

## MARKET REPORT

APRIL 2018

### ECONOMY

As the financial year 2017-2018 ended on 5 April it was conformed that, for the first time in 16 years, the difference between public spending and income from tax revenues was positive. Unfortunately, the remainder of the economic news for Q1 2018 and for the month of April are not such good news.

The PMI index for manufacturing in March was up fractionally at 55.1 compared to the February figure of 55.0. But looking at the whole of Q1 2018, factory order books have struggled, according to the latest CBI survey, indicating that the revival in manufacturing may be running out of steam. Growth in the economy in Q1 2018 was a woeful 0.1%, down from 0.4% in Q4 2017. The expectation had been a figure of 0.3%. For this quarter the UK economy has been growing at the slowest pace for five years. Sterling fell as a result against the dollar to just below \$1.38 and may now come under further pressure. The bad weather in March has certainly hit both the construction and retail sectors but to offset that, if the weather is bad, then online sales are usually boosted. The survey also revealed some loss in confidence in the general business outlook in the companies surveyed but a majority were more optimistic about export opportunities.

Employment rates in UK have hit another record high, 32.26 million have jobs, the highest number ever. Unemployment is now at 4.2%. Earnings grew at 2.8% while the consumer price index was 2.5%, so pressure on household budgets is now easing. March was the second month in a row in which the inflation rate fell, now at the lowest rate for a year. It remains a fine balance on whether the Bank of England will raise interest rates in May but with the lower than expected growth rate the chances are that there will be no change, in which case sterling will come under further pressure. The BoE had estimated that in Q1 2018 the inflation rate would be 2.9%.

The Eurozone economy continues to expand but now at a slower rate, the composite PMI fell from 58.8 in January to 55.2 in March. Bad weather was also a factor here. The estimate for growth in the eurozone for Q1 is at 0.7%. The manufacturing sector in China also showed a weaker pace during Q1 2018 compared to Q4 2017.

At the end of April one pound sterling will buy \$1.38 or 1.14 euros. Both the FTSE 100 and FTSE 250 have recovered some ground lost during the first quarter of the year, at the month end the FTSE 100 was at 7,515 and FTSE 250 at 20,316.

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## ALUMINIUM

In the March Market Report there was a report on the imposition of extra tariffs on aluminium and steel products imported into USA. Looking at the effect that this might have on metal availability it was suggested that in US there could be metal shortages with an increase in price, but in the EU, and particularly in the UK, there could be a surplus of metal that might otherwise have been sent to US, and therefore the LME price of aluminium could go down. The primary aluminium price on the LME started April on \$2010 and quickly fell within a week to \$1967, so perhaps the theory was being proved.

A week is a long time in politics and indeed, so it is in metal trading. The US government in early April invoked sanctions against Russia over their activities in the Crimea and particularly against certain Russian oligarchs with close connections to the Russian President. Suddenly Rusal, the world's second largest aluminium producer, was isolated from global markets and was in big trouble. Shares in Rusal fell by 53% in a week. The top officials of En+, owners of half of Rusal and owners of much of the hydroelectric power in Russia, were forced to quit. There are suggestions that Rusal may be brought back into government ownership.

But the problems were more far-reaching and there was now the possibility of a shortage of alumina and aluminium metal across the world. Rusal supplies 10% of all of the US imports of aluminium metal in ingot form for example. Contracts for buying metal and alumina from Rusal were being cancelled. RTZ and Hydro claimed force majeure on contracts to buy alumina and their primary smelters were facing shut down. Not for the usual concern about loss of power but a concern, without precedent, of being without alumina. When a primary smelter shuts down the pots, it will be at least six months before they are rebuilt and up and running again. The Aughinish alumina plant in Ireland, Europe's biggest, and not so long ago in the ownership of Alcan Chemicals, now owned by Rusal, was facing a shut down. Even the American aluminium extruders, who might, a week before, have been congratulating themselves on having stiff tariffs applied to imports that compete with them in their home market, were facing metal shortages. And all of that added up to a panic in the market place about metal availability.

