

MARKET REPORT

FEBRUARY 2017

ECONOMY

The Bank of England has raised its 2017 growth forecast for the UK from their original 1.4% up to 2% but the policy-making team has kept interest rates at 0.25% and has indicated reluctance to increase this level any time soon. The National Institute for Economic and Social Research has also taken an optimistic view of 2017 for the UK, indicating a growth rate of 1.7% and 1.9% for 2018. They took the view that the economy would shift its balance away from consumer spending, at present the largest single component of economic growth, to become more dependent on trade. They also predict that by the end of this year inflation will be at 3.7% before moving back to 2% in 2018 and 2019.

The NIESR data puts the UK ahead of the Eurozone, for which they predict a growth rate of 1.5%. Other data indicates that the Eurozone is now growing at 2%, its fastest rate for six years. Unemployment in the Eurozone is at 9.6%, the lowest since 2009, but the numbers vary widely; Spain is at 18.4%, down to Germany at 3.9%. Inflation is now at the central bank's target figure of 2%. Germany suffered a surprisingly poor December with manufacturing and construction output collapsing. The output data for France is now better than that for Germany.

The Office for National Statistics showed a record rise in employment levels in the UK but almost all of the increase was down to migrant workers. The UK jobless rate is now at 4.8%, half of that of the Eurozone. A CBI report reveals that orders for British goods are at a two year high. Mechanical engineering and the metals sector led the growth. A net 8% of CBI businesses reported that orders in the three months up to February were above normal levels. However for exports a net 10% of businesses reported orders were below normal levels.

In the UK at the end of the month the FTSE 100 was 7423 and the FTSE 250, a better measure for UK based companies, is now at record levels, finishing the month on 18770. One pound sterling will buy \$1.25 or 1.18 euros. Strong tax receipts in January indicated that UK government borrowing in this financial year will be £13.6 billion less than last year. This will be helpful for the Chancellor now planning the budget.

Continued .../

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

t: +44(0)121 601 6363
f: +44(0)870 138 9714

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

ALUMINIUM

The strength of the aluminium primary price on the LME continued during February, starting the month at \$1818 per tonne and putting on about \$100 to reach \$1908 on 27 February, the highest since May 2015. It ended the month on \$1894. Ingot premium has also been pushed up as the primary price increased and duty paid material from Rotterdam is now at \$160 per tonne, the highest for 13 months according to Metal Bulletin. Aluminium alloy 6063 billet premium in warehouse, duty paid, from Rotterdam is now in the range \$310-320 and in Germany \$345-355, according to Metal Bulletin using Rotterdam as their basis. Players in the UK market for billet are finding higher premium values than this up to \$395. Producers are predicting higher levels in the near future as traders, producers and consumers are looking at Q2.

For their third quarter of the fiscal year, October – December, Novelis reported a net income of \$63 million compared to \$6 million in the same quarter last year. Hindalco shares were up by 3% on the strong showing by Novelis.

For Q4 2016 Norsk Hydro also reported strong figures with an increase in earnings of 17% compared to the same quarter of 2015, mainly due to the higher alumina index and aluminium prices on the LME. They are looking for continued healthy demand for aluminium products in 2017, with growth in global demand for primary metal of 3-5%.

At the International Aluminium Recycling Congress in Manchester this month IAI launched a new web-based tool showing production, consumption and trade of bauxite, alumina, primary and recycled ingots, semis, final products and scrap across nine regions of the world, from 1962 to 2014. This will be up-dated regularly, 2015 data to be added shortly and 2016 data by the end of this year.

AUTOMOTIVE

New car registrations for the UK in January showed that the industry was off to its best start for 12 years. SMMT expressed the hope that if interest rates stay low and the economy in the UK remains stable then the automotive industry would be in a good position to withstand any short term challenges.

In January 2017, 174,564 new cars were registered against 169,678 in January 2016, an increase of 2.9%. There was however a significant trend showing on the type of fuel preferred. There was a fall in percentage terms in diesel powered cars, down 4.3%, and a sharp increase in demand for petrol driven, up 8.9%, compared to the 2016 data. The diesel emission scandal at Volkswagen, with under-reporting of emissions, and the associated health effects of diesel emissions, have combined to reduce diesel car popularity. The demand for cars driven with the alternate fuels was only marginally increased; clearly the industry has some way to go to convince motorists to accept electric driven and hybrid vehicles.

Purchases by private buyers increased by 5% over the same month the year before and outstripped purchases by fleet owners and businesses.

