THE UK TRADE ASSOCIATION FOR MANUFACTURERS OF INSULATED METALLIC AND FIBRE OPTIC CABLES, WIRES AND THEIR ACCESSORIES

Metals Newsletter - February 2019

Economic Indicators and Comment:

US economic growth lost some of its momentum in the final three months of 2018, as consumers, unsettled by a trade war and resulting market uncertainty, tightened their belts. GDP rose at an annualised pace of 2.6% during the fourth quarter, an initial reading from the commerce department showed in February. The figure, delayed by a 35-day partial shutdown of the government, represents a marked comedown from the robust 3.4% and 4.2% expansion reported in the previous two quarters, but was better than Wall Street’s expectations of 2.2%.

According to Eurostat, the Eurozone economy grew 0.2% quarter on quarter in the final three months of 2018, unrevised from a preliminary estimate and matching the third quarter rate, which had been the lowest since the second quarter of 2014. The German economy avoided falling into recession during the last quarter. Europe's largest economy registered zero growth during the fourth quarter of 2018, the country's Federal Statistics Office said, meaning that it avoided two consecutive quarters of contraction, which is the usual definition of a recession. A weak trade performance dragged on the economy, and consumer spending remained subdued. This followed a 0.2% contraction in the previous quarter. Reasons for slower growth last year include a slowdown in the global economy and a weaker car sector, with German consumers less willing to buy new cars amid confusion over new emission standards. Simultaneously, Italy fell into recession for the first time since early 2013 - the economy shrank by 0.2%, following a 0.1% decline in the third quarter. France and Spain continue to support the bloc's growth. France's quarterly economic growth was confirmed at 0.3% in the last three months of 2018, the same as in the July-September period. Exports and fixed investment drove the expansion while household consumption was unchanged and inventory changes contributed negatively. Spain’s economy advanced 0.7% on quarter in the three months to December 2018, following a 0.6% expansion in the previous period, preliminary figures showed. It was the highest growth rate since the last quarter of 2017, as government spending rose markedly and net trade contributed positively to the GDP growth.

The UK economy expanded at its slowest annual rate in six years in 2018 after a sharp contraction in December. Growth in the year was 1.4%, down from 1.8% in 2017 and the slowest rate since 2012, according to the Office for National Statistics (ONS). The ONS blamed falls in factory output and car production for the slowdown, among other factors and follows forecasts of slower growth in 2019 due to Brexit uncertainty and a weaker global economy. According to the ONS, quarterly growth also slowed, falling to 0.2% in the three months to December - down from 0.6% in the three months to September. GDP slowed with the manufacturing of cars and steel products seeing steep falls and construction also declining. Growth over the quarter was weaker than the 0.3% anticipated. GDP fell in December by 0.4%. In the final quarter of last year, the ONS found car manufacturing declined at its steepest rate in just under a decade, slipping 4.9%. Construction fell 0.3% while business investment dropped 1.4%. While Britain's dominant services sector continued to expand, growth slowed to 0.4% following a strong performance during the summer. The 1.4% growth figure for 2018 was the lowest since 2012, when the economy also grew by 1.4%. The last time the economy performed worse than this was in 2009, when it contracted by 4.2%.

Companies:

Aurubis AG, Europe's largest copper producer, said its quarterly operating earnings fell by almost half following a series of unscheduled plant shutdowns which had a negative effect of approximately €25 million on earnings this year. Operating earnings before taxes (EBT) were €40 million in the first quarter of its 2018/19 financial year (October to December), compared with €79 million a year earlier. Aurubis repeated its forecast that full-year operating EBT will be "moderately lower" than in the previous year and that return on capital employed will be "slightly lower". Aurubis said it expects a fundamentally stable copper scrap market and a "robust, high" demand for copper rod and shapes products.

