Aluminium deficit to support prices in 2025

We expect the global aluminium market to return to a deficit in 2025 on slower output growth, supporting prices at higher levels

Ship crew sweeping alumina cargo residue in hold of a bulk carrier

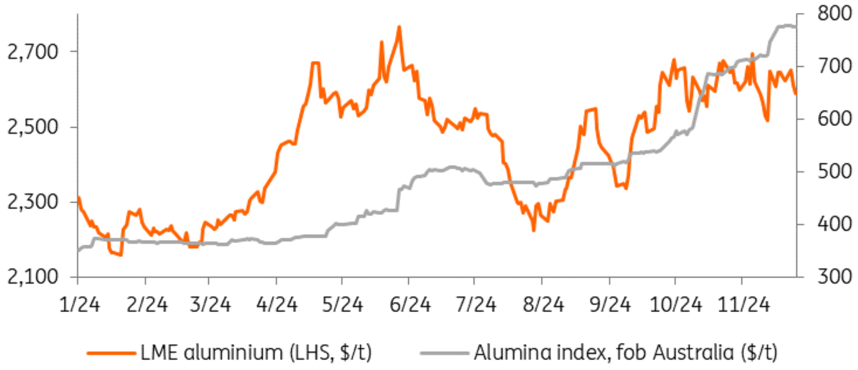
Aluminium gets a boost from alumina

Aluminium prices have risen lately, driven by record high alumina prices. Alumina prices jumped to a record this year, squeezing profitability for smelters. Prices for the raw material doubled this year, driven by a series of supply chain disruptions from Australia to Jamaica amid a steady increase in demand driven by record aluminium production in China.

The cost of alumina now accounts for more than half of the cost of making aluminium, compared with a usual level of between 30% and 35%, according to some producers. The tightness in the alumina market is likely to continue into early 2025 – although new capacity ramp-ups in Indonesia and China are expected to ease pressure later in the year.

Supply worries have helped to mitigate the impact of the stronger dollar for aluminium following Donald Trump's win in the US presidential election.

Alumina hits record highs sparking aluminium supply fears



Source: LME, Fastmarkets, ING Research

Most recently, Rusal said it will cut its aluminium output by up to 500,000 tonnes due to the soaring cost of alumina. The first stage of its "production optimisation programme" is expected to reduce output by 250,000 tonnes, equivalent to around a 6% cut in production. The Russian producer has its own sources of alumina, but it still gets more than a third of its raw material supplies from the open market. Rusal is the biggest producer of aluminium outside of China; it produced around 3.8 million tonnes of the metal in 2023.

Sanctions, self-sanctioning and tariffs continue to limit destinations for Russian metal, with flows mostly continuing to China. China imported 263,000 tonnes of primary aluminium from Rusal in the first three quarters this year, accounting for 33% of the total imports from Russia this year. We expect this trend to continue in 2025.

Market will tighten in 2025

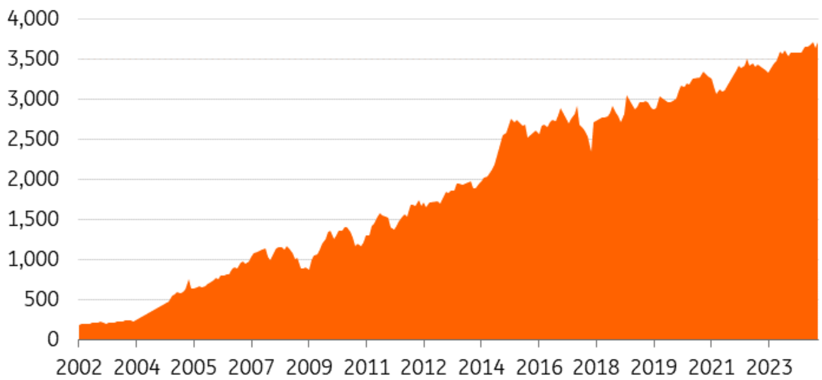
The surplus in the global market is tightening this year, and we see the market returning to a small deficit next year.

We see consumption slowly starting to recover as interest rates fall, while production restarts will be subdued. This will give support to a higher aluminium price.

In China, aluminium output is hitting record highs. The production rate is closing in on Beijing's 45 million tonnes annual capacity cap (currently running at around 43 million tonnes) following ample rainfall this year, which has enabled full capacity operations in the hydro-powered Yunnan province after a few consecutive years of output cuts. This leaves limited further growth potential for Chinese production. China's capacity cap also means that the country remains a net importer of aluminium.

China is nearing its cap on domestic aluminium production

China primary aluminium output (kt)



Source: National Bureau of Statistics, ING Research

Restarts have begun in Europe, but significant capacity remains offline. Europe's aluminium sector was one of the worst affected industries during the energy crisis, with more than one million tonnes per annum taken offline.

