

MARKET REPORT

MAY 2018

ECONOMY

UK growth posted its lowest figure since 2012 but the FTSE 100 set a 5-year record. Retail also ended strong, and economists are pointing to rising employment rates, wages and confidence. Eurozone growth was 4 times that of the UK, but everyone is watching what happens with the new Italian government.

UK

In the Market Report for April, we reported that the Q1 growth rate in UK was 0.1%, the lowest figure since 2012. There was an expectation that as more data came available the growth rate may well be scaled up. The Office of National Statistics has now confirmed that the value was 0.1%.

There may have been a bad weather factor, but the poor state of the UK economy in Q1 cannot be denied. Retail sales fell in March, and the manufacturing sector in March was also a disappointment. The HIS Markit index for manufacturing was at 53.9 against expectations of 54.8. As the consequence of a multiplicity of data, the Bank of England delayed any increase in borrowing rates and it is expected that the official rate of 0.5% will hold now for the rest of this year.

April retail sales were well up on March, and it was the strongest month since October 2016. The HIS Markit index for the services sector, which accounts for 4/5 of the UK economy, was up in April compared to March, 52.8 against 51.7, but not the 53.5 value that economists had been expecting. Economists are now pointing to continuing rising employment rates, real wages rising again and consumer confidence recovering. The CBI has reported an early May figure for retail sales which are well up on April. The rate of inflation in April was 2.4%, down against the March figure of 2.5%, a better than expected figure.

At the end of May, the FTSE 100 stood at 7,651, having reached 7,859 in the middle of May, the highest level in the last 5 years. The FTSE 250, a better indicator of UK companies, is now at 20,785, again the highest figure for the last 5 years. Today one pound sterling will buy you \$1.33 or 1.14 euros.

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Eurozone

In the eurozone, the growth rate for Q1 was 0.4%, well above the UK value. That may well have satisfied the 19 member countries of the eurozone, but the result of elections in Italy will have undermined that confidence.

Italy has voted for a populist government which is eurosceptic, with spending plans that may well violate EU fiscal rules. Some 80 days after the election, the President of Italy has now vetoed the populist government, particularly their choice of Finance Minister, pandering to Brussels and the markets. New elections may have to be held. The effect on the euro could be significant.

ALUMINIUM

Aluminium prices have stabilized, although the new 10% US import duty will have an effect on exporters. Rusal is still struggling in light of US sanctions, and keep an eye on the Rio Tinto/Alcoa JV as they innovate in aluminium smelting.

Commodity prices

On the LME, aluminium started the month of May at \$2258 per tonne and finished the month on much the same level. On the way, it touched a high of \$2384 and a low of \$2227. The earlier roller-coaster ride in price has gone.

Metal Bulletin is reporting ingot and billet premium values across the world. In Europe, they quote Rotterdam ingot, duty paid, at \$215-230 per tonne and in Italy at \$260-275. Billet premium in Germany, duty paid and with other financial conditions, is quoted at \$520-560 per tonne and in Spain at \$530-550 per tonne. Taking a look to Q3, Japanese buyers are being offered duty paid ingot for a premium of \$160, up 23% from Q2 price in Japan.

Aluminium foundry ingot prices always follow the trend of primary metal, and the Metal Bulletin quote for LM24 is £1640-1700 and LM6/25 is £1850-1900. Group I cuttings are £1425, commercial cuttings are £1180, HE9 extrusion scrap is at £1425, and cast wheels are at £1265-1295.

Rusal

The US has given investors and end users extra time to cut links with Rusal in bauxite, alumina and aluminium metal products. The Russian government has committed to support Rusal, but at the moment very little metal is moving out of Russia and it is being stockpiled. Global banks are not willing to fund metal trades with Rusal. The CEO of Rusal has now left the company in an attempt to give it some credibility.

US tariffs

On the last day of May, the US authorities announced that there will be no further exemption allowed to the EU from the 10% tariff imposed on imports into the US of aluminium products.

As we indicated in earlier Market Reports, this is not good news. Not only does it affect UK aluminium products being exported to the US, but it will also hinder the UK market where other countries, usually exporting to the US, will be searching for new markets in Europe for their aluminium products.

Rio Tinto/Alcoa joint venture

Rio Tinto and Alcoa have entered a joint venture worth \$55 million to develop a revolutionary aluminium smelting process that will result in significant reductions in carbon emissions.

No details have been released, but ever since the primary smelter sector has been made to account for carbon emissions, particularly from carbon consumable anodes in the potroom, the industry has searched for the non-consumable anode.

