

MARKET REPORT

JUNE 2017

ECONOMY

Britain's factories are experiencing their strongest performance in nearly 30 years as the fall in the value of the pound is giving exporters an advantage abroad. According to the CBI, company order books in June climbed to their highest level since August 1988. A manufacturing boom could offset the slowdown in consumer spending. The CBI found that in 13 of their 17 industry sub-sectors there was broad based improvement. It should be noted however that manufacturing accounts for only about 10% of the UK economy. The larger service sector is slowing down due to the squeeze on consumer spending.

From February to April the UK shipped £84.8 billion of goods to overseas buyers, up 18% on the same period last year. Sales to the EU were up by 16% while sales to the rest of the world were up by 20%. UK inflation is now at 2.9% and the CBI is predicting that by at least Q3 2018 the Bank of England will have to raise interest rates. The CBI also believes that growth in the economy this year will be 1.6% and in 2018 1.4%, a rather more optimistic view than their earlier one in November in which they predicted zero growth for 2017 and a 1.2% contraction for 2018.

At the end of the month the FTSE 100 was at 7,312, down slightly towards the month end, and the FTSE 250 stood at 19,340, also down slightly at the month end. Sterling has done slightly better this month; one pound sterling will buy you \$1.31 or 1.15 euros.

Data just released by the Office of National Statistics shows that in Q1 2017 the UK was the lowest performer of the G7 countries and also the lowest of the 28 EU countries, with growth in the quarter of 0.2%. But UK business investment held up well, up 0.6% quarter-on-quarter.

Meanwhile within the EU the Greek government has rejected a compromise proposal by the IMF to resolve the impasse over their indebtedness. Debt relief for Greece is not an option in Germany, with elections pending and with hostility towards debt relief. Greece on the other hand is seeking clarity on debt relief measures that can be carried out before the bailout ends in 2018.

Business confidence in the EU is rising and in Germany it is now at an all-time high. Inflation across the Eurozone is now at 1.3%.

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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
f: +44(0)870 138 9714

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

ALUMINIUM

Having seen the LME primary aluminium price in April hit \$1950 per tonne and starting the month of June at \$1930, it then nose-dived during June to as low as \$1861 and finished June at \$1908. The reasons put forward were the poor state of the US dollar and growing aluminium stocks and slow moving inventory. China was also ramping up production during May by 4% year-on-year and doubts are being raised about proposed capacity reductions in China.

At the end of June the duty paid premium for ingot was quoted by Metal Bulletin at \$130-140. For 6063 billet the duty paid premium at the end of the month was quoted at \$330-345 in Rotterdam and \$365-380 in the Ruhr. In Brazil it was \$280-300. The premium has moved up slowly during the month. Concerns have been raised about the position of Qatalum, in Qatar, over their ability to deliver aluminium ingot or billet. Saudi, UAE, Bahrain and Egypt have cut off transport links with Qatar and, more importantly, UAE will not now allow shipments into port of goods bound to or from Qatar.

The UK demand for secondary foundry ingot has been high and, with very little imported secondary ingot, the UK secondary refiners have been busy. LM24 pressure diecasting alloy is quoted at the month end at £1560-1640 per tonne and LM25/LM6 at £1700-1840. The exchange rate favours exports but there is little incentive to export when better prices are available at home. The LME aluminium alloy price started the month at \$1635 and ended at \$1600. The aluminium alloy price on the LME has been falling steadily since March 2017 when it was at \$1710.

AUTOMOTIVE

The May 2017 data for new car registrations has been published by SMMT and the total, 186,265, is 8.5% down on May 2016. The interesting trend shown is that compared to May 2016 the sale of diesel cars is down by 20% but for petrol cars it is slightly up on last year by 0.4%. The percentage increase for the alternative fuels is large, 47%, but the actual numbers involved are relatively small compared to diesel or petrol, 8,258 in May 2017. It is not for SMMT to speculate on why diesel car registrations are way down but of course there are health concerns with diesel cars, the possibility of heavier road tax, the possibility of barred entry to some town centres and the possibility of a scrappage rule for older diesel cars.

