

MARKET REPORT

NOVEMBER 2018

ECONOMY

The UK economy – including retail and construction – grew nominally in Q3 2018. Uncertainty over Brexit is affecting business confidence and investment, as well as the FTSE indices.

The UK economy grew 0.6% in Q3 2018, according to the ONS. Retail sales grew, and the construction sector recovered. Business investment in machinery, research and development contracted by 1.2%, worse than expected. The value of non-EU car exports grew £1 billion and the value of EU car imports fell £1.7 billion. Inflation remained unchanged at 2.4%. Comparative costs of food, beverages, clothing and footwear all declined.

6%

Growth of the UK economy in Q3

A recent poll by accounting authorities showed UK business confidence to be at its lowest level since the 2008 financial crash.

The FTSE 100 fell to 6,980 and the FTSE 250 to 18,480, near the lowest values this year.

Sterling is trading at \$1.27 and €1.13.

ALUMINIUM

Primary aluminium production is breaking records, with Chinese dominance easing compared to recent years.

64.1 million tonnes

Projected 2018 global primary production – a record year

The IAI's October 2018 statistics for global primary production predict 64.1 million tonnes, another record year. China remains dominant, but using the data available for this year up to October, is only responsible for 48% of the total – a much lower percentage compared to recent years.

\$1,912/tonne

Record low primary aluminium price

On the LME, primary aluminium started October at \$1,967 per tonne and finished at \$1,935. The lowest price was \$1,912, which was also the lowest this year.

Metal Bulletin reports that the duty-paid premium on ingot in Rotterdam is now \$125-140 per tonne. For Q1 2019, delivery trading was up by \$10-15. The particular brand is determining the price, and some Russian material is now back on the market.

In January 2018, we reported that the Liberty House Group offered \$500 million to acquire the Dunkerque primary smelter from Rio Tinto. This is now up and running, and adds 270,000 tonnes per year to Liberty House's portfolio. At the time, primary aluminium was selling at \$2,200 compared to today's price of \$1,935.

Alcoa's intention to close 2 primary smelters in northern Spain has gone down badly with local and national authorities.

Aluminium Federation Ltd.
National Metalforming Centre
47 Birmingham Road
West Bromwich
West Midlands B70 6PY

t: +44(0)121 601 6363

e: alfed@alfed.org.uk
w: www.alfed.org.uk

AUTOMOTIVE

Car registrations and manufacturing were both down in October, although commercial vehicle production is up. Companies across the automotive supply chain are announcing job cuts.

SMMT data shows new car registrations for October are down 3% on 2017 – 153,599 against 158,192 last year. The market share for diesel cars is down yet again (30% of the total against 32%), but alternative fuel vehicles (AFV) continue to take a larger share (7% against 5% last year).

The year-to-date figure for total registrations is now 7% down from this point last year. The proportion of petrol cars is up slightly on 2017, as is the proportion of AFV. Losses are all in diesel-powered vehicles.

In October 2018, Ford Fiesta easily topped the list of best sellers, with Volkswagen Golf in second place and the Mercedes Benz A-Class in third. Vauxhall Corsa is out of the top 10 for the month, although it is still in the top 10 for the year to date. The larger Vauxhall Astra does not appear in the top 10 for October or the year to date. The future of Vauxhall in UK remains up in the air.

10%
Decrease in car
production
compared to October
2017

Car manufacturing is also down. The total of 140,374 is 10% down on October 2017, and we're 7% down on the year to date. This is the fifth consecutive month showing a reduction. For the home market, the October total is down 12% on this month last year. Exports are down by 9%.

The October total of commercial vehicles produced, 9,066, is 31% up on 2017. It is up 3% total for the annual figure. For the home market, the 4,815 produced in October is up 61% compared to October 2017.

31%
Increase in commercial
vehicle production
compared to October
2017

The removal of Carlos Ghosn as Chairman and CEO has put the future of the Renault/Nissan/Mitsubishi alliance into question.

