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BRITISH CABLES ASSOCIATION

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

Metals Newsletter - March 2019

Economic Indicators and Comment:

The global economy is slowing and major risks persist, with growth weakening much more than expected in Europe according to the OECD's latest Interim economic Outlook. Economic prospects are now weaker in nearly all G20 countries than previously anticipated. Vulnerabilities stemming from China and the weakening European economy, combined with a slowdown in trade and global manufacturing, high policy uncertainty and risks in financial markets, could undermine strong and sustainable medium-term growth worldwide. The OECD projects that the global economy will grow by 3.3% in 2019 and 3.4% in 2020. The outlook and projections cover all G20 economies. Downward revisions from the previous Economic Outlook in November 2018 are particularly significant for the euro area, notably Germany and Italy, as well as for the UK, Canada and Turkey. It underlines that further trade restrictions and policy uncertainty could bring additional adverse effects on global growth. While policy stimulus is expected to help offset weak trade developments in China, risks remain of a sharper slowdown that would hit global growth and trade prospects.

OECD Interim Economic Outlook Projections

Year-on-year, %. Arrows indicate the direction of revisions since November 2018.

	2018	2019	2020		2018	2019	2020
World	3.6	3.3 ↓	3.4 ↓	G20	3.8	3.5 ↓	3.7
Australia	2.9	2.7 ↓	2.5 ↓	Argentina	-2.5	-1.5 ↑	2.3
Canada	1.8	1.5 ↓	2.0 ↑	Brazil	1.1	1.9 ↓	2.4
Euro area	1.8	1.0 ↓	1.2 ↓	China	6.6	6.2 ↓	6.0
Germany	1.4	0.7 ↓	1.1 ↓	India[1]	7.0	7.2 ↓	7.3 ↓
France	1.5	1.3 ↓	1.3 ↓	Indonesia	5.2	5.2	5.1
Italy	0.8	-0.2 ↓	0.5 ↓	Mexico	2.1	2.0 ↓	2.3 ↓
Japan	0.7	0.8 ↓	0.7	Russia	2.3	1.4 ↓	1.5 ↓
Korea	2.7	2.6 ↓	2.6 ↓	Saudi Arabia	2.0	2.1 ↓	2.0 ↓
United Kingdom	1.4	0.8 ↓	0.9 ↓	South Africa	0.8	1.7 ↑	2.0 ↑
United States	2.9	2.6 ↓	2.2 ↑	Turkey	2.9	-1.8 ↓	3.2 ↑

Source: OECD

US-China trade talks resumed in Beijing at the end of March following President Trump's claim of substantial progress made at his meeting with Chinese president Xi Jingping earlier in the month. Little has been revealed about how close the two sides are in narrowing their differences after Trump's tweet that the talks were "constructive". Negotiators are trying to resolve the trade dispute. Most observers were relieved by his decision to again defer his threat to escalate the US-China trade war and hike up tariffs from 10% to 25% on US$200 billion worth of Chinese imports. (The total value of US imports from China in 2018 was US$493 billion). Trump said he expected to keep a 25% tariff on European light trucks amid separate ongoing trade talks with the EU.

The Federal Reserve said that U.S. manufacturing output fell for a second straight month in February, offering further evidence of a sharp slowdown in economic growth early in the first quarter. Manufacturing production dropped 0.4% in February, held down by declines in the output of motor vehicles, machinery, and furniture. Data for January was revised up to show output at factories falling 0.5% instead of slumping 0.9% as previously reported.

Seasonally adjusted GDP rose by 0.2% in the euro area (EA19) and by 0.3% in the EU28 during the fourth quarter of 2018, compared with the previous quarter, according to an estimate published by Eurostat in March. In the third quarter of 2018, GDP had grown by 0.1% in the euro area and by 0.3% in the EU28. Compared with the same quarter of the previous year, seasonally adjusted GDP rose by 1.1% in the euro area and by 1.4% in the EU28 in the fourth quarter of 2018, after increases of +1.6% and +1.8% respectively in the previous quarter. Over the whole year 2018, GDP rose by 1.8% in the euro area and by 1.9% in the EU28. The annual growth rate for 2017 was up 2.4% for both the euro area and the EU28.

