

Metals Newsletter - June 2019

Economic Indicators and Comment:

The IMF cut its 2019 economic growth forecast for China to 6.2% in June based on heightened uncertainty around trade frictions, saying more policy easing would be warranted if the Sino-U.S. trade war escalates. The downgrade came just two months after the IMF raised its China forecast to 6.3% from 6.2%. It also cut the growth forecast for 2020 to 6% from 6.1%. "Growth is expected to moderate to 6.2% and 6.0% in 2019 and 2020, respectively," the IMF said in a statement. "The near-term outlook remains particularly uncertain given the potential for further escalation of trade tensions."

China's industrial output growth slowed to a more than 17-year low of 5% in May, in the latest sign of weakening demand in the economy as the U.S. ramped up trade pressure. Fixed-asset investment also grew less than expected, official data showed mid-month, reinforcing expectations that Beijing will need to roll out more growth-boosting measures soon. Analysts polled by Reuters had forecast industrial output would grow 5.5% from a year earlier, only marginally higher than a 5.4% rise in April.

US GDP increased at an annual rate of 3.1% in the first quarter of 2019, according to the "third" estimate released by the Bureau of Economic Analysis, unchanged from the previous estimate. In the fourth quarter of 2018, real GDP increased 2.2%. The increase in real GDP in the first quarter reflected positive contributions from exports, PCE, non-residential fixed investment, private inventory investment, and state and local government spending that were slightly offset by a negative contribution from residential fixed investment. Meanwhile, U.S. Industrial Production was up 0.4% mom in May, the most significant increase in 6 months.

According to the ONS, UK GDP in volume terms was estimated to have increased by 0.5% in Q1 2019, unrevised from the first estimate for this quarter. Compared with the same quarter a year ago, UK GDP increased by 1.8% to Q1 2019; up from 1.4% in the year to Q4 2018. The services sector provided the largest contribution to growth, while production also contributed positively, due largely to growth of 1.9% in manufacturing output.

Seasonally adjusted GDP rose by 0.4% in the euro area (EA19) and by 0.5% in the EU28 during the first quarter of 2019, compared with the previous quarter, according to an estimate published by Eurostat. In the fourth quarter of 2018, GDP had grown by 0.2% 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 1.2% in the euro area and by 1.5% in the EU28 in the first quarter of 2019, after increases of 1.2% and 1.5% respectively in the previous quarter.

Companies:

Aluminium producer Norsk Hydro, the victim of a cyberattack in March that paralysed its IT systems, posted an 82% drop in first-quarter core profit and said a rise in global uncertainty could impact its markets. The Norwegian company's underlying operating result fell to 559 million Norwegian crowns (\$64.3 million) from 3.15 billion crowns a year ago, while analysts in a Reuters poll on average had expected a profit of 123 million crowns.

Market Commentary and News:

The global world refined copper market showed a 51kt deficit in March, compared with a 72kt surplus in February, the International Copper Study Group (ICSG) said in its latest monthly bulletin. For the first 3 months of the year, the market was in a 32kt deficit compared with an 81kt surplus in the same period a year earlier, the ICSG said. World refined copper output in March was 2.01 million tonnes, while consumption was 2.06 million tonnes.

According to the latest statistics published by the World Bureau of Metal Statistics (WBMS), the copper market recorded a modest surplus during the initial four-month period of the year. The copper market surplus totalled 43kt during this period - the world copper market had recorded a deficit of 19kt during the whole of 2018. Total world copper mine production was 6.63 million tonnes during Jan-Apr '19 - marginally 1% lower compared with the corresponding four-month period in 2018. Refined copper production also saw a notable decline by 4.9% during January to April in 2019 to total 7.41 million tonnes, with significant declines in India and Chile. The Indian output declined significantly by 99kt, Chilean production was down 106kt, while EU-28 production dropped marginally by 0.2%. Global consumption dropped marginally by almost 4.3% from 7.69 million tonnes in Jan-Apr '18 to 7.36 million tonnes during the similar four-month period this year. The Chinese apparent demand during this period recorded a decline of 3.5% to total 3.694 million tonnes. The EU demand at 1.103 million tonnes was down modestly by 3.1% over the previous year. Monthly refined copper production totalled 1,908.6 kt in April 2019 while consumption touched 2,008.1 kt.

