MARKET REPORT – JUNE 2018

ALUMINIUM FEDERATION

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ECONOMY

When the first quarter's growth figures for the UK economy were published and showing growth at 0.1%, it was blamed on the very bad weather. There was then a debate between the optimistic Bank of England and the pessimistic Office of National Statistics. The Bank took the view that the low growth rate was temporary and expected Q2 to show growth of 0.3 to 0.4%. Retail sales in May were up 4.1%, the fastest rate of improvement for four years. But later ONS data was showing manufacturing output falling by 4%, year on year, in April, the sharpest fall since October 2012. A more recent survey of 388 companies by the CBI gave a more upbeat view of the manufacturing sector, with growth coming from domestic demand and only marginal improvement in export orders.

Overall at the moment, it seems that growth up to the end of May 2018 will be 0.2%. If that is so, then June will have to be a record chasing month to reach 0.4% growth overall at the end of June and hence for Q2. At the moment the only records being broken in June are the number of days of sunshine.

Employment levels continue at record levels, 32.3 million in the quarter to the end of April, an increase of 146,000 compared to the previous quarter, but annual employee earnings growth slipped from 2.6% down to 2.5%, the first fall for a year. Consumer price index inflation remains at 2.4%.

In the Eurozone investor confidence has taken a huge knock, with concerns over the position in Italy, with the possibility that Italy may leave the euro-zone, and with concerns over a trade war with USA and concerns over unlawful immigration from North Africa. Expectations of economic growth are at their lowest level since 2012. Germany particularly is under pressure, where investor confidence fell for a fifth month in a row, to its lowest level since 2016.

At the end of June, the FTSE 100 stood at 7636 and the FTSE 250 was at 20,831. One-pound sterling would buy you $1.32 or 1.13 euros.

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ALUMINIUM

The on-off fiasco over extra tariffs on imports of aluminium and steel products into USA finally came to a conclusion, with the tariffs being applied, 10% for aluminium and 25% for steel, without exception, with immediate effect. So effectively the UK has been dragged into a dispute with USA that really was aimed at China. Near neighbours Canada and Mexico will not be given exemptions. The European Commission has drawn up a list of products from USA to which penal tariffs are being applied from 22 June 2018. Further tariffs will be applied later when a period of notice has been served. At the moment the UK government in international trade matters can only go along with the actions of the EU membership. As we have emphasized several times already, the problem is not just that exports of aluminium products from UK, destined for USA become uneconomic but also that aluminium products that other countries would have sent to USA are now likely to land on our shores. Not a win-win but a loss-loss.

The global aluminium supply chain is still struggling to come to terms with the restrictions placed on Rusal by USA and now the extra tariffs being applied on aluminium exported to USA. The LME opened June on $2271 per tonne and for the first half of the month it bobbled around $2300 and slowly sank down to $2170 by the end of the month.

Across Europe aluminium ingot premiums were falling, with a lackluster demand and with the LME aluminium contract in a backwardation. Metal Bulletin mid-month report revealed that the duty unpaid premium on ingot had slipped from $110-125 down to $105-115. One trader was reported as describing the market as in free-fall, with buyers expecting to reduce the price by a further $10 per tonne. The duty-paid premium on ingot in Rotterdam was around $190-205, according to Metal Bulletin. In Italy $235-255 per tonne duty-paid was being paid.

For extrusion billet deliveries the situation for premiums has been slightly different. The market is tight because of concerns about Rusal. Duty-paid premium in Italy was quoted by Metal Bulletin at $530-575 per tonne and in Spain at $530-550, with some offers heard at $600. Germany is paying $520-560.

The press is reporting that En+, the major share owners of Rusal, have had senior company executives resigning to ease the pressure on the company from US sanctions against Russians close to the President.

The premium paid on foundry alloy ingot deliveries is also now in the news. Some care is required in comparing the sums since metal quality can vary considerably with foundry alloys. For the high-quality wheel alloy, better known in UK as LM25 or L99, depending on the iron content, in Germany $420-460 per tonne is being paid. The Rotterdam quote in Metal Bulletin of $245-255 was no doubt referring to one of the diecasting alloys.

AUTOMOTIVE

The UK car and commercial vehicle manufacturing data from SMMT for April 2018 is starting to show a turn-around compared to April of last year. The April 2018 figure of 127,952 cars produced is 5% up on last year. Production for the home market was up by 7% and for export by 5%. The year-to-date value still shows a deficit over the same month last year of 4% although by the year end, December 2018, it should show an improvement over 2017.

