ALFED
ALUMINIUM FEDERATION

MARKET REPORT – MARCH 2018

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ECONOMY

Britain is on track to record the lowest deficit for a financial year in a decade. The budget deficit fell by £2.5 billion to £41.4 billion in the eleven months to February, compared to the same period in the previous fiscal year. This is the lowest figure for the month of February since 2008. In the middle of March the Chancellor gave his Spring Statement, promising to ease austerity and unveiled an economic forecast that showed marginal improvements in growth and borrowing. The current government budget is now largely in balance, so government borrowings can finance investment and not day-to-day spending.

Economic data generally has been more positive since the very gloomy forecast by the Office of Budget Responsibility back in November. Inflation for example fell in March to 2.7%, a larger fall than had been expected. This is the lowest figure since July 2017 and inflation is expected to reduce further in the coming months. Wage inflation is now catching up at 2.5%. The increase in wage rates for workers in the NHS, announced in March, is a sign of the easing of austerity. The Bank of England is signaling the possibility of a small rise in interest rates in May.

The UK services sector rebounded in February, hitting a four-month high after a bad start to the year. The Markit/CIPS index was at 54.5, up from the January figure of 53.0. Retail sales in February were up by 0.6% compared to February of last year, an achievement in testing times.

In the manufacturing sector the EEF is predicting that this sector will show growth this year of 2.0%, up from the 1.4% growth predicted just three months ago. A majority of EEF members polled were planning to increase investment to cope with rising demand. A balance of 21% of members are also planning to increase hiring of personnel. Export orders are growing at near record levels. Last year the manufacturing sector grew by 2.8%, putting together eight consecutive months of growth for the first time since 1988. The Markit/CIPS index in February stood at 55.2, better than expectations.

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Across the world the markets have been hit by the very real threat of American protectionism, indicated by the tariffs announced for steel and aluminium imported into US. After the heady days of the end of 2017, when the FTSE 100 stood at 7.800, it ended the month on 7056 and similarly, the FTSE 250, a better measure of UK business, is now at 19,460, having been 20,990 at the end of last year.

Today one pound will buy $1.40 and 1.14 euros.

The euro in March fluctuated as there were signs that the European Central Bank is bringing to an end quantitative easing, otherwise known as printing money. The 2.55 trillion-euro bond purchase program should end by the Autumn. There are also fears in Europe of American protectionism which hit the euro. The fears about USA go much wider than just in Europe; America is sending out a message to the world that it no longer believes in liberal global trading.

ALUMINIUM

After years of discussion across the global aluminium industry about the problem of over-capacity in the production of primary aluminium, particularly from China, and how the problem could be tackled, in early March the President of USA pre-empted the discussions with the imposition of tariffs of 10% on all imported aluminium products and 25% on all imported steel products. The initial announcement was that this would apply to all countries and was not only aimed at China. Perhaps this should not have come as a surprise since the President stood in the elections on an “America First” ticket and was successful. Discussions since the announcement have been widespread, since it subsequently appeared there was an option open to other countries to apply to the US for exemptions. Canada and Mexico for example can gain an exemption from the tariffs if they reach agreement with US over the NAFTA.

After negotiations the EU now has a temporary exemption on both steel and aluminium tariffs. The UK is also in discussions in US for exemption as UK rather than just as an EU member country. The political situation is, at the moment, very fluid. A more complete report on the politics of the tariffs is on the ALFED website in the Quarterly Global Update for the first Quarter of 2018.

The intention of the tariff on aluminium is clearly to protect the primary aluminium producers and semi-fabricators in USA, but inevitably there will be much more widespread ramifications across the globe. Those industry sectors in USA who rely on imported aluminium and steel products will now be faced with higher prices and their final end-products on the market in US will be more expensive. Ingot, billet, rolling slab and semi-fabricated products that might have been destined for the US market from all countries of the world will now find their way into other areas, such as the EU and more particularly into UK. The UK aluminium industry has already felt the effect of over-production; our once five primary smelters are now down to only one, due to over-supply of primary aluminium originating in China. Cheap extruded products have been offered in the UK market place for many years. The traders are already well established here, and the problem now becomes even more acute.

