Metals Newsletter

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Economic Indicators and Comment:

The tit for tat tariff war continues:

On August 3, China unveiled proposed tariffs on US$60 billion worth of U.S. goods. In retaliation, the U.S. said it will begin imposing 25% duties on an additional US$16 billion in Chinese imports, involving 279 product lines.

The U.S. subsequently announced new sanctions on Russia that punish Putin's government for the March nerve agent attack in the U.K.

President Trump authorized to double the tariffs on steel and aluminium products from Turkey to 50% and 20% respectively over the detention of an American pastor by Turkey. The Turkish lira dropped to a record low.

The US lodged a complaint to the WTO over EU tariffs. At the end of the month, the EU said it would be to scrap tariffs on all industrial products, including cars, provided the US did the same.

By month end, the U.S. and China had imposed fresh tariffs on each other's goods despite on-going trade talks. Both nations started levying the taxes on $16 billion of imports from the other nation. China also said it would lodge a complaint about the new American tariffs to the WTO. The U.S. will collect an additional 25% in duties on Chinese imports ranging from motorcycles to steam turbines and railway cars, and the Chinese retaliation will see a similarly sized tax on items including coal, medical instruments, waste products, cars and buses. Low level delegates from the two parties met in August for the first face-to-face trade discussions since June.

Discussion on the 'restructuring' of NAFTA continued with the US saying it was planning to pursue a trade deal with Mexico although negotiations with Canada unresolved and on-going.

President Trump signed proclamations permitting targeted relief from the quotas on steel from South Korea, Brazil and Argentina and on aluminium from Argentina, the U.S. Commerce Department said.

U.S. economic growth was marginally stronger than initially thought in the second quarter, notching its best performance in nearly four years and putting the economy on track to hit the Trump administration's goal of 3% annual growth. GDP increased at a 4.2% annualized rate, the Commerce Department said in its second estimate - slightly up from the 4.1% expansion reported in July and was the fastest rate since the third quarter of 2014. The economy grew at a 2.2% pace in the January-March period.

US industrial production edged up 0.1% in July after rising at an average pace of 0.5% over the previous five months. Manufacturing production increased 0.3%, the output of utilities moved down 0.5% and after posting five consecutive months of growth, the index for mining declined 0.3%. Total industrial production was 4.2% higher in July than it was a year earlier. Capacity utilization for the industrial sector was unchanged in July at 78.1%.

Industrial production in the Euro Area rose by 2.5% year-on-year in June 2018, following an upwardly revised 2.6% gain in May while markets had expected it to advance 2.6%. Output grew less for intermediate goods and non-durable consumer goods and contracted further for energy. On a monthly basis, industrial activity shrank 0.7%, after an upwardly revised 1.4% rise in May and worse than market expectations of a 0.4%. Industrial production in the Euro Area averaged 1.16% from 1991 until 2018, reaching an all-time high of 9.2% in December 2010 and a record low of minus 21.4% in April 2009.

The Office for National Statistics (ONS) said UK GDP increased by 0.4% in the second quarter from a rate of 0.2% in the previous three months, helped by stronger retail sales and good weather which enabled the construction industry to recover from poor weather earlier in the year. Service industries experienced robust growth of 0.5% in the second quarter, with the retail and wholesale sectors providing the strongest contribution. The manufacturing industry however, recorded its second consecutive quarter of negative growth since the first quarter of 2016, meeting the official conditions for an economic recession, amid weaker international demand for British goods. Manufacturing output fell by 0.9% - the biggest falls were seen in the metal products and electrical equipment industries which are heavily export reliant.

Companies:

Aurubis said it is confident its plan to sell its flat rolled copper products unit to Germany's Wieland-Werke will be approved despite EU antitrust regulators opening an in-depth investigation to examine the impact of the deal on the companies' customers and consumers. It will decide by December 10 whether to clear the takeover. Wieland said that the decision by the EU competition authorities can be attributed to the complexity and size of the transaction and that the company was optimistic that the second phase will be completed before the end of the year. Aurubis wants to sell the unit, with turnover around €1.3 billion and output of around 230,000tpa of copper and alloyed products as part of its strategy to expand into other metals.

