ALUMINIUM FEDERATION

MARKET REPORT

DECEMBER 2016 - JANUARY 2017

ECONOMY

The UK economy ended 2016 as the strongest of the world's G7 advanced economies with growth for the year at 2.2% and 0.6% in Q4. The FTSE 100 started December at 6840 and ended the month on 7140. The FTSE 100 recovery was led largely by recovery in mining companies and the oil majors and is dominated by companies earning in US dollars. A better index for UK companies is the FTSE 250 which started the year at 16150, got to 18010 at the beginning of December and ended the year on 18150.

At the year end the pound stood against the dollar at $1.23 and against the euro at 1.17 euros.

An Institute of Directors poll in December reported that 60% of those members surveyed were optimistic about the year 2017. Future inflation levels, now 1.6%, and skills shortages remain concerns. Growth in manufacturing industry eased back during December from 54.2 in October to 53.4, according to Markit/CIPS. Any value above 50.0 indicates expansion. The Purchasing Managers Index showed a figure for the manufacturing sector activity in December that was the highest for two and a half years. Companies reported concerns about the effect of the low value of sterling on the rising price of imported raw materials. The CBI Employment Trends Survey showed 41 % of companies expecting to increase their workforce during 2017 and 44% expecting no change. The Engineering Employers Federation (EEF) members reported that growth in manufacturing in Q4 2016 averaged out at 13%, up from Q3 of minus 7%.

In Germany business morale reached the highest level for three years in Q4, the highest level since February 2014.Forecasts for growth in Germany in 2017 are 1.5% and for 2018 of 1.7%. Most of the concerns for Germany are caused by factors arising from other countries particularly Italy, Greece and USA.

The problem of the indebtedness in Greece has again bubbled to the surface. The dispute now is the refusal of the Greek government to accept further austerity measures that have already pushed the unemployment rate to the highest in the EU and the loss of one in three businesses. The IMF and the Greek government are now deadlocked and there is no agreement on the terms of the next bailout package or the repayment of loans due in July. An IMF report warns that Greece may have to leave the euro.

During January the FTSE 100 reached 7350 and finished the month on 7180. The FTSE 250 ended January on 18190. Against the pound at the end of January the dollar stood at $1.26 and the euro at 1.17 euros. Q1 2017 for the UK at the moment looks to be a continuation of Q4 2016.

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Estimates for growth in UK in the next three years are indicating lower rates than we have seen in the last two years, 1.5% in 2017, then 1.0% in 2018 and 1.4% in 2019 from the Office of Budget Responsibility, although the Chancellor is slightly more optimistic. Inflation in 2017 could be over 2% and the Bank of England is making noises about possible increases in interest rates. The Financial Times survey for the coming year revealed the view that household incomes will be hit by higher inflation and businesses will hold back on investments until there is more clarity on future trading relationships, not just in Europe but also around the world.

ALUMINIUM

The IAI data for the year 2016 shows that global primary aluminium production increased by only 0.5% over the previous year. Production in both China and the Gulf States showed no increase over 2015. Such a situation in primary production last happened in 2008/9 with the global financial collapse. On the LME the price of primary aluminium started the month of December at $1724 and ended the month at about the same price without any significant fluctuations. Traders reported that there was a lot of metal available and companies were reluctant to carry high metal stocks over the year end. Duty-paid premiums for ingot in December were reported by Metal Bulletin at $118-130 per tonne.

In early December the new Hydro Aluminium plant at Grevenbroich was producing coils for the automotive industry, having had test coils passed by customers. The new plant, costing 130 million euros, is up and running after only 18 months since the foundations were dug.

The year 2017 started with an LME primary aluminium price down at $1700 per tonne but climbed steadily over the next three weeks to $1870, the first time since May 2015 that the price has been above $1800. The slower growth rate in primary production and some optimism for the New Year on aluminium demand may have been the drivers for the higher prices. Ingot premium, duty paid in Rotterdam, is now up slightly at $130-140, from last month's level of $120-135, according to Metal Bulletin. Rotterdam billet premiums have also edged higher and are now in the range $295-320, duty paid, in-warehouse, with the usual proviso that there are other factors of finance and delivery that may affect this price level. In Germany billet premiums duty paid, for delivery in the first quarter of 2017, 30 day payment terms, are quoted at $335-355 per tonne. Consumers and producers indicate that the market has started to pick up since the beginning of January. Most buyers remain short but there is reluctance to buy at higher prices while exchange rates are volatile.