On the LME the primary aluminium contract price went from \$1967 per tonne on 6 April to \$2602 on 19 April, the highest level for seven years. Alumina prices, tied to primary aluminium price, similarly shot up. The premium on ingot and billet followed suit, it was reported that Rotterdam ingot, duty unpaid, was available for a premium as high as \$250 per tonne. For extrusion billet, taking the Metal Bulletin report, the premium for prime quality billet, delivered, duty paid, per tonne in Germany had reached \$560-600 per tonne.

And then the US Treasury, on 23 April, declared that companies had until October to wind down contracts with Rusal. By 26 April the LME primary aluminium price was down to \$2204 per tonne. The LME aluminium price ended the month on \$2223 and the "three months" price was similar. Aluminium alloy was quoted at \$1915.

The temporary exemption that the USA offered to the EU aluminium industry, including the UK, from the imposition of 10% tariff on aluminum products imported into USA will end on 1 May 2018. The reports from Germany are that they expect that the exemption will not be renewed, and the tariff will be applied. Germany in particular had been heavily criticized in US because of its large trade surplus with US and the fact that its defence spending is not high enough in proportion to its GDP.

## **AUTOMOTIVE**

SMMT has published the data for car, commercial vehicle and engine production in UK in February 2018. The total car production in February, at 145,475, was down on a month-to-month basis by 4%. Total home production, at 28,336, fell by 17% and total production for export, at 118,089, was down by only 1%. Demand for export, at four times the home demand, is holding up reasonably well but home dispatches are down very significantly.

In the commercial vehicles sector both home and export numbers showed significant losses and overall were down on February of last year by 24%.

UK engine manufacture in February was encouraging, the total for the month was 7% up on February last year. Production for the home market was down by 5% but production for the export market was up by 16%. Looking at the year-to-date total engine production is up by 10% and 60% of these engines are exported.

New car registrations in March 2018 were disappointing. The total for the month, 474,069, was 16% down on the same month of last year. Petrol engine car registrations held their own, being just over the total for this same month last year, but diesels cars showed a massive 37% fall on this month last year. The reasons are well documented and expected, mainly due to political posturing, tax increases and the threat of bans of diesels in some towns. Looking at the top ten makes, there are no significant changes, Ford have three models in the top ten, Volkswagen and Nissan are well placed and encouragingly Vauxhall have two models in the top ten, but the Astra is not one of them. Mercedes-Benz has two models in the top ten and BMW has the MINI, built in Oxford.

Although commercial vehicle production in UK has been disappointing last month, PSA, owners of Peugeot and Citroen, announced that at the Vauxhall plant in Luton they will increase production of the Vivaro van from 60,000 units per year to 100,000 per year. The UK government has put in 10% of the cost of plant investment in research and development and skills training. PSA is Europe's biggest van producer, making nearly half a million each year and that is expanding at the rate of 15%. The company need more capacity. PSA has on the other hand put off a decision on the Vauxhall Astra at Ellesmere Port until 2020. By then the plant could have made the productivity gains required and a tariff-free frictionless trade with the EU that the company require may have eventuated. During the last year Nissan, BMW, Toyota and now Vauxhall have committed to building more vehicles in UK.

The UK's largest car maker, Jaguar Land Rover, intends to cut around 1,000 jobs of agency staff and reduce production at two of its UK plants, Solihull and Castle Bromwich, as it looks at sales levels, particularly of diesel models. Jaguar sales are down 26% so far this year and Land Rover demand has dropped by 20% in the home market as buyers are shunning diesel cars.

Nissan similarly are cutting hundreds of jobs at their Sunderland plant where they produce Juke, Leaf and Qashqai models. In March 2017 Nissan sold 34,461 cars, in March this year they sold 24,571 cars. Job losses will be on a voluntary basis.

Vauxhall sales so far this year are down by 20% and for the whole of 2017 they lost 22% of sales. They are now terminating the contract with all of their 326 UK dealerships and the majority will be taken on under new contracts. The company expects to finish up about 30% smaller in their dealership network. The cuts are the result of demands to reduce costs, fierce competition in the market place and the fact that more motorists are buying cars online. Vauxhall will rely more and more on selling their cars alongside Peugeot and Citroen, within PSA, whose sales have both fallen by about 25% over the last two years.

SMMT are predicting that the fall in UK sales in 2017 of 5.7%, year-on-year, will be repeated in 2018.