Market Commentary and News:

According to the latest statistics published by the World Bureau of Metal Statistics (WBMS). The worldwide copper market recorded a surplus of 496kt in 2018 compared to a surplus of 138kt during 2017. World copper mine production totalled 20.71Mt during 2018 – up 2.1% on 2017. Refined copper production also edged marginally higher – up 1.1% to 23.66Mt. Production recorded significant increases in Zambia, Chile and Iran. Production in the EU-28 area declined marginally by 1.5% over the prior year. The global consumption declined marginally from 23.26Mt in 2017 to 23.17Mt during 2018. The Chinese apparent demand surged higher significantly by 5.9% to total 12.482Mt. The EU demand in 2018 at 3.413Mt was up slightly by 2.3% over the previous year. The reported copper stocks declined in December 2018 to close 201kt lower than at the end of 2017. Monthly refined copper production totalled 2,107.4kt in Dec '18, whereas the consumption was 2,088.8kt.

The global world refined copper market showed a 52kt deficit in November, compared with a 1kt surplus in October, the International Copper Study Group (ICSG) said in its latest monthly bulletin. For the first 11 months of the year, the market was in a 396kt deficit compared with a 282kt deficit in the same period a year earlier. World refined copper output in November was 2.03Mt, while consumption was 2.09Mt. Bonded stocks of copper in China showed a 42kt deficit in November compared with a 6kt surplus in October.

European copper producer Aurubis is considering its options following the European Commission's decision to veto the sale of its flat-rolled copper products unit to Wieland-Werke. The two companies announced the sale agreement last April, but in October the European Commission had expressed concerns over the deal and would likely require further concessions for it to go ahead. Through the merger, Wieland would have taken full control of Schwermetall, which manufactures and sells pre-rolled strip to both Wieland and Aurubis Rolled Products, as well as to other copper manufacturers. Aurubis holds a 50% stake in Schwermetall. "The proposed merger would have created a new dominant player, significantly reducing competition for rolled copper products and increasing prices for European manufacturers," the EC Commissioner for Competition said. "The remedies offered by Wieland were not sufficient to prevent this and …. therefore, the Commission had to prohibit the merger, to protect industrial customers and final consumers."

Last year, Chile's total copper production rose by 6% to 5.83Mt, according to figures from Cochilco, Chile's copper commission. State copper miner Codelco saw a 1.9% drop in its output in 2018, at 1.8Mt, while production at the world's largest copper mine, Escondida, was up 34% in the same year, Cochilco reported. Codelco was affected by a natural decline in ore grades, an issue it is seeking to reverse with a major program of upgrades. Production at BHP's Escondida rose to 1.24Mt because of a low base of comparison in 2017. Chile's second-largest copper mine, Collahuasi - a joint venture between Glencore, Anglo American and a number of Japanese firms - recorded growth of 6.7% in its production to 559,200t last year.

According to government data, more than half of the copper exported last year by Chile went to China. Chile shipped 3.0Mt of copper to China in 2018, up 25% from 2017 and accounting for 51.3% of Chile's copper exports, compared with just 42.5% in 2017. Shipments of refined copper to China rose 23% to 1.2Mt, while shipments of copper in concentrates rose 38% to 1.7Mt. Chile's total copper shipments rose 3% to 5.9Mt, reflecting a 10% increase in shipments of copper in concentrates to 3.3Mt. The rise in copper shipments to China it as Chile's top trade partner, accounting for 30% of total imports and exports, compared to just 17% for the U.S. Copper shipments to Japan, Chile's second largest market, rose 13% to 651,500t. In contrast, shipments of copper to Europe fell 23% to 555,600t while the US imported 452,500t of copper from Chile, down 7%.

Intense rains and localized flooding at the start of the month in Chile, saw copper operations briefly suspended at Codelco's Chuquicamata, Ministro Hales and Radomiro Tomic mines and at Freeport's El Abra mine. According to preliminary government figures issued at the end of the month, Chile's mining industry lost about $300 million due to the destroyed infrastructure and suspensions.

