MARKET REPORT – MARCH 2017

ALFED
ALUMINIUM FEDERATION

MARKET REPORT

MARCH 2017

ECONOMY

The FTSE 100 has been falling during the last two weeks of March and finished the month on 7,323 and the FTSE 250 was on 18,972 at the month end, showing a steady rise since July 2016. As March ended the pound was worth $1.25 and 1.17 euros. Inflation in the UK in February reached 2.3%, up from 1.9% in January, and prices are now increasing at a faster rate than wages. The official data confirms that there is a squeeze on household finances and there is the prospect of an interest-rate increase. Predictions on inflation rate are for 3% by the year end.

The weaker pound has helped manufacturers to deliver the highest rise in export orders for more than three years. The CBI reports that across the board companies are more optimistic than at any time in the past 20 years. There are concerns however on the increasing cost of both imports and energy. There is evidence now that the economy is rebalancing growth from consumption towards manufacturing. During Q1 2017 the trade deficit in goods and services fell from £11.1 billion to £6.4 billion.

The spring budget this month was notable for what it did not do for UK manufacturing industry than for what it did do. Money will be made available for investment in electric cars and robotics but a decision on carbon price has been delayed until the autumn budget and a draft plan for air quality will be published later in the year. Packaging recycling targets have been increased, although one could be forgiven for thinking that this is not a Treasury matter but one for the Department of the Environment. There was nothing on energy efficiency, no changes in landfill tax and, incredibly, nothing on encouraging investment to increase the percentage of parts for the UK automotive industry supply chain to be made in UK rather than imported. The SMMT were scathing about the failure of any measure that will improve the supply chain for the automotive industry, in spite of representation made by individual companies such as Nissan and Vauxhall, as well as collectively. An IoD spokesman pointed out that emphasis on business rate changes act as a disincentive to invest in plant and machinery. Budget support for the UK metals industry, particularly steel and aluminium, was missing.

Growth in the Euro Zone in 2016 was 1.7% and is expected to reach 1.8% in 2017. Inflation is now at 2%, the target for the ECB is below, but near 2%. Interest rates are expected to remain constant at least until the second half of 2017.

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

On the LME primary aluminium started the month strongly at $1,934 per tonne but by the middle of March it had slipped back to as low as $1,851. However the weaker dollar caused the price to top the $1,900 level and at the month end it was at $1,954. The LME aluminium alloy price was $1,685. Stocks at LME warehouses are now below 2 million tonnes, the lowest level since 2008.

Metal Bulletin reports regularly on premium paid for delivery of aluminium ingot and billet, collecting data from buyers, sellers and traders from the Rotterdam warehouse to assess the market. They have now moved the minimum tonnage for shipments for inclusion in the data collection from 25 to 100 tonnes. The premium in individual transactions will vary with details of factors such as financing and delivery conditions and also, in the case of extrusion billet, details such as homogenisation. As in any market higher quality fetches a higher price. Towards the end of the month Metal Bulletin were reporting ingot duty paid premium from Rotterdam at $150-160 per tonne. The LME ingot premium was at $95. Delivery of extrusion billet to Germany from Rotterdam was reported by Metal Bulletin at a premium of around $360 per tonne, with traders bullish for Q2 and H2 2017.

When the full history of the UK aluminium industry comes to be written the name British Aluminium will need several chapters, particularly on how the company was bankrupted in 1982 through little fault of their own. British Aluminium was founded in 1894 and was a cornerstone of the UK aluminium industry for many years. It became a part of Reynolds Metals and the TI Group. In the late 1960s BA was persuaded by the then UK government's "white hot technology revolution" to invest in a UK primary smelter and they chose Invergordon in Scotland as the location. To finance the smelter BA sold a 54% share in a successful primary aluminium smelter in Canada. The smelter opened in 1971 with energy supplied by North of Scotland Hydro-Electricity Board, with government support. BA also contributed to the cost of the Hunterston B nuclear station that was being built by NSHEB and from which BA would eventually take power. The power costs were estimated for the smelter by "experts" in nuclear technology. The smelter operationally proved to be one of the most efficient in Europe. The nuclear station however over-ran on construction in both time and costs and the electricity supplied was vastly more costly than BA had been led to believe. They then discovered also that NSHEB was holding BA legally responsible for a share of the maintenance costs of the station, in proportion to their part of the total output. These costs were also crippling. By 1981 BA had not paid for the energy consumed but had reserved a sum in their annual accounts. By then the smelter was showing a loss of £20 million which would have bankrupted the company. Government support for the company meanwhile evaporated. BA cut their losses, closed the smelter and were taken over by British Alcan. In 1995 the CEO of what had been BA wrote a short book entitled "Never trust an expert"; It has since been a best seller in every UK university department offering an MBA.

