Metals Newsletter

BCA
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Economic Indicators and Comment:

In its latest World Trade Outlook Indicator Report, the WTO said that global trade growth will continue to decelerate in the final quarter of 2018. Production and sales of automobiles, electrical components and agricultural raw materials are below trend, according to the report. The trade body previously warned that an array of trade conflicts is affecting business confidence and investment decisions. The report comes two months after the WTO cut its outlook for global commerce through 2019 and warned that tension between major trading partners increasingly threatens economic growth. The WTO in September said it expects world merchandise trade growth will slow to 3.9% this year and 3.7% next year, compared with 4.7% in 2017.

Taking a more aggressive stance, Brussels and Beijing launched cases at the WTO, in which they argue that Trump's tariffs on steel and aluminum, imposed in May, cannot be justified on grounds of national security, as the White House claims. The EU and China were joined in their protest by Mexico, Norway, Russia and Canada. The six-fold attack on Trump is a landmark departure from the orthodoxy of trade diplomacy as countries have traditionally shied away from challenging restrictions justified by national security concerns. Earlier in the month the WTO had agreed to establish panels to rule on whether the US tariffs on steel and aluminium imports comply with WTO rules. The dispute settlement body approved the establishment of the panels at the request of China, the EU, Canada, Mexico, Norway and Russia. In their complaints to the WTO, the members have alleged the U.S. levies of 25% on steel imports and 10% on aluminium are inconsistent with provisions of the WTO's General Agreement of Tariffs and Trade and with the WTO's agreement on safeguards.

President Trump said mid-month that he was optimistic about resolving the U.S. trade dispute with China after receiving a response to his demands from Beijing, ahead of a widely anticipated meeting with China's Xi Jinping in Argentina at the beginning of December. In the interim, the war of words continued with the U.S. accusing Beijing using the WTO to pursue "non-market" policies while Chinese officials said that Washington was flouting the rulebook.

Companies:

According to preliminary figures, European copper producer Aurubis generated operating earnings before taxes (EBT) of €328 million in fiscal year 2017/18. This is an increase of 10% compared to the previous year (€298 million). However, the preliminary result of €63 million for Q4 of the fiscal year (previous year: €87 million) was weaker than the market expected, following three very good previous quarters. This was due to unscheduled shutdowns at the Hamburg and Lünen production sites which negatively affected the result for the quarter. Aurubis will release the final figures for fiscal year 2017/18 and the forecast for the following year in December.

The U.S. said mid-month that it was postponing the enforcement of sanctions on Russian companies EN+, Rusal and Gaz PAO for nearly four weeks. The U.S. Treasury Department had given Russian tycoon Oleg Deripaska until December 12, 2018 to reduce his holdings in the three companies but said in a statement that the deadline had been moved to January 7, 2019. Earlier in the month, Rusal had posted a third-quarter adjusted net profit of $338 million, up 55% from the previous quarter. Recurring net profit at Rusal was up 42% from the second quarter, and up 43% from a year ago. The company said it had increased its aluminium exports by 4% in October compared to the previous month.

Market Commentary and News:

The copper market recorded a deficit of 6.3 kt in January to September 2018 according to the World Bureau of Metal Statistics (WBMS) which follows a surplus of 93.8 kt in the whole of 2017. World mine production in January to September 2018 was 15.36 million tonnes which was 1.9% higher than in the same period in 2017. Global refined production for January to September 2018 was 17.52 million tonnes up 0.3% compared with the previous year. Global consumption for January to September 2018 was 17.53 million tonnes compared with 17.49 million tonnes for the same months of 2017. Chinese apparent demand for the period was 9228 kt which was 5% higher than the first three quarters of 2017. EU28 production fell by 1.4% and demand was 2551 kt, 0.9% above the January to September 2017 total. In September 2018, refined copper production was 1963.2 kt and consumption was 2004.3 kt.

The global world refined copper market showed a 31 kt deficit in August, compared with an 84 kt deficit in July, the International Copper Study Group (ICSG) said. For the first 8 months of the year, the market was in a 259 kt deficit compared with a 98 kt deficit in the same period a year earlier. World refined copper output in August was 1.96 million tonnes, while consumption was 1.99 million tonnes.