For commercial vehicles, with much lower numbers than for cars, April 2018 was 19% up on the same month last year, a total of 7299 vehicle produced. The export performance was particularly notable, 29% up on last year. As with cars, the year-to-date figure still trails last year but is expected to eventually improve on the total for the year.

Data for engine production for March 2018 shows engine production down on the previous year by 4%. But the first quarter of this year was a disappointing one and data for April is expected to be more encouraging. SMMT has played catch-up with the data and just published the May figures for engine production. The total of 242,391 units is 5% up on May last year. The total of engines for export is 19% on this month last year, more than off-setting the reduction in numbers for engines for home consumption, down by 12%. For the year to date, compared to 2017, engine production is now 7% up on the year.

SMMT published the manufacturing data for cars and commercial vehicles in May, just before the end of June. Car production is again up on last year’s monthly figure, the total being 137,225, up by 1.3 %. For the UK market the increase over last year is 13% and for export down by 1.5%. The year-to-date figure is still in deficit, but this year should be an improvement on 2017 by the year end.

For commercial vehicles in May, the total of 6,833 was about the same as last year, with a lower home demand but a significantly better export performance, 12% up on last year.

Looking at the latest data for new car registrations, in May 2018, the picture is again more positive and would have been even more so but registration for diesel cars again is disappointing for no fault of the car industry. The May 2018 total of 192,649 is over 3% up on last year. The total for petrol driven cars is up on this month last year by 24% and is down for diesel cars by the same percentage. In the recent past diesel and petrol sales were at level pegging but diesel now accounts for only a third of sales. In spite of the best efforts of the UK automotive industry, environmental aspects and taxation threats have caused buyers to back off from buying diesel cars. For cars using alternative fuels the numbers continue to improve year by year, but the total is low, now 6%. On a year-to-date basis the UK 2018 totals for new car registrations are still below the 2017 figure.

The year-to-date league table for car manufacturers by company shows the importer companies taking the top spots with UK sales, with Ford way ahead of Volkswagen in second place and Mercedes-Benz in third place. In the top ten, Nissan, Vauxhall and MINI are well represented of the UK producers.

SMMT reports that for the first half year the level of investment in the UK car industry is only half of the equivalent figure for the first half of 2017. Companies are holding back on investment until there is clarity on Brexit terms.

The great majority of Jaguar Land Rover production in UK is exported and most of their sales in UK are cars using diesel engines. They have been particularly badly hit this year with sales of Jaguar cars down by 13% and of Range Rover and Land Rover down by 10%. Some of their supply chain companies are now appearing in press reports as their own sales to JLR are hit. JLR themselves are expecting to break even on this year rather than the levels of profitability that they have enjoyed recently. Production of Discovery will be moved to Slovakia, with job losses at Solihull. The Solihull plant is expected to be used for the higher-value engineering and manufacturing of the hybrid and electric Range Rovers and Range Rover Sports of the future. The company intends to have all of its vehicles in some way electrified by 2020.

Ford and VW have announced plans to develop a strategic alliance to produce a new generation of commercial vehicles. In terms of UK registration of commercial vehicles, Ford greatly outnumbers the other manufacturers with Ford Transit and Ford Ranger. While Ford still has some production facilities in UK, most notably the engine production at Dagenham, all of the Ford Transit vans for Europe are produced in Turkey.

BMW has told the UK government through their UK management that if the supply chain for their UK plants for MINI and for Rolls Royce has a stop at the UK border because of the Brexit arrangement then they will have to close their UK manufacturing plants. They have now added their voice to several other UK car manufacturers. Confusingly, the following day from a higher level in the company, that view on the future prospects of BMW in the UK was overturned. “If in doubt, say nowt” is the usual PR mantra. Nevertheless, there are genuine concerns about future trading arrangements that need clarification but when you speak to Government on behalf of an industry sector you should at least be consistent.

The chairman of the Renault, Nissan, Mitsubishi Alliance reveals that the automotive sector is now investing huge sums on driverless vehicles. He gave an example of the Alliance spending £8.9 billion by 2022 in electric, autonomous and robotic vehicles. The driving force is safety, pointing out that the computer does not fall asleep or drink alcohol.

AEROSPACE

The two UK industry groups with the most to lose with a hard Brexit are automotive and aerospace. The automotive industry has been spelling out the possibilities in the event of a hard Brexit for many months, collectively through SMMT and by individual companies. Now Airbus has spoken of the consequences of a hard Brexit.

