Metals Newsletter - April 2019

Economic Indicators and Comment:

World trade shrank by 0.3% in the fourth quarter of 2018 and is likely to grow by 2.6% this year, slower than 3% growth in 2018 and below a previous forecast of 3.7%, the World Trade Organization said in its annual forecast, published early April. Trade it said, had been weighed down by new tariffs and retaliatory measures, weaker economic growth, volatility in financial markets and tighter monetary conditions in developed countries. It had forecast in September that 2018 growth would be 3.9%, down from 4.6% in 2017. The WTO said that the lower forecast was no surprise, given the trade tensions between the U.S. and China and said worse may be to come, with an even bigger impact if the U.S. goes ahead with a plan to impose high tariffs on global imports of cars later this year. U.S.-China trade is about 3% of global trade while automobile trade globally is about 8% of global trade. The WTO also said the worst-case Brexit would help push global trade growth down to the bottom end of the WTO's forecast range in 2019, of between 1.3% to 4%.

The IMF published its World Economic Output (WEO) report at the end of April showing global growth is projected to slow from 3.6% in 2018 to 3.3% in 2019, before returning to 3.6% in 2020. Beyond 2020, global growth is set to plateau at about 3.6%. Growth for 2018 was revised down by 0.1% compared to the October 2018 WEO, reflecting weakness in the second half of the year and the forecasts for 2019 and 2020 are now marked down by 0.4% and 0.1%, respectively. The IMF explained that after strong growth in 2017 and early 2018, global economic activity slowed notably in the second half 2018, reflecting a confluence of factors affecting major economies. Trade tensions increasingly took a toll on business confidence and, so, financial market sentiment worsened, with financial conditions tightening for vulnerable emerging markets in the spring of 2018 and then in advanced economies later in the year, weighing on global demand. It concluded that while conditions have eased in 2019 as the US Federal Reserve signalled a more accommodative monetary policy stance and markets became more optimistic about a US - China trade deal, but they remain slightly more restrictive than in autumn 2018.

U.S. economic growth accelerated in the first quarter, driven by a smaller trade deficit and the largest accumulation of unsold merchandise since 2015 - temporary boosters that are seen weighing on the economy later this year. The surge in growth reported by the Commerce Department put to rest fears of a recession that were stoked by a brief inversion of the U.S. Treasury yield curve in March. But it also exaggerates the health of the economy as consumer and business spending slowed sharply and investment in homebuilding contracted for a fifth straight quarter. GDP increased at a 3.2% annualized rate in the first quarter, the government said in its advance GDP report. Growth was also driven by increased investment in roads by local and state governments. The economy grew 2.2% in the October-December period. Meanwhile, industrial production in the U.S. rose 2.8% year-on-year in March 2019, following a 3.5% increase in the previous month. This was the smallest gain in ten months.

The National Bureau of Statistics reported that China's economy grew at a steady 6.4% in the first quarter from a year earlier, defying expectations for a slowdown, as industrial output jumped sharply. The upbeat readings, which also showed faster growth in retail sales and investment, are likely to add to optimism that China's cooling economy may be starting to stabilise, relieving some investor anxiety over slowing global demand. Analysts say it is too early to call a sustainable turnaround, and further policy support is likely needed. Industrial production jumped 8.5% in March from a year earlier, the fastest pace in over 4 1/2 years. Analysts polled by Reuters expect China's economic growth to slow to a near 30-year low of 6.2% this year. The Chinese government has targeted economic growth of between 6% and 6.5% in 2019.

Christine Lagarde, the head of the IMF has warned the decision to extend the UK's Brexit deadline will mean another six months of uncertainty for business. While she welcomed the fact that the UK would not leave the EU without a deal, nothing had been resolved. The decision gave more time for discussions between the political parties and for companies to prepare for all options, Lagarde said. “On the other hand, it is obvious it is continued uncertainty. And it does not resolve, other than by postponing what would have been a terrible outcome.” The IMF said earlier this week that leaving the EU without a deal risked pushing the UK into a two-year recession.

