

Aluminium Market Outlook

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Abstract

The aluminium market has undergone transformation over the past two decades. China, and to a lesser extent, the rest of Asia, have come to dominate supply and demand, both in growth terms and absolute terms. This has come at the detriment of traditional smelting bases in Europe and North America, which have simply not kept pace. China has added new capacity at breakneck speed and now accounts for 60% of installed capacity and 55% of all primary metal produced. It similarly dominates global primary demand. Wood Mackenzie's assessment of the aluminium market through this decade is not positive, with large year on year surpluses characterising the global market. China's dominance is typified by producer ill-discipline, with more metal produced than required. This Chinese metal surplus is finding ways to the markets in the rest of the world. Any price recovery is unlikely, as it would send out a clear signal to Chinese producers to either restart idled capacity or activate planned new low cost capacity. Our view is that any fundamental change in either the price or oversupply requires China to address the structural nature of its aluminium producing sector. Part of the problem is that so long as China's smelting industry continues to expand and is able to export extrusions, coils, sheet and castings to ROW markets the smelting industry will continue to add new capacity despite the slowdown in real internal demand. Add to this the plethora of local government incentives to encourage further capacity additions and the introduction of new efficient and naturally low cost scale capacity, then the scene is set for an extended period of surpluses at both the global and Chinese level.

Keywords: China dominance; continued market surpluses; producer discipline; price recovery unlikely.