According to Eurostat, seasonally adjusted industrial production in January 2019 compared with December 2018, rose by 1.4% in the euro area (EA19) and by 1.0% in the EU28. In December 2018, industrial production fell by 0.9% in the euro area and by 0.4% in the EU28. In January 2019 compared with January 2018, industrial production decreased by 1.1% in the euro area and by 0.4% in the EU28.

A report from the Office for National Statistics (ONS) showed the UK economy grew by 0.2% in the three months to the end of January, matching the growth of the previous three months. The figure was lifted by a pick-up in activity in January when the economy expanded by 0.5%. The ONS said strength in IT, health services and wholesale trading offset falls in the manufacturing of metals and cars, and construction repair work. The increase in wholesale could indicate stockpiling ahead of Brexit. The services sector, which accounts for about 80% of the private sector economy, grew by 0.5% on a rolling three-month basis, mainly driven by wholesale and retail trade and by 0.3% in January after a 0.2% fall in December. Construction, which accounts for about 6% of the economy, reversed December's fall to grow by 2.8% in January. Production and manufacturing output also both grew in January, having contracted in December.

Companies:

Prysmian S.P.A. announced its full year 2018 results in March. These showed combined sales (including General Cable for the full year 2018) at €11,577 million – showing an organic increase of 3.3%. Adjusted combined EBITDA (including General Cable for full year 2018) was €837million, including WL Project provisions totalling €95 million. Reported adjusted EBITDA (including General Cable for the 7 months from June to December 2018) was €763 million of which €123 million was attributable to General Cable. As a full year 2019 guidance, adjusted combined EBITDA is expected to grow in the range of €950 - €1,020 million. Commenting on the performance, CEO Valerio Battista said the results confirmed the positive performance of all businesses that reflected in the Group's organic growth, also thanks to General Cable's good contribution and that sales organic growth was mainly supported by the strong performance of Telecom and High Voltage Underground, which contributed also in terms of profitability, thereby partially offsetting the impact of the Western Link Project provisions. The integration with General Cable continued to be a value creation driver, generating synergies that in 2018 exceeded initial expectations.

Nexans announced their 2018 full year results in February. Sales at current metal prices were €6.490 billion and at constant metal prices, €4.409 billion. Organic growth was a negative -0.8% for the Group as a whole but positive +4.2% for the cable and wire activities. EBITDA of €325 million compared with €411 million in 2017, corresponding to operating margin of €188 million (€272 million in 2017).Attributable net income of €14 million compared to €125 million in 2017, taking into account €53 million in restructuring costs and non-recurring real estate capital gains that were offset by asset impairment losses for an equivalent amount. CEO Christopher Guérin said; "At €325 million, the Group's 2018 EBITDA performance is in line with the guidance issued in November, reflecting a difficult year despite a gradual improvement in the second half. Net debt has been contained at €330 million, thanks in particular to the receipt of significant advance payments following a large number of orders placed in the project-based businesses late in the year. After having defined our strategic plan, we launched far-reaching changes that are essential for the roll-out of the New Nexans. Starting with the implementation of our new executive committee in December, Nexans is pursuing its ongoing transformation with a focus on delivering growth in selected markets, increasing return on capital employed and improving cash generation. Further measures were announced in January 2019 concerning a reorganization and restructuring plan in Europe. The three initiatives presented in November 2018 – cost-cutting, operational transformation and growth leverage – have therefore been launched. For these reasons, we are beginning 2019 with confidence that these measures will start delivering results before the year is out, resulting in a sharp increase in EBITDA".

Rusal posted a fourth-quarter net loss, but reiterated its positive industry outlook following the lifting of U.S. sanctions on the company in January. Rusal's adjusted net loss for the quarter of $17 million, compared with a $338 million profit in the previous quarter and a $350 million profit in the final quarter of 2017. The company said recurring net profit fell 83.8% from the previous three months, but rose 7.8% year-on-year. Recurring net profit is defined as adjusted net profit plus the company’s net effective share in results of Russian mining group Norilsk Nickel. Rusal said 2018 revenues were up 3.1% to $10.28 billion, compared to the previous year’s $9.97 billion. Sanctions on Rusal did not have any major impact on the Russian company's production, but its aluminium sales did fall 7.2% in 2018. Rusal will keep its aluminium production stable at 3.8 million tonnes in 2019, its stakeholder En+ said.