Chile's Codelco said at month-end that its Chuquicamata mine was fully operational following a two-week long strike that had reduced output. The three largest labour unions at the mine voted at month end to accept Codelco's latest labour contract offer - more than 3,000 unionized workers had walked off the job on 14th June with the unions, representing 80% of the workforce at the mine, saying the offer did not meet key demands. Chuquicamata, one of Codelco's key copper deposits, is undergoing a complex \$5 billion transformation into an underground shaft mine to counter plummeting ore grades. The change has meant job cuts in some areas, straining relations with workers. The 14-day strike had raised fears of global supply shortfalls. Early in the strike, Codelco said it had been forced to slash production by as much as 50%.

Chilean copper production continued to recover in May from its poor start to the year, government figures showed but the data does not cover the impact of the strike at Chuquicamata. Chile produced 492,322t of copper in May, up 6.6% from April and its highest monthly figure so far this year, said the report by statistics agency INE. Torrential rains and flooding, maintenance shutdowns at some important mines and lower ore grades had caused production in the first quarter to fall 5.4%. Despite the month-on-month recovery, Chilean copper output has yet to recover to levels seen last year, when the country produced a record 5.881 million tonnes. The May figure marked a 1.2% decrease from the same month a year ago, while production from January through May reached 2.31 million tonnes, down 3.1% from the same period a year ago.

Codelco CCO Roberto Ecclefield said that copper demand "remains good," even as fears over the trade war's impact drove prices to a five-month low and risking much-needed investment. Demand for copper "hasn't been affected" he said and China keeps ordering copper. The price rout will discourage mining companies from making investment decisions and that will likely tighten supply further, he added. "There won't be copper available long term if prices continue like this," Ecclefield said in an interview. "At the current prices, many mines are in the red, all over the world." The fall in prices of the metal isn't justified because supply is trailing demand" he added.

China's Jiangxi Copper Corp. fears the latest round of US import tariffs on Chinese consumer goods could potentially trim domestic copper demand by 2.4% this year. In a report, Jiangxi said products among the \$200 billion worth of goods, which are now subject to a 25% import tax in the US, account for 40% of China's copper consumption. Chinese exports to the US of air conditioners, electronic goods and cables accounted for 15%, 13% and 8%, respectively, of China's total exports of these products in 2018, according to the Jiangxi report. Jiangxi Copper has calculated that if \$200 billion of Chinese exports to the US are hit by the 25% tax, China's 2019 GDP will fall 0.22%. Market sources said domestic copper demand was weak currently, with new energy vehicles being the only growth area. They noted that curbs on exports would further undermine copper demand.

China's unwrought copper imports fell 10.9% from the previous month to 361,000t in May, according to official customs data, in a bearish sign for economic growth in the country. Arrivals of unwrought copper, including anode, refined and semi-finished copper products were down from 405,000t in April and down 23.2% from 470,000t in May 2018. Meanwhile, China's May refined copper output was 711kt, giving a YTD production total of 8.304 million tonnes, down 8.4% on the same period last year.

Vedanta Resources said a Zambian court has issued an order halting any move by the provisional liquidator of its Konkola Copper Mines (KCM) business to dispose of KCM's assets or make arrangements with its creditors. Zambian state mining

company ZCCM-IH holds about 20% of KCM, while Vedanta Resources, part-owner of the Mumbai-listed Vedanta group of companies, holds a majority.

At least 41 artisanal miners were killed when part of a copper and cobalt mine owned by Glencore collapsed in southeast Congo. The accident occurred in the KOV open-pit mine at the Kamoto Copper Company (KCC) concession, in which Glencore subsidiary Katanga Mining owns a 75% stake.

Chile's central bank has trimmed its estimate for the average price of copper for 2019-2021 to \$6173/t from \$6393/t, citing the impacts of the U.S.-China trade war on its copper exports, the bank said in a report. The LME copper cash price closed the month at \$5972/t.

The Metals Balances Report published by the World Bureau of Metal Statistics (WBMS) suggests that world aluminium market moved into a modest deficit in the January to April 2019 period. The calculated market balance stood at deficit of 143kt - this follows a deficit of 966kt recorded during the whole of the previous year. The overall global aluminium production rose marginally by 1.3% in January to April in 2019, compared with the corresponding four-month period in 2018. In volume terms, production surged higher by 249kt over the year. The output by China was estimated at 11.484 million tonnes, accounting for approximately 57% of the global production during the first four months of this year. Production in the EU region showed a decline of 2.3% when compared with the previous year. Output in the NAFTA region rose significantly by 6.5% over the previous year. Primary aluminium production totalled 5,126.0 kt in April 2019, while consumption totalled 5,257.3 kt. Total reported stocks of aluminium fell during April 2019 to close at 2239kt, 190kt below the level at the end of 2018 (2429kt). The combined stocks held by four main exchanges in London, Shanghai, USA and Tokyo totalled 1,779 kt at the end of April 2019 - a notable decline of 172kt compared to the end of 2018.