In USA the electric car revolution that we see now in Europe is not going to happen any time soon. At the New York International Auto Show there were ten new sports utility vehicles on show for every one electric car. American drivers are increasingly choosing the big cars over small ones. Last year in USA when car sales overall fell by 2%, the sales of SUVs and crossovers rose by 5% and 7% respectively.

## **AEROSPACE**

Despite the global uncertainties surrounding the USA at the moment, Boeing's Q1 2018 financial results were way over expectations on Wall Street. The uncertainties are not just with China and Russia, US is threatening to pull out of a nuclear sanctions deal with Iran while at the same time Iran Air has 80 Boeing aircraft on order. Boeing's Q1 profits jumped by 57% to \$2.5 billion and they have now increased their full-year profit forecast.

Airbus meanwhile have not been in such a happy position. Their Q1 2018 revenue fell 11.4% compared to the same position in Q1 2017, with a slump in deliveries of commercial aircraft and helicopters. Airbus delivered 121 commercial aircraft in Q1, down from 136 in Q1 2017, but they still target 800 aircraft for this year.

## **BUILDING AND CONSTRUCTION**

The CIPS UK Construction Purchasing Managers Index, PMI, fell to 47.0 in March, down from 51.4 in February. Any number below 50 indicates a contraction. The market had been expecting something around 51. The actual reading, 47.0, is the fastest contraction seen in the industry since July 2016. The key factor has been the bad weather experienced in March, particularly hitting civil engineering projects. The Index for civil engineering got as low as 43.6. Only house building was relatively unscathed. The weather restricted overall activity and lengthened delivery times. Supply chains were unprepared for such unseasonal weather. CIPS regard the March figure as a temporary blip and they expect that construction activity will strengthen over the near term.

In the UK building and construction sector, price inflation was the lowest since June 2016, as the impact of the weak pound has now largely dissipated. Job creation in March was the strongest so far this year.

Despite the depressing data construction companies are more confident about future activity than at any time during the past nine months.

In the Eurozone-area in March, the PMI for building and construction overall was 50.6, with France strongly positive at 56.4 and both Germany and Italy negative at 47.0, very similar to the UK and for much the same reason, the weather.

## **PACKAGING**

From Alupro and from the Environment Agency we learn that the recycling rate for aluminium beverage cans in UK in 2017 was 72%, up from the 70% the year before. The overall recycling rate for aluminium packaging was 51%, up from the 50% the previous year. Of all of the aluminium packaging collected in UK for recycling, 92% is recycled within Europe. Recycling capacity for aluminium packaging in the EU is totally sufficient for all of the aluminium packaging collected and always has been.

## **ENERGY GENERATION**

By the middle of April, the price of Brent Crude had reached \$73 per barrel, a price last seen in late 2014. Data from USA was showing a big fall in American stockpiles of oil. It is suggested that production cuts by OPEC, Russia and others had been effective in reducing the global oil surplus. Estimates are being made that by the year end the oil price could be up by 15%.

## OTHER MATERIALS

Technology in computing, rechargeable batteries, LED lights and so many other areas of the modern world, relies heavily on the supply of the rare-earth metals. China is the global leader in the production of almost all of the ferrous and non-ferrous metals, including the rare-earths such as yttrium, terbium, europium and many more. Some ten years ago China restricted exports of these metals, with a sharp increase in price. Japanese scientists have now discovered vast deposits of deep-sea mud in the Pacific, off its southern island, that contain almost unlimited amounts of the rare-earth metals; first indications put the total tonnage at fulfilling global demand for the next 700 years. At current rate of global primary aluminium production the known reserves of bauxite will be sufficient for the next 300 years. Stop worrying.

Eight years ago, the Nobel Prize for Physics was awarded to two UK scientists for their work on graphene. This material could be one hundred times stronger than steel, sixty percent better at conducting electricity than copper and five times better at conducting heat than aluminium. The problems in using the material in the real world arise from the fact that the material tested has been in nanometer dimensions that do not lend themselves to making the better car or aeroplane. Scaling up the material to produce it in volumes required, and at costs that can be afforded, has been a huge barrier. Companies now producing graphene tend to be small companies spun off from university research departments, not yet attractive to the large chemical companies. But the gradual process of making real components with graphene has started. Graphene is now being used for the tailgate of a sports car and Airbus are using it to improve the performance of satellites.

**ALUMINIUM FEDERATION**  
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