BIR World Mirror

Non-Ferrous Metals

Issue N°138 – October 2015

A focus on lead and zinc

To those attending the BIR World Recycling Convention in Prague, I welcome you.

Following the summer, the non-ferrous metals market is still dragging its feet. Whenever a piece of good news lights the candle of hope, it is followed immediately by more bad news to extinguish that short-lived flame.

In early October, the Trans-Pacific Partnership (TPP) was signed by the USA and other leading Pacific Rim countries, but the People's Republic of China is not on the list. Although this is new, the same topic of bilateral agreement was initiated more than five years ago and we need to watch closely to see what the impact may be on our industry.

Instead of our traditional focus on copper and aluminium, our Round Table in Prague will feature two speakers from Eastern Europe who are engaged in the lead and zinc recycling industries.

During recent years, Bob Stein and Robert Voss have made major contributions to our Non-Ferrous Metals Division as well as to BIR in general. After the Round Table meeting in Prague, both of them will be departing from our industry. We sincerely appreciate all their efforts in building a solid foundation for us.

David Chiao
Uni-All Group Ltd (USA)
President of the Non-Ferrous Metals Division
08 October 2015

International

India

(by **Dhawal Shah**, Metco Marketing (India) PVT Ltd,
Senior Vice-President of the BIR Non-Ferrous Metals Division)

If you have been following the buzz in the financial markets here over the last few weeks, you may have ended up with a feeling that Indian business is on an unstoppable roll. Media reports are gung-ho on "desirables, transformed to deliverables", which has not happened in the longest time. It started with a Central Bank interest rate cut of 50 basis points, taking everyone by surprise; the base rate now stands at 6.75% which is the lowest in almost five years and this should turbo-charge auto and housing sales while also cheering up trade across segments. Then came the big announcement from the International Monetary Fund and its prediction that India would be the world's fastest-growing economy for 2015 and 2016, with an average of 7.4% comparing to a worldwide estimate of 3.3% - a super feat bearing in mind the current global economic landscape. This should improve the inflow of overseas monies into the country and also strengthen the rupee.

Over the last 12 months, India's Prime Minister has travelled half the world, engaging with Eastern and Western blocs to participate in his coveted "Make in India" campaign, which has so far been very well received.

Goods and Services Tax is likely to be rolled out in 2016 which should create a uniform tariff across India and dramatically improve interstate business. The equity markets are steady, while the low prices of oil and other commodities are benefiting consumers. So all seems to be going perfectly well - except for one thing: the average man, and his business, is not exuding any excitement, leave aside the euphoria suggested by the media. There is a feeling across industry (with some exceptions such as e-commerce, IT, financial services and fast-moving consumer goods) that daily business has become more challenging than before. The secondary non-ferrous market is among those experiencing a tough time, with order books downsized, operating margins shrinking and liquidity getting tighter. The disconnect between the macro and micro seems to be widening, and there is an urgent need to plug this.

To be optimistic, let's hope to see a scrap metal renaissance in time for our meeting in Prague.

Australasia

(by **Paul Coyte**, Hayes Metals, New Zealand,
Vice-President of the BIR Non-Ferrous Metals Division)

Market conditions remain challenging on both sides of the Tasman Sea, with metal merchants reporting lower volumes and continued pressure on margins. Consumers are still buying at current levels with supply steady.

New Zealand and Australia have just signed the Trans-Pacific Partnership (TPP) agreement subject to the approval of their respective government cabinets, along with a further 10 countries. This should help metal merchants and producers of metal products within Australasia in the longer term through the reduction and removal of tariffs and duties on products within this new bloc of nations. Whilst at this stage it is hard to quantify what this agreement means to the respective countries, the potential benefits are significant, especially for smaller economies and companies. High-level numbers suggest that, once the TPP is fully phased in, tariffs will be eliminated on 93% of New Zealand's exports with the five new free trade agreement partners of the USA, Mexico, Japan, Canada and Peru - a significant opportunity for an export-driven economy.

All in all, there is probably greater potential for further consolidation within the market. Companies' ability to adapt and remain agile in this demanding market will be a key focus in order to remain competitive.

United States

(by **Andy Wahl,** TAV Holdings Inc.,
Vice-President of the BIR Non-Ferrous Metals Division)

I believe most people would agree that we need to put 2015 behind us as soon as possible and hope for an uptrend in 2016.

