December 2018

Economic Indicators and Comment:

China's economy slowed again in November as retail sales and industrial production weakened, Industrial production growth decelerated to 5.4%. Retail sales - formerly a pillar of support for the economy - posted the weakest performance since May 2003, rising 8.1% from a year earlier. Fixed-asset investment growth firmed, expanding 5.9% in the first eleven months of the year, and the surveyed jobless rate dropped marginally to 4.8%. That suggests stimulus to cushion the slowdown is beginning to take root. People's Bank of China Governor Yi Gang indicated that the data points to a continuation of 2018's targeted approach to support growth, saying that monetary policy will remain supportive. At a meeting of the Politburo led by President Xi Jinping, top leaders signalled that campaigns announced last year against financial risk, pollution and poverty will continue. Analysts are saying that China may see the need to announce further measures aimed at answering U.S. criticism, such as steps to open up protected markets. Bloomberg's monthly collation of early indicators had correctly predicted the November numbers. An expected tapering of strong exports as the 'front loading' effect caused by the trade war fades means the first quarter is set to be challenging too. Positively, there is increasing evidence that investment has stabilized - manufacturing investment growth accelerated for the eighth straight month in November, with state firms leading the way. While that might not be enough to brighten the current picture, it shows that stimulus measures announced during the year are having some effect. That may encourage more, even as officials work continue to curb financial-sector risks.

Industrial production in the UK decreased 0.8% year-on-year in October 2018, after showing no growth in the previous month and compared to market expectations of a 0.2% decrease. Production fell for manufacturing (-1% from 0.5%), namely basic pharmaceutical products (-2.2% from 5.1%) and transport equipment (-5% from 1.2%); and water supply (-1% from 0.2%). Additionally, output continued to decline for mining and quarrying (-1.7% from -1.8%) while production rebounded for electricity, gas, steam & air conditioning supply (1.2% from -1.8%). On a monthly basis, industrial output went down 0.6%. Industrial Production in the UK averaged 0.85% from 1969 until 2018, reaching an all-time high of 22.7% in February 1973 and a record low of -11.9% in December 1980.

Companies:

In a statement issued on December 19, 2018, the U.S. Department of the Treasury said that it intended to terminate the sanctions imposed on En+ Group, UC Rusal, and JSC EuroSibEnergo in 30 days. En+, Rusal, and ESE 'have agreed to undertake significant restructuring and corporate governance changes to address the circumstances that led to their designation, including reducing Oleg Deripaska's direct and indirect shareholding stake in those entities to below 50%; overhauling the composition of those entities' boards of directors; taking restrictive steps related to their corporate governance; and agreeing to unprecedented transparency by undertaking extensive, ongoing auditing, certification, and reporting requirements'. As part of this agreement, half of En+'s restructured board of directors will be comprised of U.S. or UK nationals and Rusal's current board chairman will step down. Deripaska will remain sanctioned. Later in the month, Rusal said that the board chairman had resigned as part of a restructuring it had agreed.

European producer Aurubis produced 774kt of copper wirerod in its financial year 2017/2018 (01.10.17 to 30.09.18). This compared to 719kt in the previous financial year and 758kt in 2015/2016. The company said that the growth was supported by robust demand – the construction sector, the automotive industry and the enamelled wire sector provided demand momentum while there was good demand from the energy cable sector.

Market Commentary and News:

Chilean state miner Codelco has agreed to sell France's Nexans, China's Minmetals and U.S. based Southwire 50,000 to 100,000 tonnes of copper each from 2019 to 2021 in rolling deals known as "evergreens", trade sources reported. The contracts - which roll annually, meaning that from 2020 they would be extended for three years until the end of 2022 and so on, if both parties agree - mark a change in tactics at Codelco, which typically sells copper through annual deals.

