HOT WIRE®
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News and Economic Outlook for the Wire and Cable Industry

| SPOTLIGHT |

The Effect of Economic Trends in China on Commodity Prices

THE FIRST HALF OF 2016 had been very promising for a recovery in Crude Oil Prices and other commodity prices. US Crude Oil Prices finished June 43.8% above the January low of $33.62 per barrel *(month-end data)*. US Steel and US Copper Prices rose 37.5% and 6.3%, respectively, over the same time period. However, as we near the end of the third quarter, commodity prices across the board have pulled back after a large jump during the second quarter. Global oil producers are facing a supply glut, causing the recent drop in prices. However, the World Oil Supply mildly declined in the second quarter of 2016. This suggests that lower prices are beginning to have an impact on production that will result in higher prices as the supply glut diminishes. Other commodity prices generally follow the trends in Crude Oil Prices, but Steel Prices were also impacted by a 266% increase in US tariffs for Chinese steel following China's attempt to flood the market to capture market share with lower prices. This has been a double-edged sword for trade, because raising Steel Prices also increases costs for manufacturers, both foreign and domestic. The drop in commodity prices has been significant, and impacted global manufacturers, especially in nations such as China which are closely tied to commodities and raw materials production. However, expect a general rise in commodity prices through 2017, driven by consumer demand and stronger global manufacturing economy.

What do economic trends in China tell us about the future of commodity prices? The downturn in global trade for China, as well as in several specific industries within China, have negatively impacted commodity prices through 2015 and early 2016. However, there are signs within China's economy that point toward increasing economic activity in the second half of 2016 and into 2017. The China Leading Indicator rate-of-change, a nine-month leading indicator to China Industrial Production, has risen for 10 consecutive months. This is a signal corroborating the strengthening internal trends within China Industrial Production, which is currently up 5.9% on a year-over-year basis.

Other metrics pointing toward strengthening economic conditions in China include recovery trends in China Railway Freight Carried and China Manufactured Products Exports, the accelerating growth in China Power Generation, and China's strengthening consumer sector. The pace of year-over-year contraction is diminishing in both China Railway Freight Carried and China Manufactured Products Exports, suggesting that China's industrial economy is beginning to rebound. This is corroborated by the 56.7 trillion kilowatt hours of Power Generation in the 12 months through July, up 2.6% since last year. Higher levels of economic activity across China bode well for a climate of lower commodity prices. More than 25.0% of energy consumption stems from oil and natural gas-powered facilities while nearly 67% of energy consumption comes from coal-powered facilities.

Continued on back cover...

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IEWC® GLOBAL SOLUTIONS

GLOBAL ECONOMIC OVERVIEW

NORTH AMERICA

Average US Industrial Production for the 12 months through August fell 1.3% below the level of the previous year. Production has been hampered by the sharp contraction in the mining and commodities markets. However, the quarterly rates-of-change are rising for US Mining Production and US Electric and Gas Utilities Production. Recovery in these components will support an imminent transition to recovery for US Industrial Production. US Census Bureau New Orders data saw a weak July. Few segments exhibited positive momentum. Bright spots include US Electromedical, Measuring, and Control Instruments New Orders *(up 4.8% year-over-year)* and US Other Electrical Components New Orders *(up 18.5%)*, which includes semiconductors and other electrical components. US Nondefense Capital Goods New Orders, a measure of business-to-business activity, was down 4.1% compared to the year-ago level. Expect annual New Orders to decline into late 2016 before subsequently rising into mid-2018. Watch your inventory levels carefully to avoid getting stuck with excess product, but do not lose sight of growth opportunities next year.

Rising global indicators point toward a stronger global economy in 2017 than 2016. This suggests the headwinds for international trade will subside and allow for a rise in US Industrial Production through trade. Positive momentum is building in the JP Morgan Global PMI and the OECD Plus Six Non-Member Economies Leading Indicator, two long-range leading indicators to World Industrial Production. These indicators suggest that with a recovery in the global economy and a weakening US dollar, rise in global demand will support a rise in US Industrial Production.