For the most part, metal prices have not changed much either up or down over the past month, although it is exciting when copper and other metals go up 3-5% in a single day. The reality, though, is what goes up must come down again.

US car production is still tracking as planned and the unemployment rate has remained at the same level as in my previous report. The expected rate hike from the Federal Reserve has not materialised and the chances are we will not see it in 2015.

On the downside, scrap metal volumes continue to dwindle on the collection and sales side of the business. One major driving factor is that steel prices have taken another big cut of US$ 50 a ton from last month's levels. This means that the flow of metal will be reduced once again as ferrous and non-ferrous seem to be collected jointly and demolition jobs that rely on all the metal value are rare to find owing to the lack of economic benefit. Secondary producers of aluminium alloy are worried that we will see further price drops although automotive consumption is there.

When will we see a price correction based on the old principle of supply and demand? Red metal spreads have come in a little on copper, along with a small reduction in the Midwest premium on aluminium.

All in all, we can only hope for a better year in 2016 for metal volumes on the collection and consumption side. Pricing alone is not the issue any more. It is mainly about being able to find enough metal to process and trade in order to cover the operating costs of the recycling facilities. Most companies have exhausted their cost-cutting measures and the only option left may be head-count reductions which would put valuable employees out of a job. It's not a case of doom and gloom just yet, but the light is getting dimmer at the end of the tunnel in terms of our global buying and marketing effort for recyclable metals. Nevertheless, we need to push on.

Japan

(by **Shigenori Hayashi**, Daiki Aluminium Industry Co., Ltd.,
Board Member of the BIR Non-Ferrous Metals Division)

In late September, Prime Minister Shinzo Abe was re-elected as President of the ruling Liberal Democratic Party for the next three years. He has set out three new goals: a "strong economy"; "support for child rearing"; and "better welfare services". In addition, the government will aim to increase nominal GDP by 20% to around Yen 600 trillion (US$ 5 trillion) by the year 2020 from Yen 490 trillion (US$ 4.1 trillion) in 2014. However, it seems this objective will be extremely difficult to achieve given that real GDP growth has averaged only 1.7% over the past five years.

Car sales in Japan slid 7.6% year on year to 479,000 units in September, posting negative growth for the ninth straight month; meanwhile, domestic car production declined for the fourteenth consecutive month in August, falling 4.7% year on year to 605,000 units.

Against this backdrop, secondary aluminium alloy shipments also declined in August - by 5.2% year on year - to give negative growth for the nineteenth consecutive month. And with the LME downturn, aluminium scrap prices in Japan have been soft since September. But with the exception of UBC, scrap supply is still tight because of reduced generation. The fourth-quarter premium for primary aluminium imports into Japan was fixed at US$ 90 per ton, slightly below the previous quarter's US$ 95-100.

China

(by **Shen Dong**, OmniSource Corporation, USA,
Board Member of the BIR Non-Ferrous Metals Division)

Chinese industrial firms' profits declined further in August, falling 8.8% year on year. This poor performance was caused mainly by weak domestic demand and the drop in product values, indicating increased downward pressure on the economy.

Data from the first eight months of 2015 show that industrial profits dipped 1.9% year on year to around Yuan 3.77 trillion, a widening from the 1% decrease registered in the January-July period.

Faced with lingering downside risks, the Chinese authorities have ramped up their efforts to prop up the economy. The central bank has cut the reserve requirement ratio of banks four times in nearly seven months and interest rates five times in approaching nine months.

Suggesting a looming deflation risk, data show the Chinese producer price index fell 5.9% year on year in August, widening from the 5.4% drop seen a month earlier. The August reading represented the lowest level since the end of 2009 and marked the 42nd straight month of decline.

China's secondary aluminium smelters are all suffering from the market downtrend and softer demand from end users, not only in terms of volume but also pricing.

The copper market has been trading recently at a six-year low, which has introduced a more bearish mentality into the red metal market. Processors are reluctant to sell the commodity at a loss and end consumers are unwilling to take any long positions at this point. Trading is active but cautious. More and more Chinese smelters and processors are exploring other countries to continue their business and investments.