In terms of numbers of thousands of new car sales, the league table for May 2017 was:
 Ford Fiesta 7.6, Volkswagen Golf 5.4, Nissan Qashqai 4.9, Ford Focus 4.4, Volkswagen Polo 4.2, Vauxhall Astra 4.1, Vauxhall Corsa 4.0, Mercedes Benz C class 4.0, BMW Mini 3.5, Mercedes Benz A class 3.3.

Turning to UK car manufacture in May 2017 the data mirrors that of new car registrations, with production falling by nearly 10% compared to May 2016. There were 136,119 cars built in May 2017. The industry is now preparing to boost production of new models, with exports continuing to be the main driver of demand.

The SMMT has just released a summary of the industry's performance for last year to indicate the importance of this industry sector to the UK economy. A record 1.72 million cars were made last year in the UK, of which 1.35 million were exported. This was the seventh consecutive year of growth. Productivity was at record levels, with 11.8 vehicles per employee. Of the total value of UK exports, 12% is made up from cars. A total of 814,000 jobs are supported by the UK car industry. The SMMT believes that to keep that momentum a further 50,000 staff must be recruited by 2020. At the moment 10% of the total UK workforce in the automotive industry is from the EU. SMMT points to the need for a free movement of talent. Their other objective is for 50-60% of a car's content to be produced from components made in UK. At the moment the figure is 44%.

Jaguar Land Rover made a start to putting those hopes and aspirations into reality with an announcement that they are now seeking to recruit 5,000 new engineers over the next year, to develop new models, including electric cars. Of the 5,000 recruited 1,000 will be electronic and software engineers. The company is accepting applications through the normal routes but they are also being innovative by fast tracking candidates who succeed in working through challenges posed on a company app, including car assembly and problem solving skills. Candidates will be accepted globally for positions in the West Midlands.

Sales at the larger and more profitable end of the JLR range have slowed after being hit by the new car tax rates on the gas guzzlers. The Jaguar 4x4 F-Pace is speeding out of the showrooms but sales of models like Range Rover, with a car tax rate of £2,000, have stalled. The company hopes that sales have stalled because buyers are waiting for the release of the new Discovery.

Leaving aside for a moment the development of new models, JLR are also building Jaguar Classic Works, a £7 million factory at Ryton-on-Dunsmore. By the end of this year the plant will employ 120 staff, mostly experienced Jaguar and Land Rover veterans, producing hand-built reconstructions of Jaguars of more than 50 years ago. It is estimated that there are more than one million old Jaguars, Land Rovers and Range Rovers that owners wish to keep in full running order. Jaguar Land Rover Classic is seeking original models for restoration. If the "nuts and bolts" of the original designs are not available the company will re-engineer parts from the original specifications. This will be the world's largest facility of this kind.

The UK government is pulling out all the stops to ensure that the BMW electric Mini is made in Oxford, where 8,000 people are employed on a very successful petrol model. The electric Mini is scheduled to go on sale in 2019. The clock is ticking. Although electric vehicles account for only 0.2% of all cars, there are over two million of them worldwide. China accounted for 40% of the global total sales last year for electric cars. In Europe Norway has the largest percentage of electrics, followed by Netherlands, Sweden and France. Battery costs and energy efficiency are making electric cars more competitive against conventional fuel cars. The International Energy Agency believes that by 2020 the present two million electric cars will have grown to between 9 and 20 million.

Rolls-Royce has announced that the eighth generation Phantom will make its world debut on 27 July 2017 at the Great Phantoms Exhibition in London and Phantom VIII will have new aluminium architecture.

AEROSPACE

The Paris Air Show this month is usually held with Airbus as the home favourite against Boeing. This year neither company was unveiling any new planes and the emphasis fell, not on manufacturers but on the airlines themselves and the challenge to make long haul flights more profitable. Boeing showed a new version of their single aisle 737 Max 9 with 220 seats and Max 10 which is due to be revealed in 2020, being lighter and with better fuel efficiency. Airbus had a more fuel efficient A380 on the tarmac, the A380 Plus, with a longer range but there is now limited scope for the A380 type of plane. The Airbus A321 is selling well against the Boeing 737.

