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ALUMINIUM FEDERATION

MARKET REPORT

OCTOBER 2018

ECONOMY

The UK economy slowed to a stand-still in August with the Office of National Statistics reporting that the total output of goods and services in August was at the same level as July and with manufacturing, construction and farming shrinking. But the ONS upgraded the data for June and July to give a figure of 0.4% for the quarter up to the end of August. The prediction for Q3 2018 is now 0.7% and for Q4 2018 of 0.5%. Retail sales for Q3 2018 rose by 1.2% compared to Q2 although September itself was a poor month. For the immediate future both Bank of England and the IMF are expecting the UK growth rate in 2019 to be around 1.5% and similar rates over the next five years. Destabilizing forces may come from possible increases oil prices, reduced economic activity in China, global trade disputes and a Brexit effect.

Data from the Bank of England shows that wages excluding bonuses have risen at the fastest pace for nearly ten years. In the three months to August pay rose by 3.1% against an inflation rate announced in mid-October of 2.4%. The increase is partly driven by loosening of the public sector pay cap for some workers. The unemployment rate remains at its lowest level since the mid-1970s.

The CBI monthly industrial trends survey revealed that confidence among manufacturers has collapsed sharply. New orders for domestic and export markets are set to fall in the present quarter. Future investment plans in plant and machinery are being cut back. The CBI are asking for help in the next budget to give manufacturers some incentive to invest.

Public sector net borrowing fell significantly in September to the lowest value since 2007, according to the Office of National Statistics. Currently it is 35% less than last year. The figures gave the Chancellor some scope in the budget at the end of October to begin the end of austerity.

Evidence of the shrinking global economy was offered during October when in mid-month the FTSE 100 fell below the 7,000 mark. Since the end of 2016 the FTSE 100 has only twice been lower than 7,000, briefly in March 2018 and now in October, just before the month end the FTSE 100 was at 6939. The FTSE 100 is more a measure of the health of global companies but little comfort can be found in the FTSE 250, which is made up of share prices of UK companies. During October it fell to 18,827, the lowest level this year and at the month end it was on 18,352, the lowest level since January 2017. As the share prices have fallen so the price of gold has picked up, always a safe haven for funds. The WTO warn that the US-China trade war is damaging the global economy and putting millions of jobs at risk.

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ALUMINIUM

IAI data for the year up to and including September indicates that this year will be another record year for primary aluminium production at 64 million tonnes. The contribution from China however will be reduced at 45% of the total rather than the 57% of last year.

Alcoa has announced a 30 day consultation process with two primary smelters in the north of Spain, with a view to their closure. Aviles produces 93kt per year of primary ingot, employing 300 people and La Coruna produces 87kt of ingot, slab and billet, employing 400 people. On the world stage these are small units with correspondingly high costs that have struggled to compete with metal from the likes of China and the Gulf States. Alcoa will retain the San Ciprian smelter in the north-east of Spain which produces 250kt per year of primary metal and also on that site 1.5 million tonnes of alumina. The two plants have worked hard over two years to improve their productivity but their future was always dependent on the state of the parent company. The Klesch Group, metal and oil traders and producers, have expressed an interest in the installations. In Q3 2018 Alcoa Corporation reported a net loss of $41 million compared to a net income in Q2 2018 of $75 million. The Q3 position is down to lower aluminium prices.

With a strong US dollar and the global economy slowing, primary aluminium started the month on the LME at $2,047 per tonne and gradually slipped lower and before the month end it went as low as $1,961.Aluminium alloy on the LME went as low as $1,400, the lowest for several years. In Western Europe the primary ingot premium, duty paid, was down slightly at $138-148 per tonne. Metal Bulletin in mid-month are reporting extrusion billet premium, duty paid, Rotterdam at $480- 520 and in Italy at $520-550.

Metal Bulletin in mid-October were reporting UK aluminium scrap prices:

Group 1, Litho and clean HE9 extrusions at £1,410 - 1,460; BOR at £870 - 890; Commercial cast at £940 - 990; Commercial turnings £630 - 660.