It was therefore good news this month to see that the Lochaber primary smelter, purchased recently by the SIMEC Group, has been renamed Liberty British Aluminium. The British Aluminium name lives on with the best wishes of the UK industry. Liberty plan to construct an aluminium cast alloy wheel plant and are considering a new rolling mill with a £450 million investment within the smelter. Their bio-fuel generating units within a hydro-electric station, installed to back up the hydro-electric capacity, will make this “the greenest metal producing facility in the UK”. The new investment plans will generate up to 300 more jobs directly and many more in the supply chain in the Scottish Highlands. The Liberty House Group is also now setting up a trading team in Geneva to act globally for the company in aluminium and alumina.

Aluminium Shapes, the long standing ALFED extruder member company based in Corby, are pleased to announce that their new owners are Aluminium Developments Group Ltd, a consortium formed by Mr Joe Martoccia and Anglo European Group. Together with funding from existing shareholders and the management team and from AIB (GB) they will be delivering a well-structured robust platform for growth with particular contacts in the fenestration and road transport markets, building on their already diverse customer base. In the accounts to June 2016 Aluminium Shapes showed a turnover of £9 million and a profit of £850,000.

There are new owners also for ALFED members Vertik-Al Ltd. based in Birmingham and notable for being the first UK plant to install a vertical aluminium powder coating line. They have been acquired by investment funds led by venture capitalist Jon Moulton who has links with many industry sectors including fenestration.

The Norsk Hydro annual accounts for 2016 showed reduced revenue, earnings before interest and tax were down 7% over 2015 but it also showed operational excellence across the board. Earnings from primary metal were well down on the previous year and from rolled products less so. The company reports good progress on their improvement campaign.

Constellium has also reported their 2016 figures. Their earnings before interest, tax, depreciation and amortisation were up on the previous year by 10%., indicating improved operations and higher profitability in automotive structures. In aerospace and transport revenue decreased by 4% even with higher shipments. Packaging and automotive rolled products showed earnings up by 10%.

Aleris Corporation reported 2016 figures with revenues down over the previous year and earnings before interest, tax, depreciation and amortisation down to $205 million compared to $223 million in 2015. The merger with Zhongwang USA LLC is expected to be completed in Q1 2017.

R Collard, a UK based demolition and waste management company, is to set up a new metal recycling facility in Wokingham, Berkshire. They expect to be processing ferrous and non-ferrous metals, including aluminium and copper, with shredders and balers. Some of the metals processed will come from their own demolition activities, from materials collected at their metals recycling facilities and from skip hire customers.

AUTOMOTIVE

Toyota has announced an investment programme of £240 million to upgrade their plant in Derbyshire, backed by a £21 million of government funding, as a sign of confidence in their workforce and suppliers. The improved production line will enable the company to produce the next generation of cars. The Derbyshire plant employs some 2,500 people and last year produced 180,000 cars. Another 600 staff work at their Deeside, North Wales, engine plant. About 85% of the cars made in Derbyshire are exported, mainly to Europe. But as other car companies have already indicated, it is vital for them that the continued tariff and barrier-free market between the UK and Europe is maintained. The government's financial contribution will help fund training, research and plant environmental protection.

In the February Market Report we referred to the intention of PSA, owners of Peugeot Citroen, to buy the General Motors operations in Europe, Opel and Vauxhall. This would of course include Vauxhall's plants in Ellesmere Port making Astra cars, and Luton making Vivaro vans. The £1.9 billion deal has now become a reality. It has long been a problem for the UK automotive industry that the majority of their supply chain is not in the UK. According to SMMT that position is slowly changing and over the past five years the share of home-sourced parts has increased from 36% to 41%. In the case of the Vauxhall Astra from Ellesmere Port only 25% of the parts by value come from Britain. The Automotive Council, a government and industry organisation, believes that it should be possible to get this overall figure of 41% up to 80%. Sadly, they quote as an example of the gap, that there is no domestic producer of aluminium alloy wheels. Hopefully Liberty British Aluminium is planning to fill that gap with their new installation, as mentioned above.

The CEO of PSA has reassured workers at Ellesmere Port and Luton that the company wishes to build up the domestic supply chain to mitigate the cost of bringing parts from Europe. The advantage would be to have UK plants with a pound cost structure. At the moment production commitments expire in 2021 for Ellesmere Port and 2025 for Luton. The combined new company has 24 factories across Europe and inevitably in the long run some plants will close. Increasing the supply chain from UK companies is vital to the UK automotive industry and that cannot happen without government support, which, from the spring budget this month, wasn't at all obvious.

