MARKET REPORT – APRIL 2017

ALFED ALUMINIUM FEDERATION

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ECONOMY

The good news at the end of the month from the Office of National Statistics was that government borrowing has dropped to its lowest level since 2008. Revenues from income tax and corporation tax due to a strengthening economy, as well as the timing of payments to the EU, led to the better figures.

On the other hand, other data for the UK economy, also from the Office of National Statistics, confirms what earlier evidence had suggested; that in Q1 2017 the UK economy has slowed down. The figure for the quarter is 0.3% against 0.8% in Q4 2016. The IMF's earlier forecast for the UK economy in 2017 of 2% growth may now begin to seem optimistic.

Consumers are starting to cut back on spending. The service sector, accounting for about 80% of the UK economy, had its worst quarter for two years. Inflation at 2.3%, a falling pound and increases in prices at the pumps are taking effect. But the EEF reports that production-related sectors of the economy are forging ahead thanks to an improving global picture and a more competitive pound. Manufacturing output in Q1 rose by 0.5%, although the value in Q4 2016 was a high point of 1.2%. The CBI survey found that the balance of businesses reporting an increase in total orders in the first quarter was the highest since April 1995. The pick-up was predominantly in export orders which rose at the fastest rate in six years. But investments in new plant and machinery are at their lowest level for six years.

Construction slowed from 1% growth in Q4 last year to 0.2% in Q1 2017. A CBI survey found that wholesalers and retailers expect the growth in sales to fall in the year to the end of May.

At the end of the month the FTSE 100 was at 7,203, only slightly down on the March end-of-month figure of 7,283. The fall in the FTSE 100 was due mainly to the poor performance of the mining sector. The FTSE 250 end-of-month figure was 19,615, up on the March equivalent of 18,906. The pound today will buy you $1.3 or 1.19 euros, slightly higher than the March values; apparently the announcement of a General Election strengthened the UK currency.

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ALUMINIUM

On the LME, primary aluminium started the month on $1,948 per tonne and managed to stay above $1,900 for almost all of April, finishing the month on $1,929. Aluminium Alloy was quoted at the month end at $1,690.

The production data for the UK extruders for 2016 shows that their total despatches were marginally up on the 2015 tonnage but the export performance was 15% better than the previous year. In Q1 2017 the positive trend continued, home market despatches were up by 8% and for export up by 12%. The 2016 official Customs and Excise data (Chapter 76) for imported aluminium extrusions into the UK from outside the EU for 2016 showed a total of 44,580 tonnes, of which 72% came from China. This tonnage was also the lowest value material in terms of £/tonne import price. Of the total import from non-EU countries 10% came from USA, but the very high £/tonne value shows that this material was high strength alloy for aerospace applications.

Alcoa Corporation has just released their Q1 2017 financial results, the first full quarter as an independent company. Net income was $225 million or $1.21 per share. Adjusted earnings before interest, tax, depreciation and amortisation were $533 million, up 59%, driven by higher alumina and aluminium pricing. The company expects that for the full year, adjusted EBITDA, excluding special items, will be $2.1 to $2.3 billion. Alcoa expect global aluminium demand to grow in 2017 by 4.5 to 5% over the 2016 value.

Arconic also reported on Q1 2017 with a revenue growth year-on-year of 4.5%, driven by higher volumes across all of their markets. They are winding down their North American foil business. Net income was $322 million against $16 million in Q1 2016. Engineered Products and Solutions was up 2% year-on-year for Q1, Global Rolled Products up 5% year-on-year and Transportation and Construction Solutions was up 5% year-on-year.

The US Government has latched on to a point that the EU has chosen to ignore. They have set up an investigation into whether the imports of aluminium products, particularly high strength semi-fabrications, have implications for national security in aerospace, military vehicles and naval vessel applications. They will investigate whether the US domestic aluminium capacity can satisfy the US defence needs and assess the effect of loss of skills and investments. China is a particular focus but imports from other countries such as Russia are of concern. The UK position, with regard to imports of aluminium extrusions from China and other countries, detailed above, speaks for itself.

In the Global Update for Q1 2017 we reported that China is making efforts to restrict the growth of primary aluminium production by setting strict environmental legislation. There are now indications that this is starting to bite. The Chinese government has stopped three new primary aluminium projects in Western China. At the end of last year a further 7.4 million tonnes of primary capacity was under construction that would take the Chinese primary aluminium capacity to 46 million tonnes p.a.

AUTOMOTIVE

The UK car production for March hit yet another record with 170,691 vehicles, 7.3% up on March 2016. This is the highest figure since the year 2000. Of this total 78% were bound for export and more than half of those were destined for Europe. New car registrations across Europe have increased recently by around 8% after several years of static performance and the lower sterling rate has helped the export sales of UK produced vehicles.

The UK commercial vans production is not quite such a rosy picture, the March 2017 total of 8,041 was 4% down on the March 2016 figure but interestingly a greater percentage of the 2017 total were for the export market compared to 2016. Exports of commercial vehicles were up 18% on the previous year with 61% of the total production being exported. Exchange rates again are playing a role.

For new car registrations in the UK in March 2017 it was again a record year, the total for the year-to-date of 820,016 was 6% up on year-to-date March 2016. Looking at the two years there has been a significant shift in the choice of fuel used, diesel powered cars have fallen, now at 44%, and petrol at 52%. SMMT points out that the new diesel powered cars are fitted with low emission, high fuel efficiency engines and they warn against penalizing owners who choose the new diesel engined vehicles.

For the year-to-date up to the end of March 2017 the list of producers in order is much as before, Ford Fiesta and Ford Focus take the top two places, followed by Vauxhall Corsa, Volkswagen Golf, Nissan Qashqai, Vauxhall Astra, Mercedes Benz C, Volkswagen Polo, BMW Mini and Nissan Juke, in that descending order.

