

MARKET REPORT

MAY 2017

ECONOMY

As is often the case with the UK economy it is not easy to know whether the glass is half full or half empty. The FTSE 100, London's blue chip index, ended the month on a record high of 7,519 and is predicted to hit 8,000 by October. The FTSE 250, dubbed the engine room of Britain, has passed 20,000 for the first time and ended May on 19,972. Activity in the manufacturing sector surged to a three year high, the purchasing manager's index in April reading 57.3. A CBI survey revealed that 41% of manufacturers saw production rise in the past three months and 12% saw it fall.

Retail sales staged a revival in April, the volume of goods sold in the shops and on-line rose by 2.3% compared to March, but there are concerns being raised about the indebtedness of the UK population with regard to the extent of credit being taken on credit cards. And economic growth in Q1 slowed to 0.2%, with inflation at 2.7%, hitting household budgets where wage inflation has not kept pace. The pound will buy you \$1.28 or against the euro 1.145 euros, both slightly down on the values reported in the Market Report at the end of April. Britain recorded its highest level of foreign direct investment last year, 39% coming from Europe but the investment from USA was at the lowest level in ten years. In Q1 2017 the UK trade gap widened by more than expected with a 3.3% rise in imports and a 0.5% fall in exports.

In Europe the euro reached a six month high but the weak Euro was being blamed for Germany's massive trade surplus. Business activity in the Eurozone is growing sharply after years of lacklustre performance, growth in Q2 2017 heading for 0.7%. Business confidence is at its highest in Germany since unification. In France the election of a new president lifted business optimism. Growth in the Eurozone is now higher than in USA or in UK. The recovery has been helped by the European Central Bank, ECB, with interest rates at zero and which has been buying 60 billion euros of bonds every month. The ECB may have to examine their interest rate policy.

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ALUMINIUM

The LME price for primary aluminium started the month at what looked a low level, \$1,909 per tonne, but then quickly fell even further to \$1,870. Metal prices across the board were then falling, with the dollar at its lowest point since the election of President Trump and indications of a global aluminium metal oversupply. It picked up fairly quickly and ended May on \$1,919. Aluminium alloy ended the month on \$1,645. Metal Bulletin was reporting premium for ingot, duty paid, Rotterdam, at \$140-150 per tonne and they predict a bearish summer. It used to be said of the metals traders “Sell in May and go away” and that might still be true.

Aleris reported Q1 results showing \$52 million, adjusted EBITDA, which was up by 16% on Q1 2016. Their Europe operations did better than USA with income increased from \$33 million in Q1 2016 up to \$38 million in Q1 2017. The company remains optimistic about Q2 for 2017.

AUTOMOTIVE

SMMT has released figures for new UK car registrations in April 2017. After the rush to buy in March before tax changes took effect, the April data was always going to be disappointing but the market had not anticipated a fall of nearly 20% month on month. There has also been an effect on car sales due to the disturbing revelations about “cheap” loans for cars that in the event prove to be crippling, with the value of the car falling sharply even before the loan is repaid. The number of units sold in April 2017 was 152,000, down from the previous month by more than 37,000. Sales of new diesel cars fell more sharply, down by 27.3% on April 2016, after fears of increased tax charges to improve air quality. New petrol car sales fell by 13%.

Ford Fiesta leads the April league table of sales, followed by Nissan Qashqai. Mercedes Benz had vehicles in third and fourth place. Vauxhall Corsa fell out of the top ten in April in spite of being third in the year-to-date table and Ford Focus, usually second in the table, fell to fifth.

For car manufacturing in April the total for the month was 122,000, down 18% on April 2016. For the year-to-date the total is still higher than year-to-date for 2016 but by only 1%. The export market held up well in percentage terms, 81% of the cars manufactured were for export. For commercial vehicles the total manufactured in April 2017 was 6,132, down 28% on April 2016. Understandably engine production in April 2017 was 14% down on April 2016.