Companies:

Aurubis AG, Europe’s largest copper refining company, has cut its annual profit forecast, citing weak demand, manufacturing shutdowns and lower refining fees. Operating earnings before tax will decline more than 15% this year, the company said in a statement. It also reported a sharp drop in pre-tax profit, earning €63 million during the fiscal second quarter, compared with last year’s €107 million. Aurubis has been hurt by the lowest refining fees in six years amid a tight market for copper concentrates. It also listed higher inventories and a sluggish economy among the reasons for its disappointing outlook. This is the second time that Aurubis has cut its profit forecast for 2019. In November, the company cited unscheduled shutdowns at key plants. Aurubis will publish its full 6-month Interim Report of its financial year 2018/19 on 15th May, 2019.

Market Commentary and News:

Analysts, producers and fabricators met at the annual CESCO Dinner and World Copper Conference held in Santiago, Chile, at the beginning of the month providing the opportunity for comment, press releases and announcements. Notably, these included: -

Cochilco, the Chilean copper agency, predicts global output of copper will trail consumption by a narrower margin this year than forecast in January as output rises slightly faster than expected. Cochilco forecasts a production deficit of 208,000t in 2019, compared with its 227,000t previously. In 2020, the shortfall is seen narrowing to 202,000t, from earlier forecast of 185,000t. Global copper output is forecast to increase 1.6% to 21Mt in 2019, bigger than the 20.9Mt predicted in January. The agency sees 2020 copper production at 21.7Mt and says 2019 global demand will rise 1.9% to 24.1Mt, bigger than the January forecast of 24Mt. China’s 2019 copper use is seen at 12.8Mt, stronger than the 12.56Mt predicted in January. Asian nation’s demand for copper is set to increase 2% to 13Mt in 2020, from the prior forecast of 1.5% to 12.75M. Chile’s output is set to expand 2.2% to 5.96Mt in 2019. The previous forecast was for an increase of 1.6% up to 5.94Mt in 2019 and 6Mt in 2020. The agency maintains its 2019 copper price forecast for the metal at $6724/t in 2019, $6790/t in 2020.

Chilean state miner Codelco produced slightly less copper in 2018 than the year before, the company reported, as it continued to contend with declining ore grades and rising costs at its aging mines. The company produced 1.678Mt of copper at its own mines in 2018, down 3.3% from the previous year, and a total of 1.806Mt, including production from its joint ventures at El Abra and Anglo American South.

Canadian miner First Quantum Minerals is planning a $327 million expansion of its already massive mining and processing complex Cobre Panama in Panama, the largest copper mine coming to market over the next couple of years. The company expects to grow it from 85 million tpa to 100 million tpa beginning in 2023.

Industry analysts and producer executives were in bullish spirits: a key indicator of the market for copper concentrates is pointing to the tightest market in more than five years, and banks and brokers such as Morgan Stanley and Macquarie Group Ltd. rank the metal as one of their top investment choices.

Giant mines currently under construction will churn out an additional 1 million tons of copper through 2023, but that won’t be enough to fully close an expected gap between supply and demand in the next few years according to BMO Capital Markets.

Conversely, CRU Group has cut its deficit forecast and now expects the market will be in a small surplus this year and next. Anglo American has started building its Quellaveco mine in Peru, which will begin ramping up in 2022, Teck Resources has announced its Quebrada Blanca expansion in Chile will start producing in 2021, while First Quantum’s Cobre Panama mine has started producing this year. The researcher forecasts a 270,000t deficit by 2023.

Chilean miner Antofagasta said that the global copper industry will be rocked by more disruptions this year than in 2018, contributing to a supply deficit as demand for copper continues to grow. Antofagasta said labour strife, extreme weather and unexpected project delays will knock as much as a million tonnes off the year's total copper production, versus 600,000t the previous year.

The global copper market will remain in deficit to 2025 even at low demand growth rates, according to miner, Teck Resources. 'Despite recent announced mine-supply increases, the medium-to-long-term market is still in structural deficit. Demand for concentrates and cathode is rising as environmental restrictions on global scrap flows limit Supply. Production cuts at Asian smelters combined with lower scrap availability has contributed to a drawdown in cathode' company said. Exchange stocks have fallen 425,000t since March 2018, equal to just over 1 week's global consumption. Inventories, including those in bonded warehouses are at the lowest since 2009. While stocks are building in China, several large planned smelter maintenance shutdowns will occur in 2Q 2018, the company said.

Global copper producers are planning for substantial growth in the next decade thanks to an expected boom in production of electric vehicles, which use twice as much copper as internal combustion engines. Automakers are vowing to produce all-electric fleets. Growing demand for smart thermostats, wind turbines and other high-tech devices is further expected to keep copper the dominant material used in electrical components. With that in mind, copper market analysts Wood Mackenzie sees a 'deficit in copper, and it's expected to be a tighter market in 2019 relative to last year'.

