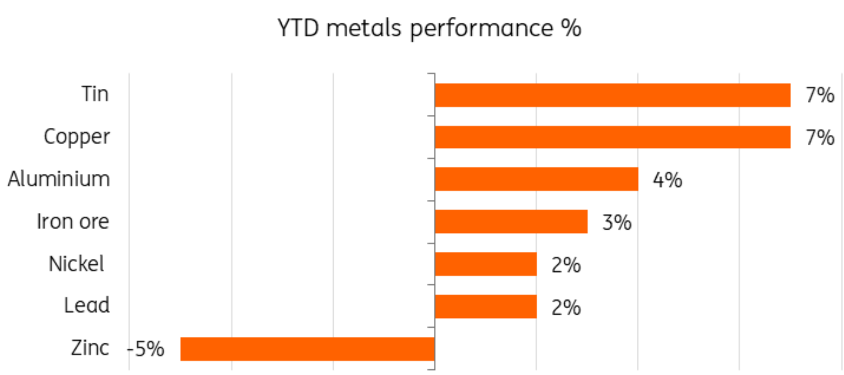
Industrial Metals Monthly: Tariff chaos

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 what Donald Trump's tariffs could mean for the metal's trade flows and prices

Industrial metals have had a volatile start to the year



Source: LME, SGX, ING Research

Will he, won't he?

Industrial metals have had a volatile start to the year driven by tariff risks.

Over the weekend, President Trump announced he plans to impose 25% tariffs on all imports of steel and aluminium into the US. Trump said the tariffs would apply to imports of both metals from all countries, including major suppliers Mexico and Canada. He didn't specify when the duties would take effect. Trump also said he would announce reciprocal tariffs this week on countries that tax US imports.

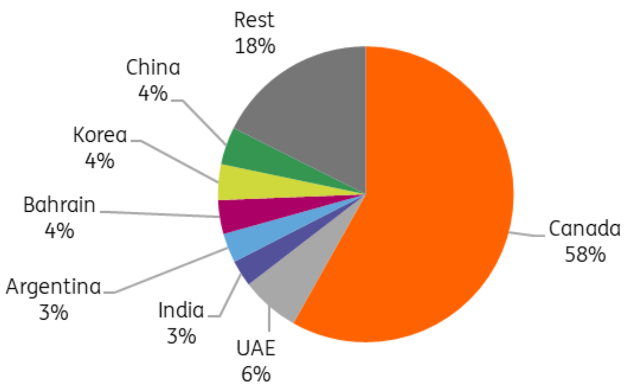
It is still uncertain whether the tariffs will go ahead. Only last week, Trump delayed plans to hit Canada and Mexico with general import duties of 25%, while proceeding with a 10% levy on all shipments from China. Beijing retaliated immediately by imposing a range of tariffs on US products. Trump also hinted at tariffs on imports from the European Union. There is a possibility that these tariffs are used as a negotiating tactic and are relaxed following concessions from target countries. There also might be exemptions to those tariffs. This uncertainty will continue to weigh on sentiment.

The US imports significant volumes of aluminium and steel from Canada. The US imports roughly half of its aluminium needs from abroad, with Canada the biggest supplier, accounting for 58% of imports, followed by 6% from the United Arab Emirates, figures from the US government show. The US also relies on Mexico and Canada for around 90% of its aluminium scrap imports.

Meanwhile, around 23% of steel imports into the US arrived from Canada, followed by Brazil at 16%, Mexico at 12% and South Korea at 10%.

Industries like automotive and manufacturing in the US, which heavily rely on imports of aluminium and steel and are deeply integrated with US supply chains, would face increased costs and disruptions if the proposed tariffs went ahead since many parts cross the border multiple times before becoming a final product.