It would seem that the bubble has burst in both car manufacturing and sales but the rate of expansion over more than ten years was never going to continue indefinitely. Even with the fall in April in registrations and manufacture the data is still at record levels, not seen for many years. The car, commercial vehicle and engine-making sectors of UK industry remain a resounding success on the back of good designs, good investment and a highly skilled and committed workforce. The aluminium industry can be proud of the part that it has played and will continue to play in this success, with aluminium products across the board, cast, forged, rolled, extruded, coated, anodised and powder all making a contribution.

Jaguar Land Rover has just posted its financial results for the year ending 31 March 2017. Pre-tax earnings were £1.61 billion, up £53 million on the previous year. Profit margins fell to 6% against their own target of 8-10%. Annual deliveries for the year were a record 604,000 vehicles, helped by a very successful Jaguar F-Pace, its first 4x4, competing with BMW, Audi and Porsche. It sold 68,000 in the first year.

Aston Martin has made a good start to the year; strong sales of their DB11 gave it record profits for Q1 2017 to £5.9 million, reversing last year's losses of £29.7 million. They have sold well in UK and in China.

Geely, the Chinese car company that owns the London Taxi Company and the Volvo Car Group, has bought control of Lotus, founded in 1952. Geely bought 49.9% of Proton, the owners of Lotus. Lotus has been a leading company in light-weighting and composite materials but it has not been profitable for many years. Last year it posted a loss of £27.6 million. Based in Norfolk, its cars are hand built and annual production is 2,000. Geely is also keen to break into the market in South East Asia using Volvo technology.

In the middle of May Ford announced that it would be cutting as many as 20,000 jobs globally as it tries to regain ground lost to General Motors and Tesla. The future of the 14,000 people employed by Ford in UK is uncertain. Ford has indicated that they intend to close the diesel engine plant at Bridgend where 1,100 people are employed. Last year Ford posted a record annual profit of \$10 billion and record sales but the company has come under pressure from shareholders who believe that Ford has been slow to position itself for the future. This year Tesla has overtaken Ford to become the second largest US car maker by value and Tesla then overtook General Motors to become the most valuable car company in US. By the end of May Ford had replaced their Chief Executive who had earlier indicated that they would be moving work from US to Mexico, a plan that did not meet the approval of the newly elected President of USA. Within weeks the plan was dropped. Ford, General Motors and Chrysler have all come in for criticism from shareholders for not investing more in electric vehicles and autonomous driving technology.

AEROSPACE

We tend to think of Toulouse as the major assembly plant for Airbus but they also build at Hamburg, Mobile in Alabama and Tianjin in China. Producing the forward fuselage in France, the centre fuselage in Germany, the wings in UK and the tail plane in Spain, and then sending them to Toulouse to be built into an aircraft, may not be the optimum in logistics but that is how Airbus has developed over a long period. Ten years ago Airbus had 40% of the global market, five years ago it had 49% and now it has 58%, so optimum or not, the plan has been very successful.

The Mobile plant, with state-of-the-art technology, now in its second year, is building four per month of the A321 single aisle, short haul planes that suit the American market, where 84% of aircraft are single aisle. Airbus Americas is now seeking approval from Toulouse to take production up to the full capacity of eight per month and also to introduce the local production of key components, one of which are the wings now produced at Broughton in North Wales. The Broughton plant produces wings for Airbus A320 and A321, A330, A350 and the A380 jumbo. The components for wings are flown in from Spain, France and Germany. The wings are then shipped or flown to Toulouse or Hamburg and also shipped

to the Mobile deep water port. Broughton employs 6,000 people and a further 2,000 in the local supply chain and 5,000 people at Bristol with design and engineering facilities. In the first four months of 2017 the UK shipped out 406 commercial aircraft worth £8 billion, just one fewer than last year, so a significant sector in UK manufacturing. Airbus UK would not want to lose the orders for wings going to Mobile.