In southern Peru, Southern Copper also partially suspended its operations due to the heavy rains. The company said that it had to temporarily shut down its processing plants at both the Cuajone and Toquepala as a preventative measure. It is unclear how much output was affected.

Chilean state miner Codelco's said it had reached an agreement on the contract for two unions at its Chuquicamata copper mine in the north of the country. The agreement, which covers 611 workers, includes a salary increase of 1.2%.

Norway's government approved the building of a copper mine near Europe's northernmost point despite years of opposition from indigenous Sami herders and fishermen. Norway's decision on the copper mine has been viewed as a litmus test for the Arctic, where climate change and technology are enabling mineral and energy extraction, shipping and tourism, but threatening traditional ways of life.

India's Supreme Court set aside an order by an environmental court which had cleared the way for reopening Vedanta's south Indian copper smelter, in a blow to the company's plans to begin operations. The government of Tamil Nadu state ordered the smelter shut permanently in May after violent protests at the plant in which 13 people were killed. In December, India's National Green Tribunal (NGT) revoked the state decision to shut the plant, prompting the state government to appeal in the Supreme Court.

Of the LME's reported copper stocks of 126.100t at month-end, only 21,600t is freely available once metal awaiting load-out is excluded - the lowest level since 2005. Part of the reason lies with the current strength of Chinese imports. China imported a record 3.75Mt of refined copper last year and January's imports totalled 336,680t, up 7% yoy. One reason for this increase is the decline in imports of scrap which fell 32% last year and slid another 12% to 176,900t in January. The drop in the tonnage also masks a sharp rise in purity as China puts a halt to lower-quality scrap imports. The ongoing disruption to copper scrap flows, particularly from the U.S., is translating into higher demand for imported refined copper. Analysts are however, suggesting that the current pace of refined copper imports looks increasingly unsustainable - stocks of copper on the Shanghai Futures Exchange have almost doubled since the start of January and at month end totalled 217,794t. Physical premiums for Chinese delivery are at recent lows, down to US$48/t, suggesting the local market is saturated.

Russian aluminium exports declined in 2018, while copper exports rose, official customs data showed. The Federal Customs Service provided the following data for Russian aluminium and copper exports in 2018:

	Full Year 2018	Full Year 2107	Delta	
	'000's tonnes	'000's tonnes	'000's tonnes	%
Aluminium	3056.4	3208	-151.6	-4.7
Copper	652.2	589.9	62.3	+10.6

The calculated market balance for primary aluminium for January to December 2018 was a deficit of 859kt, following a deficit of 1209kt in 2017, according to World Bureau of Metal Statistics (WBMS). Demand for primary aluminium for January to December 2018 was 60.524Mt, 685kt more than in the whole of 2017. Production in 2018 rose by 1036kt compared with the same period in 2017. Total stocks held in the four exchanges in London, Shanghai, USA and Tokyo were 1951kt at the end of December 2018 which were 9kt higher than in December 2017. Total stocks at the end of December 2018 were 2404kt which compares with 2346kt at the end of 2017. Overall, global production rose in January to December 2018 by 1.8% compared with the whole of 2017. Chinese output was estimated at 33586kt and this currently accounts for 56% of the world production total. Chinese apparent demand in 2018 was 4.4% higher than in 2017. Production in the EU28 was 0.5 % lower than the previous year and NAFTA output fell by 3.4%. EU28 demand was 360kt higher than the comparable 2017 total. Global demand was virtually unchanged during January to December 2018 compared with the levels recorded one year previously. In December 2018, global primary aluminium production was 5242.1kt and consumption was 5191.7kt.

According to the International Aluminium Institute (IAI), global aluminium production contracted in China and the rest of the world in January. Global smelter production was 5.3Mt in January, down 1.1% on January 2018 and the lowest since November 2017. The month-on-month slide was equivalent to an annualised decline in global output of 2.3Mt. Most of the downturn was seen in China where output plunged by an annualised two million tonnes between December and January. The IAI uses multiple sources to try and smooth out past Chinese data irregularities. There has been accumulating evidence that Chinese producers are struggling in the face of weak demand and low prices - part of the evidence comes in the form of accelerating Chinese exports. This export surge, coupled with equally low LME prices, is forcing more smelter closures. Production outside of China registered its steepest month-on-month fall since April 2017.

