

Uk precious and non-ferrous metals market size



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BASIC PRECIOUS AND NON-FERROUS METALS IN UK – ANALYSIS

Headlines

- Basic precious and non-ferrous metals market size in the UK contracted by 7% in 2013 due to decrease in aluminium, gold, silver, platinum and copper prices
- 51% increase in industry's turnover was driven by the growing demand from automotive industry accounting for 14% of B2B purchases and aircraft and spacecraft industry accounting for 8%
- In 2013 a new Scrap Metal Dealers Act has been introduced implementing more effective licensing for scrap dealers and extending the ban for buying scrap for cash in order to decrease the level of metal theft
- Basic precious and non-ferrous metals production in the UK is expected to grow by marginal less than 1% over 2013-2019 due to growing volumes of precious metals and increasing prices of platinum and palladium

Market Trends

- The basic precious and non-ferrous metals market in UK contracted by 7.3% in 2013 to £12.9 billion. The market shrunk due to the declining global prices of basic metals including aluminium, copper and precious metals.
- Motor vehicles, trailers and semi-trailers accounted for 14% of purchases in industry in 2013. The latter share experienced a 17% growth over 2013. In 2013 UK car production increased by 5% whereas

sales grew by 10% respectively.[1]Higher vehicle production and increasing use of aluminium determined that aluminium accounted for the largest share – 32% of the UK market in 2013 totalling in £4. 1 billion. Its share increased by 22% over the year. Automotive industry gained from lower aluminium prices as it decreased by 8. 7% to a US\$1, 847 per metric ton in the end of 2013[2]. Decline was experienced due to the surplus of global production as demand for aluminium in China and Eurozone has slowed down.[3]

- Market structure of metal ores has been changing permanently as demand of aluminium in UK automotive industry continued to increase. Automotive companies have been looking into ways to reduce CO2 emissions in order to comply with new EU standards. Aluminium is a solution to reduce vehicle weight and improve emissions. As a consequence in 2013 Land Rover announced construction of new plant for production of aluminium chassis that will cost GBP1. 5 billion signalling new era for automotive industry raw material suppliers.
- Growing automotive industry in UK has positively affected the demand for platinum and palladiums as these precious metals are used in production of auto catalysts. The global price of the platinum declined by 10% due to the surplus in the market.[4]Palladium global price increased by 2% as palladium experienced a 7th year of deficit in the market.[5]Due to the improving economic performance in the UK and increasing customer trust, precious metals recorded a 36% drop in the value of its market size. Growing strength in equities decreased the demand for precious metals that has been viewed as a reliable substitute for the investment earlier.[6]Global price of gold bullion

decreased by 26% to US\$1, 235 per troy ounce. The silver was no exception as the price fell by 36%^[7] and reached US\$19. 6 an ounce.
^[8]

- Copper's market size in UK dropped by 11% accounting for 15% of the total market size of the industry in 2013. Its value stood at £1. 9 billion. The fall was driven by the decline in international copper price that dropped to US\$7, 332 per metric ton in December 2013 recording a decline of 7. 9%.^[9] This was due to the slowdown in China's economy and growing stocks of copper which reached their peak since 2003 in London's Metal Exchange.^[10]
- Aircraft and spacecraft industry accounted for 8% of the purchases in the industry after increase of 14%. The UK is the second largest civil aerospace sector in the world after the US exporting approximately 75% of its production.^[11] Aerospace industry contributes 8% to the UK's GDP on average. Therefore, in 2013 the Government announced a funding of £2. 1 billion towards saving over 100, 000 workplaces in the aerospace sector boosting the aerospace industry and demand of metals generated by it.^[12]
- In 2013 industry's imports accounted for 86% of the UK's basic precious and non-ferrous metals market. The value of imports grew by 26% and totalled to £17. 3 billion over the year. Precious metals accounted for 41% of imports and made largest share after a 51% growth over 2013. The main reason for growth was soaring 11 times higher exports of gold to Switzerland and China.^[13]