From a European point of view the problem is not only China and south east Asia, metal from Russia could now find its way into Europe where previously it was sold into USA.

Since this a Market Report, the logic is that metal supply in US will become restricted and the price will increase and in other areas, such as the EU, there will be an over-supply and prices are likely to fall. It is too early to draw conclusions but the LME aluminium contract is now at just below $2000, about $150 per tonne lower than at the start of March, when it stood at $2143 per tonne. It is now at the lowest level since August 2017. The three months LME price has lost about $100 per tonne since the tariff announcement.

In the Metal Bulletin reports on billet premium in the middle of March, they report Rotterdam 6063 billet at $340-360 and their previous report gave $340-365. Similarly, for the Ruhr they report $380-400 against a previous price of $385-405. There are slight reductions but, at the moment, hardly significant.

The UK is not a great exporter of aluminium products to US, but gaining an exemption from the tariff on aluminium products, even on a temporary basis, can only help. What is particularly helpful is that other EU countries who export significantly to US will continue to do so, rather than looking at other countries in the EU, such as UK, to find new markets for what had previously gone to US.

The European Commission has drawn up a list of products that are imported into the EU from USA for which tariffs could apply in retaliation and there are some aluminium products on that list, including extruded and rolled. Compared to very low-cost imports from China and other countries of aluminium extrusions for example, the imports of extrusions from USA arrive at a price that is about five times more expensive. But these extrusions are for aerospace applications in the “hard” aluminium alloys that are not extruded in UK. These would become even more expensive to UK based end-users if the EU had to apply retaliatory tariffs against US. In the event that this strategy was invoked, these EU tariffs could not be applied for at least three years under WTO rules.

In a trade war that could now result, everybody loses, even the protected US aluminium companies, shielded by tariffs, may find that there is less incentive to keep becoming more efficient and more cost effective.

AUTOMOTIVE

The SMMT has published the data for new car registrations for February 2018. The total, 80,805, is 2.8% down on February 2017. Again, diesel car sales have been hit, down 24% on last year, while sales of petrol driven cars are 14% up on last year. The Alternatively Fueled Vehicles (AFVs) were up 7% but their total of 3,547 cars remains a low percentage of the total. Looking at the data back to 2004 the February total was exceeded only in 2016 and 2017. February itself is not a peak month in the new car market; the months of April and September show the highest sales.

The pattern of the top ten makes is familiar. Ford and Volkswagen take the top spots, Vauxhall has two models in the top ten, the Mokka X and Corsa at 4 and 10, Nissan Qashqai is on 6th but the Mini from Oxford has fallen out of the top ten.

On a year-to-date basis the total so far for 2018 is down on last year by 5%, diesel is down by 25% and petrol is up by 10%. So, diesel is still being hit badly and the alternative fuel sourced vehicles are not picking up much. The disparity across the UK on the availability of charging points is alarming. In the North East there is one publicly funded charging point for every 4,000 of population; in Wales it is one charging point for every 99,000 people.

The Renault-Nissan-Mitsubishi Alliance is now working on an electric car that uses solid state batteries, aiming for production in 2025. The batteries are an advance on the current lithium-ion technology, holding more power and they charge faster, Globally, while electric vehicles can achieve stringent emission targets and by-pass any ban of traditional engines in cities, the global take-up is only 1% of the total production. The costs of current technology and the lack of charging infra-structure are concerns. The Alliance has signed up to a 50:50 joint venture with Dongfeng Motor Group in China to develop battery powered vehicles for the Chinese market.

Ford UK has held talks with the Unite union on converting its Bridgend and Dagenham plants to building electric cars, away from the present diesel and petrol engines. Bridgend particularly has been hit by losing orders as Jaguar Land Rover and Volvo have been moving work away.

JLR, the UK's largest car maker, has not yet decided whether to build electric cars in this country until there is clarity about trading conditions after Brexit. There are concerns about tariffs and customs checks. Similarly, PSA, the owners of the Peugeot and Citroen brands, has yet to decide the future of its Ellesmere Port plant beyond 2021.