Russian aluminium producer Rusal said in the month that its aluminium production in 2018 rose 1.3% to from a year ago to 3.753Mt, while sales volume fell 7.2% to 3.7Mt. The company, however, maintained that the aluminium market was in deficit and the price has upside potential, citing the decrease in LME stocks and the fall in the Chinese aluminium production in 2018. Around 50% of aluminium production facilities outside of China and 60% are making losses, it said. Rusal's production in Q4 was 943,000t, up 0.4% from the previous quarter. Rusal reported a fall in sales of 16.2% to 877,000t, due to a 32.4% decline in sales which were affected in the fourth quarter by US sanctions. Rusal's 2018 alumina production was 7.8Mt, unchanged from 2017.

UK and US markets regulators have finalised a sweeping long-term agreement to jointly oversee each other's derivatives markets after Brexit, removing concerns of financial turmoil in the $481 trillion market if Britain leaves the EU without an agreement. The accord will close off risks of massive disruption to banks, institutional investors and corporations, which use derivatives like swaps and futures to hedge against movements in interest rates and currencies. The two sides, which together account for the majority of the global derivatives market, unveiled their deal in London in February. The agreement is set to begin when the UK leaves the EU on March 29.

The European Commission has suggested it will make the UK charge VAT on commodity derivatives trading which will include ICE Futures Europe, the London Platinum and Palladium Market (LPPM) and the LME, trading sources say. The Commission has been looking at zero-rated VAT on commodity derivatives trading in the UK for some years, but sources say recent activity is part of a drive to pressure the UK ahead of its EU withdrawal in March.

Glencore has lodged a complaint with the LME about the company's inability to take speedy delivery of aluminium from warehouses owned by ISTIM UK in Port Klang, Malaysia, market sources report. Glencore bought 200,000t of aluminium on the LME late in January and made preparations to take that metal from ISTIM's warehouses.

LME Commentary:

Metal prices are having the best start to a year since before the financial crisis. The Bloomberg Industrial Metals Subindex Total Return index, a gauge tracking total returns in copper, aluminium, zinc and nickel has climbed over 12% this year - the most in the first two months of the year since early 2008. Prices that plunged last year on concerns that trade discord would erode global growth are getting a boost from indications of resilient demand and tight supplies, recent optimism over U.S.-China trade talks and signs that the economy in China is showing the first signs of recovery after months of slowdown while stock and commodity rallies lift confidence. Analysts also point to heavy flows to base metals from commodity trading advisers since the turn of the year. Exchange-traded fund investors are also benefiting, with assets of ETFS Industrial Metals, the largest base-metals ETF, rising to the highest since July.

LME prices came under pressure at the start of the month as investors fretted over slowing factory activity in China and worried about global growth and the U.S.-China trade dispute. Sentiment and prices recovered sharply thereafter with the U.S. initially indicating and then confirming that the deadline for a trade agreement with China could be pushed back, strong Chinese lending data and Freeport, the operator of the world's second-biggest copper mine in Indonesia, said its export permit had expired.

LME copper cash prices hit the month's highs of £5000.76/t and $6495.50/t on 25 February – the first break through the £5000/t and $6500.00/t levels since July 2018 and represented a 7.4% increase on the end of December price. This came as the cash/three-month spread traded out to a maximum backwardation of £61.22/t, its widest since January 2015 as stocks fell sharply.