According to data released by the International Copper Study Group, the apparent usage of refined copper increased by 33% over 2008-2017 to 23.8Mt. Chinese demand grew by about 6.5Mt over the 10-year period, accounting for 50% of the world's usage in 2017 compared with 29% in 2008. World usage excluding China decreased by 5.5% during the period, mainly due to a decline in refined usage in three of the major copper using regions - the EU, which fell 15%, Japan, which declined 16%, and the US, which was 11% down. However, usage increased significantly in the Middle East/North Africa region, rising 83%, and in the Asia, ex-China/Japan, region, up 25%, analysts said. Global copper production rose by around 29% to 20Mt in 2017 from 15.5Mt in 2008. Mine production growth averaged 2.9%/year over the 10-year period over 2008-2017. However, excluding 2009-2011 production, the growth was around 4%/year, according to ICSG data. The SX-EW share of total mine production declined to 19% in 2017 from 20% in 2008. Notable changes in annual mine production levels over 2008-2017 included increases of 1.2Mt in Peru, 600kt in China, 790kt in the DRC and 495kt in Mexico. Annual production in Chile increased by only 175kt over the period. Consequently, the country's contribution in the world production declined to 27% from 34%, with Peru and China increasing their shares to 12% and 9% from 8% and 7% respectively. The revival of the African copper belt led to an increase in African annual copper mine output of around 1.1Mt.

Global refined copper production rose by nearly 29% to 23.5Mt in 2017 from 18.2Mt in 2008, according to the ICSG. Primary and secondary refined production increased by 27% and 43%, respectively. The share of secondary production in total refined production increased gradually from 15% in 2008 to around 18% over 2011-2013 before stabilizing at around 17%. Over the 10-year period, China's annual refined production more than doubled from 3.8Mt to 8.9Mt, while production in Chile declined by 20% from 3.1Mt to 2.4Mt. The expansion of electrolytic refinery capacity in India and Bulgaria and electrowon capacity in Mexico led to significant increases in annual output in these countries - 25%, 80% and 50%, respectively. Annual production in the DRC grew to 720kt in 2017 from about 60kt in 2008. In North America, production fell by 8.5% to 1.8Mt over the 2008-2017 period due to refinery closures in both the U.S. and Canada. Refined production in the EU rose by 6.5% to 2.7Mt/year over the same period, the ICSG said.

The global world refined copper market showed a 168kt deficit in September, compared with a 43kt deficit in August, the ICSG said in its latest monthly bulletin. For the first 9 months of the year, the market was in a 595kt deficit compared with a 226kt deficit in the same period a year earlier.

Planned maintenance at major copper smelters next year is expected to reduce supply, further tightening the market and pushing premiums higher. Smelter outages this year including those owned by Vedanta Ltd, Mitsubishi Materials and Aurubis caused a supply bottleneck, pushing up spot treatment and refining charges and boosting premiums for cathodes. Analysts expect to see further shortages next year. BMO Capital Markets analyst Colin Hamilton said that the flagged outages would not take the market by surprise. BMO forecasts a deficit of 250kt in 2019 from a largely balanced market this year, which is in line with a shortage of 240kt forecast by Morgan Stanley. With limited inventory, the lack of mine supply growth is likely to feed through to tighter metal supply next year, Morgan Stanley recently noted.

Chilean copper production rose by 6% between January and October compared to the same period last year, reaching 4.74Mt, according to the country's copper commission Cochilco. The rise was attributed to the stronger performance of BHP's Escondida copper mine which this year produced 960kt, an increase of 47% due to last year's strike. State miner Codelco registered a 3.4% drop in production from January to October to 1.45Mt.

According to analysts**,** the big story of next year may not be trade relationships or an economic slowdown but emptying warehouses. The size of stockpiles that underpin LME contracts have fallen near the lowest in a decade and traders could face a wild ride if the trend continues - leaving a smaller buffer to absorb sudden changes in supply and demand and make it easier for traders to squeeze the market with large single positions. According to David Lilley, MD of Drakewood Capital Management (and previously of Red Kite); "When the inventory cushion isn't there, then prices need to move in response to fundamentals and given there are no meaningful inventories, those movements may not be trivial." Dwindling stockpiles are making some traders more optimistic about prices next year. Ivan Glasenberg of Glencore expects metal stockpiles to keep falling even if demand growth is weaker than expected. Measured by days of consumption, global stockpiles of nickel, zinc and copper are already at record lows, according to analysis from Glencore.

Aurubis announced at the start of the month that two smelters had resumed operations after unscheduled repair shutdowns and that a third smelter was due to resume production within 10 days. The Hamburg and Lunen smelters in

Germany and the Pirdop plant in Bulgaria had made unscheduled repair shutdowns at the end of November. The Hamburg smelter, Aurubis' largest, and the Pirdop plant, had resumed operations by December 3, while the plant at Lunen resumed operations within days.