Base metal miner MMG said early in the month that the road blockade at the Las Bambas copper mine in Peru in place since February has been resolved as the company reached an agreement with the local community over compensation for farmland. Concentrate stockpiles at the Las Bambas site stands at 59,000t and normal mining, production and concentrate transport will restore progressively, the company said.

U.S. regulators are investigating whether Glencore broke rules through "corrupt practices". Glencore said the U.S. Commodity Futures Trading Commission was investigating whether the company and its units had violated some provisions of the Commodity Exchange Act and/or CFTC Regulations. It had been announced earlier in the month that Glencore was Codelco's biggest buyer last year, accounting for more than a tenth of Codelco's sales in 2018. Codelco is a prized relationship among traders as it sells in large volumes and its copper is in high demand among buyers in all the key markets. Five years ago, Glencore did not feature among Codelco's top 10 clients.

German based Wieland-Werke and U.S. based Global Brass and Copper Holdings announced that they have entered into a definitive merger agreement. Wieland is a global technology and service leader in the brass and copper industry. According to the press release, the transaction brings together two highly complementary companies with diverse product offerings across copper and copper alloy strip and sheet, rod, foil, wire, tube and fabricated components, serving a wide variety of industries.

The calculated market balance for primary aluminium for January to February 2019 was a deficit of 20.6kt which follows a deficit of 932kt recorded for the whole of 2018, according to World Bureau of Metal Statistics. Demand for primary aluminium for January to February 2019 was 9.95Mt, 186kt more than in the same two months of 2018. Production in January to February 2019 rose by 330kt compared with the same period in 2018. Total LME stocks fell fractionally during February but stocks in Malaysia rose by 17kt but other stocks in Asia declined. Total stocks at the end of February 2019 were 2452kt which compares with 2404kt at the end of 2018. Total stocks held in the four exchanges in London, Shanghai, the U.S. and Tokyo were 1976kt at the end of February 2019 which were 25kt higher than in December 2018 total. Overall, global production rose in January to February 2019 by 3.4% compared with the first two months of 2018. Chinese output was estimated at 5688kt, currently accounting for 57% of the world production total. Chinese apparent demand was 7.1% higher than in January to February 2018. Production in the EU28 was 0.9% lower than the previous year and NAFTA output rose by 6.8%. EU28 demand was 104kt lower than the comparable 2018 total. Global demand rose by 2% during January to February 2019 compared with the levels recorded one year previously. In February 2019, primary aluminium production was 4881.7kt and consumption was 4875kt. China's aluminium production fell 3.6% on a daily basis in March from the previous two months to its lowest rate since October, according to the National Bureau of Statistics. The world's biggest aluminium-producing country churned out 2.88Mt of primary metal last month, up 3.4% year-on-year.

Russian aluminium giant Rusal has resumed supplies to the U.S. market and aims to win back customers lost due to last year's sanctions when the industry negotiates supply contracts for 2020 in autumn, its chief executive said. Last autumn, Rusal, missed the traditional window for contracting sales for this year as it was still negotiating with the U.S. Treasury Department. The company reported that it had reduced its first-quarter sales of value-added products by 44% from a year ago and by 22% from the last quarter of 2018 because of sanctions imposed in April 2018 but lifted in January 2019.

Global aluminium production flatlined in the first quarter of this year, according to the International Aluminium Institute (IAI). A couple of long-running outages together with curtailments in Europe caused production outside China to dip 1.4% to 6.37 million tonnes in the first three months of 2019. Chinese production, a complex moving picture of price-induced curtailments, pollution controls and capacity swaps, edged 1.6% higher to 8.93 million tonnes. The net result was that global production rose by a marginal 0.3% yoy as China remained the world's dominant player with 57% of world production. Primary aluminium production figures (in '000's tonnes) published by the IAI showed;

