

ALUMINUM

Key Highlights -

- ❑ Aluminum prices have shown drastic moves in both the direction last year. **Aluminum prices swiftly moved higher in April 2018 and made a high of \$2700 per tonne on the news of US sanctions on Rusal** and tightening in the alumina supply due to production curtailment at Alunorte's smelter. The price direction reversed during the month of October 2018 as US delayed the decision of sanction and weakness in China's economy started to impact the growth. **Prices weakened not only on supply easiness but also due to trade war concerns**
- ❑ **Global aluminum production has risen by 0.36% to 39.85 million tonnes during the first eight months of 2018** as compared to the same period last year while global demand fell by 0.35% during the same period. Higher production and lower demand led to deficit reduction. The global aluminum markets remained in a deficit of 240,000 tonnes during the Jan-Aug period as per the World Bureau of Metal Statistics. Looking at the current scenario, we expect the deficit in global aluminum to further narrow in the year 2018. According to the International Aluminum Institute, the global production has risen by 7.6% to 5.312 million tonnes in the month of November 2018
- ❑ **The supply of Alumina, raw material of aluminum, remained tight in the year 2018 due to supply cutbacks and indefinite strikes** led to increase in the alumina price. Brazil's Alunorte smelter, the world's largest alumina refinery has declared force majeure due to environmental concern which reduced its capacity by 50%. Alcoa's Australia alumina refinery faced an indefinite strike losing some 8% of world's alumina production. However, during the latter half of 2018, supply concerns eased as strike ended and after China eased its restriction during winter period led to the downside in aluminium prices in 2018.
- ❑ China production has remained down marginally during the first ten months of 2018 at 30.227 million tonnes but the production has risen by 14% in Nov on year on year basis on account of lower alumina and coal prices leading to increase in producer's margin. At present, Chinese smelters are losing money on lower aluminum prices and therefore China's biggest aluminum producers are scheduled to meet to discuss production cutbacks of 800,000 tonnes.
- ❑ **LME aluminum have fallen by 18% since the start of 2018** while the LME stocks have remained stable near its all time low level. Inventories have reduced tremendously since 2013 and currently the stock stands at just 1.2 million tonnes. **This falling trend in inventory has provided support to the aluminum prices.**
- ❑ During the January-November period of 2018, production has increased by 1.4% to 58.82 million tones. US have lifted sanctions on Rusal, the world's largest aluminum producer and strike has ended at Alcoa's Australian alumina refinery. On the contrary, China's biggest aluminum producers are discussing production cutbacks of 800,000 tonnes and LME aluminum inventories stands at just 1.2 million tonnes.
- ❑ **We expect aluminum to remain bearish towards \$1,820 per tonne for the first quarter of 2019 on the current oversupply worries though production cut may stabilise it in the second half of 2019.**

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	2015	2016	2017(jan-aug)	2018(jan-aug)
World refined production	57.6	58.8	39.7	39.9
World refined consumption	57.5	59.0	40.2	40.1
Surplus/Deficit	0.1	-0.2	-0.5	-0.2

China's macroeconomic scenario:

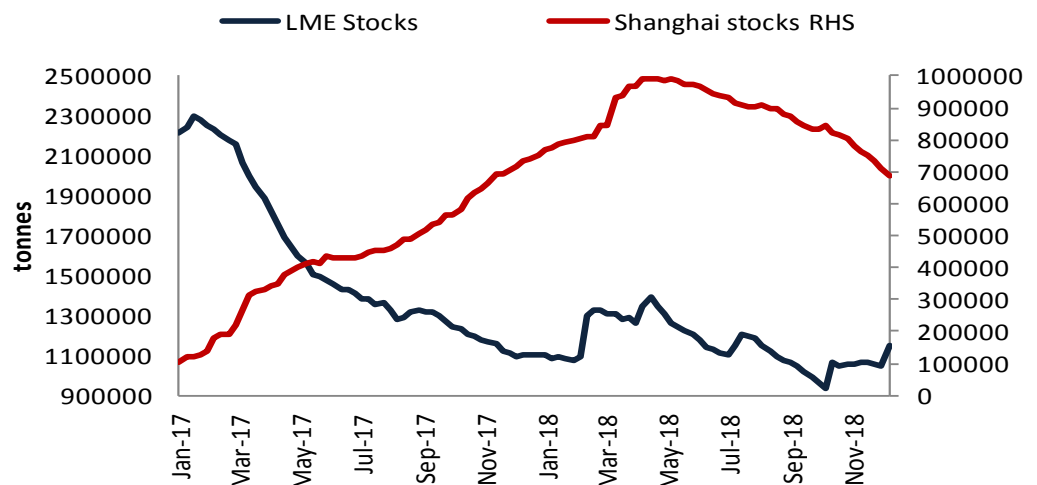
China production has remained down marginally during the first ten months of 2018 at 30.227 million tonnes but the production has risen by 14% in Nov on year on year basis on account of lower alumina and coal prices leading to increase in producer's margin. At present, Chinese smelters are losing money on lower aluminum prices and therefore China's biggest aluminum producers are scheduled to meet to discuss production cutbacks of 800,000 tonnes if possible during the weak demand and as the lower prices are eating their margins. This step might alleviate the oversupplied domestic market and support global prices next year.

Inventory

LME aluminum have fallen by 18% since the start of 2018 while the LME stocks have remained stable near its all time low level. Inventories have reduced tremendously since 2013 and currently the stock stands at just 1.2 million tonnes.

This falling trend in inventory has provided support to the aluminum prices.

Exhibit 1 : Inventory level over the years



Source: Bloomberg

Outlook:

Taking all the above points into consideration, we expect aluminum to remain bearish towards \$1820 per tonne for the first quarter of 2019 on the current oversupply worries with rising production and exports and weakening demand in China. The current downside in aluminum prices is due to uncertain trade agreement between US and China until March 1, 2019. On the other side, we believe the aluminum prices may rebound and trade higher in the second quarter of 2019 as any production cutbacks from China will help to shoot up prices and China may provide stimulus measures to providing a backbone support to the slowing economy. Also, the lower inventory level is likely to build a floor on the aluminum prices.

With the China's clampdown on illegal aluminum smelters being a part of supply side reform will reduce the China's output in the long run. We expect aluminum prices to average around \$2000-\$2075 per tonne for the year 2019.

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