Premiums for imports of copper into China, sank to an 18-month low at the start of December as demand for physical metal started to decline. The premiums traded down to US$62.50/t, the lowest since June 2017, according to traders.

China's primary aluminium output rebounded in November after three straight months of decline. Analysts were surprised by the increase which came as smelters apparently ramped up output ahead of winter production curbs that started around the middle of the month. China produced 2.82Mt of primary aluminium in November, data from the National Bureau of Statistics showed. That was up 3.9% from 2.72Mt in October and up 19.2% from November 2017. On a daily basis, China produced 94kt of aluminium in November compared to around 88kt in October, according to Reuters calculations. That was the highest daily rate since July, when the monthly total of 2.93Mt matched the all-time high.

China's aluminium producers are set to cut at least another 800kt per year of smelting capacity, said analysts from Antaike, the research arm of the China Nonferrous Metals Industry Association. Chinese smelters have so far closed more than 3.2Mt of capacity in 2018, about 80% of that in the second-half of the year amid a slump in aluminium prices, Antaike said.

Aluminium Corp of China Ltd (Chalco) is cutting output on some of its aluminium production lines in northern China, it said, as Chinese aluminium prices sank to a fresh two-year low. China's biggest state-run aluminium producer has decided to make around 470kt of annual output at units including Shanxi Huasheng and Shandong Huayu, it said in a statement to the Shanghai Stock Exchange.

Chinese aluminium producer Henan Zhongfu Industrial has closed a 250ktpa smelting subsidiary and plans to transfer the capacity to southwest China's Sichuan province, a company official said. Aluminium smelters in China, the world's biggest producer of the metal, are struggling to make money at current Shanghai aluminium prices, which are languishing near two-year lows, resulting in significant output cutbacks.

The widening backwardation on the LME's Primary Aluminium contract's Cash to January 2019 spread dampened aluminium premiums in both Europe and the U.S., while spot activity was quiet in the Asian and Brazilian markets. The backwardation pushed Rotterdam premiums to two-year low in the middle of December, market participants said. The wide backwardation makes it costly for participants to hold metal into the new year, which prompts liquidations and lower offers. More than 188kt of aluminium had flowed into LME sheds in Port Klang and Singapore in the first 10 days of the month – slowing down in the second half to record a monthly increase of 225,100t.

The LME plans to restart warranting of Rusal's aluminium in January after its Special Committee meeting. The Exchange had earlier issued a notice to members proposing to restart warranting of aluminium produced by Russian producer Rusal, which has been under U.S. sanctions since April 6. The LME has also called on its members to express views by December 28. "The LME proposes recommending to the Special Committee that it lift the temporary conditional suspension so that warranting may be resumed in respect of all Rusal metal." The LME aims to implement the Rusal metal warranting in time with the OFAC sanction lifting on January 21, a spokesperson said.

Japan's copper wire and cable shipments rose 2.8% year on year to 64,200t in November, the Japanese Electric Wire & Cable Makers' Association said in a statement.

LME Commentary:

Metal prices on the LME began the month strongly after the U.S. and China agreed to a ceasefire in a trade dispute that has shaken markets and weighed on prices. Prices however failed to maintain their higher levels as doubts over China's demand growth and whether the country will be able to resolve its trade row with the U.S. within a 90-day timeframe came into focus. The arrest of tech giant Huawei's finance chief for extradition to the U.S. cast further doubt over the trade truce and sent global stock markets sharply lower. Combined with a plunge in oil prices and signs the U.S. Federal Reserve would continue to hike interest rates, the Huawei arrest turned investors negative on metals, according to analysts. The negative trend was reaffirmed mid-month after data showed China's industrial production had slowed in November.

The LME Copper cash price began the month strongly with the underlying USD price hitting a 10-week high at $6287/t and the GBP price a 5-month high at £4959.11/t. LME aluminium followed a similar trend - the month's opening price at £1558.81/t was an 8-week high. For copper, a lack of follow through and investor indifference saw metals prices sink sharply. For aluminium, the announcement that the U.S. would withdraw sanctions on Russian aluminium producer Rusal saw the price drop to close the month at £1459.63/t - its lowest since early April 2018.

