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ALUMINIUM FEDERATION

MARKET REPORT – NOVEMBER 2017

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ECONOMY

In the UK there has been a surprising surge in the services sector accounting for 80% of the UK economy. The PMI indicators for manufacturing and construction have also given positive indications and the quarterly growth rate for Q4 2017 could reach 0.5%. If so, the UK economy has improved in each quarter. The Office of National Statistics showed industrial output in September growing at 0.7%. Data is now showing that the better than expected Q3 growth, at 0.4%, in the economy was fuelled by higher household spending. The CBI monthly industrial trends survey on industrial orders in November grew to +17 from -2 in October, the highest reading since 1988. Economists had expected a figure of +3. CBI state that manufacturers are performing strongly as global growth and the lower value of sterling support demand.

Both the FTSE 100 and FTSE 250 have slipped from the record highs reached in early November. The FTSE 100 is now at 7,300, having been as high as 7,560. The FTSE 250 is at 19,854 having been at 20,470 early in November. One pound will buy you $1.35 or 1.13 euros.

The UK Government has issued its Industrial Strategy, setting out the template for future industrial growth in the UK. It highlights four Grand Challenges - Artificial Intelligence, Clean Growth, Future Mobility & the Ageing Society – as the industries of the future, and focuses on five Foundations of Productivity – Ideas, People, Infrastructure, Business Environment & Prosperous Communities – as the tools we need to optimise to take advantage of these industries. To date four sectors of industry – automotive, construction, artificial intelligence and life sciences – have agreed Sector Deals with the Government. The UK Metals Council is considering what the Metals Industry would like out of their own Sector Deal. Low productivity in the UK, as highlighted by data the Office of National Statistics has published data this month, showing that from 2012 to 2015 the value per worker of the UK's capital stock shrank year on year, is one of the weaknesses that the Industrial Strategy has pointed out the UK needs to address in the near future, as we now rank 5th out of the 7 G7 countries when measuring GDP per hour worked.

Growth in the Eurozone is on course this year to beat the United States and the UK, with their best year since the financial crash of a decade ago. Up to the end of September the Eurozone had a year-on-year growth of 2.5%, against the US at 2.3% and the UK of 1.5%. Germany was the powerhouse, with a Q3 2017 growth rate of 0.8%. Their annual rate by the year-end is now projected to be 2.8%. In Q3 France achieved 0.5% and Italy 0.5%. The year 2017 in the Eurozone could match that in 2007.

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ALUMINIUM

Aleris Corporation reported its financial results for Q3 2017 and for the nine months of January-September 2017. In Q3 2017 the company reported a net loss of $66 million compared to a net loss of $22 million in Q3 2016. Its adjusted earnings, EBITDA, were $46 million compared to $53 million in Q3 2016. In its Europe operations income was $28 million in Q3 2017 compared to $41 million in Q3 2016. There was a reduction in the aerospace and automotive volumes delivered.

China Zhongwang and Aleris Corporation have called off the acquisition deal since the US Committee on Foreign Investment in US did not give approval. Aleris remain committed to a growth strategy, having commissioned a new auto body sheet plant in Kentucky.

Novelis reported a net income of $307 million for the second quarter of their 2018 fiscal year, compared to a net loss of $89 million in the same period of the last fiscal year. The improvement was down to higher aluminium prices, favourable metal costs and operational efficiencies, partially offset by lower beverage can pricing.

On the LME in November, aluminium slipped during the month as consumer demand from China was reducing while Chinese production was expanding. It opened the month on $2150 and ended November on $2033. Aluminium Alloy ended November on $1890. Metal Bulletin reported billet premium in mid-month from various countries. In Europe (all prices in $) Italy was at 375-390, Spain 360-375, Rotterdam 350-360, Germany 390-360. Financing and transport terms may affect the agreed premium. Ingot premium was in the range $180-195.

