

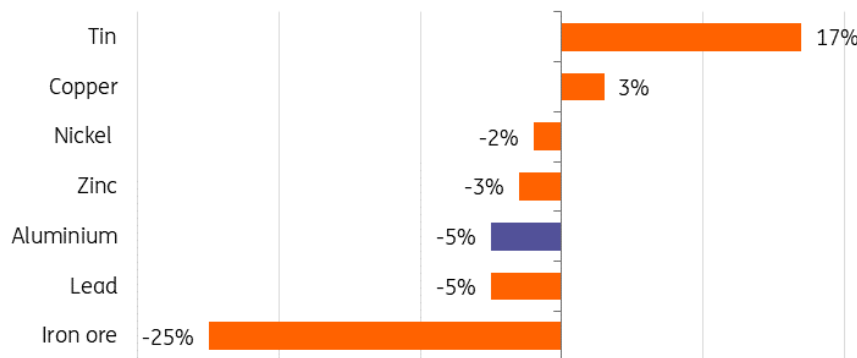
Industrial Metals Monthly: Aluminium market turns bearish

Our monthly report looks at the performance of iron ore, copper, aluminium, and other industrial metals. In this month’s edition, we take a closer look at aluminium and discuss what to expect next for prices



Aluminium production in Huaibei, China

YTD metals performance %

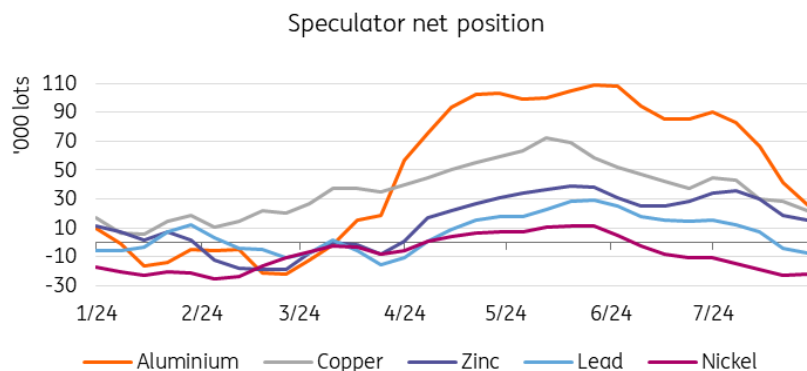


Source: LME, SGX, ING Research

Metals erase this year's gains

Industrial metals have tumbled over the past month, mostly erasing this year's gains as concerns over China have weighed on the complex.

Investors' interest in metals fades

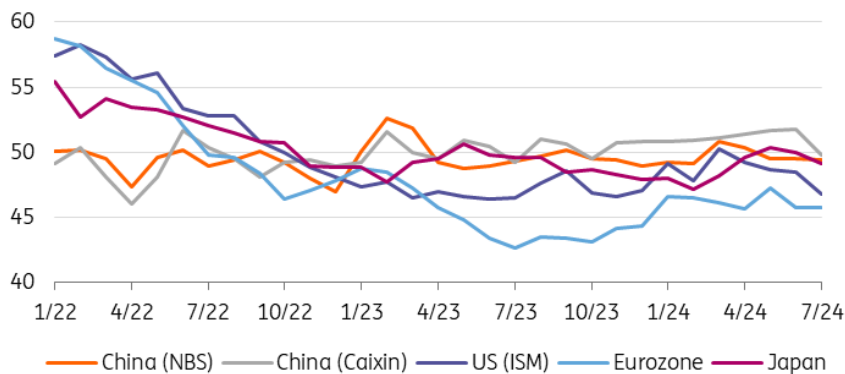


Source: LME, ING Research

Metals have been swept up in the turmoil in the global stock market recently amid fears of a deeper US economic slowdown and rising bets on an emergency rate cut by the Federal Reserve following a weaker-than-expected July US jobs report. This has only added to Chinese demand concerns that have been lingering in the metals market for some time now. China factory activity data shrank for a third straight month in July, signalling a poor start to the third quarter which is likely to weigh on GDP growth. At the same time, the prolonged crisis in China's property market doesn't show signs of bottoming out. We believe this should continue to suppress aluminium demand in the second half of the year. The [Third Plenum](#), a recent gathering of top policymakers, did little to ease these worries.