Poland's KGHM, one of the world's biggest copper producers, reported a 50% fall in second quarter net profit as lower sales, rising costs and provisions offset the positive impact of higher copper prices. KGHM said that second quarter net profit fell to 171 million zlotys ($45 million), from 341 million a year ago, and missed analysts forecasts of 361 million zlotys due to exchange rate effects on borrowings and provisions.

Russia's aluminium giant Rusal posted a second-quarter profit of $440 million amid higher market prices for the metal, remaining well in the black despite sanctions imposed earlier this year. Recurring net profit was up 75% from a year ago, but down 17% from the first quarter of 2018. The earnings figures were the first to be released since sanctions were imposed in early April. En+ Group which manages the aluminium businesses of Oleg Deripaska, said that falling metals sales had dented revenues since the US imposed sanctions on the company in April.

Market reports suggest that Oleg Deripaska's talks with the US Treasury are not going entirely smoothly, even though the global aluminium market has returned to pre-sanctions levels - a sign that traders assume a deal is imminent. Deripaska believes the U.S. demands make no economic sense and are close to 'enslavement'. There is still time for the two sides to find common ground with a deadline set for October 23. Greg Barker, the chairman of En+ Group Plc, has travelled to Washington in hopes of reaching a deal, according to insiders.

Market Commentary and News:

The global world refined copper market showed a 31,000t deficit in May, compared with a 105,000t deficit in April, the International Copper Study Group (ICSG) said in its latest monthly bulletin. For the first 5 months of the year, the market was in a 21,000t surplus compared with a 66,000t deficit in the same period a year earlier. World refined copper output in May was 2.02 million tonnes, while consumption was 2.05 million tonnes. Bonded stocks of copper in China showed a 21,000t deficit in May compared with a 102,000t deficit in April.

The union representing workers at BHP's Escondida copper mine in Chile signed a new collective labour contract at the end of August, following months of uncertainty and 4 weeks of hard negotiation, thereby ending the risk of a strike that could have paralyzed the world's biggest copper mine.

Earlier in the month, labour unions representing workers at the El Teniente copper mine in Chile called off a planned strike having accepted the latest contract offer from state mining company Codelco.

The main union representing workers at the Caserones mine (controlled by JX Holding and Mitsui Mining) in Chile accepted a revised contractual offer from the copper company, which averted the threat of a strike, according to sources.

Meanwhile, striking workers at Codelco's Andina copper mine have rejected their employers' latest contract offer, the company and union said at the end of August. Workers at the mine began a strike on August 20 after contract negotiations over salaries and bonuses failed.

Chile increased its copper production to 2.83 million tonnes in the first six months of this year, a 12.3% gain on the same period the previous year, the Chilean copper commission Cochilco reported. Codelco produced 875,300t from January to June, a 2.9% year on year gain, while BHP's Escondida produced 647,300t, a 97.4% increase on the same period last year which saw output hampered by a lengthy strike.

Chile's state copper firm Codelco announced a $4.881 billion investment to convert its open cast Chuquicamata mine into an underground facility. Combined with previous spending, the new figure would the amount it planned to spend in total to convert the Chuquicamata mine, its second-largest, to $5.550 billion.

Sources report that China's copper producers and traders are seeing an unexpected surge of business that has pushed physical prices to their highest in nearly two years as fabricators rush to buy refined metal to avoid import tariffs on scrap that began from August 23. The buying spree was initiated after Beijing announced it would hit $16 billion worth of U.S. imports, including scrap metal, with duties of 25%.

India's environment court said an independent judicial committee would decide whether to allow Vedanta to reopen its copper smelter, which was shut by the Tamil Nadu state on environmental grounds. The company has denied that the plant, India's second biggest copper smelter, pollutes the area. The National Green Tribunal (NGT) had earlier this month granted Vedanta, conditional access to the smelter for "administrative purposes".

European spot copper cathode premiums traded at average of US$45/t in July, unchanged from the previous month, according to a market survey. Premiums traded on a CIF basis ranged from a high of $55/t to a low of $35/t. Traders reported that activity was subdued as industrial usage dipped during seasonal slowdown but that underlying demand is still strong despite fears of a global trade war.