It seems these days that there always have to be winners and losers and for the first time since 2012 Boeing were clear winners at Paris. The total orders for both companies were for 897 planes worth \$114 billion. Boeing had 571 new orders worth \$75 billion but these are at list prices and take no account of discounts and the fact that orders at this stage are often provisional. They sold 30 787 Dreamliners, their answer to the Airbus A380. Airbus took 144 firm orders and 182 provisional orders worth \$39 billion.

The Paris Air Show was also a home fixture for Constellium who were showing their Airware high performance aluminium-lithium alloys, designed for aircraft and spacecraft structures. Airware alloys also include some aluminium-copper alloys for extrusions and sheet applications in aerospace.

Away from air shows Viva Air has provisionally ordered 50 of the A320 Airbus planes, an order worth about \$5 billion, for use in their fleets out of Columbia and Peru. On the other hand Monarch has ditched its long standing relationship with Airbus and they have now placed orders for 45 Boeing 737 Max8 models.

BUILDING AND CONSTRUCTION

The Markit/CIPS survey on building and construction showed growth rebounding to a 17-month high in May, driven by house building, with the fastest upturn seen since the end of 2015. The Construction Purchasing Managers' Index showed 56.0 for May, up from 53.1 in April. The May data also showed solid rises in civil engineering and commercial building. The month of May also saw a marked rise in employment levels across the whole construction sector. Prices for imported materials continue to rise but the overall rate of input price inflation has eased from the peak at the start of the year.

PACKAGING

According to Technavio the global aluminium can market has grown over the period 2009 to 2016 at a rate of 2.7%. They calculate the global aluminium can production at 285 billion. That being the case, and using the factor of 70,000 cans to one tonne, the can market globally takes 4 million tonnes of aluminium, a significant part of the global aluminium production. If 70% of the cans used are recycled that it is also a significant part of the recycled aluminium supply chain. In regional terms North America is the largest consumer of aluminium cans at 33%, followed by Western Europe and Asia-Pacific. Rexam is the

world's largest can producer. The analysts forecast that the global can market for food and beverages will grow by 3%, CAGR, from 2017 up to 2021.

Technavio has also examined the aluminium foil packaging market globally and they estimate, with a market growing at 6.5%, the total tonnage consumed will reach 12.45 million tonnes by 2020. According to the Aluminum Association in USA the aluminium foil market is worth \$5 billion, about 36% of the total consumed in USA is supplied by imports.

Technavio is a London based, leading market research company with global coverage. They research emerging trends across many industries, including aluminium.

ENERGY SUPPLY

Oil prices tumbled on the world markets as soon as USA announced that they were pulling out of the Paris Accord on global warming. USA is already producing 9.3 million barrels per day, close to Saudi Arabia and Russian levels of production. It is expected that the USA will now ramp up production even further. The price of Brent crude oil fell below \$45 per barrel towards the end of the month and finished around \$47. The longer term prediction indicates that the price could well be \$40 per barrel. America's largest oil fields can still be profitable below \$40 per barrel.

The National Audit Office has reported that the UK government overpaid on the Hinkley Point nuclear station by some £15 billion. During the protracted negotiations over Hinkley Point alternative low carbon energy sources were became more economic. The Hinkley Point costs were kept off the Government balance sheet but it had to give guarantees on price over 35 years at double the current market price, which itself is expected to fall further. The NAO recommends a regular review on the viability of large nuclear stations. The position of Hinkley Point was not helped by a report from Ofgem that offshore wind power is now producing electricity that is 25% cheaper to produce than Hinkley Point is projected to achieve. The turbines are bigger, more efficient and with economies of scale in manufacturing. It would seem that the day of the very large nuclear stations has now gone, even before they are up and running.

OTHER MATERIALS

Just over a year after the company was sold for £1 by Tata Steel, the re-named British Steel at Scunthorpe is back in profit, the first since 2009. Greybull Capital bought the company, producing long products such as rail steel, and turned it round with the support of the 4,400 employees. Clients now include French and Italian railways and Crossrail. British Steel is now considering introducing electric arc melting at Scunthorpe as part of a £40 million investment this year.

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