Production Trends

- Domestic production of basic and non-ferrous metals recorded a 51% growth over 2013 totalling to £9. 2 billion. Precious metals accounted for 44% of the turnover experiencing an astonishing 99% increase over the year. Aluminium also recorded a 30% growth in its turnover accounting for 18% of total industry's turnover.
- Production of precious metals almost doubled and totalled to £4 billion in 2013 due to the soaring exports of gold over 2013. In addition, the production was supported by growing automotive industry in UK and the world as platinum and palladium are used in production of auto catalysts.
- The growth of aluminium turnover was determined by increase in volume as prices of aluminium in global market declined by 8. 7% in the end of 2013. The price decreased due to oversupply of aluminium as the demand growth in the main aluminium consumption markets, China and Eurozone, has slowed down. The increase was also driven by the growth of housing sector in the UK which in turn recorded an increase due to the government stimulus program and foreign investments.[14]
- UK's metal recycling industry is the most advanced recycle segment in the country worth £5. 6 billion. Approximately 13 million tons of scrap metal is being processed annually[15]. In December, 2013 new Scrap Metal Dealers Act has been introduced replacing the one valid since 1964. According to it, more effective licensing for scrap dealers will be implemented and a ban to buy scrap for cash will be extended to decrease the level of metal thievery in the country.[16]

- Costs from mining of metal ore in the industry increased by 40% over 2013 reaching £888 million. Costs grew due to surged demand of gold.
- Though electricity accounted for only 3% of the B2B costs in the industry, its share saw a 46% increase. As average price of electricity for industrial users grew by 4% over 2013, rise in costs was driven by higher quantity of metal refined. The average price grew by 6 cents (or 4 cents in real terms) accounting for 7.77 pence per kWh. From July to December the industrial price of electricity was the 4th highest in the EU15.[17]
- Labour costs accounted for a marginal 6% share of total costs in the industry after experiencing an increase of 17%. The increase was induced by the 12% increase in average annual wages in the industry as well as 5% increase in number of employees in 2013.
- Exports accounted for 85% of product output in 2013 and totalled to £18.4 billion. It recorded an increase of 114%. The exports were concentrated with Switzerland being the main trade partner with 62% of total exports. The main reason for export growth was soaring 11 times higher exports of gold over 2013.[18]The main destination for gold was Switzerland where gold was exported to be re-melted and sold to consumers in Asia, namely China, India and UAE[19].
- The industry of basic precious and nonferrous metals recorded a 126% increase in its profits which stood at £537 million in 2013. The profitability stood at 6% of turnover. It was positively affected by increased gold exports. In addition, UK's market players continued the reduction of their operational costs and improvement of

competitiveness in the market through resource efficiency programmes and disinvestments in non-core businesses.

Competitive Landscape

- The top 5 companies in the basic precious and non-ferrous metals industry accounted for 36% of total production in the UK in 2013. The leader was Johnson Matthey Plc – with 27% of production. The company was followed by other industry's players accounting for a less significant share of production: Britannia Refined Metals Ltd (4%), VALE Europe Ltd (3%), Alcan Aluminum UK Ltd (1%), and KME Yorkshire Ltd (1%).
- Johnson Matthey Plc is a UK-based company that besides specialty in chemicals industry is engaged in recycling of precious metals, mainly platinum group. The company saw growth in all its divisions especially in department of emission control technologies as a new legislation to control emissions from heavy duty diesel vehicles has been introduced in Europe. Therefore, in 2013 the company expanded its production of diesel particulate filters in Royston, UK. Johnson Matthey Plc has also increased its manufacturing capacity of catalysts in Clitheroe, UK.
[20]The company opened its new laboratory in Singapore as a part of strategy to expand its presence in Asia. As energy consumption increased by 6% over the financial year, by 2017 one of the company's aims is to improve its resource efficiency.[21]
- Britannia Refined Metals Ltd, a subsidiary of Xstrata Plc, is a United Kingdom company engaged in lead and extensive range of lead alloys and silver production. Britannia Refined Metals Ltd facility is located 40

km east of London on the Thames estuary. Xstrata Plc completed the merger with Glencore International Plc in 2013. XstrataGlencore Plc future main projects are expected to be concentrated in segments of copper, nickel, zinc and lead thus providing the ability for volume growth in the upcoming years.[22]

- Vale Europe Ltd, a subsidiary of Vale SA, is a United Kingdom company engaged in the exploration and production of nickel in the United Kingdom. The company provides iron ores and pellets, copper, manganese, ferroalloys, aluminium, coal, fertilizers, cobalt, precious metals, and logistic services. In the United Kingdom Vale operates precious metals refinery in Acton, Greater London and nickel refinery in Clydach, Wales. In 2013 in order to improve its operations, the company started the partnership with geological research centre British Geological Survey.[23]In addition, as of 2013, the company announced plans to expand its operations in Brazil by adding 160, 000 jobs and investing USD63. 5 billion by 2016.
- Alcan Aluminum UK Ltd, a subsidiary of Rio Tinto PLC is a United Kingdom company, which is engaged in production of aluminium. Rio Tinto PLC operates smelters located in the United Kingdom in Lochaber and Lynemouth. The company was active in its global cost reductions through disinvestments therefore underlying earnings grew by US\$ 392 million over 2013. However, recent proposals for warehousing rules from LME are expected to put a pressure on company's regional earnings.[24]It has also informed about plans to invest C\$14. 8 million in a smelting site in Quebec, Canada in September, 2014.