Month	China (Estimated)	GCC	Asia (ex China)	East & Central Europe	North America	West Europe	Oceania	Africa	South America	ROW Estimated	Total
Jan-18	2,993	452	369	344	322	321	162	138	110	150	**5361**
Feb-18	2,750	414	338	311	285	282	146	128	103	150	**4907**
Mar-18	3,042	462	377	345	319	310	162	143	112	150	**5422**
Q1	**8785**	**1328**	**1084**	**1000**	**926**	**913**	**470**	**409**	**325**	**450**	**15690**
Apr-18	3,007	443	355	334	311	303	156	138	103	150	**5300**
May-18	3,090	452	372	345	321	315	163	134	94	150	**5436**
Jun-18	3,050	437	368	333	303	310	155	140	88	150	**5334**
Q2	**9147**	**1332**	**1095**	**1012**	**935**	**928**	**474**	**412**	**285**	**450**	**16070**
Jul-18	3,115	451	376	343	313	321	166	144	96	150	**5475**
Aug-18	3,120	454	377	343	320	321	163	144	95	150	**5487**
Sep-18	3,010	437	364	332	310	312	159	138	89	150	**5301**
Q3	**9245**	**1342**	**1117**	**1018**	**943**	**954**	**488**	**426**	**280**	**450**	**16263**
Oct-18	3,126	450	377	343	323	321	164	143	93	150	**5490**
Nov-18	3,042	432	361	332	318	310	156	137	89	150	**5327**
Dec-18	3,140	447	381	344	329	307	165	141	92	150	**5496**
Q4	**9308**	**1329**	**1119**	**1019**	**970**	**938**	**485**	**421**	**274**	**450**	**16313**
Total	**36485**	**5331**	**4415**	**4049**	**3774**	**3733**	**1917**	**1668**	**1164**	**1800**	**64336**
Jan-19	3,076	453	372	345	326	306	161	140	82	150	**5411**
Feb-19	2,776	406	343	314	296	274	147	128	82	150	**4916**
Mar-19	3,073	449	377	349	325	297	161	144	89	150	**5414**
Q1	**8925**	**1308**	**1092**	**1008**	**947**	**877**	**469**	**412**	**253**	**450**	**15741**
Q1 Delta	**140**	**-20**	**8**	**8**	**21**	**-36**	**-1**	**3**	**-72**	**0**	**51**
Q1 Delta %	**1.6**	**-1.5**	**0.7**	**0.8**	**2.3**	**-3.9**	**-0.2**	**0.7**	**-22.2**	**0.0**	**0.3**

Aluminum Corp of China Ltd, known as Chalco and China's biggest state-owned aluminium company told analysts that its first-quarter aluminium output fell by 6.9% year-on-year, underlining the impact low prices are having on its operations. Its aluminium output for January-March was 950,000t, down from 1.02 million tonnes a year earlier, it said.

Norsk Hydro said the March cyberattack that paralysed its computer networks would cost the aluminium maker up to 450 million Norwegian crowns ($52 million) in the first quarter. The firm, one of the world's largest aluminium producers, was forced to halt some production on March 19 and switch other units to manual operation after hackers blocked its systems.

The LME will allow only responsibly-sourced metals to be traded from 2022 on rising demand for sustainable products, the Financial Times reported. The plans are set to be announced shortly and will require producers operating in high-risk areas or conflict zones meeting guidelines on responsible sourcing. Producers will also be required to take a “red flag” assessment; brands considered by the LME to be riskiest must then adopt an OECD-aligned responsible sourcing standard by the end of 2022

The LME is poised to deal with a loophole in its warehousing rules, exposed after commodity trader Glencore bought large amounts of aluminium earlier this year, sources report. The exchange will have to wait however, until a complaint lodged by Glencore with the LME on its inability to take fast delivery of the aluminium from warehouses owned by ISTIM UK in Port Klang, Malaysia has been resolved. A problem has emerged in relation to the LME’s “load-in and load-out” (LILO) rules which specify the tonnage that has to be shipped out when a queue to deliver metal is longer than 50 days. The rules were introduced after queues to take aluminium out of storage in Detroit soared to near two years in 2014, sparking complaints from consumers about artificially high aluminium prices.

The French bank Societe Generale SA said that it is planning to close its over-the-counter commodities business and its proprietary trading subsidiary as part of a global move to cut about 1,600 jobs after a slump in trading revenue. The bank will also reorganize and refocus activities within fixed income and prime services to make them more profitable. The move comes just months after BNP Paribas closed its U.S. commodities derivatives desk as France’s largest bank sought to

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protect profitability. The commodities business has seen a broad retreat from Wall Street and other financial firms in recent years after increased financial regulations and lacklustre profits.

