403.52		





Produced by Neil Bootman of NGB Metal Services.

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