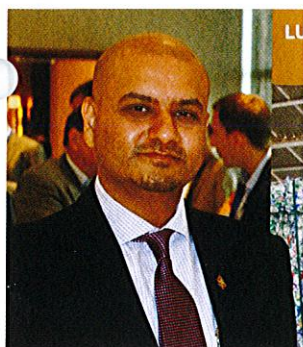


LACKLUSTRE ALUMINIUM HAS A BRIGHTER FUTURE



Riz Shaban
Director of Gulf Region
Lucky Group

Aluminium has risen just under 1 percent since the beginning of 2016 to \$1,590 per ton by end-July. Its fluctuating price movements have sent it bottoming this year's low just under \$1,460 in early January to this year's high of \$1,700 in mid-July.

As expected, China dictates the main storyline while other factors help justify the smaller vacillations in price. There is increased pressure on price from the uncertainty in international geopolitical issues, such as China's questionable economic growth, the possible consequences of Brexit, new financial measures that will be taken by international economies if current actions falter and the US elections. Some relief is experienced as LME inventories continue its steady decline, which indicates strengthening demand to some, while others perceive it as a result of convoluted warehousing movements.

Oversupply weighs down on price

The great aluminium supply glut that has gradually been building over the past seven years is the biggest wedge in its price movement, according to the Quarterly FastMarkets Report. Citing from market history, FastMarkets alludes to how the supply glut that had built up in 1994 was neutralised by a Memorandum of Understanding (MoU) amongst producing countries to create a deficit in the market. However,

given the complex antitrust laws of today, this scenario is unlikely to recur; meaning producers, especially in China, genuinely need to cut down production, especially if enough demand for the metal does not arise to absorb the excess supply.

Last year saw aluminium hit a new all-time price low since 2009 as China released its cheaper aluminium production onto the oversupplied global market, forcing global aluminium producers to shut down part of their own production capacities. The situation eventually forced China's hand by the end of the year to agree to ramp down some of its production. With the brief strengthening in price, China has decided to restart nearly 3 million tons of new capacity in the medium-term, which can further suppress aluminium price.

India-based Business Standard states China, which is already producing half the world's aluminium, is rapidly increasing its aluminium exports to the world, from 3 million tons in 2010 to a predicted 8 million tons within the decade. It has scaled down its production costs significantly in comparison to smelting costs in the rest of the world, allowing it to further cheapen its exports and make the industry more profitable. This will only push more producers in the country to put more of their capacities online in an oversupplied market.

Demand prospects can tighten market

Through number-crunching, aluminium has been observed to rise 9 percent year-to-date in comparison to falling 19 percent last year, providing a much brighter outlook for the metal. UK-based Sucden Financial insists that demand prospects for aluminium are



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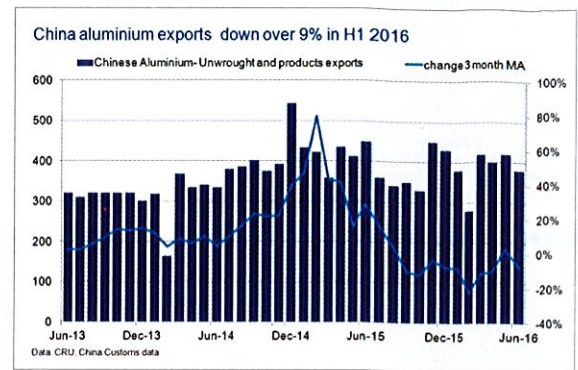
firm. Even with China’s uncertain economic growth, even a conservative 5 percent figure can generate tremendous demand in an economy of its size. China’s building and construction, automotive and railway sectors remain relatively healthy. The North American housing sector continues to recover steadily. European demand seems to have acquired a level of stability. One of Europe’s aluminium giants Norsk Hydro has increased its forecast for global aluminium demand by 1 percent to 4 to 5 percent in 2016. Despite excess supply, prices have still seen occasional upswings. Further indicating rising demand, recent dips in Chinese aluminium exports could indicate a higher consumption domestically.

This leads to the greatest saving grace for the aluminium industry, which is arguably the global automotive sector, symbolised by Ford Motor’s successful F-150 pickup truck – the first of its kind produced with an aluminium body. Environmental standards gradually tighten every year, and its pressures on automotive producers have been to lighten the weight of its cars to reduce its polluting emissions and increase its recyclable component. Increased aluminium content in its structural body and internal components can potentially reduce car weight by 30 percent. After spending last year limiting production, several international producers are expanding their production capacities in order to capture the market opportunities that will emerge as a result.

Furthermore, even China, which has a strong need to reduce emissions in its cities, will start moving towards higher aluminium-content cars alongside other international economies. Consequently, Norsk expects the automotive industry demand for aluminium to increase 13 percent annually for a decade.

Another emerging opportunity, explained by global consultant CRU, is China’s focus on value-added aluminium products for export, which are easier for the Asian giant to justify in the light of trade tensions compared to primary aluminium exports. Value-added aluminium products can increase by 2 million tons in another 4 years to 8 million tons, boosting domestic aluminium demand to produce them.

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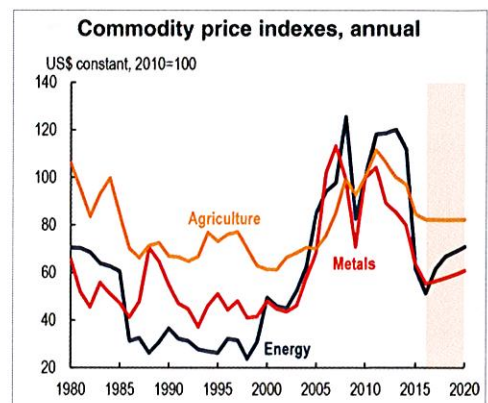


tons to 6.2 million tons just in 2016, simply to meet China’s predicted demand rise. The corporation foresees Chinese aluminium demand to grow 7 percent, part of which will also be fuelled by the packaging, consumer electronics and aerospace industries.

Aluminium faces a tentative positive outlook

The World Bank remains moderately bearish for 2016, estimating the total metal market price to decline by 11 percent this year – a much better scenario compared to last year’s decline of 21 percent. Sudden Financial proves to be slightly more confident in aluminium, predicting a higher price range of \$1,580 to \$1,750 in the third quarter.

There is slightly greater optimism for 2017, where strengthening demand and, in particular, aluminium’s favourable outlook with its versatility and growing popularity can drive prices gradually upwards. However, the price progress will largely depend on how deeply the added production will add to the existing supply glut and how well demand absorbs the oversupply. ☒



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Sources: FastMarkets, Metal Miner, Reuters, Sudden Financial and the World Bank.