

## Metals Newsletter - January 2019

### Economic Indicators and Comment:

In its second downgrade in three months, the International Monetary Fund on Monday cut its world economic growth forecasts for 2019 and 2020 due to weakness in Europe and some emerging markets, and said failure to resolve trade tensions could further destabilise a slowing global economy. It also cited a bigger-than-expected slowdown in China's economy and a possible "No Deal" Brexit as risks to its outlook. The IMF predicted the global economy to grow at 3.5% in 2019 and 3.6% in 2020, down 0.2% and 0.1% point respectively from last October's forecasts. Growth in the euro zone is set to moderate from 1.8% in 2018 to 1.6% in 2019, 0.3% lower than projected three months ago. The IMF also cut its 2019 growth forecast for developing countries to 4.5%, down 0.2% point from the previous projection and a slowdown from 4.75 in 2018.

China's economy slowed in 2018 as Chinese authorities carried out long-term structural adjustments to transition to a more gradual but sustainable growth trajectory. A trade war with the U.S. has also created uncertainty about China's near-term outlook. China's economic growth slipped to 6.4% in the fourth quarter, even as full-year growth of 6.6% exceeded Beijing's target of 6.5%. Chinese GDP growth has slowed for three consecutive quarters, prompting concern among global investors that China could drag the global economy downward.

U.S. factory production expanded in December by the most in 10 months, ending the year stronger than expected thanks to a surge in motor-vehicle output and gains across a range of other goods. Manufacturing output rose 1.1% from the prior month after an upwardly revised 0.1% rise, Federal Reserve data showed. Total industrial production, which also includes mines and utilities, advanced 0.3%. Production of motor vehicles increased 4.7% and other sectors with solid gains included petroleum and coal products, non-metallic mineral products and computers and electronics. Industries with declines included machinery, textile and product mills and paper. Mining production advanced 1.5%, the most since August, on oil and gas extraction and coal mining. For the full year, factory output rose 2.4%, the best performance since 2012 and a 1.2% increase on 2017. Manufacturing, which makes up 75% of total industrial production, accounts for about 12% of U.S. GDP.

According to the ONS, the decrease of 0.8% in UK total production output for the three months to November 2018, compared with the three months to August 2018, is due to widespread weakness led by falls of 0.8% in manufacturing and 1.8% in water and waste; this is the first time since October 2012 that all four main sectors fell. The largest downward contribution came from a fall in transport equipment of 1.1%, which was due to a fall in motor vehicles of 2.4%. In November 2018, total production output fell by 0.4%, compared with October 2018, due to a fall of 0.3% in manufacturing, supported by falls of 1.1% electricity and gas and 1.3% in mining and quarrying. In the three months to November 2018, total production output decreased by 0.9% compared with the same three months to November 2017; this is the weakest growth in total production output since August 2013 and the first time since October 2012 there has been widespread weakness across all four sectors.

### Market Commentary and News:

At the end of January, the U.S. lifted sanctions on aluminium giant Rusal and other Russian firms linked to oligarch Oleg Deripaska, despite a Democrat-led push in the U.S. Congress to maintain them. Later in the month U.S. congressional Democrats said they were not satisfied with decision and the leaders of four House of Representatives committees said they were considering legislation to ensure Rusal and its parent En+ comply with the agreement that allowed them to be removed from a U.S. sanctions list.

There is however, no sign of U.S. aluminium import tariffs being lifted. Tariffs mean U.S. consumers pay more than consumers in Europe with producers needing a strong incentive to sell to U.S. consumers. This can be seen in the physical premiums - the premium for shipping to the U.S. stands at around \$420/t, double the \$200/t seen at the start of 2018 and about 20% above the levels at the time tariffs were announced in early March 2018. Rusal supplied 10% of the US market in 2017. Canada supplied around 50%. Any deal with Canada would allow 2.5 million tonnes of primary aluminium to enter the U.S. duty-free.

Aluminium premiums across the globe were mostly stable in the final week of January, with market participants reporting limited impact from the lifting of sanctions on Rusal. Analysts reported the Rotterdam duty-paid premium was at \$120 to \$135/t at month-end, up \$5/t from earlier in the month. Premiums for aluminium shipments to Japan for January to March were agreed to at their lowest in more than two years as spot premiums fell amid ample supply. The deals were mainly done at premiums of \$85/t sources said. The new premiums are down between 17 and 19% from the previous quarter, marking the second consecutive quarterly drop and the lowest since the fourth quarter of 2016.