Mexico

(by **Alejandro Jaramillo**, Glorem SC,
General Delegate to the BIR Non-Ferrous Metals Division)

September and the first half of October have turned out to be surprisingly challenging for domestic aluminium scrap trading as some secondary consumers have reduced their buying and others have all but halted it. The reasons frequently given for this scale-back include furnace maintenance, cash-flow issues and cheap primary imports. This situation has presented yet another challenge for most yards, with many left holding significant inventories purchased at prices that made sense with domestic prices but no sense at all with the export market.

Domestic demand should be robust in the mid- and long-term but with some hiccups to be expected owing to potential cash flow, tax and technical issues. Demand for mill grades and UBC remains robust and liquid. Just a couple of weeks ago, a major, renowned aluminium research firm published the suggestion that, according to this year's primary import volumes which are 35% over last year, Mexico is now the world's fastest-growing primary aluminium market.

The exchange rate has fluctuated between MX$ 17.3175 to the US dollar on September 24 and MX$ 16.3955 on September 17; at the time of writing, it stands at MX$ 16.4377. Exchange rate volatility adds another layer of risk and complexity when buying and selling metal that is frequently denominated in US dollars.

The auto industry continues to grow at a robust pace. During September, domestic production increased by 4.1% while year-to-date growth is 6.1%. The surprise has been the robust pace of domestic auto sales, soaring 24.9% in September and 19.7% in the year to date. These growth rates are refreshing given Mexico's historic dependence on exports, although 80% of all vehicle production is still destined for markets abroad.

The pace of the Mexican economy and of Mexico's metal demand still hinges greatly on external factors such as exports, GDP growth volatility and world currency liquidity volatility heavily influenced by the US Federal Reserve. Another factor always to keep in mind is the price of oil as this commodity represents another of our country's major exporting industries.

Middle East

(by **Ibrahim Aboura**, Aboura Metals FZCO, Jordan,
Board Member of the BIR Non-Ferrous Metals Division)

We enter the final quarter of the year with yet more challenging conditions and a hazy outlook. The metal market drops in quarter three took the markets to a multi-year low, coupled with high volatility, weakened demand and reduced supply of material.

The recent currency devaluations in China and elsewhere have pressured LME prices to unprojected lows. Demand has been weak owing to the accelerating Chinese slowdown along with low demand from India and Europe especially with the lower premiums paid for aluminium as compared to the beginning of the year.

LME markets have fallen and jumped by as much as US$ 200 per tonne during daily trading sessions. Copper dropped to US$ 4900 per tonne in late September but, by October 9, was back up at its highest level in recent weeks of US$ 5350 as news of Glencore's zinc production cuts pushed up its shares and also the metal's price to US$ 1850 per tonne.

Trading has become difficult as prices are extremely unstable, thus affecting contractual obligations and deliveries.

We are still dealing with geopolitical issues and escalating conflicts in this region, with no clear indication as to when we are going to have some political stability - all of which have contributed to a weakened supply of materials and reduced cross-border trading, along with low material prices.

Despite the gloom, there is still a sense of optimism as traders try to grab the highs on the LME to secure their profits but with less volume traded than in previous months. This is the time to take precautionary measures and to manage risks while adapting to this new market environment on a day-by-day basis.

South East Asia

(by **Graeme Cameron,** Sims Metal Management, Hong Kong
Board Member of the BIR Non-Ferrous Metals Division)

Currency depreciation against the US dollar has been a hot topic in South East Asia in the past month, especially whether a weaker domestic currency will drive significant exports growth in the region's downstream markets over the coming quarters. Market confidence is yet to be restored as worries about China's growth continue to push down stock valuations, currencies and, last but not least, commodity prices.

The Malaysian ringgit has plunged since the second half of 2014 to its lowest level against the US dollar since 1997 and some commentators argue that, if history repeats itself, we should expect some form of market growth. Indeed, there are positive signs such as: the increase in planned local investments in manufacturing and services; the rise in Malaysian automotive sales of around 4.5% in August; and an increase in the merging of activities between local auto part makers and other ASEAN manufacturers. The market is stabilising and its steel scrap consumption is continuing to contribute a sustainable share of the region's sales volume.

