

KN05 - Aluminium Market Outlook Across the Value Chain

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Abstract

The aftershocks on the aluminium market from the global pandemic will continue to reverberate for a considerable period of time. Physical demand for primary aluminium is unlikely to recover to levels last seen in 2019 anytime soon. The risks are weighted to the downside, particularly in the world ex-China.

While demand has collapsed, the supply response has been muted. The net impact is a significant build in the market surplus over the next 3-4 years. We expect this overhang of metal to take some time to be absorbed into real demand. We could be set for another lost decade for aluminium – a re-run of the aftermath of the financial crisis.

Despite very weak demand and rising stocks, the aluminium price has continued in the opposite direction. Given the role of aluminium as both a physical and financial commodity, a rush of liquidity to the financial markets and wide contango in the cash-to-three-months price has seen some excess metal being accommodated into cash-and-carry deals.

Elevated prices are giving a false signal to producers to maintain firm output levels at a time when consumption is at rock bottom. Furthermore, high prices come at a time when input costs have plummeted to multi-year lows, allowing margins to widen. This traps the aluminium market into a cycle of overproduction over the near term when there should be an opposite reaction.

A similar picture emerges for alumina and bauxite, with both threatening oversupply in a demand constrained environment. The fortunes of both in the world ex-China are intrinsically reliant on continued Chinese imports. However, whereas China has sufficient alumina capacity it does not possess sufficient domestic bauxite resources.

Our paper will assess the market fundamentals including the outlook for aluminium demand and supply. We will also explore the impact further upstream in alumina and bauxite markets as well as examine in more detail their unique sectoral dynamics.

Keywords: Aluminium market, aluminium price, cycle of overproduction, alumina and bauxite oversupply.