According to the World Bureau of Metal Statistics (WBMS), the calculated market balance for primary aluminium was a deficit of 334kt in the first half of 2018. This follows a deficit of 1,025kt recorded during the whole of 2017. Primary aluminium production totalled 5,049.7kt in June with consumption at 5,057.1kt. Total reported stocks dropped by 110kt in June this year to close that month at 2,527kt, significantly higher than the 2,346kt at the end of the previous year. The stocks held by London, Shanghai, US and Tokyo exchanges at the end of June of 2,053kt were 110kt up from the end of 2017. Global production declined by 413kt or 1.4% in H1 2018, compared to the first half of 2017. China continued to be the leading producer, with an output of 16,468kt, accounting for more than 55% of the total world production. The EU-28 region reported 0.8% jump in aluminium production when compared with the previous year. Output in the NAFTA region fell by 5.2%. The global demand for primary aluminium has dropped by 881kt during Jan-June 2018, compared with the first six months of 2017, to total 29.94 million tonnes. Chinese apparent demand dropped marginally by 2.4% over the year. The EU demand edged higher marginally by 38 kt.

Global primary aluminium output rose to 5.472 million tonnes in July from revised 5.334 million tonnes in June, data from the International Aluminium Institute (IAI) showed. Estimated Chinese production rose to 3.11 million tonnes in July from a revised 3.05 million tonnes in June.

China's aluminium demand is forecast to level off in 2023 at 46 to 50 million tonnes on an expected slowdown in consumption, the China Nonferrous Metals Industry Association said. The Association said this was due to the Chinese economy moving from high-speed growth to medium-to-high-speed growth. It said in a post-industrialization phase, a slowdown in demand growth is common, with China's annual aluminium demand growth seen dipping to around 6% in the 13th Five Year Plan period (2016-20) as against double-digit rates in previous years. Chinese brokerage firm Jinrui estimates that as of August 2018, China has a running aluminium output capacity of 37.71 million tpa, up from 37.31 million tpa in July. China's aluminium demand in August is estimated at 3.01 million tonnes, with surplus of 200,000t, compared with demand of 3.15 million tonnes in July and deficit of 40,000t, Jinrui estimates showed. It also forecasts China's aluminium demand in 2018 to be 36.94 million tonnes, with a 20,000t surplus, with 2019 demand seen rising to 39.27 million tonnes, with 310,000t surplus.

According to China's National Bureau of Statistics, primary aluminium production climbed 12% in July from the same month a year earlier, equalling its monthly record, as new smelters took output back toward the level that preceded capacity closures in mid-2017. The world's biggest aluminium producer produced 2.93 million tonnes of the metal in July.

China is to continue output cuts in the domestic aluminium sector during the coming winter, in line with its targets for energy savings and emissions cuts, the Ministry of Industry and Information Technology said. The aluminium and alumina sectors will both be required to cut 30% or more. It said eco-friendly producers that had already managed to go beyond their required output cuts would be asked to cut output less or would be exempted from output cuts. Producers with capacities on China's industry restructuring list would be required to halt operations or intensify their output cuts, while those that need to maintain operations in the winter would be required to undergo strict assessments by local governments, MIIT said.

Union workers took industrial action at Alcoa's Australian alumina refineries in early August, after the Australian Workers' Union (AWU) said it opposed Alcoa's attempt to terminate its agreement. Alcoa's Australian plants account for around 9.3 million tonnes of capacity or some 8% percent of the world's supply of alumina. Alcoa said the action which ended on August 17 did not have any significant impact on production.

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Alcoa Corp has asked the U.S. Commerce Department to exempt from tariffs its purchases of 40,000t of Canadian aluminium used to make beverage cans. Alcoa said no U.S. aluminium producer can meet its specification needs and quality requirements for rolling slabs used at its Indiana plant to produce aluminium for can manufacturers.

Aluminium producers have offered primary aluminium to Japanese buyers at premiums of $115/t, basis CIF Japan, for fourth quarter shipments. This is down 13% from premiums of $132/t in Q3. Buyers said the reduction reflected the easing of fears that US sanctions on Russian producer Rusal would dry up global aluminium ingot supplies.

Russian aluminium and copper exports rose in the first six months of 2018, official customs data showed. According to the Federal Customs Service, copper exports were 321.3kt compared to 275.9kt in 2017 and aluminium exports were 1550.9kt compared to 1525.1kt in 2017.