In the small commercial vans market the registrations for January 2017 are slightly up on those for January 2016. Ford vans take the top three places.

With the questions being raised about the viability of Vauxhall manufacturing in the UK it is interesting to note the position of the various manufacturers in the car sales in January. Ford is well ahead followed by VW but the combination of Vauxhall Astra and Corsa models make a very significant contribution to UK sales. General Motors is now in discussion with PSA Peugeot Citroën to sell their European operations Opel and Vauxhall, which have performed poorly and is believed last year to have made a loss of \$300 million. This then puts a question mark over Ellesmere Port, home of the Vauxhall Astra and running at about half capacity, and the Luton van plant. These two plants had been earmarked for closure previously by GM but rescued at the last minute. If PSA is intending to buy Vauxhall Opel and slimming down the organisation then the UK plants once again are in the spotlight, particularly because the Astra is also produced at a low cost plant in Poland. PSA is partly owned by the French government. General Motors are no doubt aware of the trend in US now to put US interests above all others. The UK Business Secretary has pledged the government's "unbounded commitment" to protect 3,500 jobs at Vauxhall and they may well be asked to give the sort of commitment given some months ago to Nissan. Thus far PSA has given a commitment that safeguards all existing jobs in the 2 billion euro take-over of Opel Vauxhall. Ellesmere Port is particularly vulnerable since it exports 88% of its output, mostly to Europe, and imports all of the major components from the EU.

BMW has been very successful in building the Mini at Oxford. They are now planning to build an electric version of the Mini in the UK, Germany or Netherlands. The decision could be crucial because it is their intention to build only the electric version and that could jeopardise the Oxford plant.

Nissan is now asking the government to include £100 million in its industrial strategy in order to build up the supply of automotive components from UK suppliers rather than rely on importing parts. Nissan themselves import 85% of their requirements from Japan, China and Europe. Other UK car companies will have similar views.

The London Taxi Company's new plant in Coventry is now gearing up and the first vehicles will roll off the production line in Q3. The plant has the capacity to produce 36,000 vehicles annually but will start up more slowly, making a hybrid-electric TX5 black cab. It uses aluminium widely in a lightweight structure.

AEROSPACE

Boeing is to open its first European factory in Sheffield. The £20 million plant will manufacture parts and systems for the wings of the Boeing 737 and 777 passenger planes. There will be initially 30 employees and production is scheduled to start late next year. The components produced have been outsourced up to now but Boeing intends to produce them themselves to ensure control over quality. The new plant will be adjacent to the Advanced Manufacturing Research Centre, AMRC, in Sheffield. The AMRC was set up 16 years ago by Sheffield University with support from the UK government and the EU and with assistance from Boeing, one of the key research areas at AMRC being the aerospace industry. They now have 90 member companies. On the same site supercar manufacturer McLaren is also building a £50 million plant to build the chassis for their cars using composites, with 200 employees.

BUILDING AND CONSTRUCTION

The Markit/CIPS Construction PMI (Purchasing Managers' Index™) fell to 52.2 in January from 54.2 in December, while the industry expected a better result. Business activity and incoming new work both expanded at a slower rate. Business confidence among construction companies regarding the year ahead picked up to its' strongest since December 2015, as 51% of respondents forecast a rise in business activity in this year while 7% anticipated a reduction. A similar survey by RICS suggested a growing number of companies expect output to improve this year, boosted by hopes of more road and rail building and government funding to improve productivity.

PACKAGING

The On-Pack Recycling Label scheme, OPRL, which aims to deliver a simple, consistent and UK-wide recycling message, has changed its guidelines for aluminium foil, plastic pots, tubs and trays to show that the products are now widely recycled by councils at the kerbside. Alupro data last year showed that aluminium foil collections by local authorities have moved past the OPRL's 75% threshold for "Widely Recycled" designation and now stands at 86%.

Maarten Labberton, Director of the Packaging Group at European Aluminium, is encouraged that realistic targets for all packaging materials can contribute to a true circular economy in Europe. The Circular Economy package designed proposed by the European Commission aims at recycling 75% of all aluminium packaging by 2025 and 85% by 2030. MEPs further propose increasing the original targets for aluminium to 80% by 2025 and 90% by 2030. The high value of recovered aluminium and the higher yield of aluminium scrap can justify the investment required, he believes. But the time frame for such an ambitious target is relatively short. Certain member states will need more time to establish the infrastructure required.

