ALUMINIUM FEDERATION

MARKET REPORT

FEBRUARY 2018

ECONOMY

The estimated growth figure for Q4 2017 for the UK of 0.5% was scaled down to 0.4% when the official figures were released. That then put the growth figure for the whole of 2017 down to 1.7%. For January the Purchasing Manager's Index, PMI, for the services sector was disappointing at 53, down from the December figure of 54.2. This comes on top of PMI surveys showing a stagnant construction sector and manufacturing losing the earlier impetus in January. The indications for Q1 2018 growth are 0.3%.

The 2017 data for exports is now available and the value of UK exports rose by 11.3% year-on-year, £62.5 billion higher than the previous year. The expanding world economy and the lower value of sterling helped to achieve the increase. January 2018 proved to be the second-best month on record for increased tax receipts and the government paid back £10 billion of borrowings. Indeed, the Office for Budget Responsibility will need to make a significant downgrade of their deficit forecast for the 2017-2018 fiscal year. The OBR forecast £49.9 billion and the actual figure will be in the range £40 to £42 billion. January is always a strong month for public finances, as people file their self-assessment tax returns before the end of the month.

UK productivity increased during Q3 2017 and Q4 showed a further improvement, giving an annualized improvement year-on-year of 3.5% for the second half of 2017. Nevertheless it is expected that pay rises in 2018 will be only 2%, while inflation is at 3.0%.

Concern grows over the question of the supply of skilled labour after figures from the Office of National Statistics showed net migration from the EU to the UK is at its lowest level since 2012. The annual figure is 90,000. Net 205,000 non-EU citizens arrived in the year to September 2017. The UK jobless rate rose unexpectedly in January to 4.4%, although the figures are still at a 42-year low.

On the markets the FTSE 100 has had a roller-coaster ride since the start of the year. It peaked in early January at 7800, fell rapidly to 7100 and is now climbing back at 7300. The FTSE 250 followed the same pattern; it was at 20,900 in early January and is now at 19,900 and climbing.

Today £1 will buy $1.39 or 1.14 euros.

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Aluminium Federation Ltd.
National Metalforming Centre
47 Birmingham Road
West Bromwich
West Midlands B70 6PY

t: +44(0)121 601 6363

e: alfed@alfed.org.uk
w: www.alfed.org.uk

Registered office, as shown. Registered number 723801 (England)

ALUMINIUM

IAI has now published the data for January 2018 aluminium primary production world-wide. At this early stage, extrapolating the result for the next 12 months, 2018 will be another record year for the primary sector, estimated at 66.7 million tonnes, against the 2017 figure of 63.4 million tonnes. China's production in January accounts for 57% of the world's total. Exports from China have surged as there are concerns there about possible US extra tariffs being applied to imports of aluminium. This has been reflected in the price on the LME for primary aluminium. The price peaked at the end of January and started February at $2218 per tonne and by mid-February it had lost $100. At the end of February the LME stood at $2158 per tonne. According to Metal Bulletin primary ingot premium at Rotterdam in mid-February stood at $168 per tonne, duty paid. The premium for aluminium foundry alloy ingot delivered in Germany, duty paid, was $385 per tonne. For billet Metal Bulletin report a mid-February figure for duty-paid and delivered in Italy of $383 per tonne.

Rio Tinto stated that its earnings in the year 2017 were $8.6 billion compared to the 2016 figure of $5.1 billion. Its principal product is iron ore, as well as copper and aluminium, other metals and minerals. The better metal prices in 2017 boosted their performance. We noted in the December-January Market Report its sale of the Dunkerque primary smelter to Liberty House Group. Rio Tinto has now also accepted an offer from Hydro for $345 million for the Isal primary smelter in Iceland and two other businesses in Netherlands and Sweden. This reduces the company debt and boosts returns to shareholders. It leaves Rio Tinto with no European aluminium interests, and is a further step towards its streamlining.

Constellium reported 2017 results with revenue at 5.2 billion euros, up 10% on the previous year, due to better metal prices.

Novelis, at Q3 2018 of their financial year, recorded a 12% year-on-year increase of rolled products into the automotive industry. Overall flat-rolled product deliveries were up 6% at 796,000 tonnes. It also announced a joint venture with Constellium to administer shared infrastructure at the Sierre plant in Switzerland.

Arconic delivered revenue of $13 billion in 2017, up 5% year-on-year, with higher volumes and better metals prices. Its Q4 was difficult, partly attributed to difficulties at Firth Rixon, which the original parent company Alcoa Inc. purchased in 2014 to broaden its metals portfolio away from just an aluminium products company.

It is reported that China is active in closing illegal primary aluminium production and imposing environmental regulation on the existing bona fide smelters. The data so far does not support any closures but AlCircle gives some interest data on the imports of aluminium scrap into China, to compensate for energy shortages and reduced primary production. In December China imported a total of 202,000 tonnes of aluminium scrap and in January a further 190,000 tonnes. Over the year 2017 China imported 150,000 tonnes of aluminium scrap from UK. Imports of other scrap metals, ferrous and non-ferrous, into China from all countries fell year-on-year in 2017.

