BRITISH CABLES ASSOCIATION

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

Metals Newsletter - May 2019

Economic Indicators and Comment:

The US-China trade war continues to rumble on, worrying investors and fuelling concerns that the global economy is weakening. By the end of May, Beijing had launched a fresh criticism of Washington, blaming US belligerence for the failure to reach a deal and accused it of resorting to intimidation and coercion and persisting with exorbitant demands. President Trump hit back, insisting that his tariffs are bringing in billions of dollars of revenue without driving up prices. Traders have also been recently jolted by reports that the US considered imposing tariffs on Australia to prevent aluminium being dumped on the US markets.

As the tit-for-tat tariff war continues, data firm Markit's reported that its US manufacturing PMI (Purchasing Managers Index) had dropped to just 50.5, from 50.6 in April - the lowest reading since September 2009, and a level that is barely above stagnation.

In the UK, factory bosses reported that their output growth slowed while new orders actually fell for the first time since August 2009. Markit reports that new orders and employment both declined last month, hit by Brexit uncertainty and the knock-on impact of the US-China trade war. Firms also reported that they have slowed their recent flurry of stock-piling, following the latest Brexit extension to the end of October. This pulled Markit's UK manufacturing PMI down to 49.4 - the lowest reading since July 2016, when factories were reeling from the Brexit vote.

Markit further reported that its eurozone manufacturing PMI fell to 47.7 in May, down from 47.9 in April. That shows the sector is shrinking (as it's below the 50-point mark showing stagnation). Factory bosses reported that output and new orders continued their recent decline - a sign that trade war worries are hurting the European economy. Germany, traditionally Europe's powerhouse, suffered the sharpest contraction - German manufacturing PMI fell to 44.3 in May, near its lowest since 2012.

Meanwhile, the US Federal Reserve reported that industrial production fell 0.5% mom in April and the rates of change for previous months were revised down. Output is now reported to have declined 1.9% at an annual rate in the first quarter. Manufacturing production moved down 0.5% in April after being unchanged in March. The index for mining advanced 1.6% in April, while the index for utilities fell 3.5%. At 109.2% of its 2012 average, total industrial production was 0.9% higher in April than it was a year earlier.

Industrial production in the Euro Area decreased 0.3% from a month earlier in March 2019, following a downwardly revised 0.1% fall in February, in line with market expectations and making the second straight monthly decline. Output declined at a softer pace for energy (-0.3% from -3.4%) and production rebounded for capital goods (+0.4% from -0.1%) and durable consumer goods (+0.7% from -0.55). Output fell for non-durable consumer goods (-1% from +0.9%).

Industrial production in the UK rose 1.3% year-on-year in March 2019, up from a 0.4% increase in the previous month and above market expectations of a 0.5% gain. On a monthly basis, industrial activity went up 0.7%, following a 0.6% increase in February. On a quarterly basis, industrial production advanced 3.6% over the previous year, after a 2.2% gain in the last quarter of 2018.

Produced by Neil Bootman of NGB Metal Services.

Companies:

Aurubis AG, Europe's largest copper producer, confirmed a reduced full-year earnings forecast on weak market environment and plant shutdowns, while posting a slump in its quarterly earnings. The Group generated operating EBT of €103 million in the first six months of FY 2018/19 (previous year: €186 million). Operating EBT for Q2 amounted to €63 million (previous year: €107 million). The company blamed higher energy costs, weaker demand for flat rolled products, lower concentrate throughput, lower treatment and refining charges and unplanned shutdowns at its production sites at Hamburg, Pirdop, and Lünen. Sales of copper rod and shapes products were satisfactory in the first half of FY 2018/19, the company said. Aurubis expects operating EBT for the current fiscal year to be more than 15% below the previous year. Reported copper rod and cathode outputs in thousands of tonnes were:

		Q2			6M	
	18/19	17/18	Delta	18/19	17/18	Delta
Rod Output	229	209	+10%	407	390	+4%
Cathode Output	276	291	-5%	551	586	-6%

Subsequently, Aurubis announced that it had agreed the acquisition of the Belgian-Spanish Metallo Group, a recycling and refining company that specializes in recovering non-ferrous metals from recycling materials. Metallo produces non-LME registered standard grade copper cathodes and tin and lead ingots. The closing of the transaction is subject to approval by the relevant antitrust authorities and is expected to take place by the end of the year.