Airbus is also applying for the Mobile plant to become a federal foreign trade zone, which if successful would circumvent costs and time involved in tariffs and customs barriers. They are modelling this on their plant in China, Airbus second largest market after North America, where Airbus produce their own key components, including wings, and then build aircraft.

Russia in May completed the maiden flight of a new MS-21 medium range passenger jet, the first post-Soviet attempt at production of a commercial plane to take on Airbus and Boeing.

BUILDING AND CONSTRUCTION

The Markit/CIPS Construction Purchasing Managers Index for April revealed good news. The UK construction companies reported a solid start to the second quarter of 2017, with faster rises in civil engineering and residential building activity. The April data also pointed to the strongest upturn in incoming new work so far this year. The greater work load underpinned a further increase in employment numbers and the most marked rise in input buying since November 2016.

Civil engineering was the fastest growth sub-sector, the rate of expansion being the fastest since March 2016. Growth in residential building reached a four month high. Commercial building work increased but slowly. Demand for construction materials expanded with lead times from suppliers lengthening to the greatest degree since June 2015. Average cost burdens increased sharply during April, higher prices being linked to exchange rates as well as to increased energy and fuel costs. Half of the companies in the survey expected a rise in construction output this year against 10% who forecast a fall.

PACKAGING

The European market for aluminium foil products across the board has started the year strongly, according to data released by EAFA for Q1 2017. Production increased in Q1 to 226,900 tonnes, up by 1.5% compared to Q1 2016. However exports were down slightly compared to last year. Deliveries were up for both thicker foils, semi-rigid containers, and for the thinner foils, flexible packaging and household foils. European foil exports are facing stiff competition but EAFA are confident that there is an upward trend, helped by currency changes.

Nearer home Alupro revealed that the recycling rate for aluminium beverage cans in the UK is now at the 70% level, which is also the average level across Europe. The UK is the largest can market in Europe, beverage cans making up most of the 180,000 tonnes of aluminium packaging sold in last year. The European metal packaging sector has a target to achieve an average rigid metal packaging recycling rate of 80% by 2020. However Alupro regard the

present government target for metal packaging recycling as less than ambitious and they are seeking reform of the Packaging Recovery Note (PRN) system in the UK. It is an amazing statistic that an aluminium beverage can is being produced, filled, used, recycled into more can stock and another can produced within 60 days.

On the EAFA stand in Düsseldorf in May at Interpack 2017 the winners of the Alufoil Trophy 2017 were on display. Winners this year showed technical advances, improved quality, more convenient and flexible solutions and better sustainability according to the judges. New market segments were revealed by some of the entries. A new aluminium foil blister pack, hygienic opening and pouring with an aluminium closure on glass bottles, a foil with an elastic lacquer film for easy peel off and a bone shaped pack for dog food were some of the eye-catching winners.

If you are so minded, it is possible to attend a conference on aluminium primary production, aluminium extrusion and aluminium sheet and plate rolling, on every day in the year, somewhere in the world. Conferences on aluminium foil rolling, with academic presentations, are not so readily encountered.

To encourage academic research into aluminium foil production, end uses and sustainability the Global Aluminium Foil Roller Initiative, based in Düsseldorf, is setting up an award for the best scientific work or research at bachelor's, master's or doctoral level, addressing technical, scientific or sustainability issues for aluminium foil processing, application or end-use. Entries can be made up to the end of May 2018 and the winner receives 10,000 euros. More detail can be found at www.award.global-alufoil.org It would be helpful if any ALFED member Company with university or research centre contacts could pass on the details of the competition.