AUTOMOTIVE

According to SMMT data sales of new cars in UK in October 2017 were 158,192, of which 62,349 were diesel, 87,599 were petrol and 8,244 were other alternative fuels, including electric and hybrids. Compared to October 2016 this is a fall in total sales of 12.2% but behind that data is a more worrying trend for UK produced cars and particularly for diesel driven cars. Compared to October 2016 diesel car sales in October 2017 are down by 30% and petrol cars are up by nearly 3%. For the alternative fuel cars October 2017 sales, at 8,244, were 37% up on 2016. The total numbers for many reasons are disappointing but it should be realised that it is only the Octobers of 2014, 2015 and 2016 that were better in recent years.

Looking at the best sellers for the year-to-date January-October 2017, in order, from first to tenth place we see: Ford Fiesta, Volkswagen Golf, Ford Focus, Nissan Qashqai, Vauxhall Corsa, Volkswagen Polo, Vauxhall Astra, Mercedes-Benz C-Class, BMW Mini and Mercedes-Benz A-Class. It is alarming to see in the month October 2017 top ten sales, Vauxhall cars do not appear at all. These are UK produced cars and a question mark already exists over the two Vauxhall plants. Compared to Vauxhall sales in October 2016 their current month sales are 35% down. For many years Vauxhall was the UK second best seller after Ford. Of the other major UK manufacturers, looking at October 2016 and October 2017, Jaguar lost 39% of market share, Land Rover lost 7%, Mini lost 35%, and Nissan lost 31%. On the plus side, of the UK manufacturers, Honda was up year-on-year by 6% and Toyota was up by 13%. The reaction against diesel engines goes a good way to explaining what is happening. SMMT points to the haste with which government and local authorities have condemned diesel engines, even though the latest designs are far cleaner than previous models.

Turning to UK car production in October 2017, production levels are 1.6% down on the previous year. SMMT has trimmed its estimate for total car production this year from 1.8 million down to 1.73 million, which will be similar to the 2016 total figure. The best-selling UK built vehicles are Nissan Qashqai, the BMW Mini, Range Rover Evoque and Jaguar F-Pace. Orders for Vauxhall Astra remain disappointing and the company has cut a shift at Ellesmere Port and 400 jobs were lost. Exports of new cars from UK, with the falling pound, are doing well and October exports were up by 5% year-on-year. Aston Martin is now back in profit with good sales of the DB11, which has been in production for only 14 months at its Warwickshire plant.

AEROSPACE

Former UK Prime Minister Harold Wilson once said that a week is a long time in politics. That being so, a month can be a long time in the global aerospace industry. Just over a month ago Bombardier was seriously threatened by an American Court action that would have added 300% to the price of their C-Series jet being sold in USA. That would have had implications for UK, since C-Series wings are designed and manufactured in Belfast. Airbus came to their rescue with a majority stake in the aircraft production and the plan to build the C-Series aircraft for the US market at its plant in Alabama, thus avoiding any extra tariffs imposed by the US Trade Department on imports. Additionally, the European Commission has defended Bombardier in its trade dispute with the US, claiming that the investigation shows significant shortcomings in methodology and findings.

Bombardier then announced in November that it had an order for 31 C-Series aircraft for an unnamed European customer. At this month's Dubai Air Show, EgyptAir placed an order for 12 C-Series aircraft with an option for 12 more. These two recent deals, once closed, will take the order book for C-Series up to 400 aircraft. In the October Market Report we pointed out that the C-Series aircraft, with a capacity for 100-150 passengers, gives airlines more flexibility when dealing with the short-haul market.

We also pointed to the limitations of the very large aircraft such as the Airbus A380 'super jumbo'. Airbus hasn't had a new order for an A380 for over a year and there are fears that production lines could be mothballed. But this plane is of interest to Emirates Airlines since they have a long-term plan of bringing millions of passengers through the Dubai hub, connecting Europe to the Far East and Australia. Airbus want Emirates to pull forward deliveries of the A380 to help it fill a gap after 2019 that could otherwise undermine the sustainability of the A380 programme. The two sides discussed a possible order for 36 passenger jets, worth $15 billion. In turn Emirates want Airbus to guarantee production of the A380 for 10-15 years after it receives the last order in the current series in 2022. Discussions at the moment are thought to have stalled on the price. Airbus has concerns that orders from some other airlines, totalling 99 aircraft, may be cancelled as the philosophy of using super jumbos is changing towards smaller and more flexible planes.