United Company Rusal said its first-quarter net profit fell about 44%, hit by the lingering effects of U.S. sanctions and weaker aluminium prices. Recurring net profit for the three months to March 31 fell to $300 million from $531 million at the same time last year. The company said it will focus on restoring its market position after its first-quarter revenues were "challenged by the past year's events". Revenue in the first quarter of 2019 of $2.17 billion, a fall of 20.9% year on year from $2.744 billion. The company said the fall in revenue was due to the decrease in the LME aluminium price, which fell by 13.9% to $1,859/t in the first three months of 2019 - compared with $2,159/t in 2018.

Market Commentary and News:

The refined copper market will experience supply shortfalls both this year and next, the International Copper Study Group (ICSG) says. The group has lifted its 2019 deficit assessment to 189,000t from a forecast 65,000t in October 2018. Next year's deficit is expected to be wider at 250,000t. The refined copper market will experience supply shortfalls both this year and next, the ICSG says. World refined output is likely to increase by about 2.8% and 1.2% in 2019 and 2020 respectively, while demand is expected see an increase of about 2% and 1.5%. ICSG outline figures read;

000's tonnes	2018	2019	2020
Mine Production	20,598	20,641	21,029
Refined Production	24,111	24,780	25,080
Refined Usage	24,510	24,969	25,330
World Refined Balance	-399	-189	-250

The global world refined copper market showed a 74,000t surplus in February, compared with a 33,000t deficit in January, the ICSG said in its latest monthly bulletin. For the first 2 months of the year, the market was in a 41,000t surplus compared with a 43,000t surplus in the same period a year earlier.

The COE of the world's largest copper miner Codelco, says the global copper market faces a production shortfall 60 times as big as last year's deficit in less than a decade as trade frictions compound companies' qualms about investing in new projects. Copper supply will start to decline by 2022, resulting in a gap of 4 million metric tons by 2028, said Nelson Pizarro. The company sees supply rising 1.6% annually through 2021, trailing demand growth of 1.8% a year. Price volatility driven by trade tensions is making big investment decisions more difficult, he said. An economic slowdown in China, Europe and the U.S. would have an impact on demand for copper in coming years, but the outlook for the metal is still among the most solid among metals, he said. The lack of enough new mines and mining companies' difficulties when it comes to developing new projects mean the supply gap will only widen over the medium to long term.

Copper production at Chile's top mines dropped sharply in the first quarter of 2019, Chilean copper commission Cochilco said. Codelco reported an 18% year-on-year drop in its first-quarter copper output due to operational issues, heavy rains and falling ore grades at the largest deposits. Output dropped 17% from the same period in 2018 down to 371,000t.

Meanwhile, at the end of May, unions at Codelco's Chuquicamata mine announced that following lengthy and protracted negotiations, they had rejected the state miner´s final offer for a new contract. It was reported that both parties had started mediation talks in the hope of averting a strike.

China's biggest copper producer Jiangxi Copper said it targeted producing 1.44 million tonnes of refined copper in 2019. This is down slightly from output of 1.4637 million tonnes of copper cathode, the company said in its annual report. Jiangxi set its combined 2019 copper rods and wires and other copper processing products target at 1.258 million tonnes. The company said it produced 967,900t of copper rods and 151,200t of processed copper products in 2018, totalling 1.12 million tonnes.