Schaeffler, a major supplier to the UK automotive market as well as aerospace and defence, is planning to close 2 plants at Plymouth and Llanelli, with a loss of 600 jobs over the next 2 years. They quote uncertainty over Brexit. A larger plant in Sheffield stays open. The vast majority of their UK output exports to the EU. They also have plants in the US, China, South Korea and Germany.

Bentley in Crewe lost €137 million in the first 3 quarters of 2018. They are investing heavily in electric vehicles. Bentley's last financial year was very profitable.

Jaguar Land Rover are set to lose 200 more jobs (agency workers) at their Solihull plant by moving Discovery production to Slovakia. The Solihull plant is being re-organised for electric vehicle manufacture. JLR's engine plant at Wolverhampton will close for 2 weeks at Christmas instead of the usual week – the company cites reduced demand, the Chinese economy, diesel-related legislation and Brexit for this.

Ford are looking at stockpiling cars in the UK for a hard Brexit. They are also considering making a port at their Dagenham plant. Ford doesn't make cars in UK but does have 2 large engine plants.

Over the next 3 years, Tesco plans to install 2,500 parking bays with electric vehicle charging points. 7kW devices will be free to consumers; 50kW devices will cost £6 for 30 minutes, which should take the charge from 0 to 80%.

AEROSPACE

Bombardier is cutting jobs at its Belfast plant, although the company remains profitable.

Early in November, Bombardier announced plans to cut their global workforce by 5,000. Bombardier employs 4,000 in Belfast, where they make wings for the Airbus A220. In 2016, this plant lost 1,000 workers. 375 jobs went last year, and now 500 more cuts are planned. In Derby, Bombardier employs 1,600 people making trains, and cuts there are expected to be minimal. The company is profitable – Q3 profits were \$272 million (Canadian).

RAIL

Scotland is set to get a new plant for HS2 train production.

Madrid-based Talgo have chosen Longannet in Fife to build a new plant for light-weight, high-speed trains. These are intended for Stage 1 of HS2 between London and Birmingham. There could also be an innovation and training centre in Chesterfield. Construction on the site will begin once HS2 orders are confirmed.

BUILDING AND CONSTRUCTION

The sector is looking up since September, although the new order outlook remains uncertain. New house building is approaching the Government target.

The October Purchasing Managers Index for building and construction rose to 53.2 after a 6-month low of 52.1 in September. Civil engineering grew at the fastest pace, offsetting weaker growth in commercial construction and house building.

52.1

PMI Index at the end
of October

Data on new orders indicates that Q4 2018 and Q1 2019 will be tough. However, new UK home construction has hit a decade high this year – 222,190 in the year up to March, gradually approaching the Government target of 300,000 new houses per year.

ENERGY GENERATION

The Moorside nuclear power station is being shelved, and there are concerns about gas and electricity capacity as we approach winter. Oil prices hit a record low for this year.

The nuclear power station at Moorside in Cumbria will almost certainly be shelved. Toshiba's NuGen has been unable to find a buyer for their UK nuclear business. Toshiba will wind up their UK company in January. Korea Electric Power Corporation had been expected to make an offer but dropped out after a year of discussion. Toshiba takes a hit of £100 million for their withdrawal, but their Tokyo shares rose by 12% at the announcement.

The Government has slashed support for offshore wind farms. Its new offer is 40% less than what will be paid for electricity from Hinkley Point C Station, £92.50 per MWh. In 2017, wind turbines generated 6% of the UK demand for electricity

The UK has limited ability to store gas since the "Rough" facility in the North Sea closed last year over safety concerns. UK gas storage capacity is now 5 winter days, compared to 18 winter days in 2014/15.

Since 2014, the UK government has had a scheme to pay power station owners subsidies to ensure stations are kept running when needed at short notice. A European court has now forced the UK to close the scheme due to concerns over state aid rules.

Oil prices fluctuated in November. Brent crude is just below \$60 per barrel as the USA puts pressure on Saudi Arabia to curtail supply in exchange for support over events in Turkey. Oil is now at its lowest price this year. Just a month ago, Brent crude was selling at \$84 per barrel.

\$60/barrel

The lowest 2018 price
for Brent crude

ALUMINIUM FEDERATION
30 NOVEMBER 2018