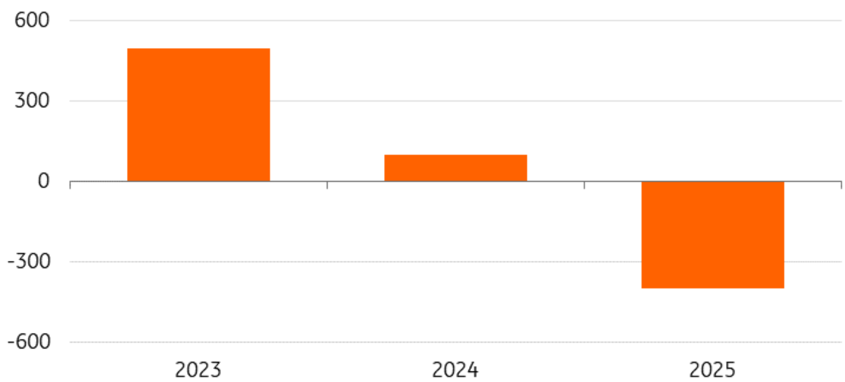
We don't expect any new restarts to be announced soon in Europe or the US amid high alumina prices and with demand recovery still uncertain, particularly in Europe. The readings for the eurozone's PMIs remain in contractionary territory, indicating ongoing weakness in the construction and transport sectors. The transition to EVs has also slowed down in the region due to cutbacks and delayed future battery and EV projects.

We expect the global market to be in a deficit of around 400kt tonnes in 2025 following a surplus of around 100kt tonnes in 2024.

Potential disruptions to output in China due to a lack of hydropower – and/or slower-than-expected capacity restarts outside of China due to high alumina prices and lower aluminium prices – provide upside risks to this view.

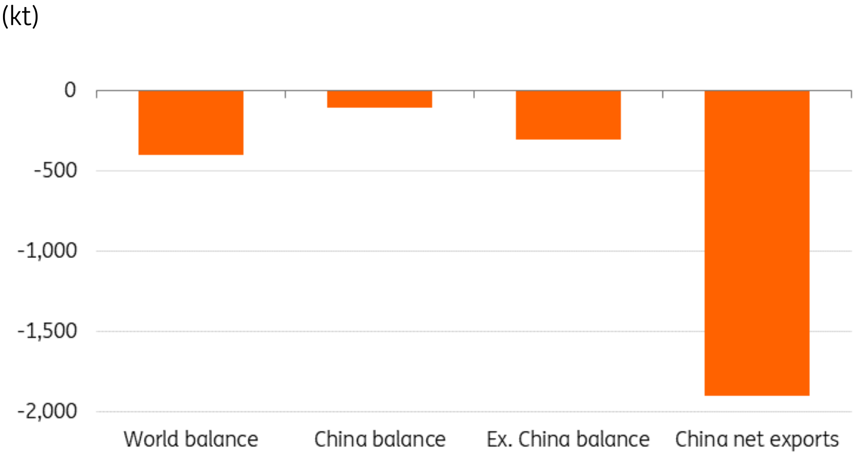
Modest deficit will support prices in 2025

World aluminium market balance (kt)



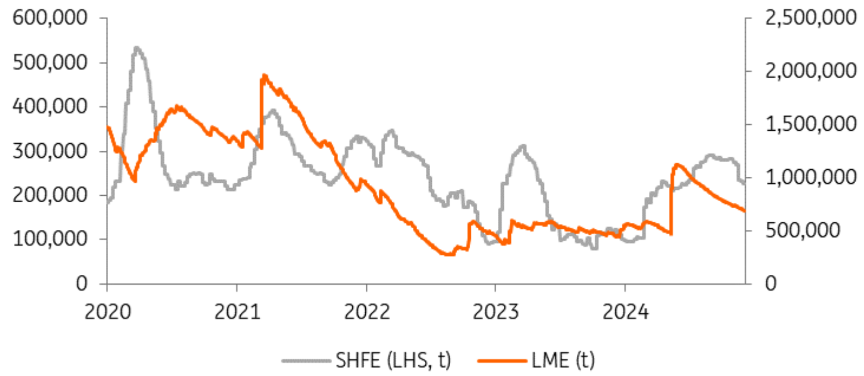
Source: IAI, WBMS, ING Research

2025 aluminium market balance



Source: IAI, WBMS, ING Research

LME and SHFE inventories trends diverge



Source: LME, SHFE, ING Research

While LME inventories have been trending lower, supporting higher aluminium prices, stock levels in China have been more stable. Beijing's latest policy on the removal of the aluminium products export tax rebate could mean even more domestic supplies. This would be negative for the Shanghai Futures Exchange (SHFE) aluminium price. The removal of the tax rebate, which was introduced to support China's sales abroad, could ease industrial capacity that has caused trade tensions with the US and Europe after aluminium smelters closed globally due to excess supply, low prices, and high energy costs. It could also be seen as a strategic move in the context of trade tensions following Trump's win in the US elections, which China might use as leverage in trade negotiations.