Both markets continue to trade in backwardation. For copper, the cash to 3-month spread traded out to £31.36/t at its widest early in the month, closing the month at £8.20/t and averaging £16.32/t. Primary aluminium moved more strongly into backwardation as the month progressed - opening at a £2.35/t backwardation, it peaked out on the penultimate trading day at £25.37/t, averaging £8.87/t.

Copper stocks reported in LME warehouse were marginally up 2,025t in the month to close the month at 132,175t, while aluminium stocks were up strongly - by 225,100t - to close the month at 1,273,125t.

LME Sterling copper cash prices in the year saw an overall 12% decline – an opening price of £5294.94/t compares with the year-end close of £4657.25/t. That closing compared with the year's high of £5421.80/t achieved in early June and a low of £4465.44/t in September. The average for the full year however at £4882.18/t was the highest annual average since 2012. GBP prices in the second half of the year have been supported by a weaker Sterling against the US Dollar. A first half average cash price of £5028.70/t compares with a second half average of £4739.09/t – a difference of £289.61/t or 5.8%. The underlying USD price comparison shows an average first half price of $6916.74/t compared with a second half price of $6138.57/t – a difference of $780.17/t or 11.3%.

LME copper stocks which closed December at 132,175t were 68,475t or 34% down on the year and compare with the low of 119,900t on December 11 and the high of 388,175t on March 27.

LME Sterling aluminium cash prices in the year saw an overall 12.3% decline – an opening price of £1663.47/t compares with the year-end close of £1459.63/t. That closing compared with the year's high of £1828.11/t achieved on April 19 and a low of £1403.52/t on April 5. The average for the full year however at £1579.95/t was the highest annual average of this decade. GBP prices in the second half of the year were supported by a weaker Sterling against the US Dollar. A first half average cash price of £1606.21/t compares with a second half average of £1554.30/t – a difference of £51.91/t or 3.2%. The underlying USD price comparison shows an average first half price of $2208.63/t compared with a second half price of $2013.68/t – a difference of $194.95/t or 8.8%.

LME primary aluminium stocks which closed December at 1,273,125t were 171,750t or 15.6% up on the start of the year and compare with the low of 926,100t on October 11 and the high of 1,412,500tt on April 17.

LME Statistics and Charts: December 2018 and Full Year 2018

	Copper			Aluminium			
December 2018	**Cash £/t**	**3M £/t**	**Stocks**	**Cash $/t**	**Cash £/t**	**Stocks**	**USD:GBP**
Opening	4959.11	4943.39	134,200	1982.50	1,558.81	1,048,025	1.2718
Average	4805.36	4789.04		1931.45	1522.97		1.2682
High	4959.11	4943.39		1985.00	1558.81		1.2809
Low	4657.25	4649.05		1869.50	1459.63		1.2570
Range	301.86	294.34		2110.00	1579.95		1.3354
Closing	4657.25	4649.05	132,175	1869.50	1459.63	1,273,125	1.2808
Opening:Closing Δ	+301.86	+294.34	-2,025	-113.00	-99.18	+225,100	

	Copper			Aluminium			
Full Year 2018	**Cash £/t**	**3M £/t**	**Stocks**	**Cash $/t**	**Cash £/t**	**Stocks**	**USD:GBP**
Opening	5294.94	5313.53	200,650	2256.00	1663.47	1,101,375	1.3562
Average	4882.18	4875.96		2110.00	1579.95		
High	5421.80	5402.51		2602.50	1828.11		
Low	4465.44	4463.76		1869.50	1403.52		
Closing	4,657.25	4,649.05	132,175	1869.50	1459.63	1,273,125	1.2808
Range	956.36	938.75	-68,475	733.00	424.59	+171,750	