ENERGY SUPPLY

The move away from coal-fired power stations in the UK has been well documented and in the last Market Report it was noted that wind turbines now produce more electricity than coal fired stations. The last coal fired station in UK is due to close by 2025 and several ageing nuclear stations are also due to close by 2025. In 2015 22% of our power was generated by coal fired stations and 21% by nuclear. The UK government has long been a keen advocate of nuclear stations in the low carbon economy but has always insisted that the private sector must fund such new installations. Thus it was that when the decision was made to build the EDF station at Hinkley Point C the price per megawatt hour would be guaranteed at £92.50 so that EDF could be profitable. The station is already many years late and the guaranteed price, in the light of expected reductions in UK total energy demand and the potential of fracking, has been seen to be excessive. And the UK government gave guarantees on the £17 billion loans being negotiated for the actual construction.

At Moorside in Cumbria the NuGen consortium has undertaken another major construction of a nuclear station, producing 3.8GW at a cost of £13-15 billion. Toshiba is the major player in the consortium, supplying Westinghouse AP1000 reactors, and the other partner is the French company Engie. The plan has been thrown into total disarray

this month when Toshiba reported their third quarter figures showing a \$6.3 billion write-down following the losses in its US Westinghouse nuclear construction business. Toshiba may now withdraw from the NuGen consortium and, while the AP1000 reactors may be used, the company would take no part in the construction. The UK government is being pressed to take a share of the cost of building Moorside and also a share of the cost of the Wylfa nuclear station construction in north Wales, jointly with Hitachi.

One of the UK government's initiatives for converting from coal was to offer subsidies to power stations that converted to biomass, usually wood pellets. The rationale was based on evidence that using wood pellets was environmentally more efficient than using coal, even when taking account of the tree felling, shredding and in most cases shipping from USA. The claim about wood pellets did seem to be strange but we were assured by the fact that trees can be planted to replace felled trees, thus making the cycle carbon-neutral. Drax, Britain's largest power station, was given £450 million in subsidies in 2015 from the Department of Energy and Climate Change to switch from coal to wood. We now learn that the evidence on the environmental impact only took account of coal extraction and wood processing, shipping and replanting. It did not take account of the actual combustion process in a power station. It is now shown that the total environmental impact, including combustion, favours coal firing rather than wood pellets. In 2016 Drax received a further £548 million in renewables obligation certificates to continue with biomass. But our deep coal mines are now closed and the investment in biomass cannot be rewound. The aluminium industry globally since the 1980s has been working on Life Cycle Analysis for aluminium mining, production, fabrication, end use and recycling and has always been scrupulously open about any aspects not to its advantage.

The oil price is still holding at around \$56 per barrel and OPEC sources are suggesting that the reductions in oil production by OPEC members may continue beyond the original June target. Non OPEC countries such as US, Canada and Brazil are due to make significant increases in oil production.

The construction of a new subsea power link to France between the Hampshire coast and Normandy is due to start up in September 2017. It would allow an import/export of 1 GW of power from 2020. In 2016 the UK was a net exporter of electricity to France.

OTHER MATERIALS

The Liberty House Group has again been buying, this time they have acquired the Tata Steel speciality steel business for £100 million. The deal, subject to approval, will secure 1,700 jobs, mostly in South Yorkshire. This company is a major supplier to the aerospace industry.

The copper industry has languished in the Doldrums for several years. Prices in the heady 2012 days were up at \$8000 per tonne and thereafter fell year on year down to just above \$4,000 in 2016. But in the last two months of 2016 it was suddenly approaching \$6,000 per tonne and in February it breached \$6,000. It ended the month on \$5,935. Strikes at companies and disputes with governments have caused the loss of 9% of the global supply. Copper is widely used as economies mature and infrastructure is being developed, as can now be seen in China where a new middle class is emerging. Steel on the other hand is used more in the earlier stages of an economy's development. This is similar to the position that has been well documented

for aluminium, showing that the use of aluminium per head of the population increases as the wealth of the population increases, shown by differences in GDP for each country.

MINING

Rio Tinto surprised the markets in the middle of the month by announcing their return to profitability and an unexpected pay-out to shareholders, with a \$500 million share buyback programme. Last year iron ore and coking coal prices recovered well. Their pre-tax profit last year was \$6.3 billion against a loss in 2015 of \$726 million.

Glencore also made a return to profit with resurgent commodity prices. Their net debt has been halved since the 2015 disaster when net debt stood at \$30 billion. Glencore shares are now at 331p against the 2015 value of 69p.

ALUMINIUM FEDERATION 28 FEBRUARY 2017