Red Kite, the metals hedge fund, has reached a settlement with Barclays Plc over claims traders at the bank engaged in abusive trading and manipulated copper prices on the LME. The financial terms of the agreement will not be publicly disclosed. Red Kite had previously said actions by Barclays traders cost it at least $850 million between 2010 and 2013. The hedge fund had said that two Barclays traders, Iain Macrae and Christian Saunders, used their knowledge of Red Kite's account with the bank to trade heavily against it. Disclosures in the lead-up to the trial revealed that Barclays suffered losses of nearly $400 million when it eventually unwound the trades built up by Macrae and Saunders.

LME Commentary:

LME base metals prices were mostly steady through April, largely driven by macro factors. Earlier in the month, prices drifted lower as the IMF cut its global growth forecast and the U.S. threatened to impose tariffs on hundreds of EU goods. News that the U.S. and China were edging closer to a trade deal after months of dispute however, bolstered investor sentiment which was further supported by expectations of more stimulus measures in China (following positive Chinese economic data). A weaker Dollar and surprisingly strong data on U.S. economic growth saw values hold steady to month end.

The LME copper cash price remained strong and steady throughout April. Trading steadfastly above the £4900/t level, it peaked at £4984.69/t on 17th April but failed to break above the year's high of £5000.76/t recorded on 25.02.19.

The cash to 3month backwardation spread remains a concern. It closed the month at a high of £28.85/t and averaged £14.86/t, still down from the year's high of £72.43/t at the beginning of March. This is despite a surge in registered LME exchange stocks which closed the month at 225,925t, up 57,400t in the month and is more than double the year's low of 111,175t reported on 12th March.

Trading within a very narrow range, aluminium prices were mostly steady through the month, hitting a high of £1439.12/t on 25th April but falling quickly to close the month on the low of £1390.79/t, only the third time this year the cash price had settled below £1400/t and the lowest level since mid-January. LME primary stocks closed the month at 1,135,300t, up 12,475t in the month and down 137,825t or 11% in the year.

Despite many analyst's view that the primary aluminium market is moving to a fundamental supply deficit, it would appear that not many investors believe in this bull narrative. Financial players are "simply not interested" in aluminium, according to research at BMO Capital Markets which noted a lack of investor inquiry over the past year. The indifference is also clear to see on the LME where prices have done little more than 'trudge sideways' since the start of the year – primary aluminium is the second-weakest performer among the LME base metals after lead. Analysts suggest that aluminium's clear deficit narrative is 'playing out in the shadows' but the market knows that reduction in LME stocks (which have fallen from their mid-decade peaks of almost 5.5 million tonnes to 1.14 million tonnes currently) has simply been the result of movement of inventory from higher-cost LME to lower-cost off-exchange storage.

LME Statistics and Charts: April 2019:

	Copper			Aluminium			USD:GBP
Apr-19	**Cash £/t**	**3M £/t**	**Stocks**	**Cash $/t**	Cash £/t	**Stocks**	
Opening	4955.39	4928.64	168,525	1888.00	1,439.79	1,122,825	1.3113
Average	4942.89	4928.04		1848.98	1418.02		1.3039
High	4984.68	4980.18		1888.00	1439.79		
Low	4906.72	4900.33		1809.00	1390.79		
Range	77.96	79.85		79.00	49.00		
Closing	4952.72	4923.87	225,925	1809.00	1390.79	1,135,300	1.3007
YTD Average	+4813.46	+4793.57	+57,400	+1856.59	+1425.54	+12,475	
YTD High	+5000.76	+4980.18		+1923.00	+1483.03		
YTD Low	+4508.37	+4506.43		+1775.50	+1380.96		
YTD Range (H to L)	+492.39	+473.75		+147.50	+102.07		