Market Commentary and News:

The global world refined copper market showed a 10,000t surplus in December, compared with a 68,000t deficit in November, the International Copper Study Group (ICSG) said in its latest monthly bulletin. For the first 12 months of the year, the market was in a 387,000t deficit compared with a 265,000t deficit in the same period a year earlier. World refined copper output in December was 2.09 million tonnes, while consumption was 2.08 million tonnes. Bonded stocks of copper in China showed a 21,000t surplus in December compared with a 58,000t deficit in November.

Copper demand in the Middle East is lagging in comparison to the rest of world, panellists at Fastmarkets’ International Copper Conference in Amsterdam noted in March. While global demand for copper is healthy, copper demand in the Middle East remains the laggard, Nexans’ head of procurement Christophe Allain and Dubai Cable purchasing manager Laila Marafi agreed when speaking to delegates. The Middle East North Africa (Mena) region’s copper demand is reportedly around 750,000tpa of copper cathode, while domestic merchants of other products such as copper cable could take their business elsewhere.

Freeport McMoRan has achieved normal production levels at its El Abra copper mine in northern Chile for the first time since the operation was hit by heavy rains last month, the Chilean government said in the middle of the month. El Abra produced 90,300t of copper cathode last year. Production at several mines, including El Abra and Codelco's Chuquicamata and Ministro Hales divisions, were halted on February 6 after the area around the northern city of Calama received as much as rain in a few hours it normally does in several years, triggering floods and washing away some roads. Most operations were able to resume normal operations within a few days.

Chinese consultancy Beijing Antaike has forecast that China will produce 8.85Mt of copper in 2019, up 4.8% on the year, while demand is seen up 3% at 11.5Mt, generating a deficit of 2.65Mt, which will be covered by imports. China will use 7.37Mt of copper concentrate for production, while usage of scrap is seen at 1.48Mt, Antaike said. Of the 7.37Mt of primary feedstock, around 76% will be imports. The increase in local and imported concentrate supply will support the 4.8% growth in production. China will import less refined copper cathode, Antaike said, forecasting imports of 2.9Mt this year, down from 3.4Mt. Antaike's forecast shows Chinese demand slowing - 2019 demand growth is forecast at 3% compares with 3.8% for 2018, and 4.2% in 2017.

Separately, the raw material department of China’s Ministry of Industry and Information Technology said 2019 Chinese copper demand growth was slowing. It attributed global environmental controls to lower demand for Chinese downstream copper products. It put 2018 Chinese copper demand at 13.05Mt, up 2.5% from 2017. It said the 2017 demand grew by 4.6%. It attributed the slower growth to environment control, and dipping car, home appliance, power equipment output in 2018.

China’s February refined copper output was 652.000t, giving a YTD production figure of 7.824Mt, down 14.4% compared to the corresponding period in 2018.

In Peru, protests at the Las Bambas copper complex showed no sign of abating despite intervention from central government. Indigenous protesters have blocked roads to the mine since early February, demanding compensation from Chinese owners MMG for using a stretch of road on their farmland. Locals continue to bar the access roads and the mine's operator, China's MMG, warned it could declare force.

The calculated market balance for primary aluminium for January to December 2018 was a deficit of 859kt which follows a deficit of 1209kt recorded for the whole of 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 January to December 2018 rose by 1036kt compared with the same period in 2017. Producer stock data is no longer published and total reported stocks rose by 186kt during December and closed at the end of the month 58 kt above the December 2017 level. Total LME stocks rose by 225kt during December with stocks in Malaysia rising by a further 185kt

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whilst other stocks in Asia were 45kt higher. Total stocks at the end of December 2018 were 2404 kt which compares with 2346kt at the end of 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. Overall, global production rose in January to December 2018 by 1.8% compared with the whole of 2017.

According to WBMS, Chinese primary aluminium output in 2018 was estimated at 33,586kt and this currently accounts for 56% of the world production total. Chinese apparent aluminium demand was 4.4% higher than in January to December 2017. Chinese net exports of unwrought aluminium were 363kt during 2018 which compares with 365kt in the comparable period in 2017. January to December 2018 net exports of aluminium semi manufactures were 4681kt which compares with 3847kt for the whole of 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, primary aluminium production was 5242.1kt and consumption was 5191.7 kt**.**

China's primary aluminium output fell 2% on a daily basis in the first two months of 2019 from December's record rate, according to official data, as low prices prompted smelters to shut production. China produced 5.69Mt of primary aluminium in January and February, up 5% year-on-year, according to the National Bureau of Statistics.