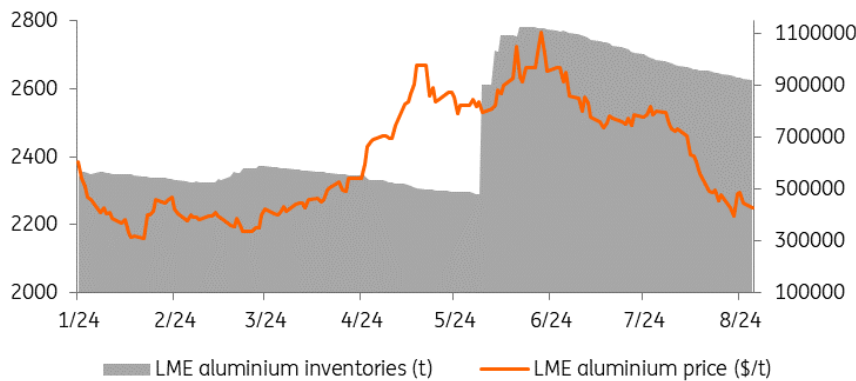
Globally, the manufacturing sector looks weak, indicating a sluggish demand recovery for industrial metals.

Manufacturing sector looks weak globally



Source: Refinitiv, ING Research

Soaring stockpiles drag down aluminium

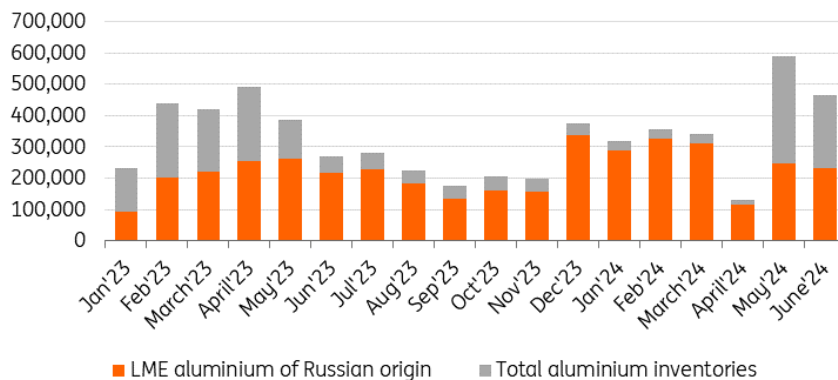


Source: LME, ING Research

Rising aluminium stocks in focus

Rising aluminium inventories have been in focus in recent months with LME stocks now at the highest level since 2021. This underscores soft spot demand for the metal, which has forced more metal into the exchange’s stockpiles. These large inventory levels are likely to weigh on prices in the short term while it takes time for the market to absorb this stored material. Meanwhile, the Russian share of aluminium on the LME continued to fall since May. [The LME banned](#) delivery of newly-produced Russian metal in April following US and UK sanctions.

Russian share of aluminium on the LME has continued to fall since May

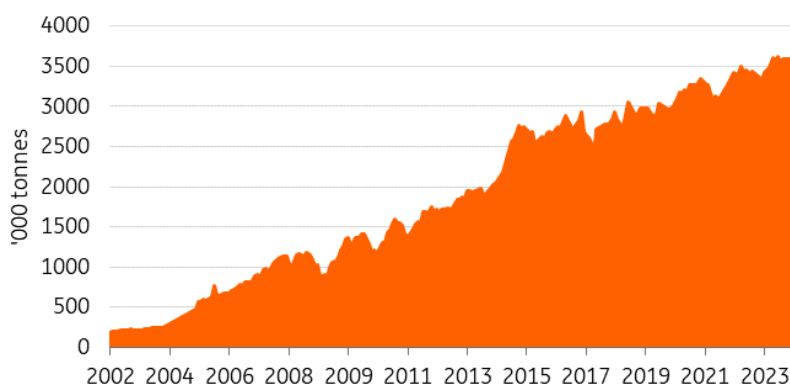


Source: LME, ING Research

China aluminium output hits record

Meanwhile, output in China is hitting record highs with restarts in Yunnan now complete due to the steady recovery of power supply in Yunnan. We expect China’s primary aluminium production to grow by around 2% in 2024 to around 42 million tonnes. However, this will also depend on the availability of hydropower in Yunnan.

China primary aluminium production will continue to grow



Source: NBS, ING Research

Prices will recover in 4Q

Although industrial metals are getting hit this week by the turmoil in the global stock market, looking further ahead, a weaker dollar and a Fed rate cut could provide support to prices. Elevated rates and a stronger dollar have been a drag on industrial metal prices. The Fed has held its key policy rate in a target range of 5.25% to 5.5% - the highest level in more than two decades - since last July.

With the market now expecting a first rate cut in September, we believe this could provide upside to metals prices, with lower rates easing borrowing costs for manufacturers.

[Our US economist](#) now sees a 50bp move in September followed by a series of 25bp moves that would get us back to a Fed funds rate of around 3.5% by next summer.

We forecast a third quarter average aluminium price of \$2,500/t. Following this, we see prices rising in the latter part of the third quarter, with the fourth quarter averaging \$2,550/t. The second half of the year should also be the starting point for Fed rate cuts. There is a risk, however, for demand to weaken further if high inflation keeps interest rates high. We see prices averaging \$2,460/t in 2024.

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