In the global luxury car market Mercedes-Benz has now taken the title as best seller from BMW who has held the title for the last ten years. The Mercedes-Benz sporty designs and their increasingly popular SUVs have lured younger buyers. Their Q1 2017 profits were listed at 4 billion euros.

AEROSPACE

ADS, representing the UK aerospace industry, reports good news for Q1 2017.In the first three months of this year the big two, Boeing and Airbus, have received orders for 242 aircraft of the wide body, long haul type, a 42 % increase over Q1 2016. This in turn has fed through to UK companies in the aerospace sector of £6.5 billion of work, which is £1 billion more than Q1 2016. 2017 is looking to be a record year with 307 aircraft delivered in Q1, 15% up on the figure of five years ago. Over 13,000 aircraft remain on the order books of the global industry.

For Airbus, despite their Q1 2017 revenues rising by 7%, their profit in the quarter took a hit, falling 52% to 240 million euros, due in part to delivery problems with Pratt and Whitney engines for the A320neo.

With the good order books for the two majors in the sector it is significant that in April Aeromet International, a UK based specialist in aluminium castings and supplier of airframe and aero engine components, has secured their largest ever order from Boeing. The company will be supplying cast parts for the new generation of Boeing's 777X planes, using a proprietary alloy of the Al-Cu type. They have extended their long term contract with Boeing who are expanding their local supply chain.

BUILDING AND CONSTRUCTION

The Purchasing Managers' Index for Construction in March dropped slightly from 52.5 to 52.2. The Index is still above 50, indicating growth but the figure disappointed economists who now expect the construction sector this year to do no more than tread water. Construction accounts for about 6% of the national output. It is estimated that of the 250,000 houses needed, according to Government forecast, only 170,000 are actually scheduled to be built this year.

PACKAGING

Coffee company Nespresso has announced the launch of a recycling pilot project in partnership with the Royal Borough of Kensington and Chelsea, Alupro and Tandom Metallurgical Group. During the six-month trial, consumers in the Borough will be able to recycle their used aluminium coffee capsules through their regular council household recycling collection service.

The trial is the first pilot project of its type for the coffee specialist in the UK, and is part of a project to expand existing recycling schemes. Nespresso has run its own recycling services for the past seven years, but is responding to customer feedback requesting alternative recycling channels for the capsules.

Unlike some competitor products, Nespresso capsules are all-aluminium, and therefore infinitely recyclable using Tandom's specialist process. As well as recycling the capsules, the waste coffee grounds will be used to create nutrient-rich compost.

Should the pilot prove successful, Nespresso intends to roll our similar schemes with other local authorities.

ENERGY SUPPLY

The UK could face hikes in the price of gas during the winter of 2017 after safety problems have put Rough, a North Sea gas storage field, out of action. Rough has been operating since 1985 offering storage space for excess gas supplies that can be called on later as demand increases. It has a maximum capacity of 12 days' supply of UK peak demand for gas. Supply from the European gas grid and production from Norwegian off-shore fields can fill most of the gap left now that Rough closes but there may be price spikes in days of heavy demand.

On the other hand the National Grid is becoming embarrassed by over-supply of electricity as the growth of solar panels has increased electricity generation. During the summer, where there may be a significant drop in electricity demand, wind farms may be asked to switch off as the National Grid struggles to balance supply and demand. One of the problems of nuclear stations is that they are harder to switch off.

EDF, the French company committed to build the two new nuclear stations at Hinkley Point, is under pressure from the French government to close an old nuclear station in France for safety reasons. The company has so far refused to do so on the grounds that the financial stability of EDF could be jeopardised. The French government is anxious to reduce their dependence on nuclear, down from 70% to 50% of total demand for electricity.

The future of the NuGen nuclear plant planned for Moorside, Cumbria remains in intensive care. It was originally to be built by Toshiba, partnered by French company Engie, and using Toshiba's Westinghouse technology. Westinghouse is now in Chapter 11 bankruptcy although their technology is still available. Engie has taken up their option of selling their 40% share in the NuGen project back to Toshiba for £110 million. Toshiba has posted losses of £4.2 billion for the first three quarters of the year and their final year accounts could show a loss of up to £7 billion. Their auditors so far have refused to sign off the financial results that have been published. Toshiba is looking for new investors for the NuGen project, totalling £10 billion and may even back out of the deal completely.

Another £10 billion nuclear plant, Horizon, is planned for Wylfa in Anglesey, North Wales. Hitachi is in discussion with the UK government about this project; it is already on the Government radar as the owner of a train assembly plant in Co Durham. With the lower cost of renewable technology such as wind farms and solar panels and the falling demand for electricity, the costs involved in nuclear stations raise very difficult questions for government.

The supply and demand for oil is more or less in balance and Brent Crude is back around $52 per barrel. OPEC's efforts took it to about $56 but during this month the price has fallen steadily. Of concern now is the low rate of investment in new oil exploration projects. The key question now is for how long can the surge in US shale supplies make up for the slow pace of growth elsewhere in the oil sector. Global oil discoveries last year fell to a record low.

OTHER MATERIALS

The recent fall in the FTSE 100 was caused partly by the fall in share value of the major mining companies, BHP, Glencore and Anglo American. Steel output from China in March reached a record 72 million tonnes and there are fears that their output will hit new records as increasing demand is anticipated. Iron ore price, already in an over-supply situation, fell by a further 5% to $69 per tonne.

Copper has lost some of its earlier shine on the LME this year when it stood above $6,000 per tonne. At the end of April it was well down on $5,688.

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30 APRIL 2017