China's state-controlled Chalco said it had boosted annual aluminium output by 16% in 2018, putting it ahead of Russia's Rusal as the world's second-biggest publicly traded producer of the metal. Chalco, formally known as Aluminum Corp of China Ltd, said in a presentation to analysts that its aluminium production came in at 4.17Mt last year, beating the 3.753Mt produced by Rusal.

China will extend winter anti-smog measures such as production cuts and traffic restrictions for a third successive winter, the environment ministry said in a published pollution battle plan for 2019. The Ministry of Ecology and Environment (MEE) also vowed to speed up the elimination of small coal-fired heating boilers in major regions. It will also step up the elimination of outdated and excessive production capacity in polluting sectors such as steel, coal and coal-fired power.

Total U.S. imports of primary aluminium fell by 18% last year to 4.08Mt, according to the U.S. Census Bureau. It was the lowest import level since 2015 and in part reflects rising U.S. production after the imposition of "Section 232" tariffs in March last year. The slide was in part due to the pre-emptive movement of metal into the U.S. in 2017 when imports hit a record 5Mt. Much of that surge came from Russia, with imports running in excess of 700,000t in both 2016 and 2017 before slumping by 51% to 347,000t in 2018. Australian imports duly increased by 44% last year, but those from Argentina actually fell by 34%. Imports from India last year totalled 184,000t. Canada remained the number one shipper of primary metal, accounting for an unchanged 51% of all imports. U.S. buyers are currently paying 10% more for their Canadian metal.

Meanwhile, Rusal said the U.S. Treasury Department has hired a firm to carry out an audit to check whether it is complying with the terms of a deal under which Washington agreed to lift sanctions on the company. The audit is the first glimpse of how Treasury is policing whether Rusal and its parent company En+ are adhering to the deal - in particular the stipulation that Oleg Deripaska's control over the business be severed. Deripaska meanwhile has begun legal an action against the US administration, alleging that it had overstepped its legal bounds in imposing sanctions on his companies and made him the "latest victim" in the U.S. probe into Moscow's alleged political interference. Deripaska has asked the U.S. District Court in Washington to block the U.S. Treasury Department from using the "devastating power" of such economic sanctions, which he said were inconsistent with the U.S. Constitution.

Aluminium premiums in Rotterdam traded higher in March, with support coming from sustained contangoes in LME forward price spreads. Fastmarkets assessed the Rotterdam duty-unpaid in-warehouse premium at $82-92/t, up by $2-7/t from $80-85/t from February. Elsewhere, Japanese aluminium buyers have contracted at premiums for April to June that are as much as 27% higher than the previous quarter, trade sources report. The new premium was set at $105/t, up from the $83 to $85/t premiums in the first quarter. This is the first increase in three quarters.

Norsk Hydro, one of the world’s largest aluminium producers, said that it had made some progress restoring operations after it was hit by a ransomware cyberattack in March. The company had been forced to shut several plants that fabricate components from aluminium ingots while its smelters in Norway were largely operating on a manual basis. Hydro said its technical team, with external support, had detected the root cause of the problems and was working to restart the company’s IT systems.

The LME is prepared for whatever outcome arises from the planned departure of the UK from the EU, including a “hard” Brexit, its chief executive officer said mid-month. “We’ve been clear that, throughout this process and whatever our political views or personal hopes for the outcome, we need to ensure that the LME is prepared for every scenario," Chamberlain said in an interview. "Most crucially, that means being prepared for a 'hard' Brexit, which clearly could occur. We would be being irresponsible if we weren't prepared for that," he said.

Plans by the LME to launch a European steel contract are likely to be delayed until next year because the industry wants it to be priced in Euros, which the Exchange's clearing house cannot process, industry sources say. The LME launched a suite of cash-settled futures contracts in March, including hot rolled coil steel for North America and China. These, it is hoped, will compete with the U.S. based CME Group's Nymex steel contract and with Shanghai Futures Exchange's Chinese steel contract. The LME's dollar-based European steel contract, by contrast, has no significant competitors, but the Exchange has been forced to delay its launch because Europe prices steel in euros. "The LME, as a global market, is principally designed with the dollar as the primary currency for trading and clearing across all contracts," the LME said. Trading sources say switching the contract specification to euros is not difficult and that the problem lay with LME Clear, which can only clear dollar-based contracts.