ELECTRICAL

It is not always appreciated that weight for weight aluminium is a better electrical conductor than copper. Taking the pure metals and using the International Annealed Copper Standard, usually seen as IACS, the value for copper is 100% and the value for aluminium is 63%. But take the argument a step further, remembering that with electrical conductivity volume is more important than weight, copper has a density of 8.913 and aluminium is 2.712. That is a three times advantage for aluminium. And then look at the price per tonne, on the LME copper is selling at \$5,660 and aluminium is at \$1,940. There is another three times advantage, adding up in total to a nine times advantage for aluminium, thus far outweighing the lower IACS value for aluminium. The commonly used alloy for aluminium in electrical applications is 1350 and if higher strengths are required in any particular application then the alloy used, typically, is 6101, the IACS value for this alloy being 55%. There is already a considerable move towards the use of aluminium instead of copper in busbars and other electrical applications. Overhead high voltage cable is a good example, usually as a composite material, with a steel core with aluminium wire surrounding the core. The steel carries the weight and the aluminium carries the current.

In the current AICircle edition we learn that the aluminium wire rod market in Europe is expected to grow at a compound annual growth rate (CAGR) of 1.4% during 2017 to 2021; in tonnage terms from 1.462 million tonnes to 1.567 million tonnes, a significant market.

ENERGY SUPPLY

The UK energy supply policy staggers on, driven by external factors over which it has little control. The global oil companies look vulnerable. OPEC is still battling to improve the price of crude and meetings were held in May amid recriminations that some members of OPEC had not been totally honest in their reports about production cuts. The intention was to reduce daily production quotas by 1.2 million barrels per day while non-OPEC members would make reductions amounting to 600,000 barrels per day. The OPEC agreement will now last for a further nine months into 2018. The price of oil has crept up to just over \$52 per barrel but it is not holding at that level and meanwhile US shale oil production this year is expected to be 9.3 million barrels per day against their 2016 figure of 8.8 million barrels per day, an increase that cancels out any OPEC cut.

Nearer home BP has announced a return to growth in the North Sea with a new project 100 miles west of Shetland that will be producing 130,000 barrels per day. This would take BP's output in the North Sea to 200,000 barrels per day. Fossil fuels still dominate global energy consumption. Oil, gas and coal account for 86% of energy used in transport, heat and power worldwide.

Plans for the nuclear station in Cumbria, already hit by financial problems for Toshiba with their subsidiary Westinghouse in Chapter 11 bankruptcy, and French company Engie withdrawing from the project, took a further blow when the National Grid withdrew from work on connecting cables from the site to the grid. But is there a knight in white armour approaching? State Nuclear Power Technology Corporation of China is considering an investment in the plant which is programmed to be costing £15 billion. Talks are due at the end of May between the SNPTC and NuGen and the UK Nuclear Industry Association. Problems arise because the government has been warned that Chinese investment in nuclear power threatens UK national security. Last year the UK government demanded a "golden share" in Hinkley Point, giving the government veto rights over any sale of the site after China General Nuclear took a 33% share in Hinkley Point.

MINING

In early May the big mining companies were heading to the bottom of the FTSE 100 as China reported a sharp drop in demand for iron ore and copper. Anglo American and Antofagasta hit the bottom of the 100 with Glencore, Rio Tinto and BHP Billiton closely behind. China's imports of copper in April were down 30% month on month and iron ore imports were 14% down. The overall effect on the FTSE 100 proved to be minimal at around 7300.

OTHER MATERIALS

The deal announced last November by which Liberty House takes over the steel works at Rotherham and facilities at Stocksbridge and Brinsworth is now complete. The plants make the high end steel alloy products, high purity steels and precision components used in the aerospace and automotive industries. The arc furnace at Rotherham uses scrap steel and thus will become a major part of the initiative by the Company to invest in recycling. It will also make an addition to the improvement in the supply chain from UK companies into the automotive and aerospace sectors.

Tata Steel is offering to inject £550 million into the British Steel pension fund, as well as donating one third of their UK steel making business to the fund. This should make it easier for a merger with ThyssenKrupp.

Copper ended the month on \$5,607 having fallen from \$5,688 at the beginning of May.

**ALUMINIUM FEDERATION
31 MAY 2017**