Chile's copper production from January to September this year jumped 7.3% from a year earlier, boosted by a sharp increase in production at Escondida copper mine. The world's top copper exporter produced 4.25 million tonnes of copper in the first nine months of 2018.

Cochilco, the Chilean copper commission, said that China’s drive to curb pollution is deepening the supply gap in copper. China’s demand for copper, it said, will rise 2.5% next year, faster than it forecast in July, as producers of pipes and wires seek substitutes for imported scrap metal. Beijing aims to halt shipments of machinery waste for recycling and consumers are already paying higher refined copper premiums to secure metal. Copper imports by China have climbed 17% this year to the end of October, according to customs data. The rapid decrease in copper stockpiles available on the metal exchanges, together with higher-than-expected imports from China suggest that demand for copper will remain solid, according to Cochilco. Cochilco raised its consumption growth estimate for China from 2.2% forecast in July but cut its forecast for copper prices as trade war continues. It now estimates the metal will average $6548/t this year (actual YTD at the end November is $6557.86/t) and $6724/t in 2019 – this compares with a July forecast of $6614/t this year and $6834/t for 2019.

Market analysts have suggested that China's plan to broaden its ban on scrap imports is a bigger potential risk to the copper market compared with the threat from import tariffs imposed so far by the U.S. and China. There is a strong possibility that China might ban all forms of scrap imports by 2020, creating further tightness in the refined copper cathode market. Analysts have estimated that the ban has reduced scrap volumes from all countries into China this year by the equivalent of 250 kt of contained copper, with a similar decrease expected in 2019.

Chinese copper smelters are looking to make more investments in mines to shore up supply of concentrate at a time when competition for the raw material is increasing. China’s own copper mine production has been stagnating amid a broad crackdown on pollution, exacerbating a heavy reliance on imports. More direct tie-ups with mines would diversify smelters' sources of supply, as well as potentially giving them more sway in annual supply negotiations with large global miners. China’s refined copper output in October was 734 kt, giving a YTD figure of 9.041 million tonnes - up 1.9% on the same period last year.

India's refined copper consumption is set to more than double over the next eight years amid rising demand from the power, auto and consumer sectors, according to Birla Copper, one of the country's largest copper smelters. Consumption of the metal is expected to rise to 1.433 million tonnes by 2026 from around 650 kt in 2018.

Current prices and new mines will boost Zambian copper output to about 900 kt this year, rising to 1 million tons in 2020, according to the country’s Mines and Minerals Development Agency. It had forecast a 2018 copper production of 840 kt in July. Annual copper output at the end of September had risen to 631,359t – up 10.4% on 2017.

Norsk Hydro expects global primary aluminium demand to grow by 2% to 3% in 2019, down from the 4% seen for 2018 with trade sanctions and tariffs impacting global flows of aluminium and increasing uncertainty on economic growth. Hydro expects a continued deficit in the global primary aluminium market in 2019 despite the slower economic growth expectations.

The World Bureau of Metal Statistics (WBMS) released its estimates of the January to September 2018 metals balances. The primary aluminium market was in deficit during this period with a calculated market balance of a deficit of 206 kt which follows a deficit of 1175 kt recorded for the whole of 2017. Demand for primary aluminium for January to

September 2018 was 44.7 million tonnes, 675 kt less than in the same nine months of 2017. Production in January to September 2018 rose by 118 kt compared with the same period in 2017. Total reported stocks fell by 136 kt during September and closed at the end of the month 38 kt below the December 2017 level. Total stocks at the end of September 2018 were 2308 kt which compares with 2346 kt at the end of 2017. Total stocks held in the four exchanges in London, Shanghai, USA and Tokyo were 1828 kt at the end of September 2018 which were 114 kt lower than in December 2017 total. Overall, global production rose in January to September 2018 by 0.3% compared with the first nine months of 2017. Chinese output was estimated at 24,999 kt - accounting for 56% of the world production total. Chinese apparent demand was 1.3% higher than in January to September 2017. Chinese net exports of unwrought aluminium were 291 kt which compares with 275 kt in the comparable period in 2017. January to September 2018 net exports of aluminium semi manufactures were 3683 kt which compares with 2916 kt for the first three quarters of 2017. Production in the EU28 was 0.5% higher than the previous year and NAFTA output fell by 5%. EU28 demand was 118 kt higher than the comparable 2017 total. Global demand fell by 1.5% during January to September 2018 compared with the levels recorded one year previously. In September 2018, primary aluminium production was 4934.5 kt and consumption was 4897.5 kt.