LME copper stocks closed the month at 126,100t, down 23,850t in the month and the lowest level since mid-December last year. Only 18,650t (15%) of the stock sits in European warehouses while 91,250t (72%) sits in the U.S. and the balance 16,200t (13%) is in Asia. The market is aware that demand in China typically picks up in the second quarter ahead of the third quarter when construction activity rises. Analysts believe copper stocks have not built nearly as much as would have been expected so far this winter, meaning a lower base from which to draw during the second quarter.

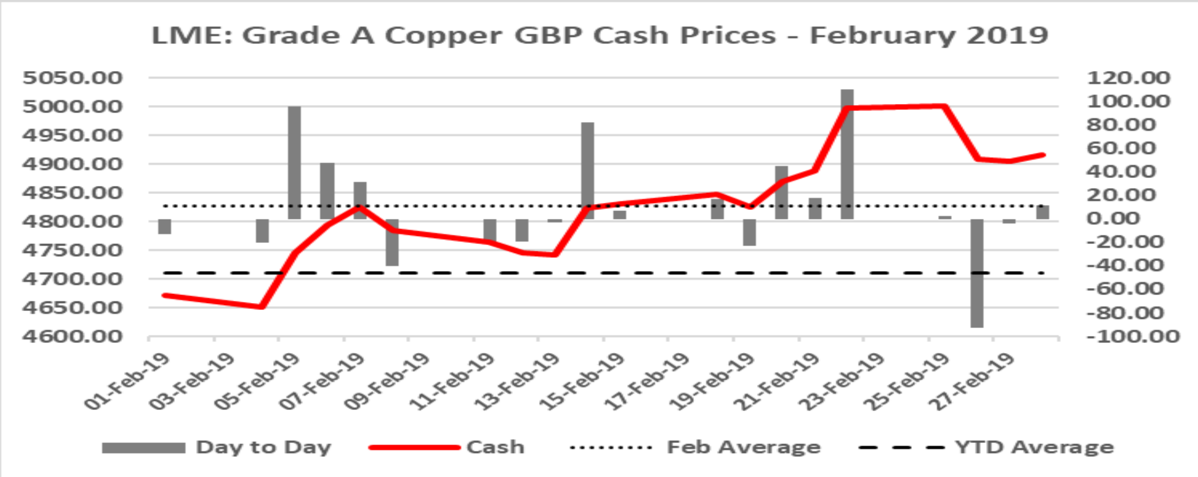
As general comment, bullish expectations that copper will experience a market deficit this year are beginning to override concerns that a trade-war induced decline in global growth will impact copper demand. Analysts suggest that base metals price movements generally have sharply shifted away from macro-driven headlines to become more fundamentally-driven since the start of the year and for copper, the fundamentals are on the bullish side. The underlying technical outlook for many of the base metals also continues to improve with many chartists believing prices will break out on the upside to establish a new bull cycle.

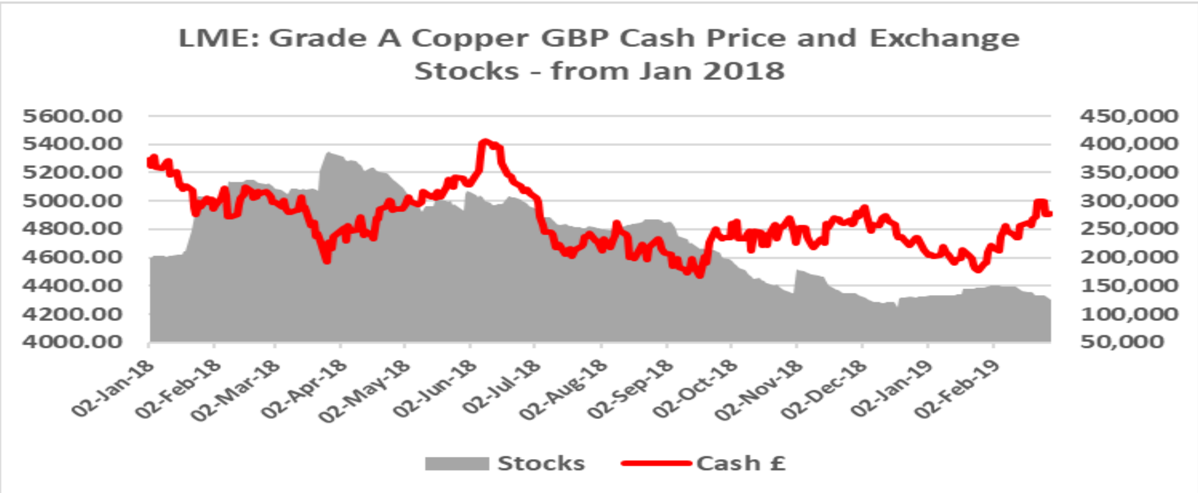
LME aluminium prices followed the general trend in other base metals. A quiet beginning, then a recovery to the month's high of £1457.95/t on 5 February which was followed by further selling which saw the price fall to the month's low of £1402.78/t. Another modest recovery saw values trade up to £1456.13/t based on data that showed that global primary aluminium production had fallen in January.