Zambia's government has filed notification of plans to take over Vedanta Resources Ltd.'s domestic copper assets. The move marks an escalation in tension between the government and mine owners, after populist President Edgar Lungu threatened to "divorce" Vedanta and Glencore Plc, two of the biggest employers in Africa's second-largest copper producer. Relations have been simmering after the state earlier this year increased royalties and unveiled a plan to overhaul the value-added tax system. With Zambia mired in a debt crisis that's made its dollar bonds and currency among the worst performers in the world this year, Lungu's attack on Vedanta is a useful distraction from the nation's economic woes. This threat of 'nationalisation' comes fifty years after Zambia's first post-independence leader Kenneth Kaunda nationalized mines owned by Anglo American Plc and Roan Selection Trust.

The World Bureau of Metal Statistics (WBMS) believes that the primary aluminium calculated market deficit at the end of the January to March 2019 period stood at 2.0kt, which follows a market deficit of 969kt recorded during the whole year 2018. Overall global aluminium production rose marginally by 3.3% in the period compared with the corresponding period in 2018. In volume terms, production surged higher by 491kt year on year. Chinese output was 8.567 million tonnes, accounting for approximately 56% of the global production. Production in the EU was down 3.0% on the previous year while NAFTA output was up 6.5%. The combined stocks held by four main exchanges - London, Shanghai, USA and Tokyo registered decline of 88kt from the end of December 2018 closing level to total 1864kt at the end of March 2019. The primary aluminium production totalled 5149.4kt in March 2019 while consumption totalled 5243.2 kt.

China's aluminium output rose from the previous month to its third-highest daily rate on record in April, according to official data, as smelters ramped up production to cash in on higher prices. The country produced 2.92 million tonnes of refined aluminium in April, the National Bureau of Statistics said. This is up 1.4% from 2.88 million tonnes in March which saw the end of winter restrictions on output aimed at curbing pollution, and up 3.9% year-on-year, the bureau said.

Norwegian metals maker Norsk Hydro has been given the go ahead by a Brazilian federal court to resume full output from the company's Alunorte alumina refinery, the company said. The plant, a key supplier to the aluminium industry, currently operates at half of its capacity after a spill in February 2018 that prompted regulators and courts to restrict output.

The LME has dismissed a complaint from Glencore over its inability to take fast delivery of aluminium from warehouses owned by ISTIM UK in Port Klang, Malaysia. Glencore's complaint highlighted uncertainties in the LME's storage rules, after industry reform sparked by accusations from consumers that banks and traders were hoarding metal in LME warehouses.

Charles Li, head of LME owner Hong Kong Exchanges and Clearing Ltd, said the bourse was in official talks with Guangdong authorities on metals warehousing, a major step towards its long-held aim of expanding into mainland China. The LME has tried for some years to establish a foothold in China to boost its franchise but has faced reluctance from Chinese regulators concerned with protecting emerging domestic exchanges.

The LME plans to launch dollar-denominated mini contracts for six base metals in the coming months. The standardised monthly futures contracts will reference LME prices and are being launched to broaden access in the Asia region for LME priced contracts and will be aimed at retail investors. The new offering comes five years after a similar product fizzled on the Singapore Exchange (SGX) and as mini metals contracts tradable in London saw no volumes last year. The mini contracts are smaller than the LME contracts, with copper, aluminium, zinc and lead in five tonne lots and tin and nickel both in one tonne lots.

Trading volumes on the LME were down in April compared to the previous year. Primary Aluminium, the exchange's biggest contract, traded 279,923 lots in the month, down 39.1% on April 2018 and giving a year to date total of 23,645,538 lots or 591 million tonnes. Copper is the second largest contract and traded 142,403 lots, down 13.4% on the previous year, making a year to date total of 12,574,278 lots or 314 million tonnes. Total trading volumes were 707,063 lots, down 26.7%on April 2018. Year to date 2019 trades were 59,025,281 lots or 1,320 million tonnes.

LME Commentary:

LME prices, copper in particular (seen by investors as a gauge of economic health), continue to reflect the uncertainties brought on by the on-going and escalating US-China tariff war and its likely effect on world economies and therefore, demand for metal. Optimism brought on by the more conciliatory tone at the start of the month soon gave way to renewed concern as the US administration hardened its approach.