China's primary aluminium output fell for a third straight month in October, according to official data released, as low aluminium prices prompted smelters to cut production even before government-mandated winter restrictions kick in. China produced 2.72 million tonnes in October, according to data from the National Bureau of Statistics.

The latest data released by the International Aluminium Institute (IAI) shows primary aluminium production figures as follows (in thousands of tonnes);

	China (Estimated)	GCC	Asia (ex China)	East & Central Europe	North America	West Europe	Africa	South America	Oceania	ROW Estimated Unreported	Total	Daily Average
Oct-17	2,856	428	352	342	335	320	142	119	161	150	**5205**	167.9
Nov-17	2,650	424	345	332	322	311	139	110	155	150	**4938**	164.6
Dec-17	3,024	445	363	343	337	322	141	111	163	150	**5399**	174.2
Jan-18	2,993	452	369	344	322	321	138	110	162	150	**5361**	172.9
Feb-18	2,750	414	338	311	285	282	128	103	146	150	**4907**	175.3
Mar-18	3,042	462	377	345	319	310	143	112	162	150	**5422**	174.9
Apr-18	3,007	443	355	334	311	303	138	103	156	150	**5300**	176.7
May-18	3,090	452	372	345	321	315	134	94	163	150	**5436**	175.4
Jun-18	3,050	437	368	333	303	310	140	88	155	150	**5334**	177.8
Jul-18	3,115	451	376	343	313	321	144	96	166	150	**5475**	176.6
Aug-18	3,120	454	377	343	320	321	144	95	163	150	**5487**	177
Sep-18	3,010	437	364	332	310	312	138	89	159	150	**5301**	176.7
Oct-18	3,050	450	377	343	323	321	143	93	164	150	**5414**	174.6

China's exports of alumina soared to their highest since at least 2014 in October as Chinese producers of the aluminium raw material continued to cash in on a global shortage. The country exported 460 kt last month, according to data released by the General Administration of Customs.

The Russian government could buy up to 50 kt of aluminium for the state reserve, a government decree showed, in a move that would support sanctioned Russian aluminium producer Rusal. The decree, dated November 26, allocated up to 10 billion roubles ($149 million) for the plan and is the initiative of Russian tycoon Oleg Deripaska, a government source told Reuters.

Aluminium associations from the U.S., Canada and Mexico have urged their governments to reach a deal to eliminate U.S. tariffs on aluminium from Canada and Mexico without imposing any import quotas on their products. The heads of the U.S.-based Aluminium Association, Mexico's IMEDAL and the Aluminium Association of Canada said the full, quota-free exemptions from the 10% "Section 232" national security tariffs for products produced within North America should be agreed upon before leaders of the three countries sign the new U.S.-Mexico-Canada Agreement.

The LME plans to extend a trial of using electronic closing prices rather than open outcry for nickel to other metals. The LME will begin a three-month trial with the benchmark three-month nickel contract in February and will introduce it for other metals such as aluminium and copper if the programme is successful.

The LME is planning to hike fees for some of its services by up to 2% from next year while charges for trading and clearing will remain unchanged. Revenues at the LME, owned by Hong Kong Exchanges and Clearing Ltd., totalled $187 million last year, down from $202 million in 2016. Volumes in 2017 amounted to 157 million lots, little changed from 156 million lots in 2016.

The EU's move to allow EU firms temporary access to UK clearing house services in the event of a no-deal Brexit should give the LME time to get approval for its operations, LME CEO Chief Executive Matt Chamberlain said earlier in the month. The European Securities and Markets Authority (ESMA) had said earlier this year the exchange may not be able to submit an application to become a recognised third country clearing house until after Brexit. This would mean six members in European Economic Area (EEA) countries would not be able to access LME Clear. Chamberlain said he was grateful for the Commission's decision to take a practical approach to the situation. The LME has 38 members in the UK and 6 members in the European Economic Area - for those in the EEA, the exchange has been advising them to have a contingency plan and to open clearing accounts outside the EEA. For those in the UK, members have been advised to think about operating subsidiaries in Europe. Chamberlain said; “We don’t think we will see the worst-case scenario of a no-deal Brexit, with no political and no regulatory agreement. Even if there isn’t a withdrawal agreement, regulators are very active and recognize the danger if a solution for clearing derivatives isn’t found”.

