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ALUMINIUM FEDERATION

MARKET REPORT – SEPTEMBER 2018

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ECONOMY

For the three months up to the end of July the Office of National Statistics confirmed that the UK economy grew at a rate of 0.6%, with strong consumer spending and a bounce in building and construction activity. Manufacturing remained in recession during these three months with a negative growth rate of 0.1%. The Bank of England, usually very conservative, is predicting an annual figure for the year 2018 of 1.4%, although other economic forecasts are more optimistic, seeing growth of 0.6% in each coming quarter, with services and construction as the drivers.

For August manufacturing had a weak month with exports falling to their lowest level for four years. The fall in exports was linked to a slowdown in the eurozone economy and the effect of tariff disputes globally. The WTO report on global goods trade is pessimistic about world trade in 2019, marking down their earlier estimate of 3.7% down to 3.0%. UK manufacturing for Q3 2018 is likely to stay at zero growth, with large companies particularly reducing staffing.

Consumer prices index in August rose from 2.5% to 2.7%. This is the highest level since February and came as a surprise to the markets that had been expecting a fall. Petrol and gas prices were increased, train and air fares increased but there was also a significant increase recorded in recreation and cultural activities. Set against that, the ONS recorded that in the three months to the end of July wages had increased by 2.9%, the fastest growth in three years. The Bank of England watch this factor carefully, believing that there is a 3% limit which, if breeched, will fuel inflation and lead the Bank to tighten fiscal policy.

The current unemployment level in UK of 4% compares well with, for example, Italy 10.4% and France 9.2% and these numbers disguise the very much higher youth unemployment levels.

Consumer confidence among the public has been hit this month with a growing uncertainty over Brexit, now at minus 9 against the August figure of minus 7. This could have a knock on effect on consumer spending. On the other hand business confidence rebounded in September climbing sharply, in contrast to a fall in August.

At the end of September the FTSE 100 stood at 7510 and the FTSE 250 at 20,307. One pound will buy $1.30 or 1.12 euros.

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ALUMINIUM

On the LME primary aluminium started the month on $2083 per tonne, fell below the 2000 mark in the middle of the month and never really recovered, ending the month on $2011. On 25 September, with the LME cash price for primary at $2018, the three month's price stood at $2054. Aluminium alloy was at $1410, with the three month's price at $1580

Metal Bulletin reports on ingot premium, duty paid, in early September show Rotterdam on $155-165 per tonne and Italy on $200-220.

Metal Bulletin reports of extrusion billet premiums show some stability of late but there is now uncertainty over the US sanctions against Rusal and the effect of that on Q4 deliveries. The sanctions may be eased at the end of October but in the meanwhile the market is expecting a rise in premium. In August in the Ruhr the price range was $520-560 but for Q4 deliveries the price was $540-561 and in some cases as high as $590. In Italy the price was $530-570 but for Q4 delivery then $570 was the norm.

AUTOMOTIVE

August is always a slow month for new car registrations but August this year proved to be the best for 15 years. 94,094 new vehicles took to the road, up 23% on August last year. Diesel cars had 30% share of sales, petrol engines were at 62% and 8% were alternative fuel cars, almost double the August AFV 2017 figure. This is the highest yet for alternative fuel cars, the huge investments being made in UK now starting to pay dividends. The year-to-date figure for new car registrations is now 4% down on 2017 but probably better than many had feared. There were three newcomers this month in the "top ten" SEAT Leon, Honda Jazz and Suzuki Swift.

UK car manufacturing in August was disappointing, 89,254 vehicles against 102,438 in August 2017. For the home market there was a fall of 39% and for export a fall of 4%, compared to August last year. Some companies are already preparing for a hard Brexit at the end on March 2019 by planning to suspend production during April 2019 while stock-piling components, particularly those with an international supply chain. Others are looking for extra warehousing space.

Williams Grand Prix Holdings are after a slice of the action in electric cars, they are teaming up with Unipart in a plant in Coventry to build batteries for Aston Martin's new electric car the RapidE. They are also targeting the high-end electric car manufacturers, Jaguar Land Rover, Rolls-Royce and Bentley. The only other UK battery facility is the Nissan plant in Sunderland, building batteries for Nissan Leaf. This is a big vote of confidence for the industry and for the government, having identified electric cars as a key pillar for future growth. The government has just announced a £106 million package for projects developing batteries and other green vehicle and refueling technologies, but a recent report has found that owners are put off from buying electric cars while the number of public charging points is inadequate. There is at the moment one charging point for every ten electric cars on the road, putting the UK near the bottom of the international league. There are interests from both Japanese and Chinese companies in opening UK factories for production of car batteries for electric vehicles.

At the Jaguar Land Rover plant in Castle Bromwich, 1,000 workers, half of the workforce, will be on a three day week up to Christmas as the company comes to terms with their falling sales. The workers involved are on the production line for the Jaguar XE, with sales now only one third of the original prediction, as UK diesel sales plummet. BMW shares have been hit by difficulties with the new vehicle emissions testing program and falling sales. They are also considering options for manufacturing bases not in the UK in the event of a hard Brexit.

AEROSPACE

Airbus report a backlog of orders for jet liners standing at 7415 aircraft on 31 August, which is nine years work at current production rates. For January-August they have taken orders for 14 A380s, which is a better situation than for some time for this plane and have delivered 7 so far. Emirates are far and away the best customer for the plane, they are flying 104 of them on long haul routes. The A350 remains their most successful wide-bodied plane, with 200 of them now flying under 21 different airlines.

Air Asia has just announced a $30 billion deal for 100 Airbus planes with first delivery at the end of 2019. They will be used for long-haul to Europe.

BUILDING AND CONSTRUCTION

The UK builders are optimistic that they will grow their business over the coming twelve months but the degree of confidence is being eroded over uncertainty over Brexit. In August civil engineering was the worst preforming sector. House building also slowed down, while commercial construction registered the best performance.

The PMI Index at the end of September registered 52.1 which is positive but the market had been expecting 52.8.

UK Construction Week ran at the NEC from 9-11 October, with nine shows coming together on one site, energy, designs, plant and machinery, surfaces and materials.

ENERGY GENERATION

At the end of September Brent crude was selling at $83 per barrel, a four year high; it has been as low as $55 in the last 12 months. The US President has urged OPEC to lower prices but no such decision was taken at the OPEC meeting in September. Saudi Arabia has stated that they will only boost production, thus bringing down the price, when there is increased demand from customers. The oil traders are expecting oil in early 2019 to be up to $100 per barrel as the market adjusts to the US sanctions on Iranian supply.

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30 SEPTEMBER 2018