US imports more than half its aluminium from Canada



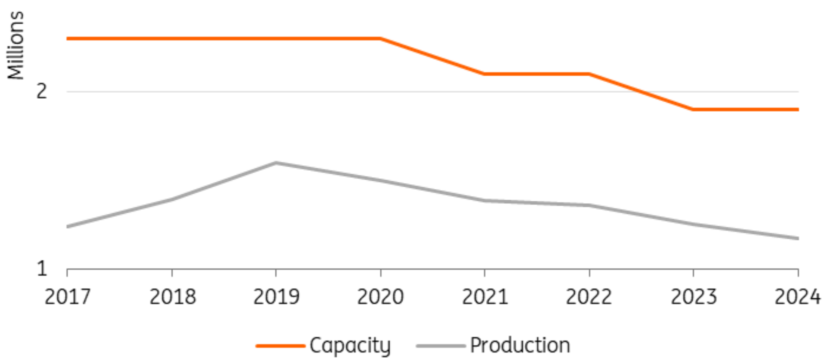
Source: US International Trade Administration, ING Research

Market déjà vu

The aluminium sector has dealt with US trade action before. In January 2018, Trump imposed a 10% duty on imported aluminium and 25% on steel from most countries except Australia to promote domestic metal production. The levies were then extended to the EU, Canada and Mexico in June.

However, in 2024, the output of the US steel industry was 1% lower than it had been in 2017 before the introduction of the first round of tariffs by Trump, while the aluminium industry produced almost 10% less. For aluminium, rising energy costs have played a major role in the decline of the US smelting industry over the years. Canada's aluminium industry, on the other hand, benefits from cheap hydropower to power its smelters.

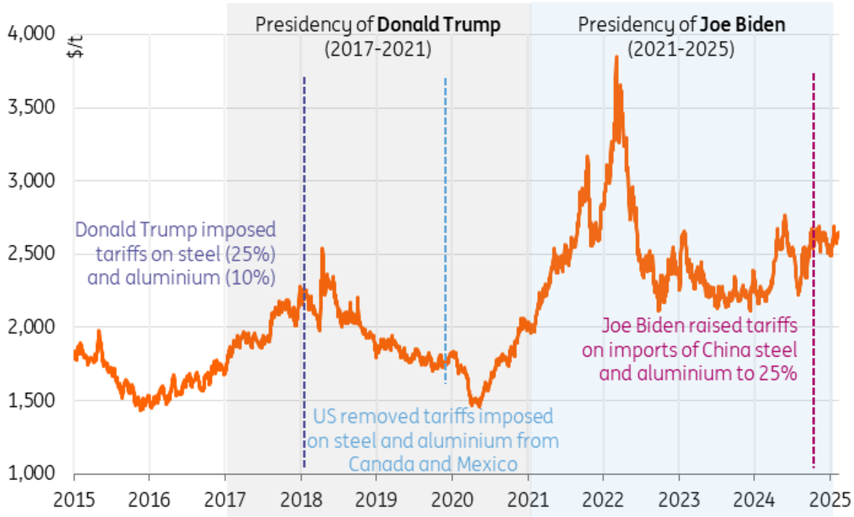
Previous tariffs had no effect on increasing domestic aluminium production



Source: US Geological Survey, ING Research

The tariffs introduced in 2018 had led US Midwest premiums to soar. However, the effect on the LME prices was minimal. LME aluminium fell by 10% in two months but then rebounded by 27% within a month of the decline. The duties were removed a year later (in April 2019) on steel and aluminium imported from Canada and Mexico after a new free trade agreement between the two coutnries and the US, and later cut to 7.5% for some Chinese products (in December 2019). In August 2024, under President Joe Biden, tariffs were raised to 25% (from 0-7.5% previously), which led to an almost 9% increase in LME prices within a month.