The Thai baht has been on a downward trend over the last month, which has not been particularly helpful when selling scrap into Thailand. Meanwhile, the Bank of Thailand has cut its GDP forecast from 3% to 2.5%. Demand for non-ferrous scrap has not improved drastically owing to slow downstream auto parts orders from nearby importing countries.

The Indonesian government has just announced the second part of an economic stimulus package in a bid to attract investment as economic growth continues to slide but, like the other two countries above, the Indonesian rupiah has dropped around 15% since the beginning of 2015. It will take some time for any positive effect of the stimulus package to be transferred to the scrap industry.

South Africa

(by **Sidney Lazarus,** Non-Ferrous Metal Works (SA) (Pty) Ltd, Board Member of the BIR Non-Ferrous Metals Division)

Business is still quiet and many companies are continuing to work shorter weeks of three or four days as demand continues to fall on the local and export markets. There is sufficient raw material as industry is quiet and therefore not much demand from consumers for copper and brass scrap. There has been no load shedding, mainly owing to the low industrial activity levels.

Scrap prices have increased over the past month. Although the International Trade Administration Commission is not granting export permits for copper, permits are being issued for aluminium and brass scrap. Copper scrap is still being shipped overseas without export permits and under different tariff headings. As before, scrap dealers are getting their copper scrap converted into ingots and blocks for export.

The South African rand is trading at 13.50 to the US dollar and 20.70 to the British pound. The domestic growth rate has dropped to 1.4% over the last quarter and no improvement is expected in the final quarter of 2015.

South African coal miners began a strike on October 4 after wage talks collapsed. Meanwhile, latest figures confirm a further weakening of car sales in September, which were down 9% compared to the same period last year.

Europe

Italy

by **Leopoldo Clemente**, LCD Trading S.R.L)

"Never, never, never give up" and "Carpe diem": in my opinion, these are the mottoes that perfectly represent the mood of Italian non-ferrous metals operators regarding ongoing market dynamics.

Uncertainty has reigned supreme following the shocking quotations at the end of August and in September. The LME, on the other hand, has been clear: only tin has enjoyed better health, with the October monthly average of US$ 15,932 per tonne comparing to US$ 15,015 for June. Today's prices of zinc, lead and both primary and secondary aluminium are a pale shadow of what was recorded in the pre-holiday period. The same can be said for "red gold" and nickel. The primary aluminium ingots premium is in freefall, along with prices of secondary aluminium ingots.

To be cautious is a must for all professional operators: many companies are going ahead strictly with existing contracts, waiting for better market conditions in order to plan long-lasting business. The "lean" approach seems more rewarding than ever before: purchasing and reselling within a short period with fast payments and easy transportation costs, keeping "just fit" stocks to allow for an effective turnover. Negotiations will be even stronger by the end of the year considering the approximately 45 working days remaining ahead.

This crazy metal business is part of a national economy that is providing some elements of inspiration, although these are still too limited. The tax burden in the second quarter of 2015 stood at 43.2%, down 0.1 percentage points over the same period last year. Overall during the first six months, a 41.1% value was registered - which is the same as for the first part of 2014. The consumer price index decreased by 0.3% in September when compared to August but rose 0.3% versus September 2014. There was a slight increase in inflation of 0.1 percentage points from 0.2% in August.

In Italy, it is a good time to buy a house because the decline in house prices over 2010 has reached 14%, but we must also prepare ourselves for a huge recovery plan by Equitalia on taxes, contributions, fines and penalties not paid by taxpayers in due time and in the manner required by law, which is aimed at overcoming in 2016 the threshold of Euro 8 billion.

Germany

(by **Ralf Schmitz,** Chief Executive of VDM - German Federation of Metal Traders)

The market situation is becoming increasingly bleak. Prices have dropped for most new metals in recent weeks and demand has been limited. After a recent, short-lived period of increase, scrap prices are again on their way down and availability is also in retreat, mainly due to LME price drops. The overall mood is not very optimistic and pleasing transactions are scarce.

Worldwide, the copper market is stagnating. Supply of primary copper remains excellent and the low copper prices are resulting in scrap dealers holding back material they bought at a higher price. As a consequence, copper scrap is scarce and little is available on the market despite good demand.

Those involved in the nickel market are currently adopting a short-term approach and trade is generally very slow and lacking any impetus. Zinc is following the LME downtrend and, from a fundamental point of view, is clearly suffering from excess availability, with the result that many customers are taking the opportunity of lower prices to build stock for the coming months.