On the LME at the end of January primary aluminium was listed at $1819 per tonne with a three months price of $1821. Aluminium alloy was listed at $1585 per tonne with a three months price of $1610. So, little change expected there. The LME contract for aluminium ingot premium stood at $80 per tonne.

Scrap prices in both the UK and Europe were pulled up alongside the LME primary price. In the UK good quality litho and HE9 extrusion scrap were reported by Metal Bulletin at £1260-1320 per tonne and wheels at £1140-1220. For foundry ingot LM24 was at £1470-1520 and LM6/25 at £1680-1720 per tonne. The LME aluminium alloy price, which tracks the primary metal contract, is now at $1585 per tonne, and one German secondary refiner claimed that with current scrap prices ingot could not be produced for less than 1660 euros.

For the UK extruders, looking at Orders Booked they held their own in the home market in 2016 compared to 2015, the data showing a small increase for 2016. The export data for 2016 shows a significant increase of 28% over the previous year. Q1 and Q4 were the strongest quarters. As is usual, building and construction end use claimed the highest home market share of 39% in 2016.

The BOAL Extrusion Group has sold their Belgium extrusion company to E-MAX Group, as BOAL now focuses on developing selected territories, Netherlands, Germany, UK and Ireland. BOAL will continue to service its primary markets through their UK and Netherlands based sites.

Alcoa has always been the bellwether for the global aluminium industry but now one has to look at both Alcoa and Arconic. Like all global aluminium companies Alcoa has faced a flood of aluminium supply from China and weak metal prices. They reported a loss of $125 million, a better result than the year before, but the market expected an even better result. Never-the-less Alcoa shares are up by 58% since the split and Arconic shares are up by 12.7%. Looking ahead Alcoa expects that global aluminium demand will grow this year by 4%.

The USA launched a WTO claim against China for the subsidies that are being paid to the Chinese aluminium industry and one can expect more of the same from USA with a new “America First” policy. It is reported that the European Commission are watching closely.

AUTOMOTIVE

SMMT data for November shows UK new car registrations at 184,101 vehicles, a 3% increase over November 2015. For December 2016 new car registrations were at 178,022, down slightly on the previous month but understandable since December is a short month for car sales. The total annual 2016 registrations were 2,692,786 vehicles, the highest number of registrations back to the year 2000 when our data collection started. The leading manufacturer was Ford, with 12% of the total, with other importers Volkswagen at 7.6%, BMW, 6.7%, Audi, 6.6%, Mercedes Benz, 6.3%, and Peugeot, 3.7%, emphasising the important role of imported cars into the UK economy. Some 85% of all new cars bought in UK are imported. SMMT believe that 2016 will see the peak of UK car sales and 2017 might see 5% fewer new cars sold as the UK economy slows with increased inflation, lower sterling value and higher interest charges.

Looking at UK car manufacturers, in November 2016 the total number made in the UK was 169,247 vehicles, up 12.8% year on year. At the end of January SMMT revealed the December 2016 and full year 2016 data on car and commercial vehicle production in UK. The December 2016 total production of cars was down slightly on December 2015 at 113,976 cars. But the total for the whole year 2016 showed record levels at 1,772,698 cars, the highest level for 17 years. Of this total 78.8% were exported. For commercial vehicles 93,924 vehicles were produced, 58% of which were exported.

Rolls Royce Phantom will now be produced using a light-weight aluminium platform and all of their future super-luxury cars will have the durable aluminium chassis and body. The current Phantom model ended production in December 2016 and the new version will hit the showrooms in 2018.