LME primary aluminium stocks closed February at 1,232,950t, down 51,175t in the month with 365,825t (30%) in Europe, 44,175t (3.6%) in the U.S. and the balance, 822,950t (66.4%) in Asia.

LME Statistics and Charts: February 2019:

	Copper			Aluminium			
Feb-19	Cash £/t	3M £/t	Stocks	Cash $/t	Cash £/t	Stocks	USD:GBP
Opening	4670.62	4669.87	149,950	1872.50	1,434.32	1,284,125	1.3055
Average	4826.81	4802.23		1859.55	1429.79		1.3006
High	5000.76	4952.08		1898.50	1457.95		
Low	4650.26	4650.72		1822.50	1402.78		
Range	350.50	301.36		76.00	55.17		
Closing	4915.39	4861.51	126,100	1893.00	1423.63	1,232,950	1.3297
Opening:Closing Δ	-244.8	-191.6	-23,850	+20.50	-10.69	-51,175	





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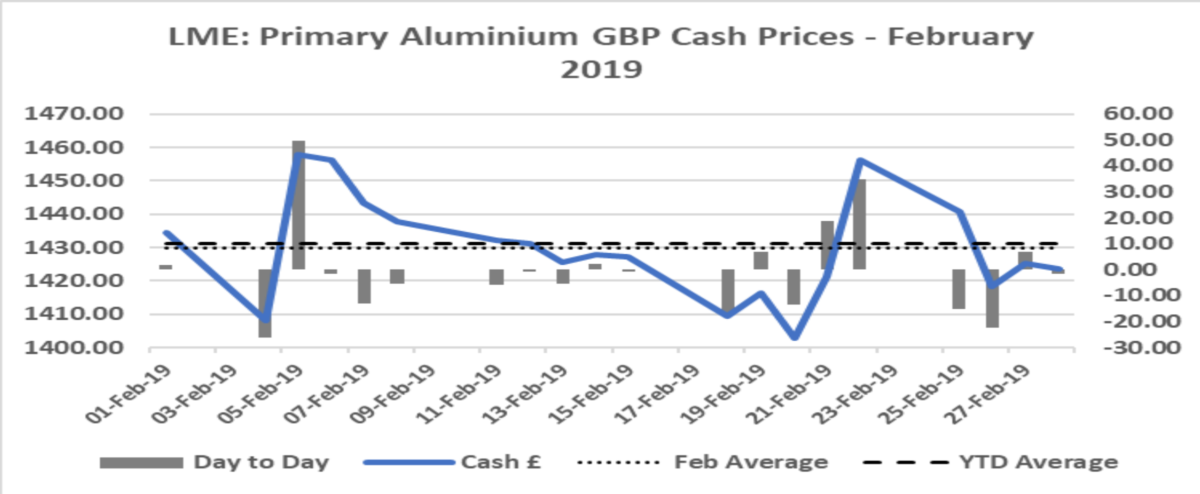