Global aluminium production grew at its slowest pace in a decade in 2018, and most of that was in the first half of the year. Output totalled 64.34 million tonnes, according to the International Aluminium Institute (IAI), up by just 1.5% on 2017. Production in the first half of 2018 was down 2.24% or 776kt compared to the first half of 2017 (31,314kt v. 32,090kt) but was up 4.05% or 1,267kt (32,581kt v. 31,314kt) in the second half.

IAI production figures in thousands of tonnes;

	China (Est)	GCC	East & Central Europe	North America	Asia (ex China)	West Europe	Oceania	Africa	South America	ROW Estimated Unreported	Total
<b>2017</b>											
January	3,260	446	339	337	315	320	151	143	117	150	5578
February	2,814	407	306	304	289	290	131	130	105	150	4926
March	3,017	454	338	337	336	320	148	142	118	150	5360
April	3,066	418	327	326	318	312	142	138	116	150	5313
May	3,135	429	338	335	319	321	144	141	120	150	5432
June	3,231	426	327	323	311	310	149	140	114	150	5481
July	2,996	445	339	334	324	320	156	142	119	150	5325
August	2,950	423	339	336	337	320	160	143	118	150	5276
September	2,906	404	329	324	342	310	157	138	111	150	5171
October	2,856	428	342	335	352	320	161	142	119	150	5205
November	2,650	424	332	322	345	311	155	139	110	150	4938
December	3,024	445	343	337	363	322	163	141	111	150	5399
<b>total</b>	<b>35905</b>	<b>5149</b>	<b>3999</b>	<b>3950</b>	<b>3951</b>	<b>3776</b>	<b>1817</b>	<b>1679</b>	<b>1378</b>	<b>1800</b>	<b>63404</b>
<b>2018</b>											
January	2,993	452	344	322	369	321	162	138	110	150	5361
February	2,750	414	311	285	338	282	146	128	103	150	4907
March	3,042	462	345	319	377	310	162	143	112	150	5422
April	3,007	443	334	311	355	303	156	138	103	150	5300
May	3,090	452	345	321	372	315	163	134	94	150	5436
June	3,050	437	333	303	368	310	155	140	88	150	5334
July	3,115	451	343	313	376	321	166	144	96	150	5475
August	3,120	454	343	320	377	321	163	144	95	150	5487
September	3,010	437	332	310	364	312	159	138	89	150	5301
October	3,126	450	343	323	377	321	164	143	93	150	5490
November	3,042	433	332	318	361	309	156	137	89	150	5327
December	3,143	449	344	329	381	307	165	141	92	150	5501
<b>total</b>	<b>36488</b>	<b>5334</b>	<b>4049</b>	<b>3774</b>	<b>4415</b>	<b>3732</b>	<b>1917</b>	<b>1668</b>	<b>1164</b>	<b>1800</b>	<b>64341</b>
<b>2018:2017</b>											
<b>-tonnes</b>	<b>583</b>	<b>185</b>	<b>50</b>	<b>-176</b>	<b>464</b>	<b>-44</b>	<b>100</b>	<b>-11</b>	<b>-214</b>	<b>0</b>	<b>937</b>
<b>2018:2017</b>											
<b>- %</b>	<b>+1.62</b>	<b>+3.59</b>	<b>+1.25</b>	<b>-4.46</b>	<b>+11.74</b>	<b>-1.17</b>	<b>+5.50</b>	<b>-0.66</b>	<b>-15.53</b>	<b>+0.00</b>	<b>+1.48</b>

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Chinese official data showed primary aluminium output defied low prices to rise for a second straight month to a record high in December as falling alumina costs boosted margins. 2018 annual output was also a record. The world's biggest producer churned out more than 3 million tonnes in a month for the first time, undeterred by aluminium prices at two-year lows, the impact of the U.S.-China trade war and Beijing's environmental crackdown.

China's Hongqiao, the world's largest smelter of alumina, said it will gradually restart some production after the expiry of government mandated curbs. The company said it would take until the end of June to reach full production. Around 100,000t of actual production was affected by the winter cuts. Hongqiao has 6.46 million tonnes of operational capacity.