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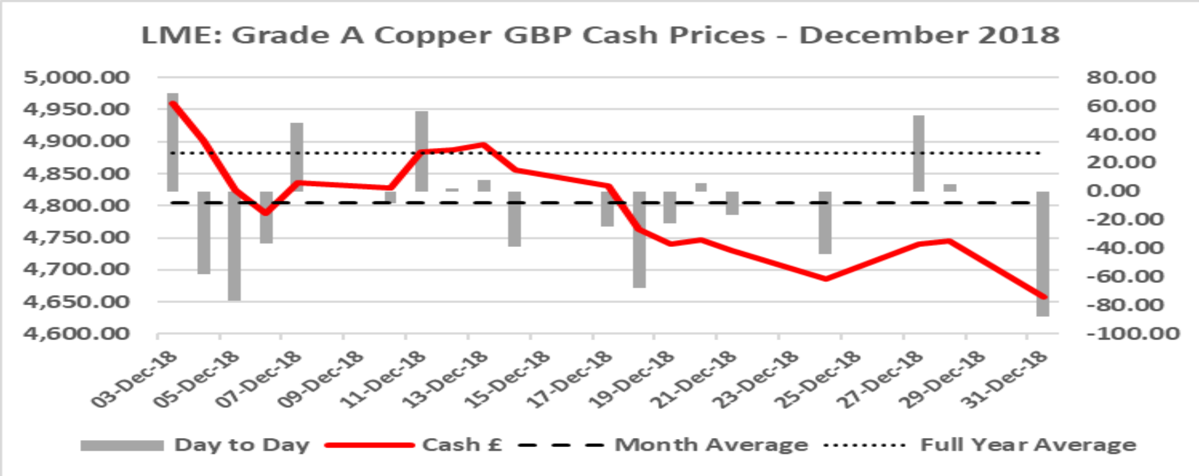