The tax rebate was also removed or lowered for copper, some refined oil, solar, battery and non-metallic mineral products. Aluminium has been the most sensitive to the change, given the importance of Chinese exports of the metal to the global market. Last year, China's exports of aluminium semi-finished products were equivalent to around 7% of the global aluminium products.

In the short term, the removal of the tax is likely to restrict flows from China and increase prices.

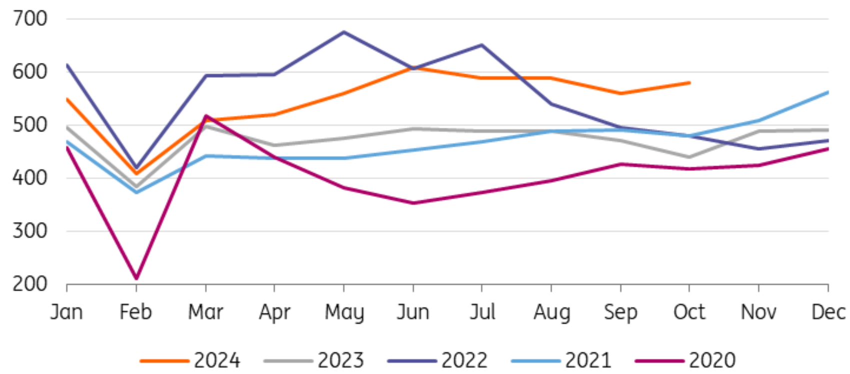
However, with the capacity for output growth elsewhere limited, Chinese producers could have room to pass on tax costs to international customers.

In the domestic market, reducing exports of aluminium products could help ease the tightness in the aluminium supply chain. China's production is closing in on the annual capacity cap, ensuring the country's self-sufficiency over the coming years when demand from the green energy sector is expected to increase. China has more than 80% of the world's solar manufacturing capacity. The International Energy Agency (IEA) expects China to account for almost 60% of the world's renewable energy capacity installed between 2024 and 2030.

In the longer term, this policy change could lead to further shifts in global trade dynamics, benefiting other commodity producers as countries try to diversify their raw material source dependencies on China.

China's overseas aluminium sales have soared

China exports of unwrought aluminium and products (kt)



Source: China Customs, ING Research

China and US will be key to global demand

With demand in Europe likely to remain weak next year, in particular from the construction and automotive sectors, China and the US will be key for the global aluminium demand picture. China accounts for 60% of global aluminium demand, while US accounts for around 8%.

In China, the property market remains a drag on demand. Without further stimulus measures, there is little hope for a near-term recovery for the property and construction sectors. Unsold housing inventories remain high, and sales have been slow. As long as inventories remain elevated, new investment and building activity will remain depressed, and the drag on growth will persist. The low level of housing starts will also continue to weigh on aluminium and copper demand looking ahead, given the lag between starts and metals usage. A recovery in completions usually lags two to three years behind the growth in starts.

But if Chinese stimulus is more powerful than anticipated, this will provide an upside to aluminium prices.

Meanwhile, demand in the US might weaken if we see policies centred around renewable energy and electric vehicles becoming less favourable under the new administration.

On the upside, the beginning of the monetary easing cycle will support aluminium prices, with lower rates easing borrowing costs for manufacturers. There is a risk, however, that if US inflation is more persistent – or even rebounds – fuelled by increases in tariffs, this could lead to delayed or higher interest rate cuts from the Federal Reserve. Delays in rate cuts would set a recovery in building and construction sectors further back, negatively impacting aluminium demand.

The timing as well as the scope of the US tariffs and the speed and the strength of Chinese stimulus measures will be key for aluminium and other industrial metals demand next year.

Tariffs will have an impact

US President-elect Donald Trump has threated to impose additional tariffs of 10% on Chinese goods and 25% levies on imports from Mexico and Canada. Aluminium is likely to be most impacted by potential tariffs on Canadian imports.

The US imports about 70% of its aluminium from abroad, with around 60% coming from Canada. Tariffs would result in higher aluminium prices in the US, representing a significant upside risk to the US Midwest premium next year.

Meanwhile, the US has minimal direct exposure to China's aluminium, with tariffs and trade actions in recent years reducing China's desirability as a trading partner when it comes to aluminium products. In 2023, US aluminium imports from China reached their lowest point since 2012, accounting for only 3% of the total imports share. US tariffs on imports of Chinese aluminium currently stand at 25%.

Prices will recover in 2025

With the global market tightening, we believe aluminium prices will find higher levels of support in 2025. High alumina prices provide an upside risk to our forecast.

However, downside risks remain in the market. Geopolitical tensions are lingering, and supply chains and trade flows are likely to shift over the next year. A continued trade war could be another drag on demand in the long term. We see prices averaging $2,625/t in 2025.

ING forecast

	1Q25	2Q25	3Q25	4Q25	2025
LME Aluminium (US$/t)	2,700	2,650	2,600	2,550	**2,625**

Source: ING Research

Author

Ewa Manthey
Commodities Strategist
ewa.manthey@ing.com

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