Market participants in a panel discussion at S&P Global Platts Aluminium Symposium expect aluminium demand to grow 2 to 3% this year because of continued growth in the transport segments being offset by a gradual slowdown in China and a moderated appetite in Europe and the U.S. Supply should increase 3% to 4% based on the expected U.S. restarts and Chinese ramp-ups but the global aluminium market will remain short of supply with the world deficit will be mostly evident outside of China. This deficit situation has been leading to a plunge in the inventory levels outside China, which could fall this year to the levels of 2007-2008. In China there will be a likely balance between supply and demand. The insufficient growth in supply to meet demand could be partially explained by the current high alumina prices, which are affecting smelters' profitability, the panel suggested.

Norsk Hydro ASA said that Brazil's northern state of Para has lifted a production embargo on its Alunorte alumina refinery but noted that full production will not resume until a federal court follows suit. The plant is operating at half capacity after admitting early last year to making unlicensed emissions of untreated water during severe rains.

The global world refined copper market showed a 15,000t deficit in October 2018, compared with a 161,000t deficit in September, the International Copper Study Group (ICSG) said in its latest monthly bulletin. For the first 10 months of the year, the market was in a 547,000t deficit compared with a 224,000t deficit in the same period in 2017. World refined copper output in October was 1.98 million tonnes, while consumption was 1.99 million tonnes.

Chile's copper production could jump by nearly 30% over the next 10 years, Chile's state copper agency Cochilco said in a report. Cochilco said that output from Chile, could reach a record of 7.25 million tonnes as early as 2025. Cochilco said Chile produced 5.941 million tonnes in 2019, up 1.6% from 5.845 million in 2018, and a 227,000t deficit in the global market for 2019, dropping to 185,000t in 2020.

According to analysts, planned maintenance at major copper smelters this year is expected to reduce supply, further tightening the market and pushing refined premiums higher. Smelter outages in 2018, including those owned by Vedanta, Mitsubishi and Aurubis caused a supply bottleneck, pushing up spot treatment and refining charges and boosting premiums for cathodes. Analysts expect a second year when smelter outages are higher than mine outages although they believe these flagged outages would not take the market by surprise. The outages include planned stoppages at Aurubis' operations at Pirdop in Bulgaria and Lunen in Germany.

World leading resource company BHP Limited's CEO Richard Adkerson believes that growth in copper mine output and increasing demand will mean a widening production deficit in copper supply. He told investors that the fundamental outlook for copper is strong despite "unfortunate" trade policies. He believes that an industry-wide incentive price for new production is \$7275/t (US\$3.30 per lb) - or 20% above current spot metal. The time is coming when prices "will simply have to rise," Adkerson said.

China's December refined copper output rose by 4.5% year-on-year to 839,000t, its highest monthly total in 2018, the National Bureau of Statistics reported. The bureau typically does not provide individual numbers for January and February due to the impact of Chinese New Year. China's 2018 refined copper output is expected to rise 8% year-on-year in 2019 up to 9.03 million tonnes.

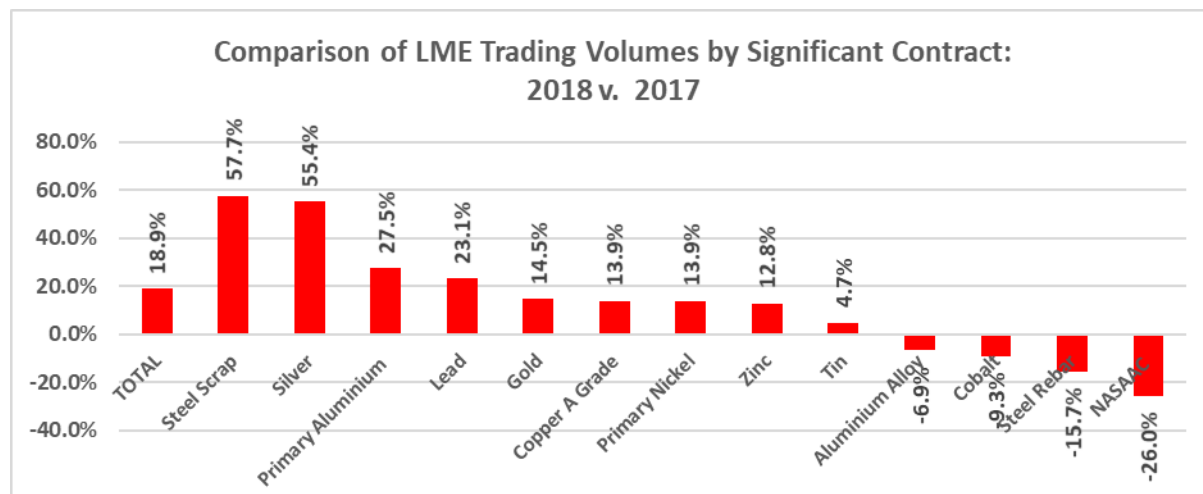
Saudi Arabia has signed an agreement to build a metal smelter with global commodities trader Trafigura worth \$2.8 billion, according to Reuters. The project with Trafigura Singapore will be the first copper smelter in a GCC country and it aims to produce 400,000t of copper, 200,000t of zinc, and 55,000t of lead annually.