Copper prices fell over the course of the month largely due to investors' concerns about demand destruction in China (which accounts for nearly half of global copper consumption) and despite serious concerns about major supply issues leading to a global shortage for copper. Political and power problems in Zambia, restrictions on scrap imports into China, a looming strike at Codelco's giant Chuquicamata mine and forecasts of larger than expected deficits were largely ignored. Market analysis suggests that by month end, hedge funds and investors had increased their bearish copper positions as copper posted its fifth straight weekly decline, the longest losing streak since July.

The LME copper cash price hit a 4-month low of £4601.21/t at month end which compares with the year's low of £4508.37/t on 25th January and the high of £5000.76 on 25th February. The underlying month's USD low price of $5780.50/t was the lowest cash settlement since July 2017 and compares with the 2019 high of $6572/t on 1st March. LME stocks closed the month at 211,800t, 14,125t down in the month and compare with 132,175t at the end of 2018. The Cash to 3 Month spread moved from a backwardation of £34.51/t on the first day of the month to close the month in a contango of £9.73/t.

In the face of major liquidation across the LME metal spectrum, Primary Aluminium prices performed relatively well. Having fallen to the year's low of £1352.68/t on 7th May - its lowest since October 2016 – cash prices recovered to hit a 6-week high of £1429.80/t mid-month, before closing the month at £1401.74/t. LME stocks closed the month at 1,141,100t, up 5,800t in the month and compare to 1,273,125t at 2018 year end.

LME Statistics and Charts: May 2019:

	Copper			Aluminium			USD:GBP
May-19	**Cash £/t**	**3M £/t**	**Stocks**	**Cash $/t**	**Cash £/t**	**Stocks**	
Opening	4894.81	4860.30	225,925	1775.50	1,358.35	1,135,300	1.3071
Average	4696.95	4691.83		1775.33	1383.58		1.2833
High	4894.81	4860.30		1832.00	1429.80		
Low	4601.21	4610.94		1740.00	1352.68		
Range	293.60	249.36		92.00	77.12		
Closing	4601.21	4610.94	211,800	1761.00	1401.74	1,141,100	1.2563
YTD Average	4789.93	4773.02	-14,125	1840.18	1417.07	+5,800	
YTD High	5000.76	4980.18		1923.00	1483.03		
YTD Low	4508.37	4506.43		1740.00	1352.68		
YTD Range	492.39	473.75		183.00	130.35		

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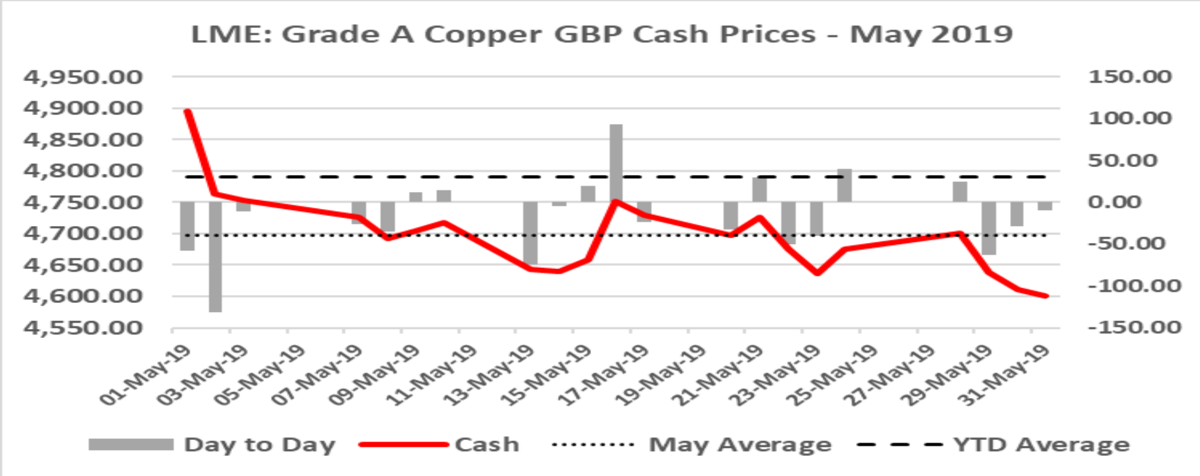