Primary aluminium premiums for spot trading in Rotterdam edged higher in June, revived by third-quarter negotiations and supported by the sustained contango in the LME spreads. The benchmark duty-unpaid premium rose to \$90-100/t in June, from \$90-95/t at the end of May. Meanwhile, major primary aluminium producers have offered Japanese buyers premiums of between \$115-\$120/t for July-September shipments, up 10%-14% from the current quarter, amid tighter supply, according to traders.

U.S. tariffs on imports of aluminium have changed the pricing landscape for domestic users. The U.S. Midwest premium, paid over the LME cash price, and the premiums published by S&P Global Platts remain stubbornly high and consumers, led by the drinks can industry, have complained. The chairman of Molson Coors Brewing Co. and a bottler for PepsiCo Inc. are urging the U.S. government to investigate the process used to set benchmark aluminium premiums which have doubled from 2017 levels in the wake of U.S. import tariffs. The S&P premium, which is meant to reflect transportation and handling costs along with the amount of supply available, is determined by S&P using its own market surveys. Beverage makers say that the process leaves itself open to manipulation, and want regulatory oversight of how it is conducted. Commentators have noted that consumers appear to be having a problem with the price of the market, not the compilation and calculation of the data itself.

Some analysts believe that the U.S. should learn a tariffs lesson from the EU, which has imposed its own duties on aluminium imports for many decades. As with U.S. tariffs, the rationale is to preserve threatened primary aluminium smelters, their workforces and their research and development. According to the Federation of Aluminium Consumers in Europe (FACE), the duty has failed to stop multiple smelter closures while actively undermining the downstream sector. EU import duties currently range from 3% for unalloyed aluminium to 6% for alloys while countries with preferential trade agreements, such as Iceland, Norway and Mozambique, are exempt. EU smelters have shut however, with plants closing in France, Germany, Italy, the Netherlands and the UK while the fate of two of Alcoa's plants in Spain is now in the balance. Europe has lost more than 30% of its aluminium smelting capacity since 2008 and net import dependency has grown steadily to 74% in 2017, when the region imported 6.2 million tonnes of aluminium. Even though duty-exempt imports represented around 50% of total imports over the 2008-2017 period, consumers end up paying the full 6% tariff anyway. EU producers are incentivised to align their prices to the highest possible level - in effect, the duty-paid price. Tax-exempt producers have a similar incentive, since they know the EU will still import tax-payable metal. The end result is that "EU market prices for unwrought aluminium always include the customs duty.

The LME's three-month trial of switching to electronic closing prices for one of its benchmark base metal contracts has failed to lift volumes, industry sources said, lending further support to traditional open outcry trading. The trial, which moved nickel from the ring to digital trading, which the LME thought may spur more participation in the setting of closing prices, ended in June.

LME Commentary:

Copper, aluminium and other industrial metals prices on the LME came under sustained selling pressure at the start of the month as the trade war returned with a vengeance. As hopes for a breakthrough in trade talks between the U.S. and China faded and the U.S. threatening to impose tariffs on Mexican goods, investors again focused on a deteriorating macroeconomic picture and the knock-on effect on metals demand. In the case of copper, the market chose to ignore resilient fundamentals in the form of weak copper mine production growth and supply chain disruption. As one analyst put it, the vast bulk of investors are expecting relations between the two countries to get worse before they get better, with bearish implications for global growth and industrial metals prices.

In the event, metals prices improved towards month-end after the U.S. and China agreed to restart trade talks, the threat of U.S. tariffs on Mexican goods was lifted, workers went on strike at Chile's Chuquicamata copper operation and aluminium stocks fell sharply and physical premiums increased.

The LME Grade A Copper cash price bottomed at £4539.73/t early in the month – its lowest since the end of January and down 7.3% from the beginning of May. This followed on from a weak May performance when copper prices posted their steepest monthly decline in three-and-a-half years. As the month progressed, the start of the strike at Chuquicamata and more optimistic news about an U.S. - China rapprochement, saw values rise, peaking at £4735.85/t on 26 June – a six week high.