The SMMT has commissioned an independent report that predicts that UK car production could fall by 8% in the next five years if carmakers do not commit to a series of key models being made in the UK after Brexit. If the work remains in UK then production can reach 1.8 million vehicles, still short of the previous target of 2 million by 2020. Investment in the automotive industry has halved over the last two years. Some companies are already committed to keep work in the UK in the future, but several others have yet to decide; BMW, Honda and Vauxhall particularly.

AEROSPACE

Airbus is now reducing its production schedule for the A380 superjumbo, which is not selling as well as was hoped. A380 production at even a reduced rate was saved in a nick of time when Emirates ordered 20 of them last year. The program now is for 15 aircraft this year and 11 next year. The Broughton plant in north Wales, where the A380 wings are produced, is facing job losses by non-replacement of retirees rather than by redundancies.

Similarly, at Filton there could be redundancies at the plant making wings for the A400M military transport aircraft. It could total 500 jobs as Airbus plans cuts of 3,700 people across Europe.

GKN in UK employs 6,000 people and 60,000 globally, and is the UK's largest engineering group. It is a major supplier to the UK aerospace and automotive sectors. It has now been taken over by Melrose, an industrial conglomerate noted for buying companies and stripping assets. Melrose has given the UK government assurances that it will keep the UK identity of the company and invest in all the company activities for which it is a major supplier, as well as maintaining R & D funding and skills training. It has also given an undertaking that the GKN aerospace sector would not be offered for sale for at least five years.

BUILDING AND CONSTRUCTION

Data from the Office of National Statistics published in March shows that construction output fell by 3.4% in January, its worst monthly performance since June 2012. On a three months basis output declined by 1%, with falls in commercial, industrial, public non-housing and maintenance. New orders in Q4 2017 fell by 25% over the quarter, 1.3% lower on an annual basis. The collapse of Carillion has added to the general problems.

The Markit/CIPS Construction index rose to 51.4 in February, against 50.2 in January. Civil engineering was the worst performing sector with activity falling at the sharpest pace for five months. Commercial construction was the only bright spot. Business optimism was recorded as the weakest result in their surveys since 2013.

PACKAGING

At the end of March, the government announced plans to introduce a refundable deposit scheme for all drinks containers, plastic, glass or metal. The intention is to tackle the problem of litter and to encourage recycling. Criticism has been targeted particularly on plastics. There will be a consultation period for all interested parties to comment. The government has been impressed by reverse vending, as used in Germany for example. The government will commit to a scheme based on evidence and that any costs will be proportionate for consumers and retailers.

ENERGY GENERATION

At the end of March the price of oil (Brent crude) jumped to its highest level for six weeks, at just under $70. It started March at $64 per barrel. There was an unexpected drop in the US stockpile during the month, leading to the price rise. Looking at the East Coast of North America weather over the last two months, a drop in the stockpile should not have been a surprise.

OTHER MATERIALS

At the beginning of March, the LME copper price stood at $6880 and it ended the month on $6440. The price of coper has been rising steadily since October 2016, when the price stood at $4600. It peaked at the beginning of 2018 at $7140. There is now a global shortage of large-scale copper mining projects, while at the same time demand for copper is strong, particularly from China. Copper is just about the only major ferrous or non-ferrous metal whose production is not dominated globally by China. Chile is the world's largest producer with about one third of global production. Manufacture of electric vehicles is helping to drive demand, since there is more copper used in the electric vehicles than in cars with conventional petrol or diesel engines.

Researchers at the government laboratory for Defence Science and Technology at Porton Down, in conjunction with University of Sheffield, have developed a new methodology for titanium production. They claim that the price of titanium could be halved. It is a light metal in the aluminium, magnesium, titanium group, all with very stable oxides, which means that metal production is energy intensive. But titanium has high strength and good mechanical properties at high temperatures. Its cost means that it is not a rival to aluminium, but it is a very useful material in aerospace and military applications.

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