The LME is said to be supporting an initiative to track physical metals using blockchain. A Financial Times report said that the LME has backed a consortium initiative led by commodity trading firm Mercuria, to build a blockchain-based system to track the trade of physical metals such as copper, zinc and aluminium. The initiative, dubbed "Forcefield," is also supported by banks such as Macquarie and ING, according to the report. The blockchain-based system aims to help buyers in the industry track the source of their metal, as well as help metal traders prove ownership of their stock.

Queues to take aluminium out of LME-approved warehouses owned by ISTIM UK in Port Klang, Malaysia had risen to 229 days in February from 118 days in January and zero days in December, data from the exchange showed. Cancelled warrants - material earmarked for delivery - in ISTIM's Port Klang warehouses stood at 350,321t or 70% of the total at 499,015t at the end of last month.

EU governments and lawmakers agreed in March new rules that could force large foreign clearing houses with operations in the bloc to relocate to the bloc if they want to continue servicing their EU clients. Euro clearing has been one of the main battlegrounds between London and Brussels in talks that will shape how Europe's financial market is divided up when the UK leaves the EU. The new rules would apply to large U.S. security houses, such as CME and ICE, and British clearing firms after Britain leaves the EU, with the strictest relocation provisions likely to hit LCH, a unit of the London Stock Exchange, which dominates clearing of euro-denominated derivatives. That move could strip London of a chunk of the multi-trillion-euro derivative clearing business. Clearing houses sit between two sides of a financial trade to ensure it is smooth and completed safely. Their importance has increased since the financial crisis because regulators have pushed for more derivatives to be cleared by third parties in a bid to reduce risks. Under the reform, which was proposed by the European Commission in June 2017, foreign clearing houses who offer their services to EU clients would be subject to the bloc's supervision, in addition to the oversight of their national regulators. Those who clear very large amounts of euro-denominated derivatives, such as LCH, could be even forced to relocate to the bloc to keep their EU clients. The move has been criticized in the UK and is upsetting the U.S. financial regulator, which has threatened retaliatory measures. As a temporary measure meant to avoid market disruptions in case of no-deal Brexit, the EU markets regulator in February authorized the three UK-based clearing houses LCH, ICE Clear Europe and LME Clear to continue serving EU clients for a year after Britain leaves the EU.

LME Commentary:

Despite the failure to trade above the £5000/t level seen at the end of February, LME GBP copper cash prices traded strongly through March – well above the YTD average. The underlying USD copper cash price however, hit the year's high of $6572/t on 1 March, its highest since early July last year. In the early part of the month, prices were supported by record low warehouse inventories and with growing optimism about the softening of the U.S. stance on tariffs and even the likelihood of an eventual agreement in trade negotiations, speculators were seen to increase their bullish view of LME copper while the U.S. Comex market witnessed the biggest trading volume in copper call options (the right to buy) on record. Prices fell to mid- month following large scale copper deliveries into European and U.S. warehouses but rallied to month-end, helped by solid U.S. economic data and China's announcement to cut VAT for manufacturers from next month with an expectation of a seasonally higher growth in the second quarter. The ongoing disruption at the Las Bambas mine in Peru underlined fears that the market might move into short supply, while investors waited for news from U.S.-China trade talks starting in Beijing.

The cash to 3-month backwardation traded out to a record £72.43/t in the early days of the month as dominant longs were able to squeeze the market. This in time ensured that new metal was either delivered into the LME warehouses or metal that had been previously earmarked for withdrawal was put back onto warrant. Copper stocks which closed February at