US tariffs had little impact on LME price before

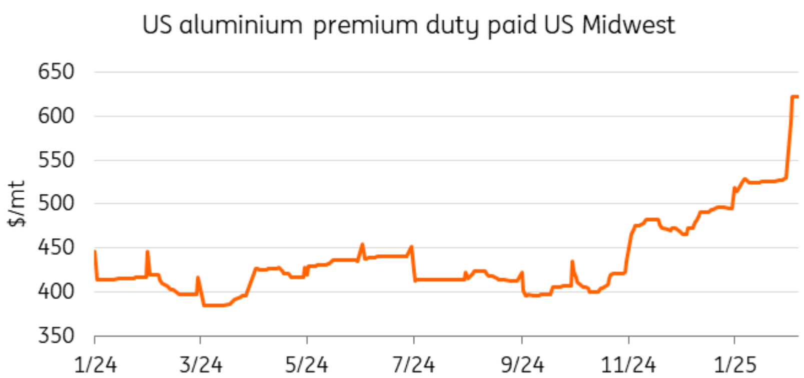


Source: LME, Bloomberg Intelligence, ING Research

Impact on aluminium

Aluminium is likely to be most impacted by potential tariffs on metals with the US importing significant volumes of its aluminium from abroad. Tariffs would result in higher aluminium prices in the US, representing a significant upside risk to the US Midwest premium this year. The US Midwest premium, the best indicator of tariff risk, is already up more than 30% since Trump won the US presidential election. The premiums are added on top of the global benchmark prices, which are set on the LME to deliver the metal to the US Midwest. Tariffs also risk demand destruction in the US as the extra costs would most likely be passed on to end consumers.

Physical premiums are rising on global trade tensions



Source: Platts, ING Research

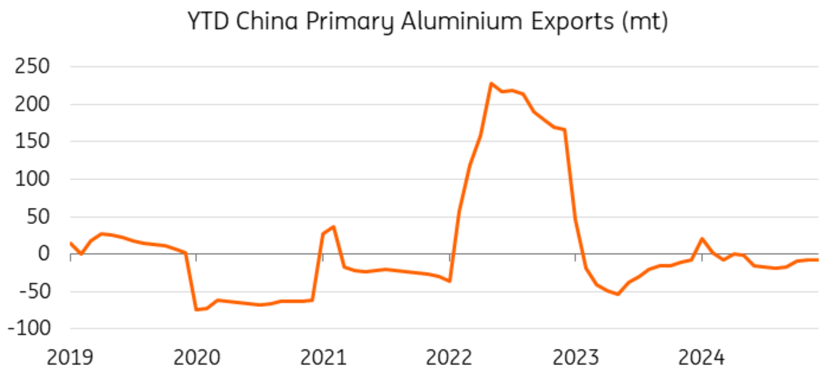
We might also see changes in trade flows of aluminium. Canadian exports might get redirected to Europe as it has duty-free access. This would be bearish for European premiums.

China, on the other hand, only accounts for around 4% of US aluminium imports. Tariffs and trade actions in recent years have reduced China's desirability as a trading partner for aluminium products. A 25% rise in US tariffs on Chinese aluminium might have little impact on China's aluminium industry.

Many Chinese aluminium semis producers have already reduced exports after China cancelled an export rebate in December and kept more material domestically.

It is not clear yet whether the new metals tariffs would be added to other duties, like the new blanket 10% tariff on all Chinese goods.

China’s primary aluminium exports have been declining



Source: China Customs, ING Research

With Donald Trump back in the White House, uncertainty and unpredictability are running high. While Trump's tariffs on aluminium might drive an initial, short-term, price surge, the prospect of a global trade war is bearish for the LME aluminium price. Tariffs are bearish for industrial metals in terms of slowing global growth and keeping inflation higher for longer. If US inflation remains persistent or rebounds, it could prompt the Federal Reserve to delay or increase interest rate cuts. This would further hinder the recovery in the building and construction sectors and be bearish for aluminium demand. With growth in the US likely to slow on the back of tariffs and with China already struggling to revive its economy, demand for industrial metals is likely to weaken. On the other hand, the prospect of a prolonged trade war has raised expectations for Beijing to unveil more aggressive stimulus measures, which would cap the downside to aluminium and other industrial metals prices.

Author

Ewa Manthey
Commodities Strategist
ewa.manthey@ing.com