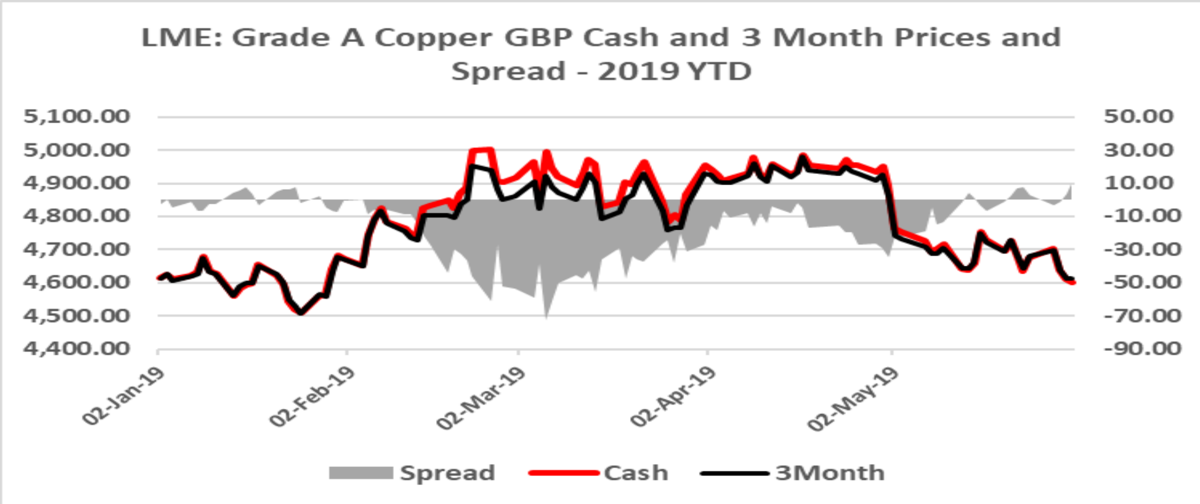

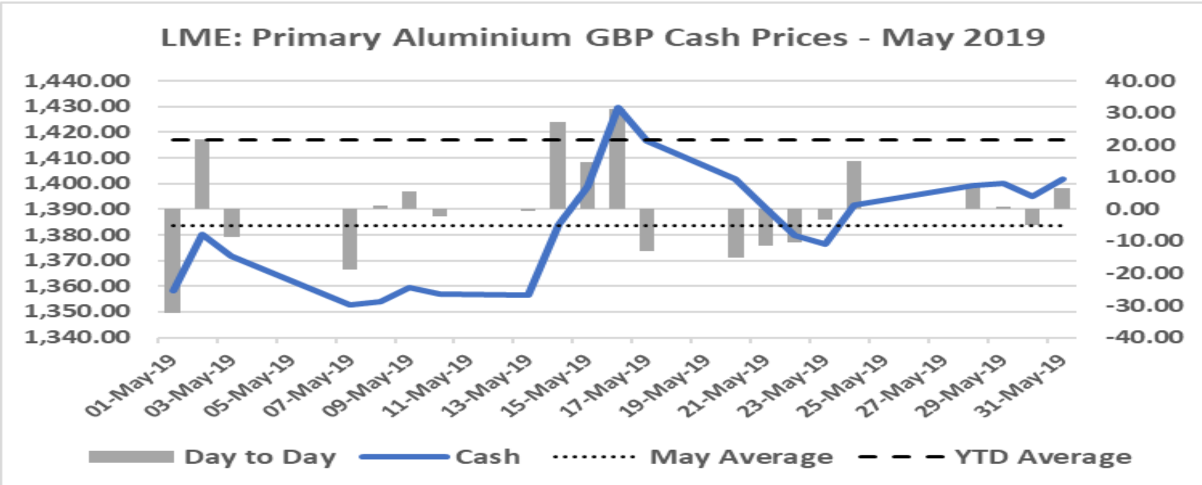

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