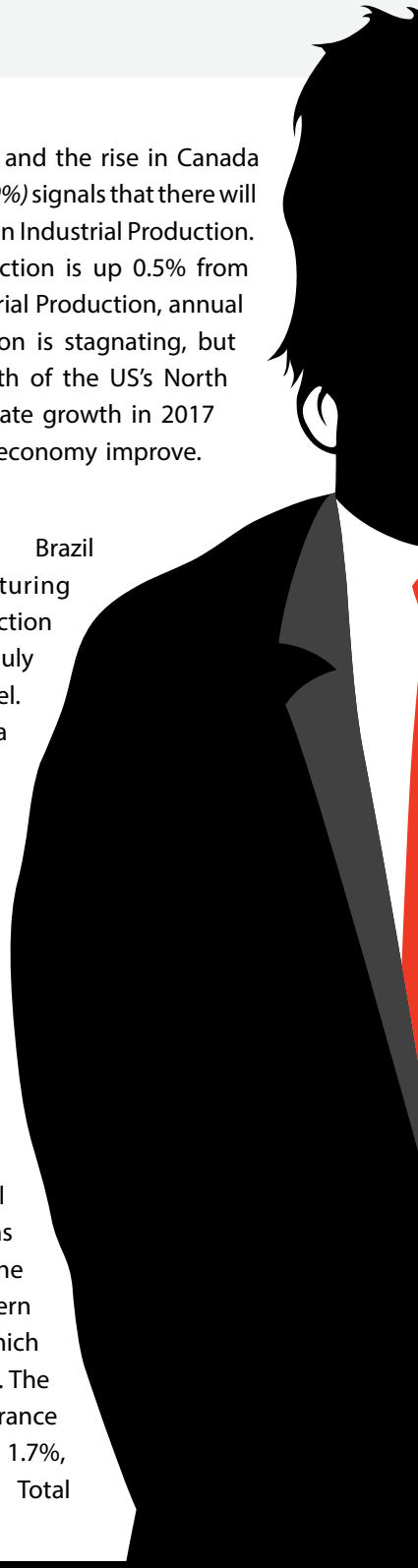
The Canada Industrial Production Index for the 12 months through June is down 0.6% compared to last year. Recovery in Canada's economy has been impaired by low commodity prices. However, the nascent recovery trend in Canada Utilities Production *(down 1.2%)* and the rise in Canada Manufacturing Production *(up 0.9%)* signals that there will be upward momentum building in Industrial Production. Annual Mexico Industrial Production is up 0.5% from the year-ago level. Within Industrial Production, annual Mexico Manufacturing Production is stagnating, but is still 1.7% above last year. Both of the US's North American neighbors will accelerate growth in 2017 as conditions across the global economy improve.

SOUTH AMERICA

Average Brazil Manufacturing and Mining Industrial Production during the 12 months through July is 9.6% below the year-ago level. Production tentatively reached a cyclical low in June. The recession in Brazil stifled growth across Latin America. Colombia Industrial Production *(up 4.4%)* has avoided some of the pain, but Industrial Production figures in Peru, Chili, and Argentina are all below year-ago levels.

EUROPE

Average Eastern Europe Industrial Production for the 12 months through June is up 3.3% from the prior year, outpacing Western Europe Industrial Production, which is up 1.7% compared to last year. The United Kingdom, Germany, and France are up 0.9%, 1.1%, and 1.7%, respectively. Annual Europe Total



BY THE NUMBERS (US)

Conference Board Consumer Confidence Index	August (2016) Unemployment	Retail Sales (July to August change)	Mfg.'s New Orders for Durable Goods (June to July change)
101.1%	4.9%	-0.5%	+4.4%

Mining Production *(down 4.2%)* and annual Europe Total Electricity Generation *(down 0.2%)* will decline further through at least the near term. Expect to see fewer opportunities within the mining and utilities components in the coming few quarters.

ASIA

Average Southeast Asia Industrial Production for the 12 months through June is up 0.9% compared to last year. Recession in Southeast Asia Mining Production has been mild *(down 0.1%)* compared to other global economies, largely because mining is an emerging market in the region. There is strong growth in the Industrial Production Indices for South Korea *(up 2.8%)* and the Philippines *(up 1.8%)*; both are above year-ago levels and are pulling up the Southeast Asia Industrial Production annual growth rate. Economies tied to China, such as Hong Kong, Singapore, and Taiwan, are all below their year-ago levels. Japan Industrial Production is down 1.7% since last year. India Industrial Production *(up 1.2%)* is stagnating.