According to industry sources, European automakers BMW and Volvo plan to experiment with steel contracts to be launched by the LME early next year, a move which could eventually change the way the industry hedges and prices contracts. The LME is launching three hot-rolled coil (HRC) steel futures covering Europe, North America and China early next year.

LME Commentary:

According to market analysts, the trade dispute has led to a dislocation between metals prices and fundamentals. Both prices and global inventories have fallen this year – LME copper and primary aluminium stocks are down 33% and 5% respectively this year. Meanwhile, studies show that both physical supply and demand for both metals remains in apparent deficit. These factors are creating a “paradox” for the market, according to analysts. They point to market fundamentals such as U.S. construction and manufacturing remaining positive, Europe continuing to be steady and positive and large Chinese fabricators running at higher rates. Market prices however, have been stuck in the doldrums because of the worries over China’s economy – with the nation’s manufacturing output on the verge of contraction – the impact on world trade should the ‘tariff war’ continue.

LME and precious metal price performance comparisons for 2018 year to date read:

	End 2017		**30.11.2018**		**Delta %**	
	Cash £/t	**Cash $/t**	**Cash £/t**	**Cash $/t**	**Cash £**	**Cash $**
Copper	5295.21	7157.00	4765.01	6073.00	-10.0	-15.1
Primary Aluminium	1658.40	2241.50	1526.87	1946.00	-7.9	-13.2
Lead						-20.0
Zinc						-19.0
Tin						-6.0
Nickel						-14.0
Gold						-8.0
Silver						-16.0

The metal markets remain transfixed on the so-called ’trade war’ and its impact on global demand. In copper’s case, attention is fixed firmly on demand in China. Threats and rhetoric of escalation and de-escalation of tariffs have largely determined the structure and direction of metals prices. In November, the impact of U.S. mid-terms elections, the U.S. Federal Reserve plans to continue raising interest rates and the resulting strength of the Dollar have added further complications despite apparent tightness of physical supply in both the copper and aluminium markets.

For copper, LME prices stayed relatively strong in November following on from October’s recovery. A 7 week low of £4668.71 on 9 November was driven by a huge increase in inventory stock and coinciding with further aggressive rhetoric in the ‘trade war’. This was followed by a recovery to hit a 4-month high at £4917.42/t at the end of the month – helped by a weaker Sterling vs. the US Dollar and signs of conciliation between the U.S. and China.

LME copper stocks surged in the early days of the month following a delivery in of 43,700t in one day but fell quickly to close the month at 134,200t – a 10 year low. Of that closing stock, 72% (96,925t) is held in U.S. warehouses, 21% (27,825T) in Asia and the balance (9450t) in Europe.

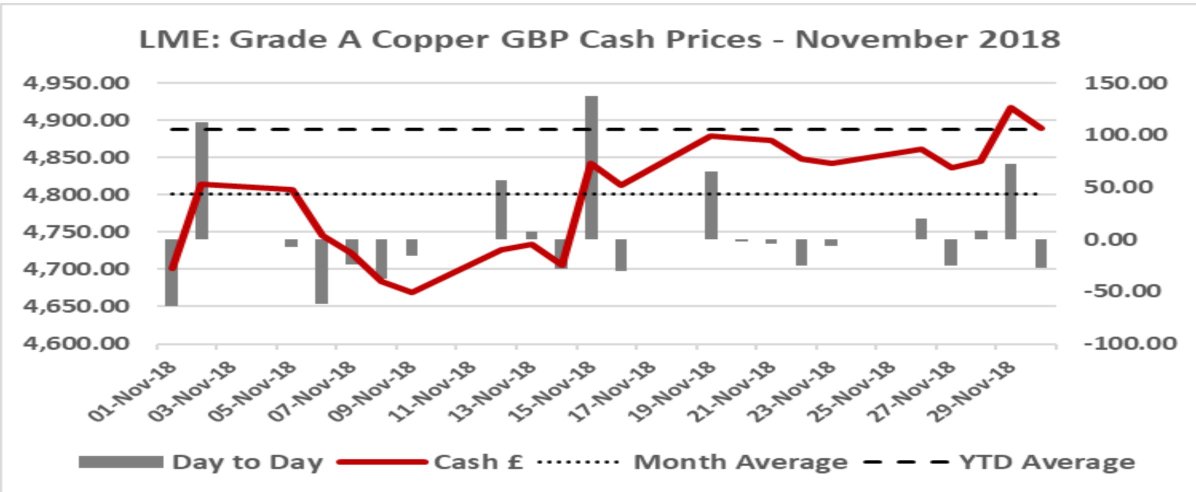
Confirming tightness in the physical market, the spread or backwardation between the LME cash and 3 months prices widened out in the month, averaging £41.09/t (its highest and most sustained backwardation since May 2014 and compares with £29.76/t in October) with a high of £54.93/t on 29 November.