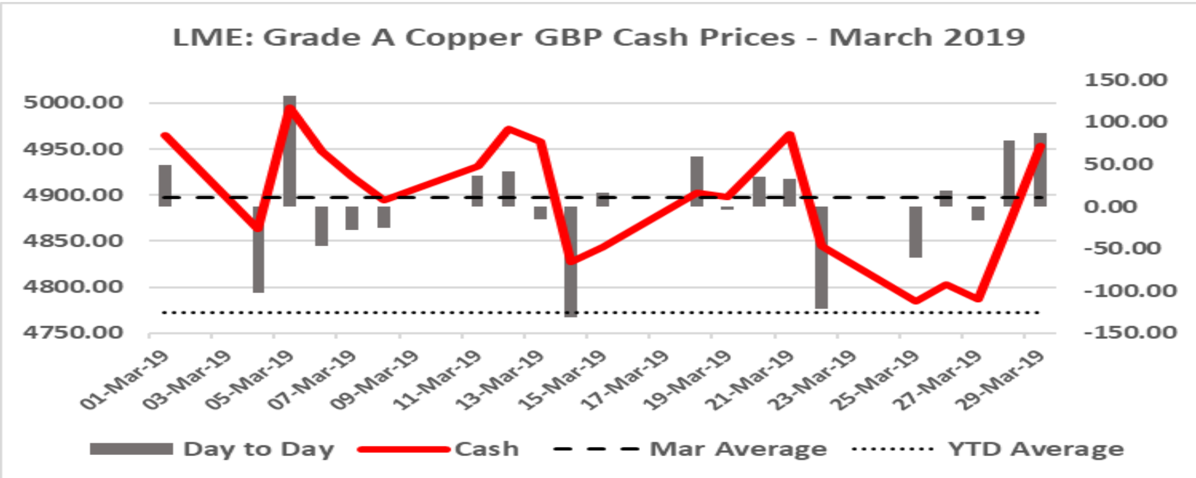
121,600t quickly rose to 186,425t by 14 March, (a 6-month high), then closed the month at 168,525t, up 27.5% or 36,350t in the year and 33.6% or 42,425t in the month. The backwardation as a result eased during the month and closed at £27.54/t, averaging £40.96/t.

Primary aluminium prices on the LME were modestly stronger in March and tracked the metals' sector's performance – strong at the start of the month, weakening toward mid-month then strengthening towards month-end. The LME GBP cash high of £1462.36/t achieved on 20 March was only slightly below the year's high of £1483.03/t seen at the beginning of the year. The month's average of £1421.44/t compares with the February and January month's averages of £1429.79/t and £1432.43/t respectively. The underlying USD cash price peaked at $1903/t on 20 March – the highest for the year so far and the highest since December 2018.

Primary aluminium stocks in LME warehouses closed the month at 1,122,825t, down 110,125t or 8.6% in the month and 150,300t or 11.8% in the year.

LME Statistics and Charts: March 2019:

	Copper			Aluminium			
Mar-19	**Cash £/t**	**3M £/t**	**Stocks**	**Cash $/t**	**Cash £/t**	**Stocks**	**USD:GBP**
Opening	4965.25	4906.37	126,100	1890.50	1,428.30	1,232,950	1.3236
Average	4897.91	4856.95		1872.24	1421.44		1.3171
High	4994.67	4929.66		1923.00	1462.36		
Low	4784.15	4759.54		1830.00	1396.59		
Range	210.52	170.12		0.00	65.77		
Closing	4953.03	4925.49	168,525	1900.00	1451.16	1,122,825	1.3093
YTD Average	+4772.36	+4750.88	+42,425	+1859.01	+1427.93	-110,125	
YTD High	+5000.76	+4952.08		+1923.00	+1483.03		
YTD Low	+4508.37	+4506.43		+1775.50	+1380.96		
YTD Range (H to L)	+492.39	+445.65		+147.50	+102.07		



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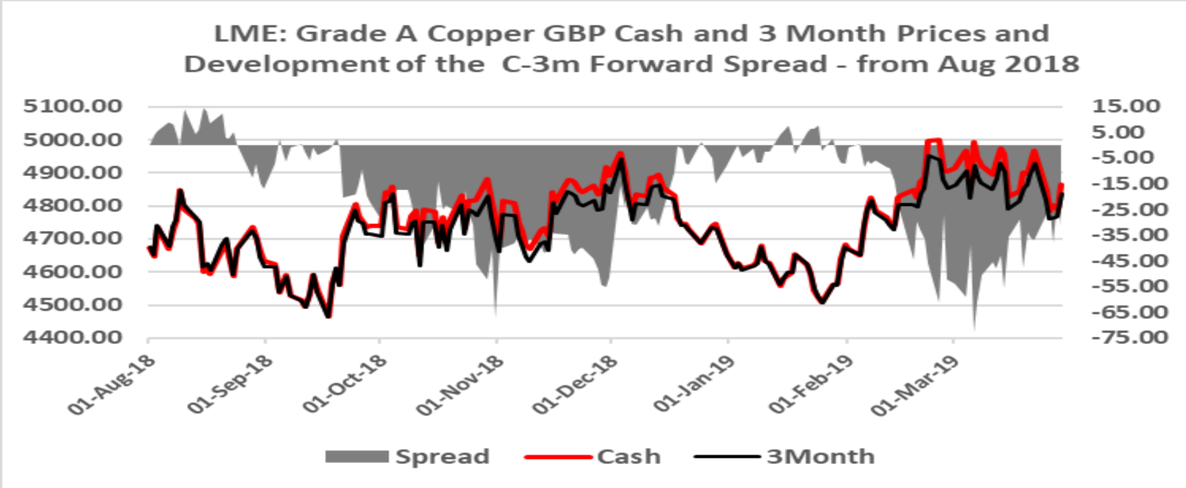