MIDDLE EAST / AFRICA

Average Industrial Production in the Middle East and North Africa for the 12 months through June reached its highest level on record, averaging a steady annual growth rate of 1.7% for the first half of 2016. Oil Prices have been generally recovering since early 2016, which bodes well for economies tied to oil production next year. However, Middle East Gross Domestic Product is down 11.1% year-over-year. This indicates that although Production levels are healthy, low Oil Prices have had a significant impact on the overall economic prospects of the region.

*Source - IEWC contracts the services of a third party consultant to provide current insights on the economy.

CURRENCY TRENDS

	Current Value of $1USD	Change Since 9/1/2015	Change Since 1/1/2016
Brazilian Real	3.26	-0.41	-0.70
Canadian Dollar	1.32	0.00	-0.07
Chinese RMB	6.67	0.31	0.16
Euro	0.89	0.00	-0.03
Mexican Peso	19.61	2.74	2.41
Pound Sterling	0.77	0.12	0.09

Current values as of 9/19/2016

Mfg.'s Shipments of Durable Goods (June to July change)	Durable Goods Mfg.'s Inventories (June to July change)	CPI Inflation (over prev. 12 months)	US Industrial Production Index (over prev. 12 months)	Purchasing Managers Index (August)
+0.2%	+0.3%	+0.2%	-1.1%	49.4%

SPOTLIGHT | Effect of Economic Trends in China on Commodities

...continued from front page

On the consumer side of the economy, China Retail Sales of Consumer Goods are at the highest level on record, up 12.2% compared to last year. The Unemployment Rate is relatively low, under 4.1%, and annual wages *(up 7.9% year-over-year)* are outpacing inflation *(0.2%)*. Annual wages are in accelerating growth trends across multiple industries. Manufacturing Annual Wages are an exception. Wages in this industry are rising, but the pace of rise is slowing, largely due to the decline in Manufacturing Exports. Expect the general growth in China's consumer sector to support inflationary pressures in domestic and global commodity prices.

The rise in China's economy and consumer sector is being supported by investment and real estate development. China Financial Institution Loans and China Fixed Asset Investment lead China Industrial Production by five months, and are up 14.8% and 8.3%, respectively. This will support the expected rise in Industrial Production through at least late 2016. Rising annual growth rates in China Nonresidential Construction Starts *(based on floor space)* and China Residential Construction Starts signal a rebound in China's construction sector. Both Residential Starts and Nonresidential Starts lead Steel Prices by five months, suggesting that the rise in Starts will place upward pressure on the prices of commodities tied to this market into at least late 2016. Rising annual China Cement Production provides further evidence of China's real estate market recovery. The investment in infrastructure and the improving real estate sector supports the outlook of accelerating growth in China Industrial Production and higher demand for commodities in 2017. Expect the prices of commodities tied to Construction Starts to rise over this time period as well.

Although commodity prices have not been as strong through the third quarter of this year as in the second quarter of 2016, expect the negative pressures on the Chinese economy to dissipate heading into 2017. A recovery in China Manufacturing, a strengthening consumer sector, and increased investment point toward higher demand for commodities from within China. When coupled with supply cutbacks in many commodities, higher demand emanating from China will result in rising commodity prices into 2017.

*Source - IEWC contracts the services of a third party consultant to provide current insights on the economy.

WIRE INDEX

The Wire Index slipped by 6.8% from the beginning of August through September 16th. All tracked companies had stock price decreases. The biggest drop was Belden, which was down 12.4%. The Index is still up 13.9% year-to-date and up 8.9% over the past twelve months.

The Index tracks the weighted stock price of five publicly-traded wire and cable manufacturers and distributors based in the US and is benchmarked such that the average value during the second half of 2006 equals 100. With the purchase of Coleman Cable by Southwire, the Wire Index now has five publicly traded wire and cable manufacturers and distributors.

COPPER FUTURES

Comex copper prices settled at $2.15 on September 16th and have fallen by 2.0% since between August 1st. Comex Copper is now up 0.5% year-to-date and down 12.5% over the past twelve months.