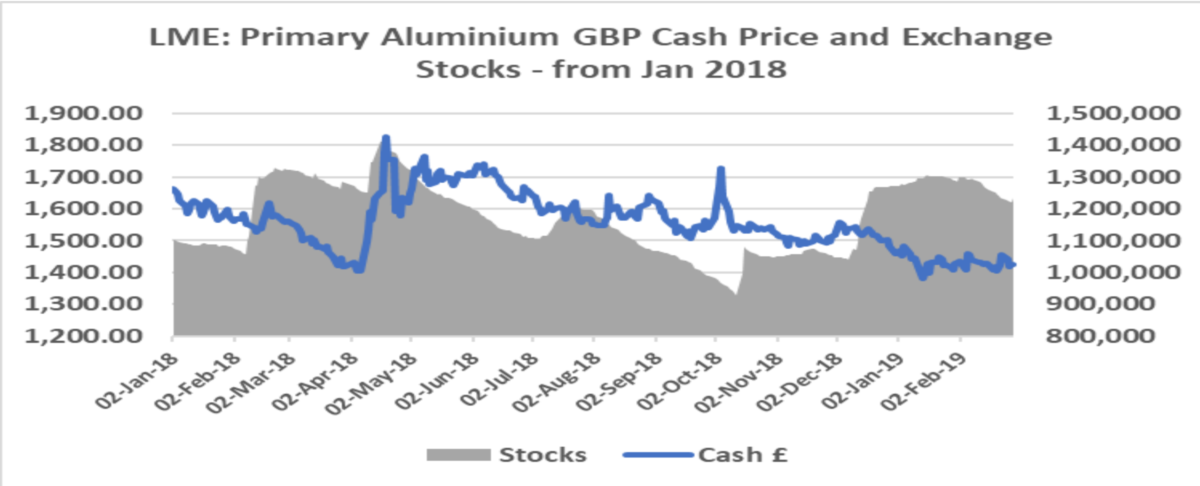

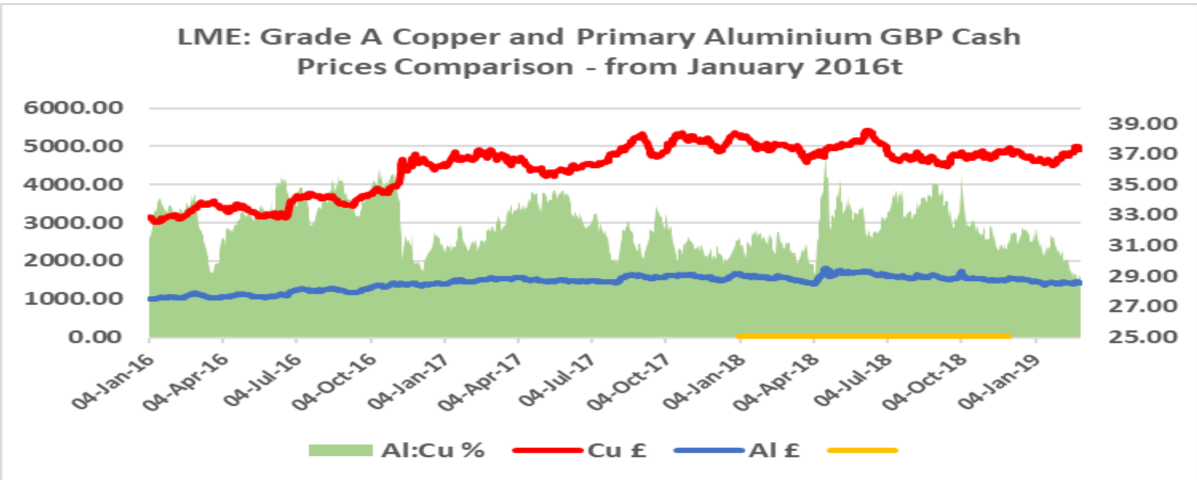

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