LME Primary Aluminium prices also began the month weaker, falling to the month's low of £1359.54/t on 10 June – its lowest since the year's low of £1352.68/t at the beginning of May. Trade tensions continued to dampen aluminium demand from China as did the lifting of US trade and financial sanctions on Rusal, Russia's largest aluminium producer. Data also showed an upswing in aluminium exports from China, fuelling worries about oversupply. Like other industrial metals, aluminium prices improved from mid-month, buoyed by falling stocks, higher physical premiums and the improving macro outlook. The month's high of £1421.70/t was achieved on 26 June – a 6-week high.

By the end of June, both copper and aluminium cash prices had shown marked deterioration in the first half of the 2019 from the same period in 2018. The LME Grade A Copper GBP cash price for copper fell by nearly 11% in the first half of this year – by almost the same in Q1 and Q2. The Primary Aluminium GBP cash price fell by 12% in the first half of 2019 – with a 16% year-on-year fall in the second quarter.

LME GBP and USD Cash Prices - Quarterly Average Comparisons;

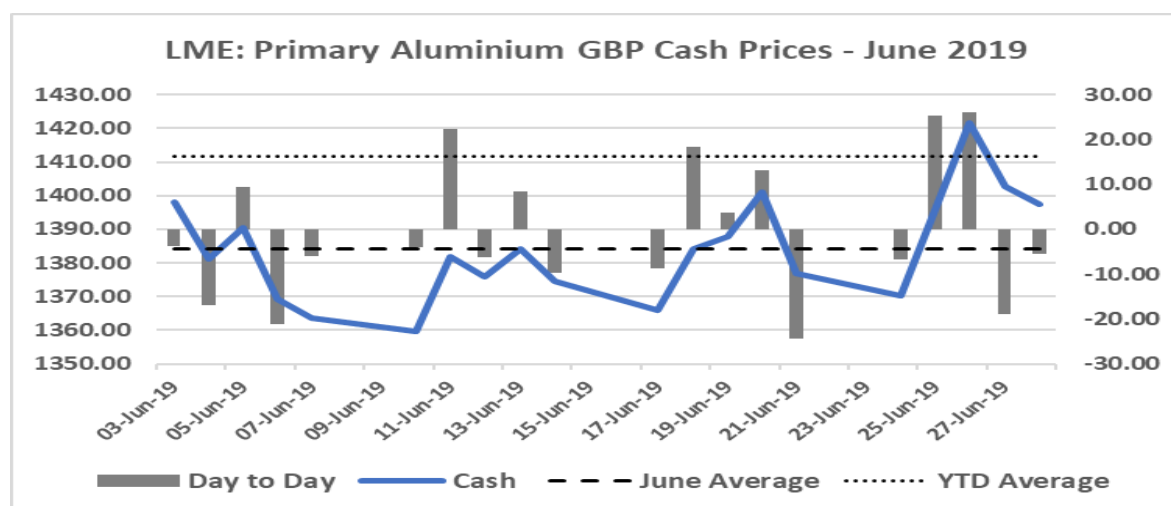
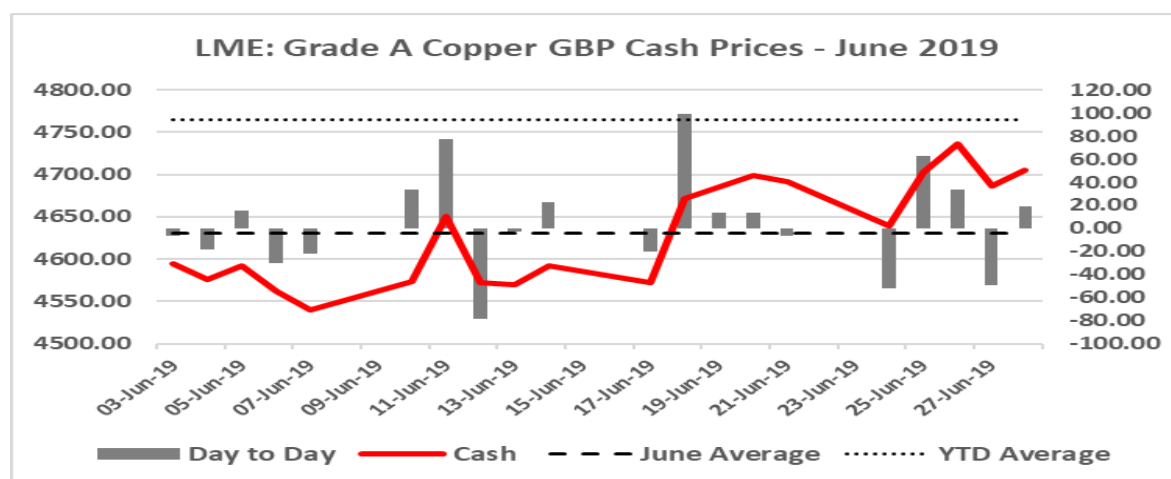
	Copper £/t				Aluminium £/t			
	2019	2018	Delta £/t	Delta %	2019	2018	Delta £/t	Delta %
Q1	£4,772.36	£5,003.64	-£231.28	-4.62	£1,427.93	£1,552.05	-£124.12	-8.00
	\$6,214.92	\$6,960.53	-\$745.61	-10.71	\$1,859.01	\$2,159.12	-\$300.11	-13.90
Q2	£4,755.85	£5,054.16	-£298.31	-5.90	£1,395.04	£1,661.25	-£266.21	-16.02
	\$6,112.54	\$6,872.23	-\$759.69	-11.05	\$1,792.51	\$2,258.94	-\$466.43	-20.65
H1	£4,764.24	£5,028.70	-£264.46	-5.26	£1,411.75	£1,606.21	-£194.46	-12.11
	\$6,164.56	\$6,916.74	-\$752.18	-10.87	\$1,826.29	\$2,208.63	-\$382.34	-17.31