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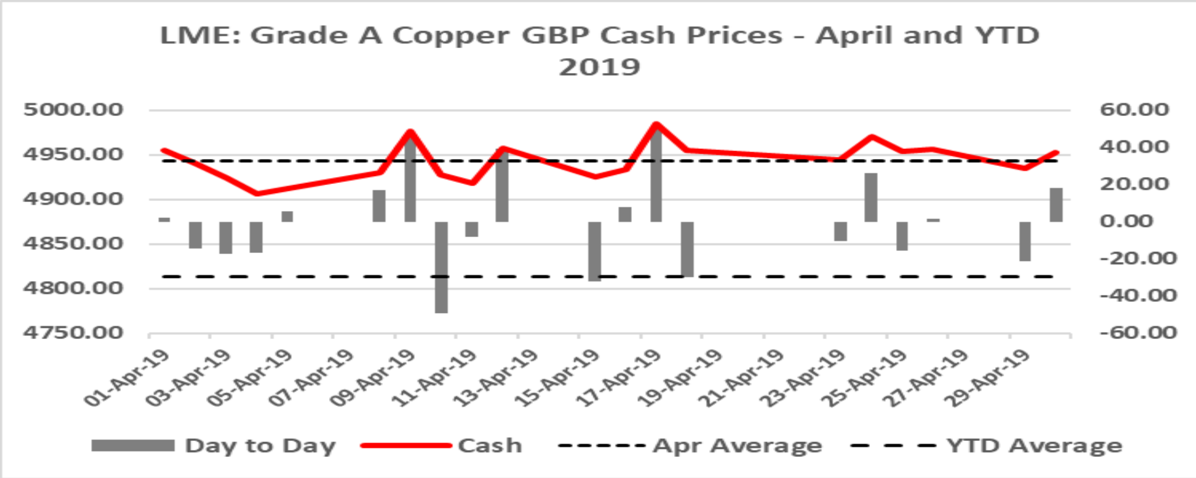