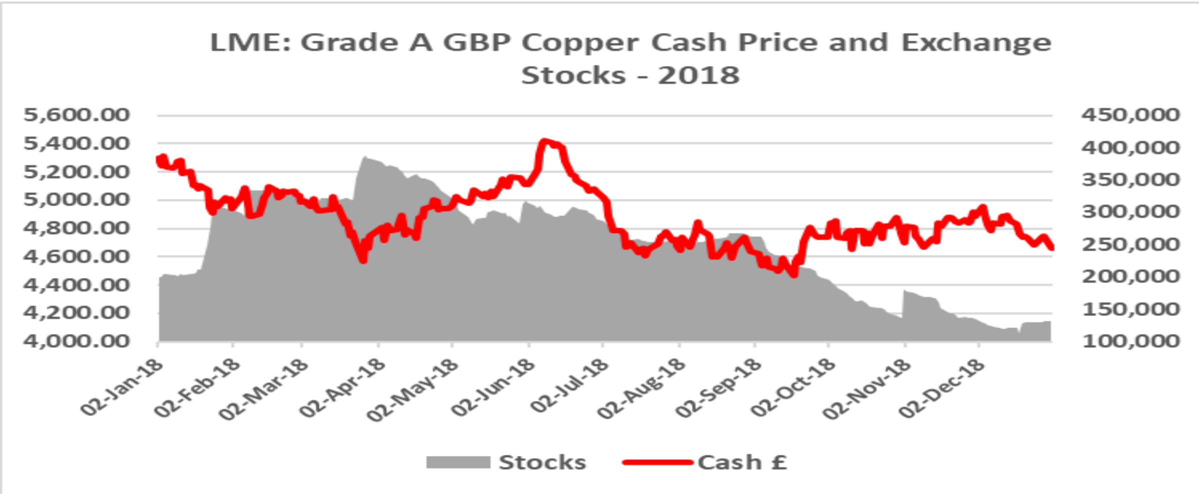

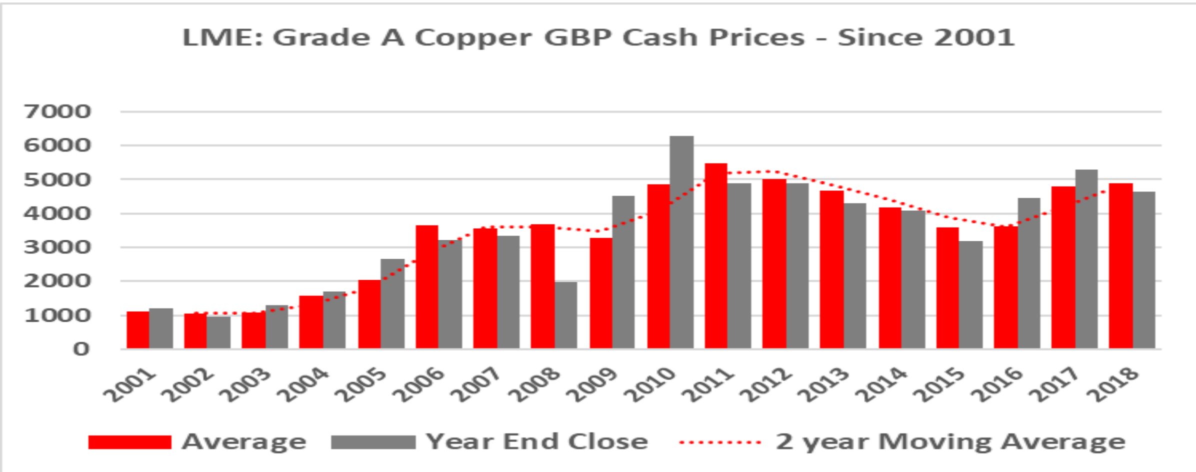

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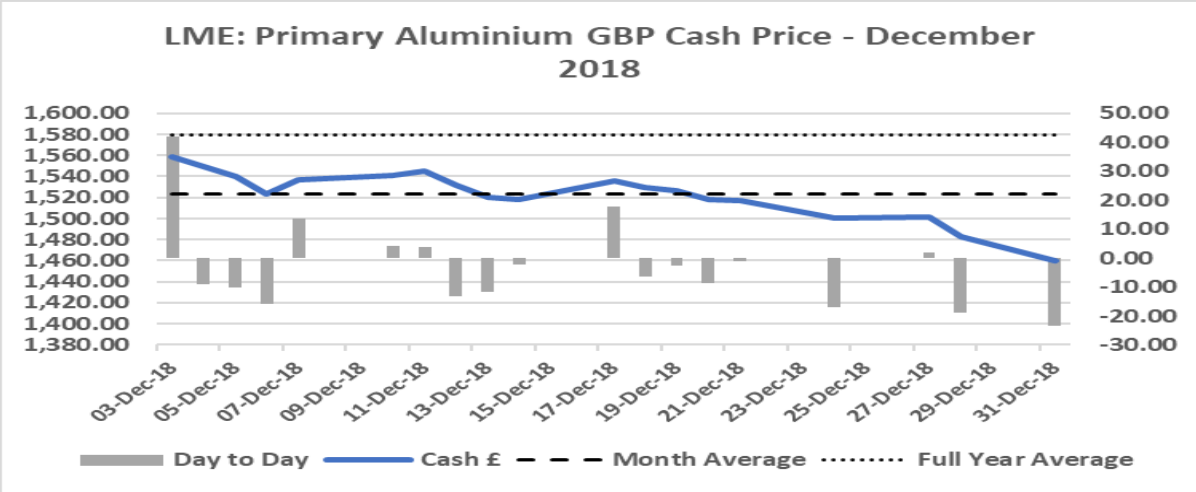

