

Aluminium: US regional premium caught in the cross-fire again

US Midwest premium forwards rise on speculation that the US may decide to impose a tariff on its top supplier, Canada



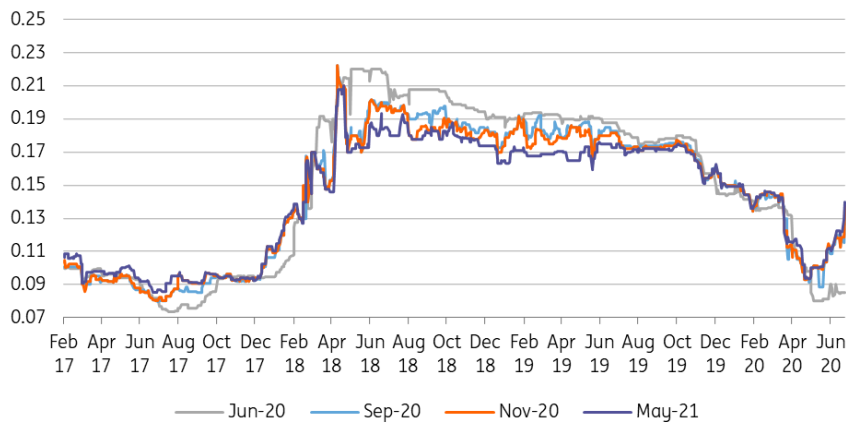
Source: Shutterstock

Tariff talk

The debate about Canada's aluminium exports to the US has intensified following comments last week from US Trade Representative Robert Lighthizer, who said surging inflows from Canada were a "genuine concern". Bloomberg reported yesterday that the Trump administration is considering re-imposing a 10% tariff and an announcement could come by the end of this week.

The US Midwest premium that the buyers and end-users will have to pay on top of the aluminium prices, has risen in the forward market, even though the physical market outlook has been depressed by the Covid-19 pandemic. The September and November contacts prices both traded above US\$13.5 cents/lb yesterday.

Fig 1. Aluminium MW premium forward (USD/lb)

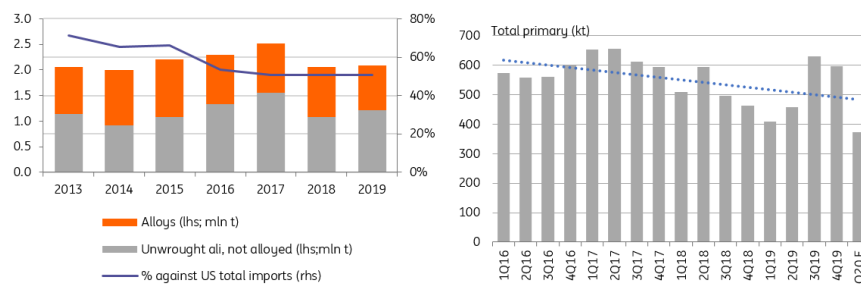


Source: Bloomberg, ING

The premium has been on a downward trajectory since last May, after both sides reached a deal that saw the US lift tariffs on steel and aluminium imports from Canada. However, the issue has returned to the headlines as the American Primary Aluminum Association (APAA) has been pushing the US government to protect domestic stakeholders. The upside risks are set to remain in the forward market should a decision be made to impose tariffs.

Canada has been the top aluminium exporter to the US market, where consumption is largely reliant on imports of various forms of products. For primary aluminium, supply from Canada accounts for approximately half of the US's total imports, and the percentage has remained relatively stable over the last couple of years. More recently, imports during 1Q20 were slightly lower than the prior quarter.

Fig 2. US annual aluminium imports from Canada



Source: Comtrade, ING

Large surplus but...

The increase in aluminium forwards has come amid lower futures prices this year, as the market consensus has been that the global aluminium market would see a large surplus. Our updated balance suggests 2.8 million tonnes of excess primary supply globally, around 5% of the total estimated consumption. Some 60% of the surplus is within the ex-China market. Intuitively, a surplus market and the high inventory currently reported by the LME would not suggest a higher premium for consumers, at least in the short term. However, 87% of the LME reportable inventories are sitting in

Asian warehouses with only 2% in the US. Meanwhile, with increasingly popular stocking financing activities this year, it's questionable how many stocks (also considering unreported) are readily available for purchase on spot terms.