AUTOMOTIVE

Vehicle production is down slightly in May, but new registrations and sales are final increasing after 12 months of decline. Ford leads the way in production, and Morgan Motor Company hit record profits. Electric and hybrid sales continue to increase, although they represent a just 6% of total sales. JLR is at the forefront in advocating for the industry when it comes to environmental policies.

Vehicle production

The data for UK production in March 2018 for cars, commercial vehicles and engines is now available from SMMT. The total car production in March was 147,471 vehicles. Compared to March 2017 this is 13.3% down, but when compared to the total for the previous month, February 2018, it is a slight increase of about 1%. On a year-to-date basis, compared to 2017, the total is currently 6% down on last year.

For commercial vehicles, the March total of 7,145 is 11% down on March last year. Production for the home market in March was very significantly down on last year (25%), and for the export market down by 2%.

UK engine production in March at 260,649 was down 4% on March last year. This is down by 15% for the home market but 5% up for exports compared to last year. Looking at the year to date, the total production is well up on this point last year, and exports are 12% up on last year at this point.

Sales and new registrations

The data from SMMT for new car registrations in UK is more up to date. and we have the registration data for April 2018 – the figures are more encouraging. The total registrations for April 2018 were 167,911, which is 10% up on April of last year. So a run of 12 months of falling sales, month on month, has come to an end.

Expectedly, diesel sales have been hit again, and diesel-powered cars now account for only 30% of the total, against 45% a year ago. On the other hand, sales of petrol cars are up by 39% over this same month last year. However, April last year was not typical because there were big changes in vehicle excise duty and many sales were pulled forward past year and registered in the previous month.

The electric and hybrids continue to grow, up by 49% over April last year, although the actual numbers are modest compared to petrol and diesel car sales (only 6% of the total). Although April 2018 data is encouraging, the industry is still playing catch-up on the year-to-date numbers: currently, 2018 trails 2017 by 9%, but all of the loss is down to falling sales of diesel cars.

Using the year-to-date data of makes of cars sold in UK, Ford are way ahead with year-to-date sales of 76,000; Vauxhall have 32,000; Mercedes-Benz have 28,000; Volkswagen have 27,000; Nissan 21,000 and MINI have 14,000. Bear in mind also that most of the production of Jaguar Land Rover is made for export. Their annual production exceeds 610,000 vehicles. The JLR plant in Slovakia is about to start production with the new Land Rover Discovery and is forecast to produce 150,000 vehicles per year.

SMMT has issued forecasts that the total registrations for the whole of 2018 will be 2.41 million compared to 2.51 million last year.

Electric and hybrid cars

Toyota, the UK's largest producer of hybrid vehicles, is now warning government that with their present proposed legislation, electric cars will become too expensive for ordinary motorists.

The legislation commits to phasing out conventionally powered vehicles by 2040. This will include all cars that cannot run for more than 50 miles at a time on a battery. Toyota's hybrids, which are self-charging, cannot achieve 50 miles continuous in electric mode; that would require a much more expensive battery. Toyota are quoting their smaller self-charging car, the Toyota Yaris, at £16,500 while the hybrids that would achieve the government target are selling at £30,000.

JLR and diesel cars

Jaguar Land Rover are giving evidence of the effect of government environmental and financial policies towards diesel cars. Most of their vehicles for UK sales are produced with diesel engines. In the year to the end of March 2018, the company sales were up by 1.7%, which compares badly with the growth in sales in the previous year of 16%.

While sales are running at a record high, profits fell by £100 million to £1.5 billion as JLR invested £4.2 billion in new vehicles, new technology, upgrading manufacturing units and R and D.

Morgan Motor Company

At the other end of the spectrum of UK car company size, Morgan Motor Company hit record profits last year at £3 million, compared to £1.6 million in 2016 and £792,000 in 2015. Morgan are now preparing for a future with electric vehicles.

AEROSPACE

The WTO ruled that Airbus benefited from subsidies, and will rule shortly on Boeing. US tariffs on aluminium and steel are set to affect manufacturers and their supply chains.

Airbus vs. Boeing

For more than 10 years, the Aluminium Federation Market Report has been describing how Airbus and Boeing have faced each other across the table of the World Trade Organisation, each one accusing the other of benefiting from illegal subsidies provided by either the US for Boeing or by the UK, Germany, France and Spain for Airbus.

Preliminary WTO findings have been that both companies have received subsidies, but final decisions will be announced later. In the case against Airbus, the WTO announced this month that they confirm the preliminary finding that countries of the EU have provided illegal funding to develop jetliners to the detriment of Boeing sales. The final result of the case against Boeing will be announced later this year and will no doubt confirm that Boeing received subsidies from the US government.