Copper and aluminium LME exchange stock movements contrasted in the month. Copper stocks closed at 240.900t, up 29,100t in the month while aluminium stocks closed at 989,125t, down 151,975t.

LME Statistics and Charts: June 2019: Continued on Page 5

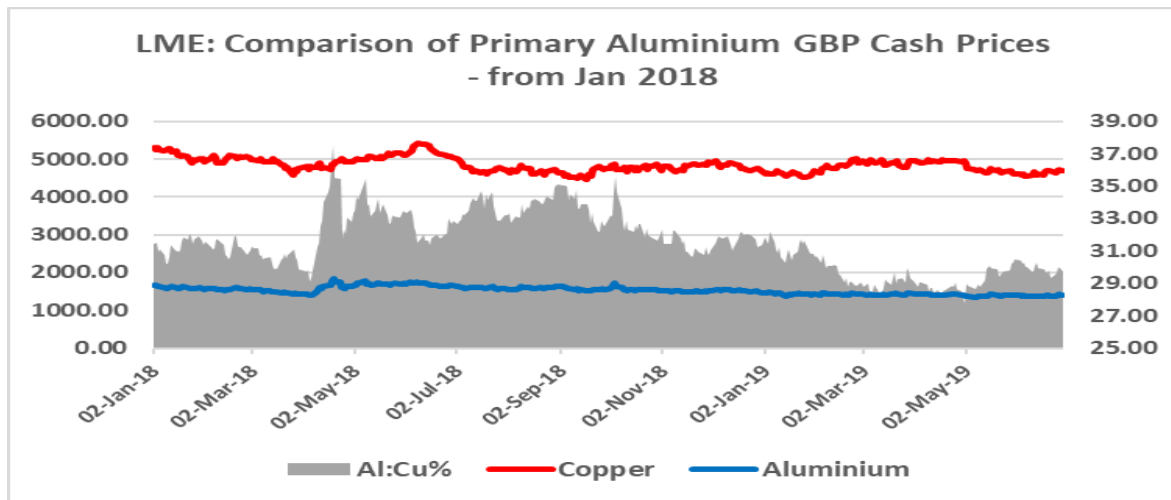
LME Statistics and Charts: June 2019:

June 2019	Copper			Aluminium			USD:GBP
	Cash £/t	3M £/t	Stocks	Cash \$/t	Cash £/t	Stocks	
Opening	4594.53	4593.17	211,800	1763.50	1,397.94	1,141,100	1.2615
Average	4630.66	4626.85		1754.08	1384.10		1.2673
High	4735.85	4725.17		1803.00	1421.70		
Low	4539.73	4532.31		1719.50	1359.54		
Range	196.12	192.86		83.50	62.16		
Closing	4705.33	4693.95	240,900	1761.00	1397.34	989,125	1.2692
YTD Average	4764.24	4749.45	+29,100	1826.29	1411.75	-151,975	
YTD High	5000.76	4980.18		1923.00	1483.03		
YTD Low	4508.37	4506.43		1719.50	1352.68		
YTD Range	492.39	473.75		203.50	130.35		



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