Airbus employs 15,000 people in UK over 25 sites and its supply chain supports a further 110,000 jobs. It is the UK’s largest commercial aerospace company. It has a supply chain involving 4,000 companies, with which it spends £5 billion each year with UK companies in their supply chain. The Airbus sites at Filton and Broughton design, test and manufacture the wings for all of the Airbus commercial aircraft. This directly sustains 10,000 jobs. All of the single aisle Airbus aircraft have wings that are produced in aluminium. But there are also very many more components other than wings produced in UK companies for aerospace applications. Airbus is now asking for clarity on the government’s position on customs and trade. Otherwise it will have to start to investigate contingency plans for production in Europe and in China, rather than in UK in the event of a hard Brexit. Airbus has already built an alternative manufacturing base in the Netherlands.

Rolls Royce, whose Trent engines are used to power about half of the world’s wide-body aircraft, such as Boeing’s 787 Dreamliner and Airbus A350, is overmanned, their CEO has argued. There are now only three Divisions, Civil Aerospace, Defence and Power. They now intend to axe 4,000 management jobs in an attempt to turn around the company. At the moment they lose £1.5 million on every plane engine they sell. Their Trent engines, competing globally with Pratt and Whitney, are showing long-term poor performance with corrosion on turbine blades. Corrosion in turn is often then a precursor of fatigue failure.

The RAF need to buy a new fleet, up to six planes, for surveillance aircraft. Their favoured supplier at the moment is Boeing, which politically could cause some embarrassment to UK government, when choosing Airbus may be a politically more attractive choice. The cost is in the £2-3 billion range. A decision may be made during the Farnborough Air Show in July.

The UK government has backed the expansion of Heathrow Airport against claims from Gatwick. Either way it will not affect the use of aluminium components in civil aerospace.

BUILDING AND CONSTRUCTION

The UK construction PMI for May 2018 was 52.5, unchanged from the April figure and above the market expectation of 52. The reading points to a moderate increase in total activity, as commercial activity growth accelerated to a three-month high, while both civil engineering and residential activity expanded at a slower rate. New orders fell slightly in May, the retail sector is subdued and business confidence fragile. This is however a rebound, albeit described in the industry as underwhelming, from the March data where building and construction in UK was hit by very severe weather conditions. Order books have now fallen for the fourth time in the last five months.

The position across Europe for building and construction if very similar to that of the UK. Only Germany is showing a significantly better performance, with an index of 53.9. The UK data is the result of a survey of 170 construction companies.

PACKAGING

New record levels for the recycling of the aluminium beverage can in Europe have been announced. The overall recycling rate for aluminium beverage cans in the EU, Switzerland, Norway and Iceland in 2015 is now 73.6%. This is well above the recently approved new EU 2025 recycling target of 65% for all packaging. The recycling of the aluminium beverage can has for many years been the most successful packaging recycling story for any material, metal or non-metal. Furthermore, the UK aluminium industry has led Europe in installing the recycling infrastructure, including Europe's first dedicated aluminium beverage can recycling plant which was opened in 1990 at Warrington.

ENERGY GENERATION

The Government has indicated that some government investment in the new nuclear power plant on Anglesey is on the cards. The plant has an estimated total cost of £15 billion. A sum of between £1-2 billion is suggested with equal investment from Hitachi and from the Japanese government. The remainder would be funded by loans, likely to be underpinned by the UK government. This is a major change in policy since the electricity generating industry was privatized. All of the existing nuclear stations now operating in UK were state aid funded.

On the other hand, the government has ruled out investment in the proposed Swansea Bay lagoon that has been designed to generate electricity using tidal power. It is estimated that the costs per unit of power would be three times that of wind power or from new nuclear plants. There could have been six lagoons had the first one gone ahead. Welsh MPs and industry associations such as CBI Wales expressed disappointment, but ornithologists were happy, having fought the proposals from day one.

The oil price is now at $74 per barrel. Saudi Arabia has been pressing for an increased in production which would reduce the price. Estimate are being made of oil at $50-65 for the rest of this decade if production is boosted. At the OPEC meeting on 22 June it was agreed that those countries that had capacity that was being unused could increase production of oil. Saudi Arabia has already increased their output, others will follow. It will however take some time before any lower oil price is taken into account in the calculation of UK inflation rate. Meanwhile oil prices in the high $70s will influence the UK inflation rate adversely.

OTHER MATERIALS

A 50:50 tie up between Tata Steel's British and Dutch operations and Thyssenkrupp has been agreed, creating Europe's second largest steel maker behind Arcelor Mittal. It secures the Port Talbot plant, now within a company worth £15 billion. There will be no compulsory redundancies before 2026 and it secures 4,000 jobs at Port Talbot.

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30 JUNE 2018