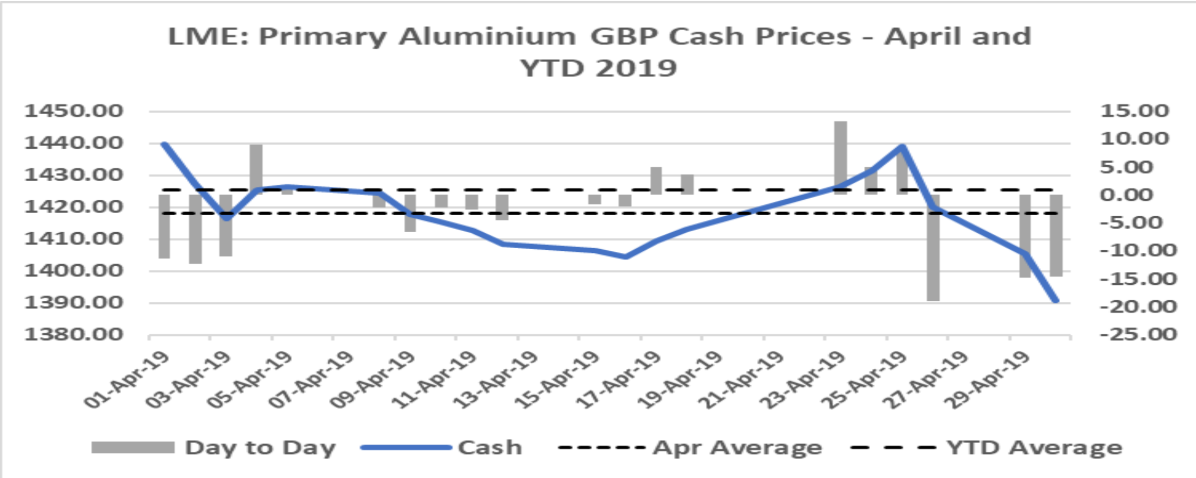

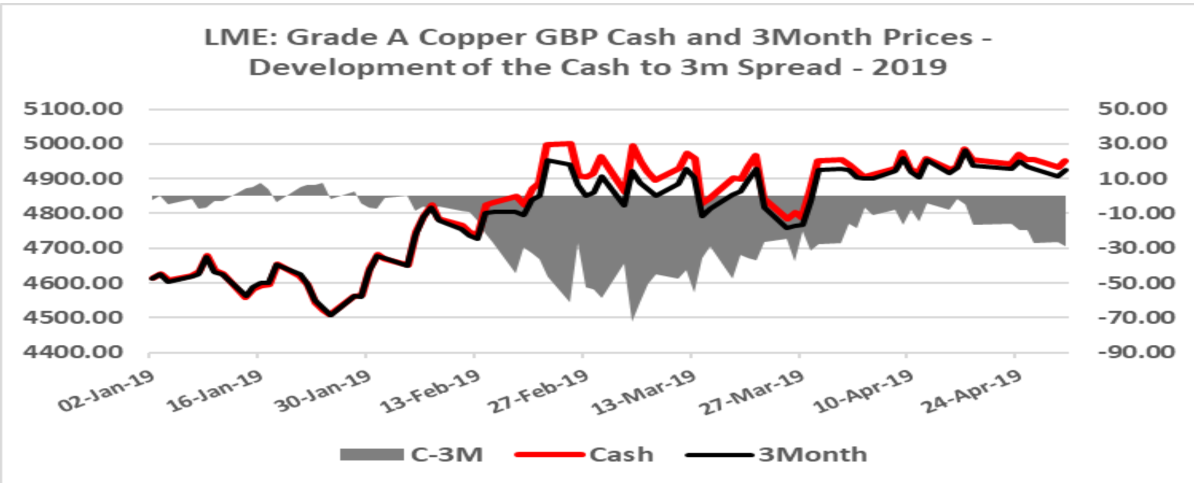

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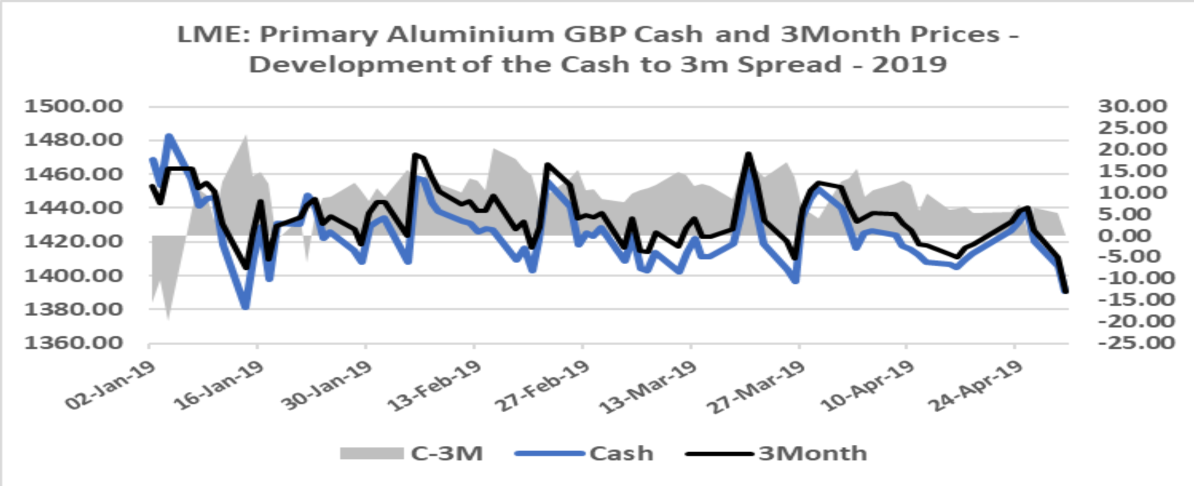