LME primary aluminium GBP prices failed to maintain their summer and autumn levels. The cash price hit a low of £1483.92/t at the start of the month as prices dropped below the £1500/t level for the first time in 7 months – despite traders reporting tightness and higher physical premiums in Asia and North America. Investors, worried over slower global demand, turned their attention to other more volatile metals and commodities. Primary cash prices traded a narrow range of £34.94/t in the month and the average price at £1502.24/t was £61.12/t below the October and £82.34/t below the YTD average.

LME primary aluminium stocks closed the month at 1,048,025t, 70t up in the month and of which 58% (607,375t) were in Asia, 37% (383,475t) in Europe and the balance 5% (57,175t) in the U.S.A.

LME Statistics and Charts: November 2018:

	Copper			Aluminium			
	Cash £/t	3M £/t	Stocks	Cash $/t	Cash £/t	Stocks	USD:GBP
Opening	4701.42	4661.99	136,675	1961.00	1,518.86	1,047,325	1.2911
Average	4801.54	4760.45		1937.75	1502.24		1.2899
High	4917.42	4862.49		1977.00	1518.86		1.3151
Low	4668.71	4632.17		1912.50	1483.92		1.2756
Range	248.71	230.32		64.50	34.94		0.0395
Closing	4889.86	4838.51	134,200	1935.00	1516.81	1,048,025	1.2757
Opening:Closing Δ	-188.4	-176.5	-2,475	-26.00	-2.05	+700	
YTD Average	4888.41	4883.02		2124.50	1584.58		
YTD High	5421.80	5402.51		2602.50	1828.11		
YTD Low	4465.44	4463.76		1912.50	1403.52		



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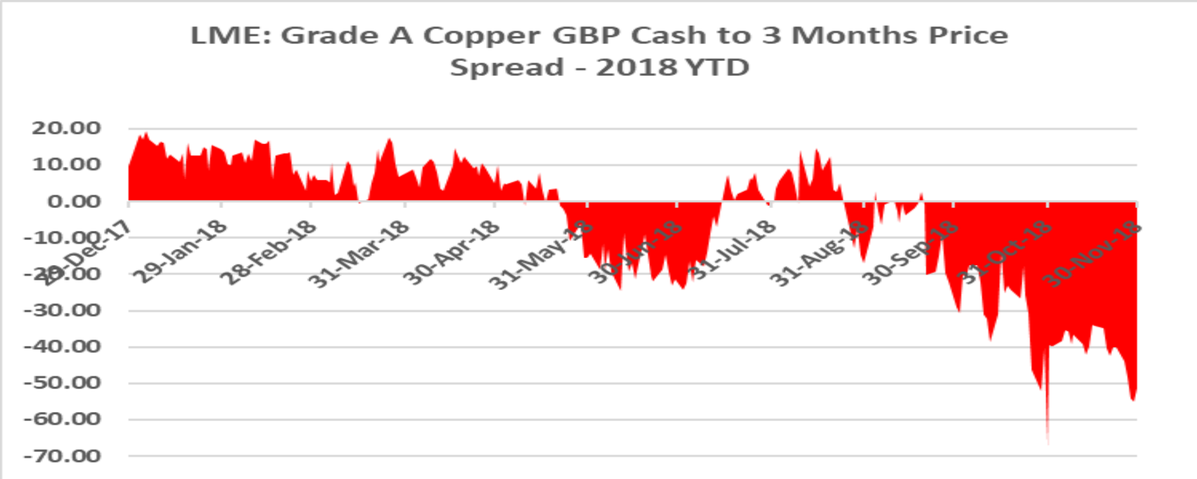