Foundry ingot prices, LM24 £1,565 - 1605 and LM6/25 £1,795 - 1850.

AUTOMOTIVE

The Paris Motor Show, 4 – 14 October, was the dominant event for petrol-heads this month, in spite of the absence of some major players; Ford, Vauxhall, Volvo and Volkswagen elected not to appear. Electric cars dominated the new designs, with the availability of charging sites and the charging rates being discussed. Renault for example have a mileage target of 124 miles charged in 15 minutes. Several global executives expressed surprise that the UK is not a more attractive market for electrics than it is; the UK electric vehicles are 0.5% of the total market, the European average is 1% and the Netherlands achieves 3%. The Head of BMW announced that they see a future for the manufacture of MINI in Oxford, UK, but, as ever, they are looking for Brexit clarity. Several companies are still working hard on diesel designs, in spite of political pressures with arguments that are not well supported by the technology now available for cleaner diesel engines.

MPs on the Parliamentary Business Committee have called for a ban on UK diesel and petrol engines by 2032, calling present targets for zero-emission vehicles as unambitious and vague. They also regard the present charging infrastructure as “not fit for purpose” At a time when rail transport is moving away from diesel to electric, Western Region for example, and when there are uncertainties about the new electricity generation installations planned for UK, one hopes that the Committee have done their sums about electricity demand and how that demand will be met.

The SMMT data for new car registrations in UK in September 2018 makes depressing reading. After March each year, which is the best month for new UK car sales, September traditionally is the second best month, and for 2018 this trend has been repeated, but at sales levels that compared unfavourably with 2017. The September 2018 total sales of new cars in UK were 338,834, down 21% on September last year. Once again diesel sales were hit badly, 98,191 cars, down 43% on last year. Petrol sales were at 217,136, 7% down on last year. The sales of AFVs at 23,507 were actually 4% up on last year.

Looking at data for September sales in this and previous years, we have to go back to September 2011 to find a lower total figure than September 2018. For the year-to-date, the total sales this year now trail this time last year by 8%. Diesel sales so far are down on last year by 31% and petrol sales by 9%. AFV are up on this time last year by 22%.

The majority of new cars sold in the UK are imported. Equally it must be pointed out that the majority of cars manufactured in UK are exported. SMMT data on year-to-date UK sales of new cars shows Ford way in front with three Ford models in the top ten. Of all the new cars sold so far this year, Ford take 8% of the total. Volkswagen, with two in the top 10, take second place, with 5% of all new car sales. Vauxhall, Nissan and MINI, all UK produced, take the next three places.

Part of the poor performance on sales can be explained by the introduction of new EU emission rules that left some manufacturers struggling to produce enough cars to meet even a reduced demand. In fact the much reduced imports into the UK of German cars meant that the trade balance for the UK in the quarter to August was much improved. There was a fall of £1.5 billion in imports into UK because of the supply problems with German cars.

When SMMT published the data on UK car production in September the bad news was not unexpected. The total production in September of 127,051 vehicles was 17% down on the same month last year. The number of cars produced that are bound for the export market was down by 16% and for the home market down by 19%. The year-to-date figure indicates that UK car production this year will be well down on 2017 and may only match the figure for 2015.

One bright spot in the data was that the production of commercial vehicles in UK in September was up on last year by 15%, with a significantly large increase in CVs for the home market. The engine production data is always a month behind that of cars and CVs. The engine production in August 2018 was almost exactly the same as for August 2017, but with production for the home market 26% down on this month last year and for the export market 25% up on last year.

Global sales of Jaguar Land Rover fell in September by 12% with a fall in their sales in China, their biggest market, of 46%. The Company has decided to close their Solihull main assembly line for two weeks. There are no job losses involved. They had earlier put the Castle Bromwich plant on a three day week. JLR builds 500,000 vehicles each year and employs 40,000 people in UK.