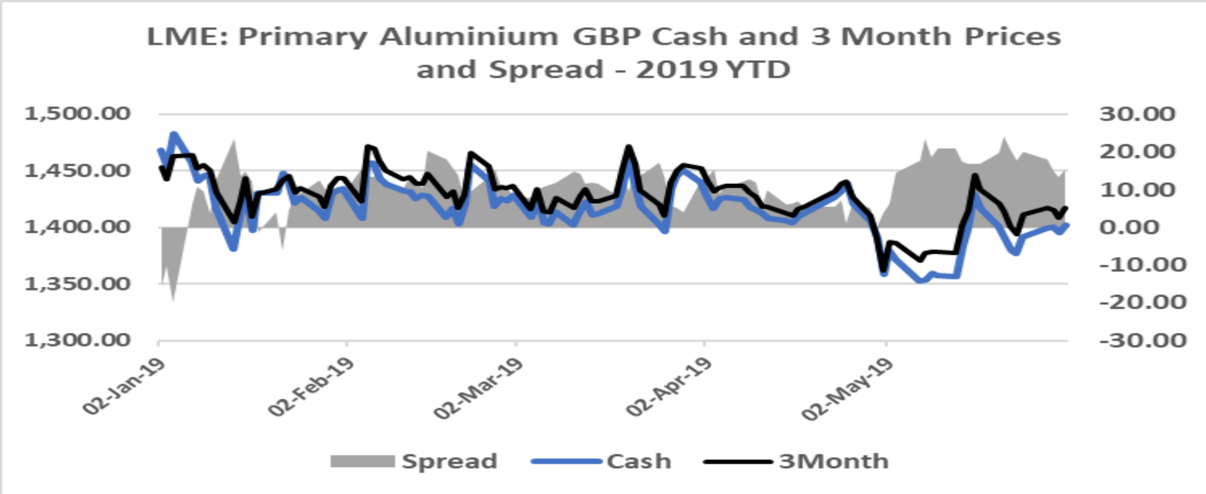

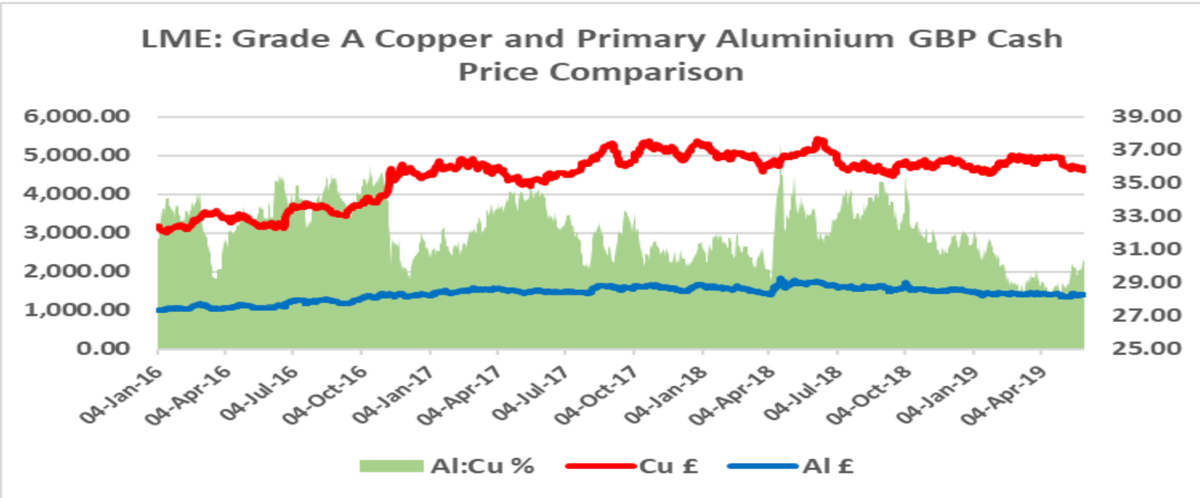

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