The LME has removed its "temporary conditional suspension" on placing Rusal metal on-warrant allowing the warranting of Rusal brands dated before and after April 6, 2018, to resume. The LME notice released on January 28 also said its members are now free to enter into contracts with Rusal.

The LME will launch seven new cash-settled futures contracts on March 11, including hot-rolled coil (HRC) steel and alumina. The exchange also said in a statement that it expected to launch a lithium contract in the fourth quarter.

Sources have told Reuters that some companies wanting to take aluminium out of ISTIM warehouses in Port Klang, Malaysia have been told they must wait, as metal cancelled by others is scheduled and awaiting shipment. One trader commented; "You cancel metal because you need it. A queue suddenly appears, you can't wait so you re-warrant the metal. For that privilege you have to pay a minimum of \$5/t. You then go somewhere else. A lot of people have given up trying to take metal out of ISTIM Port Klang". Primary Aluminium stocks in LME Port Klang warehouses stood at 614,725t at month-end, comprising nearly 48% of total LME aluminium stocks.

Total LME trading volumes increased 18.9% in 2018 with a total of 178,104,967 lots traded compared with 149,731,819 lots in 2017. Primary Aluminium traded 65,574,126 lots, up 14,144,743 lots or 27.5% from 2017. Grade A Copper traded 38,599,069 lots, up 4,713,988 lots or 13.9% from 2017.



### LME Commentary:

Commodity market sentiment and price direction remains mostly determined by the nature and state of U.S. and China trade talks, the anticipated effect of tariffs on world trade and commodities and GDP growth (particularly China's). While trade talks continue unresolved, investor sentiment was hugely swayed by news that economic growth in China had slowed to its weakest in 28 years which was then offset by China's move to inject liquidity into the financial system to boost higher demand.

Further complications for the GBP equivalent metal prices remain the uncertainties over Brexit and its impact on the strength relative of the Pound versus the U.S. Dollar. Metal prices converted to GBP prices were effectively restrained as the Pound strengthened against the US Dollar during the month, beginning at 1.2652 and closing stronger at 1.3127.

Amid quiet trading and without any significant fundamental news, LME copper prices initially held their December levels before bottoming out at £4508.37/t, its lowest since early September 2018. The underlying US Dollar price hit a low of \$5811/t, its lowest since July 2017. Values did however, recover quickly and at month-end closed on the month's high at £4683.48/t. The market traded at a modest cash to 3-month backwardation in the month while stocks increased by 17,775t, closing at 149,950t.

LME Primary Aluminium prices weakened during the first half of the month hitting lows of £1380.96/t and \$1775.50/t - the first breach of the £1400/t and \$1800/t respective levels since January 2017. GBP aluminium prices steadied in the second half of the month supported by a stronger Pound and seemingly unaffected by the lifting of the Rusal sanctions which had been previously announced and factored into the price back in November. Prices rallied to month-end and the close of £1432.54/t was only £36/t lower than the opening day's price. The cash to 3-month spread which flared out into backwardation at 2017 year-end moved back into contango in the month and stocks closed at 1,284,125t - 11,000t up in the month.

## LME Statistics and Charts: January 2019:

	Copper			Aluminium			
January 2019	Cash £/t	3M £/t	Stocks	Cash \$/t	Cash £/t	Stocks	USD:GBP
Opening	4615.08	4612.84	132,175	1858.00	1,468.54	1,273,125	1.2652
Average	4603.04	4602.96		1845.89	1432.43		1.2888
High	4683.48	4676.25		1880.50	1483.03		
Low	4508.37	4506.43		1775.50	1380.96		
Range	175.11	169.82		105.00	102.07		
Closing	4683.48	4676.25	149,950	1880.50	1432.54	1,284,125	1.3127
Opening:Closing Δ	-68.4	-63.4	17,775	+22.50	-36.00	11,000	