The question of increasing the supply chain for the UK automotive industry from home sourced components took an interesting turn this month from Gestamp, based in Madrid, a major supplier to the car industry in Europe, America and Asia. They have six plants in the UK and one research centre and they are Tier 1 suppliers of metal components to JLR, Nissan, BMW Mini, Honda, Toyota and Vauxhall, Luton, employing 2,600 people. They have just invested £70 million in a new plant north of Wolverhampton, where JLR has recently opened a new engine plant. ALFED Member Gestamp is now undertaking a public offering to the value of 3.5 billion euros in Madrid. They view their investments as for a ten to fifteen year period and they insist on being sited close to their customers.

The London Taxi Company has just opened its new plant at Ansty in Coventry. It will be building the well-recognised black cab and also electric vans for home deliveries. The plant employs 600 people and that should rise to 1,000 once it hits full production. The investment by parent company Geely totals £325 million. This company, one of China's largest car makers, also owns Volvo and much of the technology is from the Swedish car maker. The three cylinder combustion engine and electric power train are from overseas and, at the moment, 33% of the components are sourced from Britain. The company will also target major cities in Europe where lower-emission taxis are demanded. In London after January 2018 newly registered taxis must run at least partially on zero-emission technology. The plant will be the first UK dedicated electric vehicle plant and they will be using an aluminium body structure.

The use of aluminium in the automotive industry in USA took another step along the road with the announcement that Arconic will have a sole supplier multi-year deal with Toyota North American to supply aluminium sheet for their fleet including the Lexus RX car, nominated in USA as the best luxury SUV of 2016.

BUILDING AND CONSTRUCTION

Growth in the UK's construction sector accelerated in February but the industry is struggling with intense cost inflation and a slow-down in new orders, according to the monthly purchasing managers' index. The February figure was 52.5, up slightly from January's 52.2. The civil engineering sector was the driver for the slightly better February data but house building fell to its lowest level for six months.

PACKAGING

In the budget presentation this month the Chancellor announced new annual packaging recycling targets for aluminium, paper, steel and wood for 2018 to 2020. The target for aluminium goes from 55% this year to 64% in 2020 (58% 2018, 61% 2019), for paper from 69.5% to 75%, for steel from 76% to 85% and for wood from 22% to 48%. Rick Hindley, executive director of Alupro was reported to be disappointed with the Government's approach and warned that the new targets could undermine the PRN system and the achievement of future targets. Alupro had proposed increasing the 2017 target (which was already in place) and then "front end load" the targets for 2018 to 2020. Current recycling levels are already exceeding the levels which are now required to hit the targets announced for 2017 and 2018 resulting in low PRN prices. He feared that recyclers and exporters would not feel compelled to be part of the PRN system, undermining the real extent of aluminium recycling. He emphasised the importance of the PRN revenues that are generated going towards improving recycling in the UK.

ENERGY SUPPLY

Oil prices remain around $55 per barrel of Brent crude as the OPEC agreement still holds. What it has done however is to boost shale oil production in USA to levels not seen since 2014. In that year the breakeven cost on a barrel of US shale oil was $60 and in 2017 the breakeven point is now $30. On some US sites the breakeven point is as low as $15 per barrel which compares well with Saudi Arabia's $9, Iran's $10 and Iraq's $11. OPEC met again on 26 March.

The rush for coal-fired stations across particularly India and China is now easing. At one point China was building one new coal-fired station every week. Last year the rate of development of coal-fired stations across the world fell by 62%, making the climate change agreement signed in Paris in 2015 achievable. The emphasis in reducing global warming gas emissions is now towards making these coal-fired power-stations more environmentally efficient rather than abandoning coal as a fuel.

In the February Market Report we indicated that there were serious problems with the finance and building of the NuGen nuclear station in Cumbria, with Toshiba supplying Westinghouse reactors. Toshiba were forced to write down $6.3 billion following losses at Westinghouse. Westinghouse in USA has now filed for bankruptcy under Chapter 11 although their UK subsidiary is still operating and the company insist that its role in the plant is not affected. NuGen meanwhile are pressing on with obtaining appropriate permissions and licenses to construct the Cumbria plant. The Westinghouse AP1000 design of reactor has already been approved by the Office of Nuclear Regulation.

ALUMINIUM FEDERATION
31 MARCH 2017