- KME Yorkshire Ltd is engaged in manufacturing of various copper tubes like plain, plastics coated and special finish. The company has sold copper plumbing tubes manufacturing business in Liverpool, UK for £18 million to Mueller Europe Ltd in February, 2014. After the deal, KME Yorkshire Ltd is expected to continue to handle all commercial activities of KME Group in UK.[25]

Prospects

- Basic precious and non-ferrous metals production in the UK is anticipated to increase by less than 1% over the period of 2013-2019. The growth will be mainly driven by 1% increase in production of precious metals. Anticipated growth of platinum and palladium prices is expected to boost the industry further.
- Production of precious metals will decline by 14% in 2014 as mainly production of gold stabilizes after a surge. The industry will revert back to normal level after a gold bullion demand shock originated in China. The decline will be reassured by 2.5% in gold price, 19% silver and 12% decrease in platinum price.
- Vehicle production is expected to grow by 2.6% in 2014 due to increase in quantity. Consequently, demand of metals will increase with aluminium in the lead. Growth of aluminium demand will also be driven by tightening CO2 emission requirements and increasing demand of fuel efficient vehicles. Though, demand of fuel economy might slightly decline as fuel prices decline in second half of 2014 but regulations will still require a decline of emissions. Automotive industry

will slightly boost precious metals segment as demand for platinum and palladium grows.

- Aircraft industry in UK is expected to decline by 2.6% in 2014 causing lower demand of aluminium. The increasing use of composites instead of aluminium in manufacture of airplanes will further deteriorate aluminium market causing a total of 10% decline in aluminium production in 2014 despite increasing demand from automotive industry

[1]

[2]France 272

[3]http://articles.economictimes.indiatimes.com/2013-05-20/news/39393012_1_aluminium-production-tonnes-10-6-kg

[4]<http://www.kitco.com/news/2014-05-02/Platinum-Price-To-Average-1457Oz-In-2014-Palladium-793-GFMS.html>

[5]<http://www.lppm.com/statistics.aspx?comm=pt&t=daily&y=2013>

[6]<http://www.cnbc.com/id/101253055#>.

[7]<http://www.marketwatch.com/story/gold-surges-20-silver-rebounds-after-dismal-2013-2014-01-02>

[8]http://moneymorning.com/2015/01/02/silver-prices-this-year-fell-20-heres-why/?gated_signup=true&gateType=2

[9]France 272

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[10]<http://www.bloomberg.com/news/2013-04-30/copper-prices-falling-on-china-slowdown-europe-concerns-1-.html>

[11]<http://www.theengineer.co.uk/aerospace/in-depth/reasons-to-be-cheerful-about-the-uk-aerospace-sector/1017274.article>

[12]<http://www.greencarcongress.com/2013/07/apc-20130712.html>

[13]<https://www.bullionvault.com/gold-news/uk-gold-exports-022020142>

[14]<http://www.out-law.com/articles/2014/january/uk-construction-industry-optimistic-of-growth-in-2014-but-experts-warn-of-unsustainable-recovery/>

[15]http://www.local.gov.uk/c/document_library/get_file?uuid=7ca891f9-228e-47b9-a561-d6953d660597&groupId=10180

[16]<http://onlinenewsroom.co.uk/bmra/uncategorized/metals-recycling-industry-welcomes-%E2%80%98new-era%E2%80%99/>

[17]https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/296011/QEP_March_2014.pdf. 9, 29, 34

[18]<https://www.bullionvault.com/gold-news/uk-gold-exports-022020142>

[19]<http://uk.reuters.com/article/2013/08/19/uk-gold-uk-exports-macquarie-idUKBRE97I0PQ20130819>

[20]http://www.advfn.com/news_Johnson-Matthey-PLC-Half-Yearly-Report_60113845.html

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[21]http://www.matthey.com/documents/pdfs/2013_14/annual-report/jm-ar-2014.pdf. p. 3, 4, 12, 13

[22]http://www.glencore.com/assets/investors/doc/reports_and_results/2013/GLEN-2013-Annual-Report.pdf. p. 198, 46

[23]<http://www.vale.com/en/aboutvale/across-world/pages/default.aspx>

[24]<http://www.riotinto.com/annualreport2013/performance/aluminium.html>

[25]<http://www.kme.com/en/pressrelease/detail/1030>