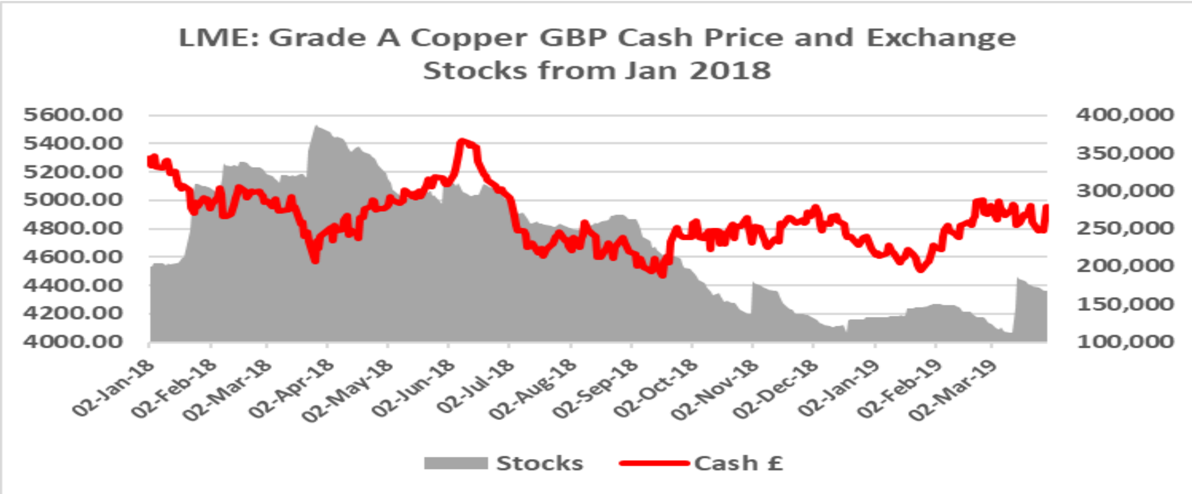

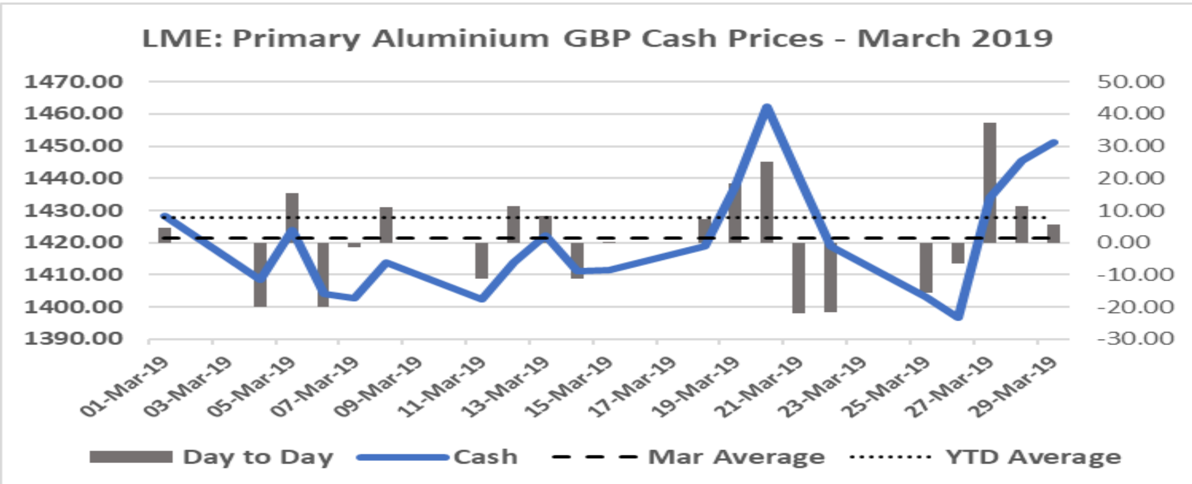

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