There has been no significant change on the German aluminium market and the production side is quite busy. Market developments for lead and tin have been rather uninteresting.

There has been no major move in scrap prices. Primary aluminium has been trading at Euro 1490-1540 per tonne, aluminium extrusion scrap (Alter) at Euro 1390-1490 and pure aluminium wire scrap (Achse) at Euro 1380-1520.

Primary soft lead has occupied a range between Euro 1670 and 1690 per tonne while soft lead scrap (Paket) has attracted Euro 1220-1390. Old zinc scrap (Zebra) has traded in the usual range of Euro 1130-1190 per tonne.

Copper scrap prices have increased slightly overall. Bright copper wire scrap (Kabul) has been priced at Euro 4460-4640 per tonne. In Germany, first-quality copper wire scrap (Kasus) has fetched Euro 4430-4710 per tonne and second-quality copper wire scrap (Katze) some Euro 4320-4550, while heavy copper scrap (Keule) has commanded Euro 4160-4350.

France

(by **Alexandra Weibel-Natan**, Manco, Representative of the Young Traders Group)

This is not the best period in which to be writing a market report as the mood is one of increasing pessimism. The global economy is struggling to return to better growth prospects and debt is high everywhere. Emerging countries, including most importantly China, are slowing down considerably and conditions in France are no better than in the rest of the world.

The Euro/US dollar exchange rate is subject to strong fluctuations and can move 100 points in a day for no apparent reason. All of the data of recent months have impacted the commodity markets in general such that none has escaped this downcycle, including energy (oil, coal), agricultural products (sugar, coffee) and, of most interest to us, metals like nickel, aluminium and copper.

In France, the scrap metal market is really depressed and flows are very limited. Despite low LME prices, discounts remain very high such that scrap collectors prefer to hold on to their stocks for better times ahead. Most of them bought material when the LME was higher and they are now trying to dilute their stocks to sell on the average so as not to lose too much money. It could take time for those price levels to become the norm and for scrap dealers to trade more volume again.

Nordic Countries

(by **Mogens Bach Christensen,** H.J.Hansen Genvindingsindustri A/S, Denmark, Board Member of the BIR Non-Ferrous Metals Division)

Lower growth abroad is likely to slow GDP growth a little in Europe and hence in Denmark. Nevertheless, the country's recovery is still in place, with above-trend growth and rising employment. But this recovery could increase the risk of overheating in the Danish economy. Unemployment is not particularly high and there are no signs of an increase in the labour force. The Danish central bank looks set to hike rates but, given the large current account surplus, interest rates should remain lower than Euro rates and thus very low for several years yet.

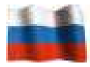
The Swedish economy is still awaiting redemption from a long period of export industry malaise. The international improvement is gradually taking hold in the Swedish export sector. However, some parts of the financial and policy markets are divided in their beliefs regarding the speed of this process, with some expecting it to be swift and strong while others expect it to be a longer exercise. Only time will tell who is right.

In Norway, the short-term outlook has worsened, driven by developments in oil-related sectors. However, private consumption and construction are holding up well, supported by lower rates and public investments. As the oil price is expected to move towards US$ 65 per barrel during 2016, the negative impact from lower oil investments should fade. Norges Bank cut the key policy rate to 0.75% at its September meeting.

The domestic demand outlook in Finland continues to be dull. Household purchasing power remains weak owing to unemployment and a moderate wage agreement. A fall in consumer prices boosted private consumption in early 2015 but the impact is unlikely to last into 2016.

Investment activity is showing the first signs of bottoming. The housing market outlook is dull and prices/trade volumes stabilised in the spring. A cautious supply of new housing and low interest rates have helped to keep home prices relatively stable.

Russia



(by **Ildar Neverov**, Tyor Group, Board Member of the BIR Non-Ferrous Metals Division)

The ruble has strengthened and is influencing prices significantly. Domestic prices for non-ferrous scrap are closely connected with international indicators. Given the stronger domestic currency, prices have fallen in ruble terms.

Despite the fact that export duties were decreased with effect from September 1 this year, not much non-ferrous scrap is being exported from Russia. Domestic consumption is stable and scrap collections are fine, particularly in the central part of Russia.