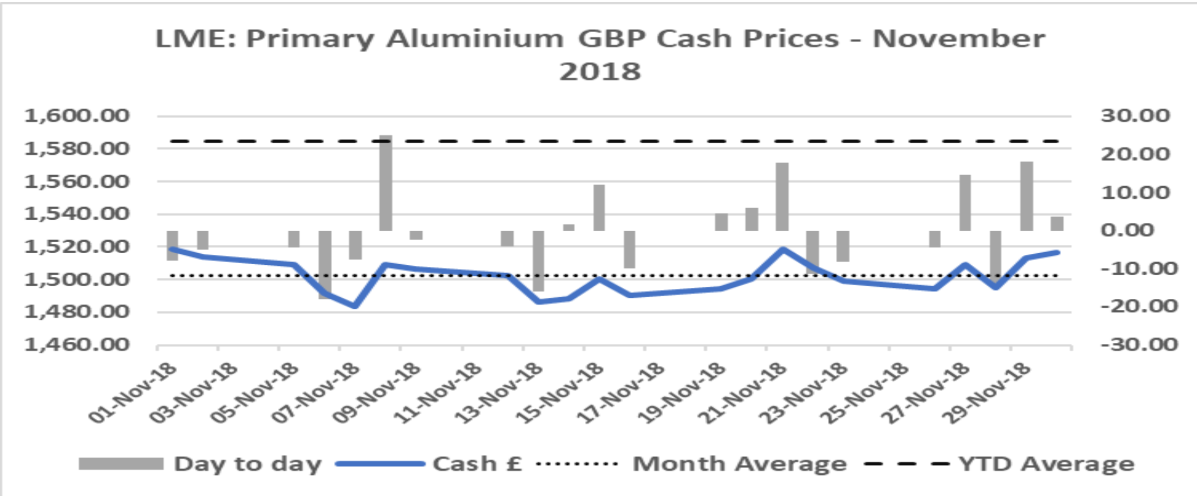

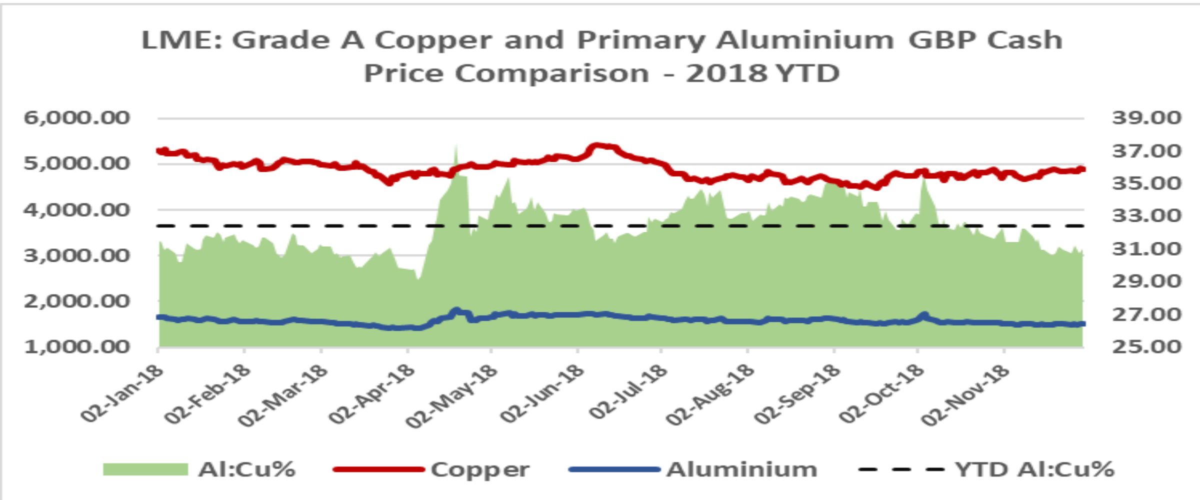

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