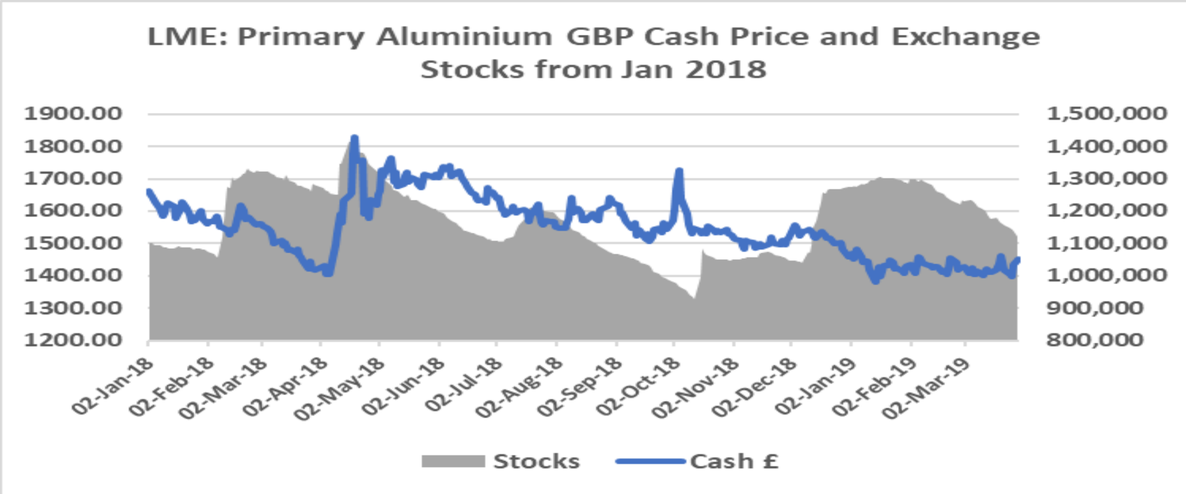

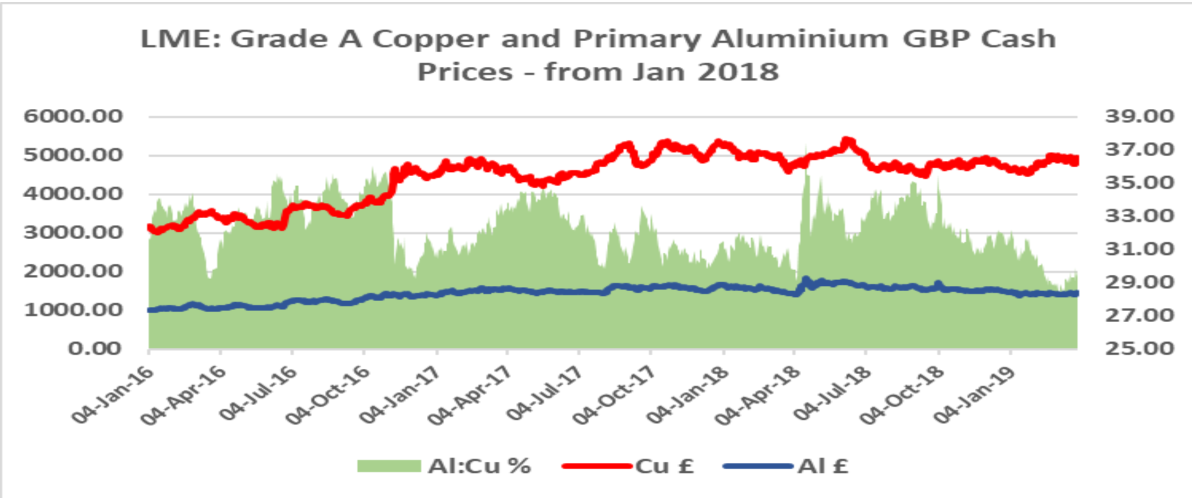

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