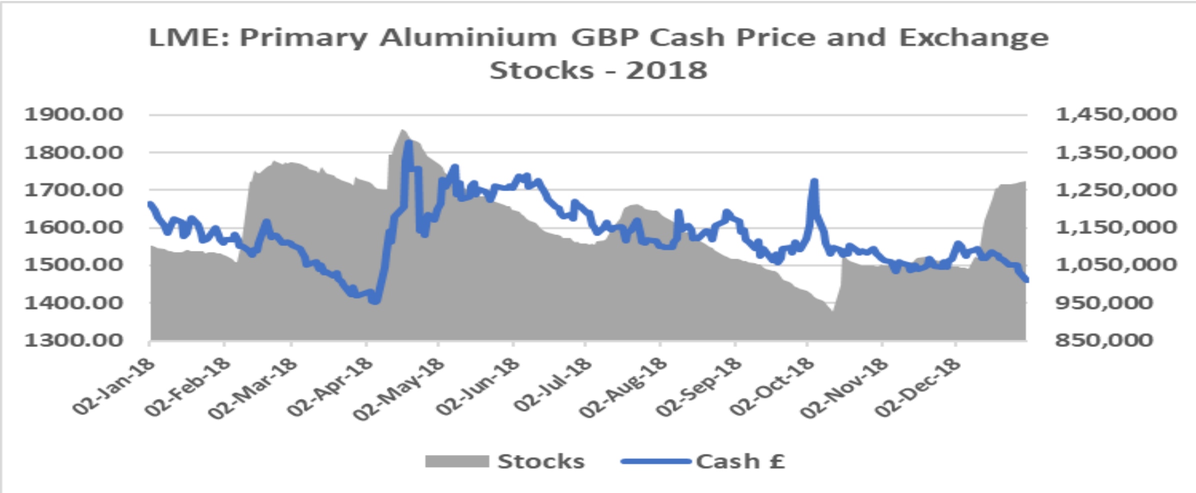

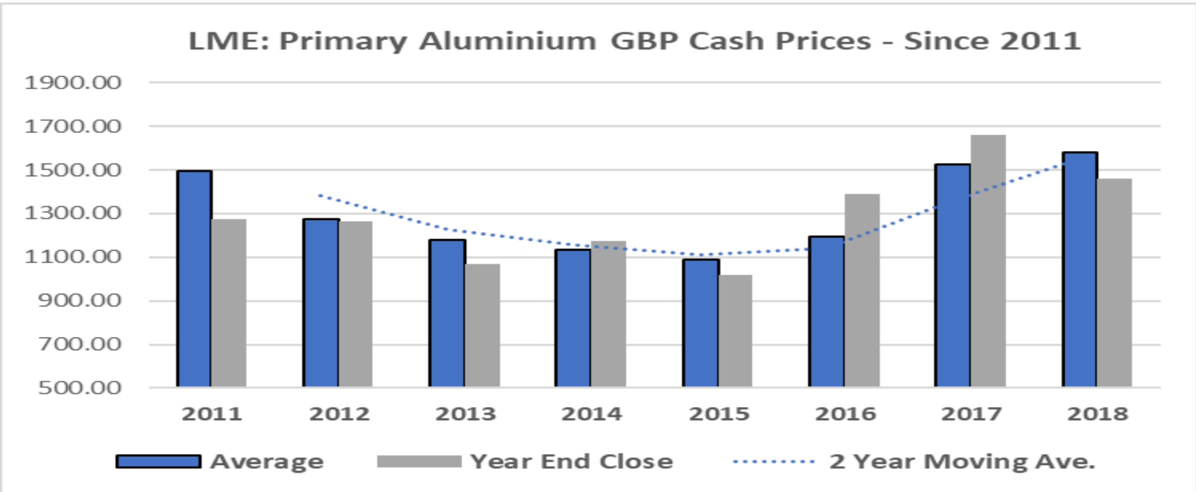

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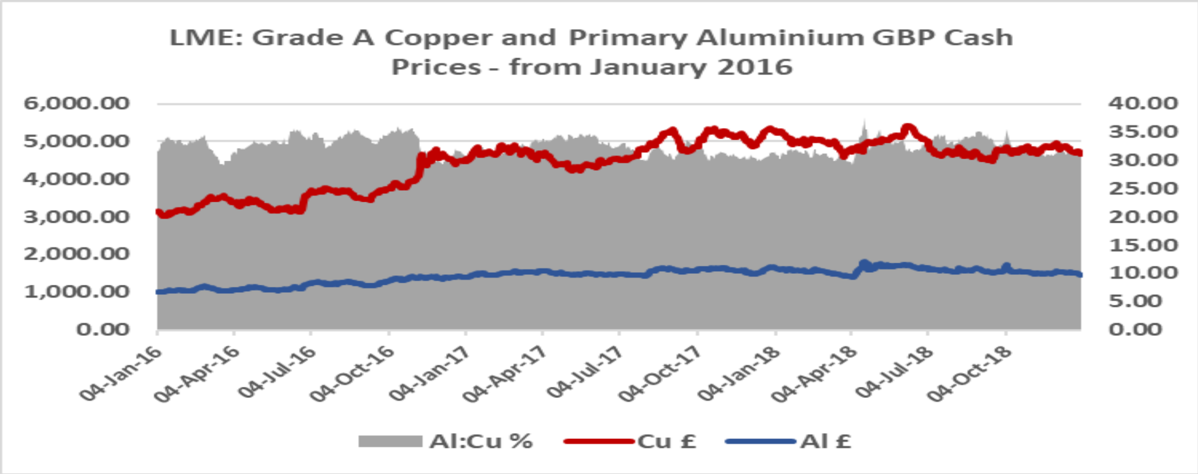

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