The LME has launched a consultation to trial in the first quarter of next year the use of its electronic system to determine closing prices of the three-month nickel contract instead of open outcry. The exchange, the world's oldest and largest market for industrial metals, also said in a statement it would consult members and stakeholders about launching eight new cash -settled futures contracts from January 2019.

LME Commentary:

LME copper prices traded at well below the year to date average with the market fixated on trade wars and the global economy while seemingly ignoring copper market fundamentals. The escalating trade war has dampened investor sentiment with analysis showing the majority of hedge funds and investors in the US and China are short of the copper market i.e. they have forward hedge sold in anticipation of lower prices in the future. This despite the threat of strike action, at least at the beginning of the month, in Chile's huge copper mining sector. Initial threats of industrial action saw copper prices peak on August 9 at £4847.52/t. The subsequent positive development of the wage negotiations, leading to agreement, combined with investors' concern over a slowdown in the Chinese economy and a strong US Dollar saw the Sterling copper price fall to a low of £4588.19/t – only £19.73/t off the year's low in April – while the underlying USD cash price hit $5843/t, its lowest since July 2107. The month-end copper cash close of £4634.28/t was £660.93/t or 12.5% lower than the closing price at the end of December 2017.

LME aluminium prices continued to trade almost unchanged from July, hitting a 7-week high on August 9 at £1643.52/ following strike action at Alcoa's alumina refineries in Australia and following warnings of likely shutdowns by Rusal. Like other LME metals however, aluminium price confidence was hindered by the tit-for-tat tariffs and with the market anticipating a resolve to the Rusal problem and reports of improved material availability, prices drifted lower. Month end saw prices recover on optimism over a revised North American Free Trade Agreement and after President Trump allowed relief on aluminium import quotas from Argentina. The closing month-end LME cash price of £1546.70/t was some £111.70/t or 6.74% below the closing price at the end of December 2017. Meanwhile, total aluminium stocks on the LME closed the month at 1,068,675t, the lowest since 2007.

LME Statistics and Charts: August 2018:

	Copper			Aluminium			
	Cash £/t	3M £/t	Stocks	Cash $/t	Cash £/t	Stocks	USD:GBP
Opening	4673.67	4673.85	251,950	2036.00	1,550.53	1,195,150	1.3131
Average	4689.84	4692.65		2045.50	1588.37		1.2878
High	4847.52	4846.95		2127.00	1643.52		1.3131
Low	4588.19	4593.26		1994.50	1546.70		1.2701
Range	259.33	253.69		132.50	96.82		0.0430
Closing	4634.28	4617.27	262,475	2112.00	1626.12	1,068,675	1.2988
Opening:Closing Δ	+39.39	+56.58	+10,525	+76.00	+75.59	-126,475	
YTD Average	4947.57	4950.29		2173.12	1602.27		
YTD High	5421.80	5402.51		2602.50	1828.11		
YTD Low	4568.46	4586.19		1967.00	1403.52		

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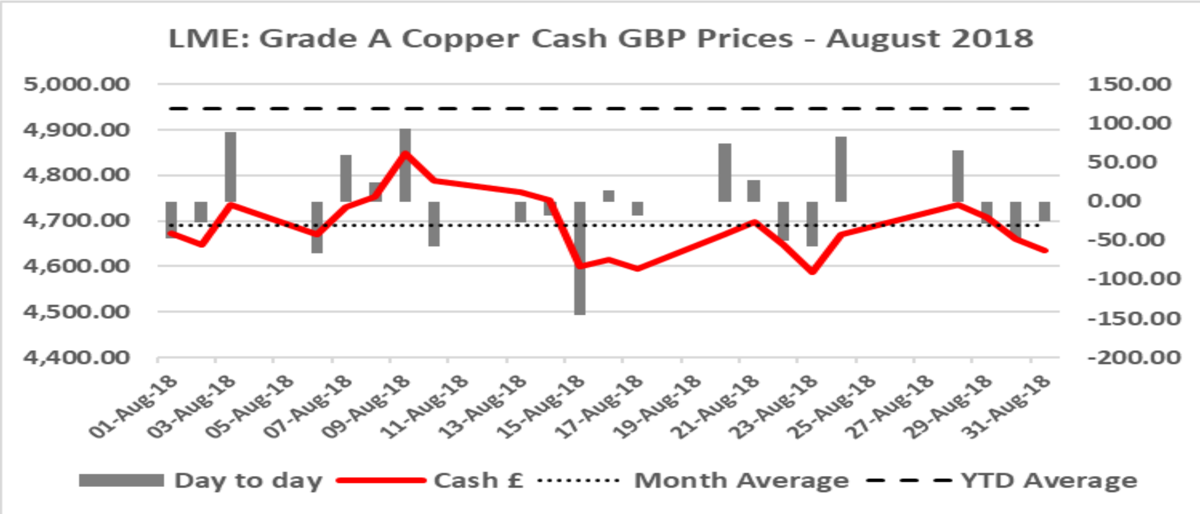