As is often the case in Dubai, everything is either the richest or the largest, and the Dubai Air Show was no exception. Airbus and Boeing between them took orders worth a total of $77 billion by day three. Airbus took its largest ever single order with US-based Indigo Partners booking 490 planes for $49.5 billion. Boeing received an order for 225 planes from Fly Dubai worth $27 billion, deliveries to start in 2019. Emirates Air ordered 40 Boeing 787-10 Dreamliners worth $15 billion to add to its fleet.

An interesting development in the aluminium/aerospace sector is the announcement from Arconic and Airbus that they have an agreement for a research project for 3D printing of large aluminium structural components for aerospace, up to one meter in length. The intention is to use electron beam high deposition rate technology, plus the "Ampliforge" process to treat near complete 3D printed parts, thus enhancing the mechanical properties.

BUILDING AND CONSTRUCTION

In September the Purchasing Managers Index (PMI) for construction was at 48.1, the lowest level for 15 months. In October it had recovered narrowly to positive values, anything over 50, to reach 50.8. Growth was largely confined to house building which partly offset lower volumes of civil engineering and commercial activity. But business confidence in this sector for the next twelve months fell to the lowest level since December 2012, with concerns over UK economic prospects and a lack of new orders in the pipeline.

The Aluminum Association (USA) has just published its 2017 version of "Aluminium in Green Buildings – A Guide to Environmental Declarations for the Building and Construction Market". The new guidelines describe how life cycle assessments and environmental product declarations are awarded for green building credits in major rating systems.

PACKAGING

European Aluminium has just published the overall recycling rates in 2014 for aluminium beverage cans in Europe (EU28 & EFTA) covering 31 countries. The overall recycling rate is now at a record high of 72.9%. This means that over the whole of the European continent and including other East European countries, Russia and Turkey, some 30 billion cans were recycled in 2014. European Aluminium uses the EU statistics agency EUROSTAT as its main data source for the recycling calculations and, because of a lengthy reporting process, the data for 2014 is the most up-to-date available.

ENERGY GENERATION

A barrel of crude oil is now trading at about $63, an increase of $11 since the middle of the year, the highest since June 2015. Assuredly higher UK petrol prices are in the pipeline; increases of up to 7p or 8p per gallon are predicted. OPEC and ten other producer countries have agreed to maintain their agreement on limiting output until June 2018. Oil traders are warning that if the agreement fails then oil will quickly be back at $50 per barrel.

On the global scene carbon dioxide emissions are set to rise this year by 2% after much smaller annual increases over the past three years. This is being driven by increasing coal burning in China with stronger industrial growth and lower hydro-power generation after reduced rainfall. Energy generation by renewables across the globe has increased by 14% per year over the past five years and 22 countries have expanded their economies while at the same time reducing emissions. The battle to limit carbon dioxide emissions and climate change need not be fought while wearing a hair shirt.

OTHER MATERIALS

The UK government this month outlined a plan for a trade remedies authority to investigate dumping, the selling of imported goods at below the cost of production. But the government has warned that it would not toughen up the trade defence measures even if the EU does. The EU has recently completely changed its attitude towards dumping and the proof required, after the European Parliament refused to recognise the very liberal attitude of the European Commission, towards dumping, particularly from China and particularly the dumping of steel and aluminium products. UK Steel has warned that a regime that is less severe than that applied in the EU will leave the UK as a soft touch for dumped products, with job losses and loss of expertise in industry. The UK government prefer to use the "lesser duty rule", which limits punitive tariffs on dumped products to the duty needed to redress the injury to domestic producers. The new EU regulations allow higher tariffs to be applied in some circumstances above the levels required by the "lesser duties rule".

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