In the UK automotive supply chain CovPress, which opened in Coventry 120 years ago as Coventry Radiator and Presswork Co., went into receivership in 2016, having been a major supplier of pressed aluminium and steel components. In 2013 a major Chinese company acquired Coventry Pressings but were over-stretched even though the company had very up-to-date robotic assembly and technology. Liberty House, recent buyers of the Lochaber primary aluminium smelter, has bought the company and it has been renamed Liberty Pressing Solutions and will join Liberty House industries division which already employs more than 1000 people supplying into the Midlands automotive sector, including Jaguar Land Rover. This should go some way to reduce the UK automotive industry's reliance on imported components, as well as being a major platform for aluminium pressings supply.

On the global scene Volkswagen in 2016 became the world's largest car maker by sales with 10.3 million vehicles sold. VW also owns Audi, Porsche, Skoda and Bentley. This has been achieved in spite of the scandal on diesel emissions that became public in September 2015. In China alone VW sold 4 million cars. They take the crown from Toyota with 10.2 million vehicles. Toyota owns Daihatsu and Hino and they also produce Lexus.

AEROSPACE

Airbus has posted good news and bad news. They have postponed the delivery of twelve A380 superjumbos to Emirates. Six of the jets will now be delivered in 2018 instead of 2017 and a further six will be delivered in 2019 instead of 2018. Some of the delay can be attributed to problems that Emirates are having with Rolls Royce engines, adding further woes to Rolls Royce at the moment.

The A380 was launched in 2005 but has been beset with production problems and has been well over budget. It finally reached a break-even point last year but, as we have reported in earlier months, the trend now is for smaller, more flexible single aisle aircraft.
The good news from Airbus is that they have received an order from Air Iran for 100 aircraft but there are no A380s in the order.

Boeing has also been given a good order from Air Iran for 80 new aircraft. Their Q4 profits lifted their share price to an all-time record. Their 2017 production schedule will top the 748 commercial jets that they delivered in 2016 and there will be fewer of the wide body 777 aircraft.

In 2016 the UK aerospace industry grew at a rate of 6.5% to £31 billion, 87% of which was exported. Growth over the past five years here outpaces the wider manufacturing industry sector, according to ADS, the industry lobby group.

BUILDING AND CONSTRUCTION

The latest Markit/ CIPS survey of construction purchasing managers shows a figure of 54.2 for December, up from 52.8 in November, and well above the 50.0 no change level. This is the fastest rise in orders since January 2016 and beats the forecasters who had expected a further reduction over the November figure. September through to December has seen solid growth. Housebuilding has been the major driver with infrastructure and commercial building also up from the weak point of last summer.

A report has revealed that in the second half of 2016 government procurement showed a sharp rise in the work put out to tender as the restructured government opened the purse strings. UK government construction tenders nearly doubled to more than £40 billion during H2 2016. It is hoped that UK suppliers will be strongly considered when public sector procurement projects are put out to tender.

ENERGY SUPPLY

Since the OPEC agreement on global oil supply the price per barrel has crept up above the $50 per barrel mark to around $55. But a recent BP report indicates that the prospect of any return to the $100 level of not so long ago is remote. The world now has access to more than twice as much oil as it consumes. There has been improved exploration and extraction, coupled with energy saving measures and an increase in the use of other forms of energy. BP sees that position lasting for the next 30 years, although the $55 level will not be the settling point but high levels are very unlikely to return.

More of the UK supply of electricity is now generated by wind turbines than by coal fired power stations.

OTHER MATERIALS

In December the UK government's attempt to resist tougher sanctions against cheap imported steel from China was finally overcome when the European Council agreed to boost trade defences. The UK government has always followed a "free trade" philosophy. The UK Steel trade association applauded the move and stated that the proposed measures did not go far enough.

The Scunthorpe steel works, now owned by British Steel, is on course for 2016 to be better financially than "break even" and they are looking for £120 million profits in the current year 2017. They welcomed the government's latest Green Paper on industrial strategy that promised to support local procurement.

Tata Steel has agreed to keep the Port Talbot blast furnaces running without cutting the workforce for the next five years. They have also agreed to put £1 billion into the company pension fund over the next ten years. The reduced value of sterling and the better global steel prices have allowed Tata to halt any proposed sale of the site. Much of their product is used in the UK car manufacturing sector and the loss of Port Talbot would have been a major blow.

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