AUTOMOTIVE

SMMT data for UK total new car registrations in January 2018 shows a decline of 6.3% compared to January 2017, 163,615 vehicles compared to 174,564. Interestingly the figures for petrol and alternative fuel vehicles for January this year are well up on last year by 8.5% and 24% compared to last year. The major decline this January is in diesel vehicle sales that fell by nearly 26% compared to last year. Government policy on environmental issues and taxation continues to cause buyers to hesitate to buy diesel cars. Ironically the reluctance of buyers to buy new diesel cars, coupled with the low level of sales of electrics and hybrids means that the UK may well miss the EU carbon reduction targets. The new diesel engine designs can be 20% more efficient than petrol models. The car industry is committed by law to selling a range of vehicles that give an average of 95g of carbon dioxide for every kilometer travelled. The lower the carbon dioxide the greater is the miles per gallon. Companies such as JLR are producing diesel cars that achieve 70 mpg, thus improving the industry average.

Looking at the top ten best sellers in January, Ford continues to top the list and they now have three models in the top ten as Ford Kuga comes in at 9th. The other new entrant is Kia Sportage at 7th, while Volkswagen Polo and the BMW MINI fall out of the table. UK car production data for January has yet to be published but it will mirror the position of registrations.

The SMMT data for UK car production in January 2018 was a better result than had been expected. Total production was the same as in January 2017, at 147,481 cars produced. Cars for the export market accounted for 81% of the total and this was an increase over the 2017 figure by 1.5%. The total for the home market of 28,229 was 6% down on the 2017 figure. These numbers are a reflection of the expanding global economy.

Toyota is to build the next generation of its Auris hatchback at its Derbyshire plant. This car is available as an electric hybrid. At the moment the plant building the existing Auris model is running at half capacity. Most of the production from this site is for export. This is good news for the 2,400 staff at the plant. The engines for this car are produced at Deeside, North Wales, where another 600 are employed. The new Auris will have its world premiere at the Geneva Motor Show in March. We have already noted that Nissan will be building the new Qashqai at Sunderland, Honda is now producing the new Civic at Swindon, BMW will produce the electric Mini at Oxford and Geely has now started production of its electric taxi at Coventry. The future of the Vauxhall Astra at Ellesmere Port remains undecided.

The Business Select Committee has drawn its concerns to the government on the loss to the UK car industry if frictionless trading with the EU is lost.

Aston Martin is riding above the downturn in car sales with a total sold in 2017 which was 58% more than in 2016. This month it reported pre-tax profits of £87 million and record revenues of £876 million. In 2016 it lost £163 million. When its new plant opens in South Wales it expects to get sales up to 14,000, compared to 5,000 in 2017.

Plans by Ineos, the petrochemicals company, to begin production of a successor to the Land Rover Defender are a step nearer, having awarded an engineering contract to a Mercedes-Benz subsidiary, with 200 engineers working in Stuttgart full time on designs. Ineos is lobbying the UK government for support for building the vehicles in UK.

The National Grid is waking up to the expansion of electric cars in UK, which at the moment is not hugely successful. There are concerns about the charging time required and also the location of charging, since nearly half of potential buyers of electric cars have no off-road parking. And there is an underlying fear of running out of charge along any of the motorways. National Grid is looking at plans to install superfast charging points for electric vehicles along

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the UK motorway system that would feed directly off the electricity transmission network. Presently some 50 strategic sites have been identified. Such an installation would prevent local power shortages. The system would allow charging in between 5 and 12 minutes, a big improvement on the present 20 to 40 minutes. At the moment it takes an average of 7 minutes to stop the car and fill up the tank with petrol. Queues at the cash desk to pay have not been factored into this equation.

The Chinese vehicle company Geely continues to expand across the globe. It owns the London Electric Vehicle Company, where it is also now developing hybrids at its Coventry plant. It also owns Volvo Cars and the Volvo Group, lorry and bus maker, Lotus Cars and Proton, the Malaysian car brand. It has now invested $9 billion in Mercedes-Benz owner Daimler, giving it a nearly 10% share in that company, with which it hopes to share battery technology, and expects to be active in the European market next year with its own brand electric car brand, Lynk and Co.

BUILDING AND CONSTRUCTION

The PMI for construction in January was 50.2 compared to 52.2 in December, this indicates virtually no growth in the sector. This compares badly against the average for the EU Eurozone countries of 57.00 and especially Germany at 59.8.

ENERGY GENERATION

EDF is claiming that it is developing a new reactor which will be significantly better and cheaper than the two that it is building at Hinkley Point. But it would not be available until 2030. UK experts believe that this is a publicity exercise to try to obtain French government funding to prop up the financial position of the company.

Royal Dutch Shell warns that liquified natural gas will be in short supply, as demand is outstripping supply. The 2017 market in LNG was 293 million tonnes, 30% higher than expected. By mid-2020s demand will exceed supply unless there is new investment in the industry. The problem stems from user companies refusing to take on long term contracts and preferring to buy on the spot market. There was an indication of this in the December-January Market report, when a shipment of liquid gas scheduled for UK consumers was redirected to east coast USA because the price on offer was more attractive.

Oil prices have slipped back from their $70 per barrel of two months ago and Brent crude is now selling at $66 per barrel.

OTHER MATERIALS

China is now stepping up efforts to control the global supply of lithium for electric car batteries. China is the major source of most metals, ferrous and non-ferrous, but at the moment the major lithium suppliers are in Australia and in South America, Bolivia, Chile and Argentina. The Cornish tin mines residues may well prove to be a God-send. The European Commission keeps a list of strategically important materials. Lithium should be on the list.

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