Looking at the Market Report for last month, with Boeing showing extensive profits and Airbus showing a fall in revenue and reduced deliveries, one can only wonder about the “damage” to Boeing sales.

US tariffs

Whatever the merits are of the respective claims, the WTO announcement could not have come at a worse time for Airbus and the EU countries involved.

On 1 June 2018 the President of US will give a final decision on the tariffs that were announced some months ago on imported steel products, (25%) and aluminium products (10%) into US. The EU has been granted 2 temporary extensions to set those tariffs to one side, and that second extension will run out at the end of 31 May 2018. The President will no doubt now be aware of the findings against Airbus.

Since aluminium products are an issue here with both Airbus and Boeing, it would not be unreasonable to expect that the US will take a hard line on steel and aluminium products from the EU and the extra tariffs will be applied permanently. In fact on the last day of May the US authorities have announced that from 1 June 2018 the extra 10% tariffs will apply to aluminium imports into US from the EU. There will be no extension of the exemption allowed so far.

BUILDING AND CONSTRUCTION

Projects are picking up after a slow February and March.

The extreme weather in February and March had put many building and construction projects on hold, resulting in a PMI index of 47.0. April saw a rebound with a 5-month high of PMI index of 52.5, well above the industry’s estimates. The rebound was driven by house building with a PMI index of 57.4, the highest level since May 2017.

Civil engineering in April recorded 51.5, and commercial activity was at 51.2.

PACKAGING

Aluminium closures are increasingly popular for still wine, and are noteworthy for their recyclability.

Aluminium closures

The European Aluminium Foil Association tells us that just under 30% of all of the bottled still wine globally is using aluminium closures. This means that annually the world is using 9

billion aluminium bottle closures for still wine. The usage has grown from 13.2% of all still wine bottles with aluminium closures in 2012 to the 2016 figure of 29.6%.

In the US, the percentage rate of aluminium closure usage on still wine bottles is 44.9%. Although the use of glass bottles for still wine has decreased over the last 5 years this has been offset by an increase in the use of aluminium closures. The largest markets for still wine are, not surprisingly, Europe and the US.

Recyclability

The aluminium closures are very recyclable, so remember to screw the closure back on the empty bottle before it goes into the recycling box. Crushing the glass and recovering the recyclable aluminium is an easy step for the processors.

ENERGY GENERATION

Oil prices are up 20% since the start of the year. Keep an eye on developments with the Wylfa nuclear reactor in Anglesey, as Hitachi is negotiating with the UK and Japanese government funding, and the result will have a long-term impact on nuclear in the UK.

Energy prices

Political problems in Iran and Venezuela, 2 of the world's larger oil-producing countries, have given the oil price a boost this year, up by more than 20% since the start of the year. It has peaked at over \$80 per barrel and is now trading at about \$78 per barrel.

There are concerns among the suppliers that at this price level then OPEC countries might turn on the tap and boost production, taking the oil price back to where it was at the start of the year.

For the UK economy the price of oil is a double-edged sword. A high price has implications for the rate of inflation, but there are sectors of UK industry that welcome a high price to aid investment.

Nuclear

Hitachi, a Japanese conglomerate, are hoping to build a nuclear reactor on Anglesey but will not do so until there is agreement with UK government on financial support. The plant was originally expected to cost £10 billion, but the estimates recently have crept up to £15 billion and even as high as £21 billion. At 2.9 gigawatts, Wylfa is due to start up in the mid-2020s, subject to agreement on funding, becoming the UK's second new nuclear station after Hinkley Point.

The UK government are insisting that Wylfa must be a more economic contract than Hinkley Point. The Hinkley Point contract was finalized at £92.50 per MWh, which is now seen as excessive since alternative generating technologies, such as offshore wind and solar power, are producing at half of this price. Hitachi are being asked to produce at no higher price than £80/MWh.

The success of this project could well decide the long-term future of nuclear power in UK and the future of UK/Japanese joint power generating projects. Hitachi themselves cannot afford the construction costs and are looking for UK government to help fund construction.

Ministers have earlier indicated that the government would consider loan guaranties for 66% of the construction costs, but that has not been confirmed. An announcement is expected in early June when Parliament returns from recess.

The UK and Japanese governments and Hitachi are expected to jointly fund the project at an expected cost of £15 billion. Nuclear power produces 20% of the total UK demand for electricity, but 7 of the 8 nuclear plants in UK are due to shut down by 2030.

**ALUMINIUM FEDERATION
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