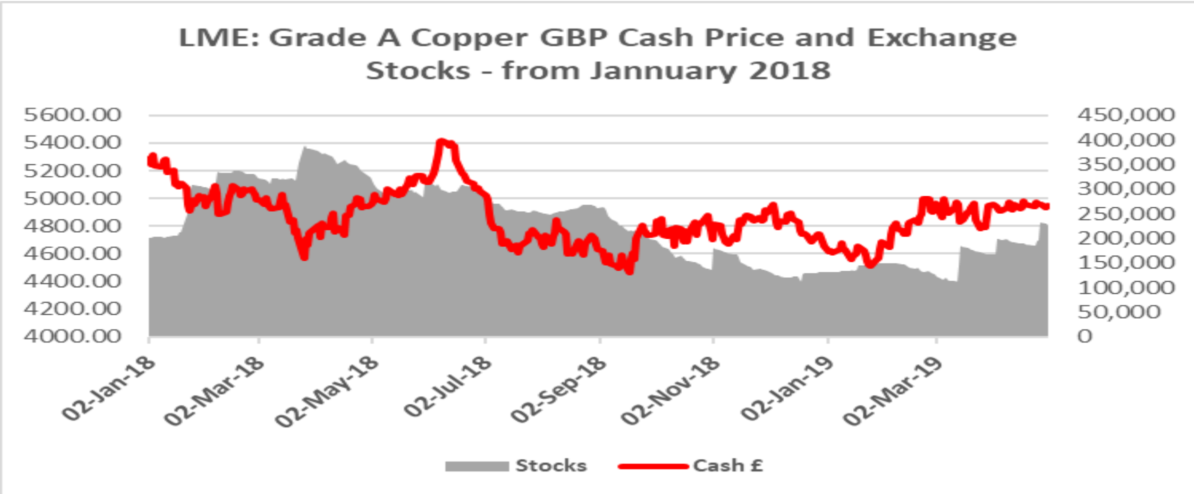

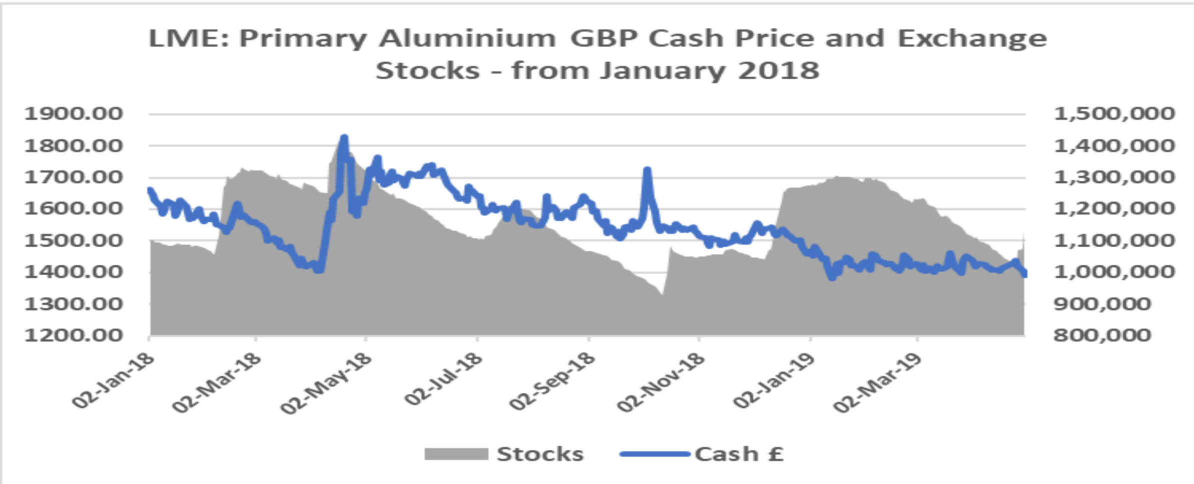

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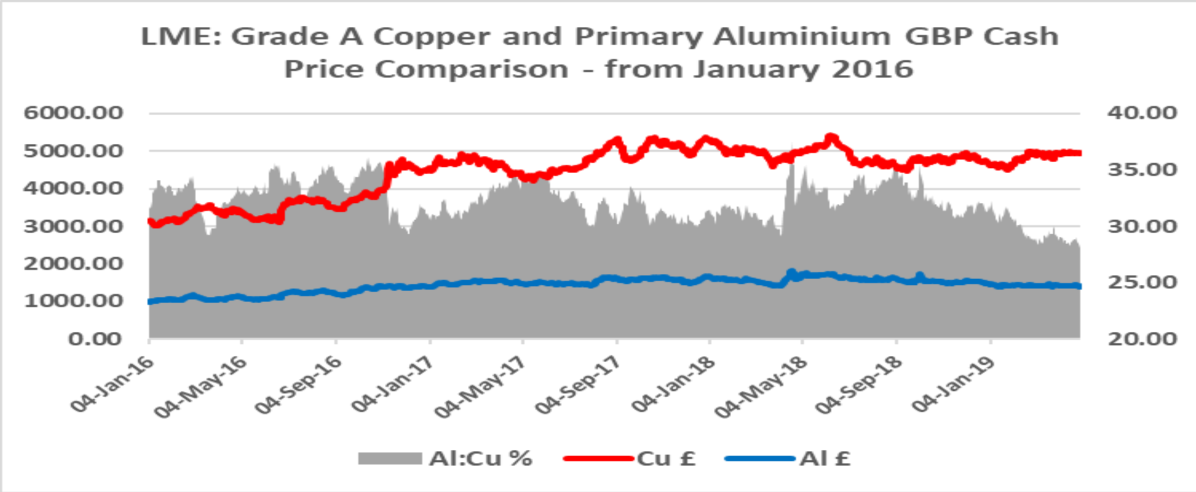

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