Economic sanctions have not greatly influenced the non-ferrous industry. Russian companies are very well integrated with markets in the Far East and the Middle East.

United Kingdom

(by **Nick Rose**, Tandom Metallugical (Midlands) Ltd, Board Member of the BIR Non-Ferrous Metals Division)

As we enter the final quarter of 2015, many UK merchants are holding out little hope of any short-term improvement in the domestic metals industry.

It has been the same old story of continued short supply of material matched by indifferent demand. Many merchants are nervous, looking over their shoulder at: a slowing Chinese economy; the Volkswagen situation and what effect it might have on the European secondary aluminium market; and the big question of where the bottom lies for the ferrous market. The ferrous market's global decline has an immediate impact on the non-ferrous market; light iron prices have reached such a low level that metal is not economically viable to collect, which affects the volume of supply to the non-ferrous trade.

The UK economy keeps sending out fairly positive signals: car sales in September were the highest in any month since the 2008 crash and the Financial Times Stock Exchange has recovered 6% from its August falls. With interest rates still unmoved, traders are hoping that any positivity will be reflected in the metals industry.


SOURCE by CELL-DATA INTERNATIONAL
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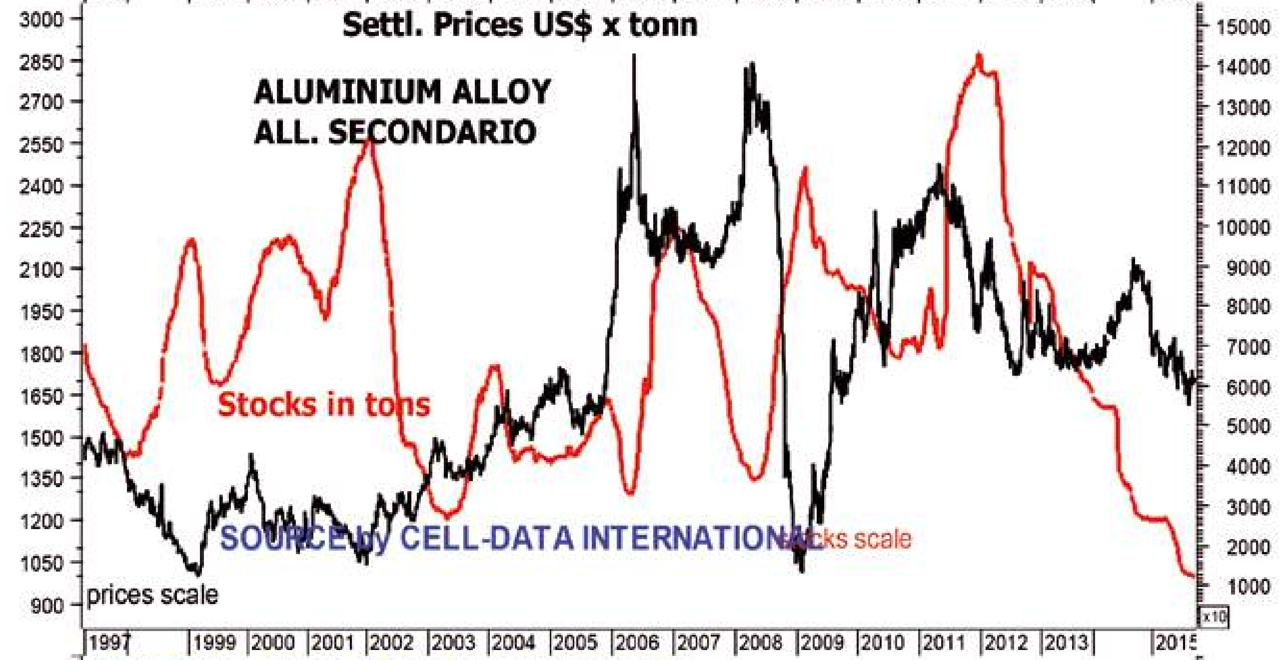
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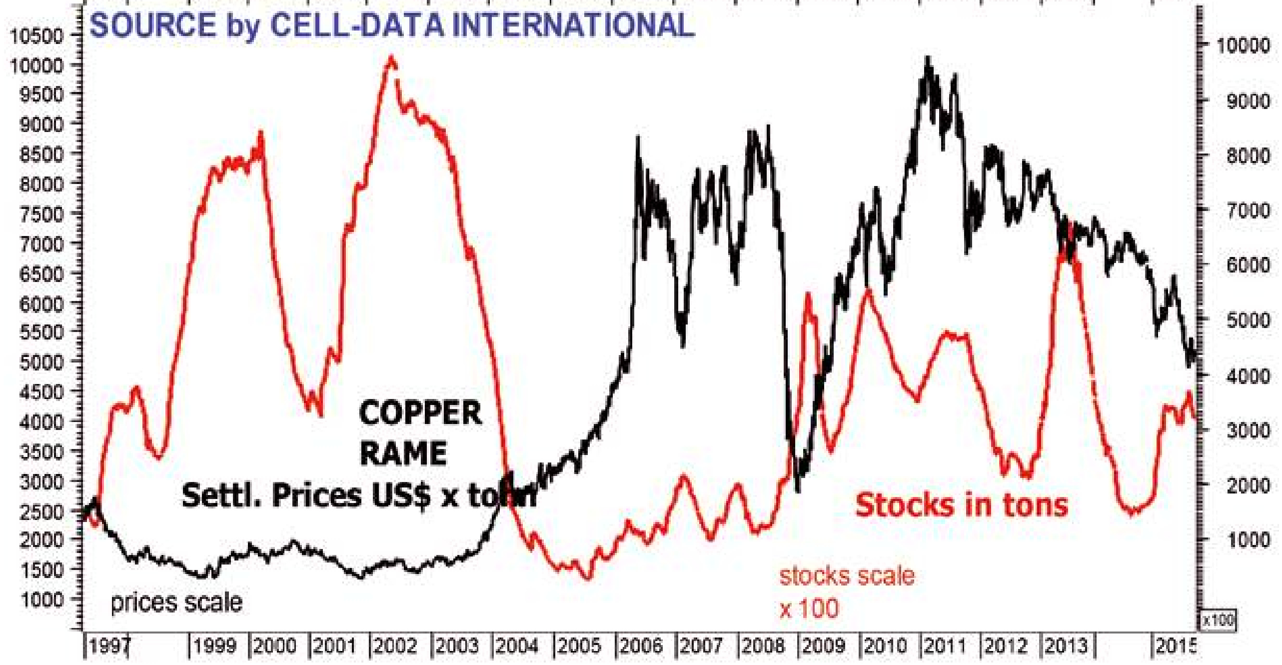
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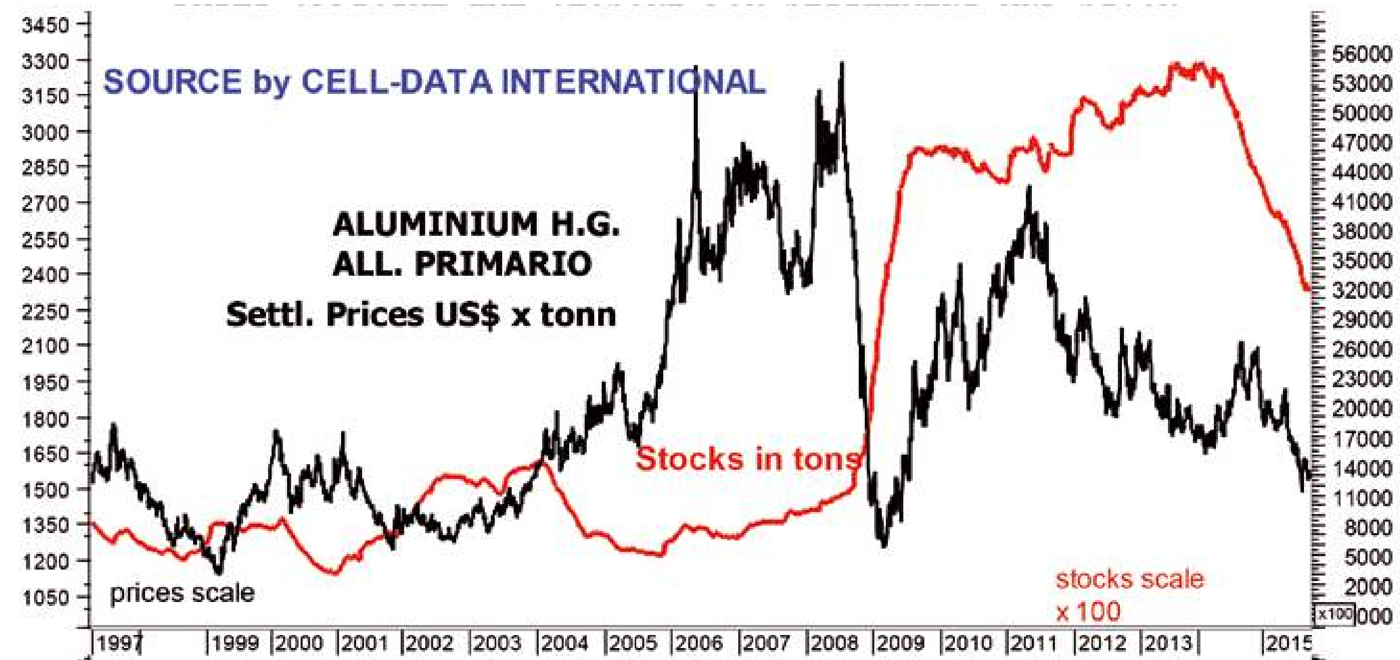
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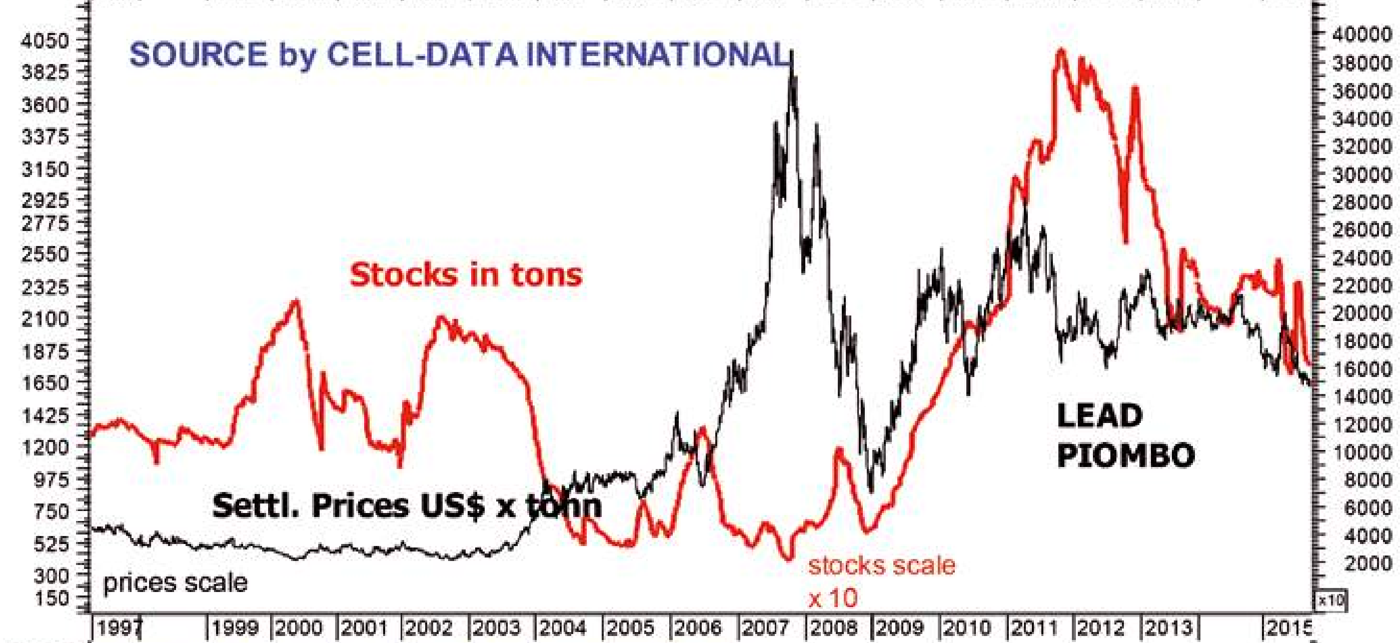
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NICKEL
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