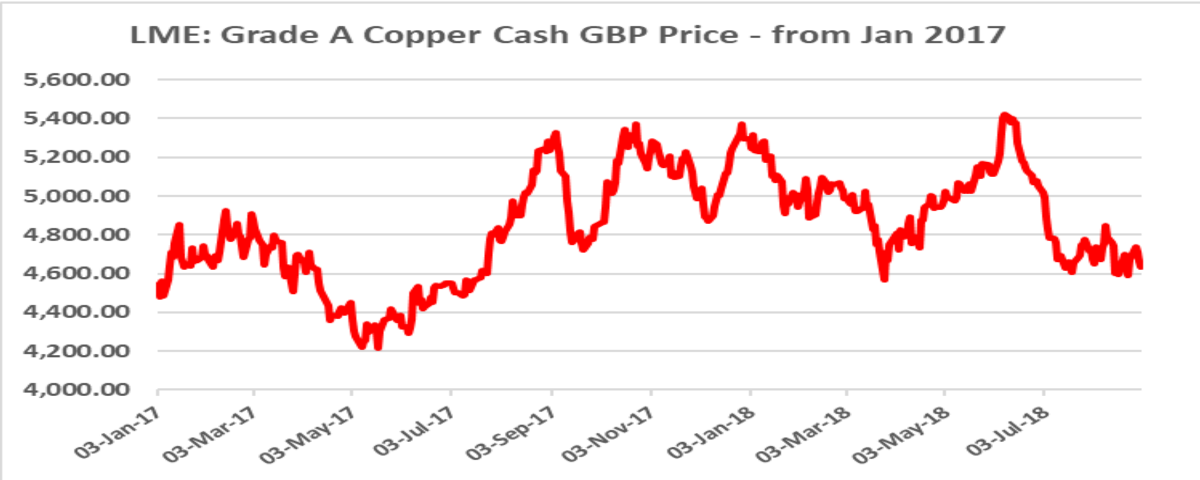

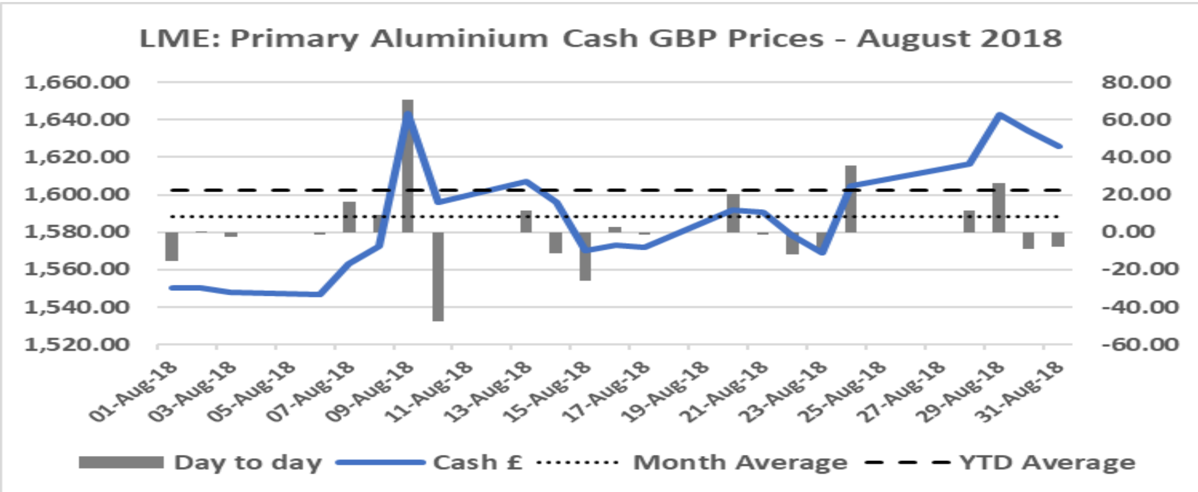

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