It is not just JLR that are concerned about falling sales in China. Total car sales in China in September fell by 12%, the third month in a row to show a fall and the sharpest fall in seven years. The automotive industry in China has been the major driver of their economic growth for several years. The fall is a direct result of trade disputes and the slow-down in the world economy and indeed in the economy in China. For 2019 the Chinese economy is estimated to grow at only 6.2%. This year's total car sales in China will be below the 2017 total and that will end 20 years of continual growth. It's not just JLR who are worried.

The UK car industry was not in laughing mood when out of the blue the Department of Transport announced in the middle of October that grants towards the purchase of electric cars will be cut and those towards the purchase of hybrids will be axed. Grants for electric cars fall by £1,000 to £3,500 and for the hybrids the grant has been eliminated. And all that just three months after the government published its "Road to zero" strategy to encourage the use of low emission technology.

While UK government has been pleased to help Dyson with funding for their plan to develop an electric car, building on their expertise in electric motor technology, they were less impressed to learn that the production of a Dyson electric car will be based in Singapore. Other car companies, Geely of China with London taxis, Nissan with Leaf and BMW with electric MINI in Oxford, have taken a different view.

In an earlier Market Report we highlighted problems that Ford Europe is now facing, that need urgent attention. They have now announced the closure of their gear box factory in Bordeaux, employing 850 people, in spite of the offer from another French group to take over the plant. For Q3 2018 Ford Europe is expected to post yet another loss-making quarter. In Q2 2018 Ford Europe lost $73 million.

AEROSPACE

With Tom Enders announcing that he will step down in April 2019 from being CEO of Airbus, the new man in the post will be Guillaume Faury who is currently Number Two in the company, heading the commercial aircraft division. The tradition of the CEO being alternately German and French continues. The choice found favour with the industry, Faury has a good record of chasing production targets at Airbus, with a 7300 aircraft order book. The target for this year is 800 aircraft as the company struggles with delays in deliveries from suppliers, not least engines for the A320neo. His CV includes being head of research and development at Peugeot Citroen.

Electric cars are not the only mode of transport involving batteries in the news. Electric aeroplanes are being developed, understandably the weight of the battery is a major consideration. But if the flight is a very short one, then an electric plane is worthy of consideration, with a reduced risk of explosion or fire. Loganair flies between six Orkney Islands in the north of Scotland. Their shortest flight on a good day takes 50 seconds. By boat it is 25 minutes on a good day, two hours on a bad day and sometimes on a really bad day the journey is impossible. Loganair fly eight-seater planes round the islands and they are now working with Cranfield Aerospace to develop an electric plane that could go into service within three years.

PACKAGING

The website Let's Recycle keeps us up-dated on packaging waste recovery notes, PRN, values for all of the materials commonly found in the waste stream and recycled. Aluminium PRN started the year down at about £10 per tonne and by September they were trading at £30-55.

ENERGY GENERATION

Cuadrilla is now free to begin fracking for shale gas in Lancashire after a legal challenge in the High Court was refused. The judge concluded that there was no evidence to show that fracking posed more than a medium risk. Fracking trials are now underway and by Easter the company should know if the well is going to be as productive as expected. The

Environment Agency is monitoring the site for minor earthquakes, which are surprisingly frequent across the UK but usually at levels undetected by the public. After 11 days a small earthquake (0.5) did occur and fracking was suspended temporarily. A second tremor at 1.1 caused a further delay.

EDF is planning to begin construction of Sizewell C nuclear station in Suffolk at the end of 2021.They are currently also building Hinkley Point C station in the south-west, from which, we are told, they are learning how to optimize the construction. EDF bears the construction costs for Hinkley Point C in exchange for a generous electricity price to the consumers.

EDF are also building a Hinkley Point type of nuclear station in France in Normandy. The company has been severely criticized by the French nuclear watchdog over the quality of welding in the reactor. They found 33 welds of sub-standard quality and they have to be re-done at a cost of 400 million euros. No doubt the UK MPs on the Parliamentary Business Committee are watching this closely to ensure that the UK does actually have enough generating capacity by 2032 to keep all of our electric cars and trains moving.

Since our last Market Report the price of oil has slipped and Brent crude at the month end was selling at about $77 per barrel.

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