

The Outlook for the Aluminium Market in an Uncertain World

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Abstract



The past 12 months have been a watershed moment for the aluminium market. With the market having just about recovered from the Covid-19 pandemic it has now been thrown into turmoil. Rising energy prices, inflation and the Russia-Ukraine war will shape the outlook for the entire aluminium supply-chain over the coming years.

Aluminium consumption recovered rapidly from the pandemic induced slowdown in industrial activity in 2021 and the early months of 2022. Indeed, the pace of the recovery led to a sharp increase in the LME price and market premiums. Buyers of aluminium shapes found themselves having to bid up the price in order to secure tonnages to work through a sharp rebound. In effect the aluminium supply chain went from just-in-time to just-in case. However, fears of recession in Europe and the US now grip market sentiment. The impact of rising energy prices in Europe is now impacting consumer and business confidence. Inventory levels in the semis supply chain have now moved from just-in-case to just-too-much. We are now in the midst of a sharp destocking. The same is true for the US. Against this uncertain background, we continue to see the industry move forward with decarbonisation efforts.

On the supply side of the equation, we have seen almost 1 Mt of cutbacks in capacity at European smelters. Some of this closed capacity will remain mothballed, we think. In US, higher energy prices are also impacting supply. In short, the smelting and secondary industry is facing an unprecedented margin squeeze, despite still high premiums and prices. The shakeout in capacity in the world ex-China could be significant at a time when aluminium's role in decarbonising the world is becoming ever important. In contrast, Chinese output continues to recover after the energy crisis in 2021. An important juncture will come when the country's smelting capacity hits the 45 Mt cap.

We think that how the aluminium industry navigates itself out of the current crisis will have an important bearing on the shape of the sector over the next 5-10 years as the industry attempts to move to a lower carbon footprint.

Keywords: Aluminium consumption, Aluminium market, Aluminium prices, Aluminium smelters, Aluminium production.