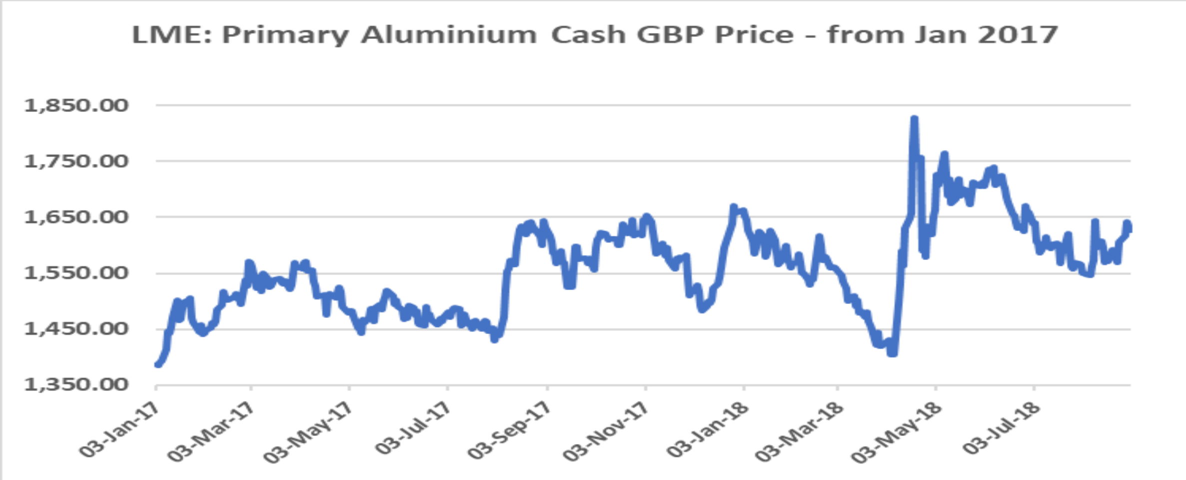

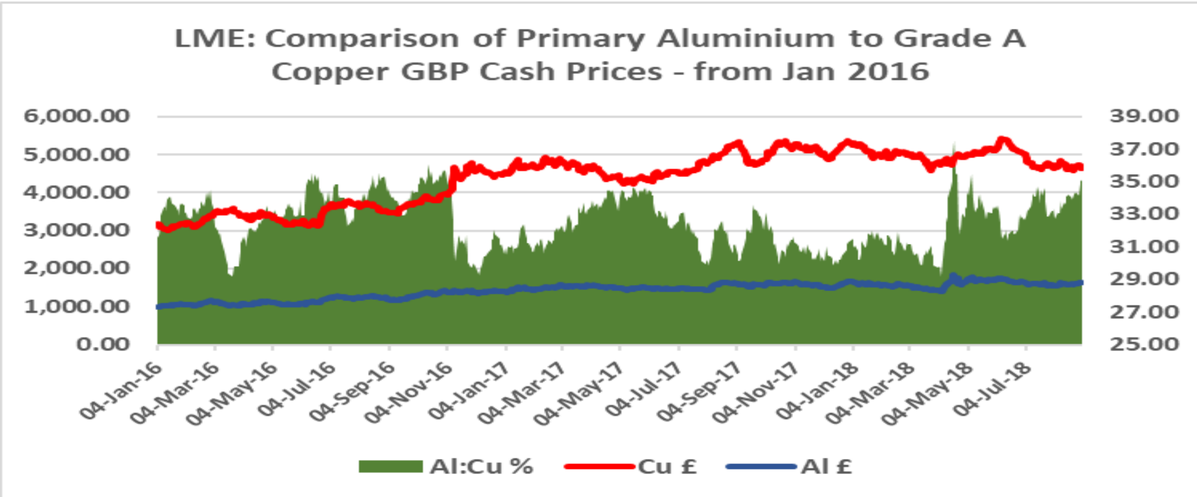

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