

Why has aluminium been so resilient so far this year?

Despite the increasing macro headwinds and the stock release from China in a bid to tame the market, Aluminium prices have remained resilient, and supply disruptions and curbs continue to keep a lid on growth



China Jiangsu metal processing plant workshop

Aluminium prices gained 34% year-to-date on the LME market, ranking the second-best performer after tin, as micro positivity continues to prop up prices, and the light metal largely shrugged off a total 210kt stock release from the Chinese state reserve bureau in a bid to tame prices.

We see two major issues on the supply side that are going on in the market.

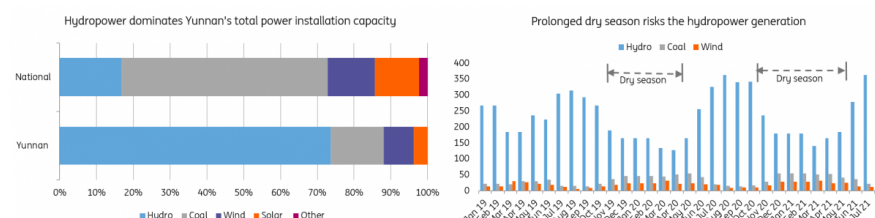
China state reserve stock release

	Copper	Aluminium	Zinc
1st batch release (July 5-6): tonnes	20,000	50,000	30,000
% of mthly consumption	2%	5%	3%
2nd batch release (July 21): tonnes	30,000	90,000	50,000
% of mthly consumption	3%	9%	5%
3rd batch release (Sep 1): tonnes	30,000	70,000	50,000
% of mthly consumption	3%	7%	5%
4 th batch release-to be announced... (Sep 21?)	?	?	?

First of all, rising supply-side disruptions at the world's largest primary aluminium producer are one of the major drivers of the market.

But there are three types of supply disruptions.

- 1. Power rationing:** Smelters at China's multiple provinces are told to keep power load lower or stagger power usage. As a result, smelters have had to lower their operating rate, resulting in lower production. Monthly productions have been declining three-month in a row—in provinces including Inner Mongolia, Guangxi, Guizhou and Yunnan. However, there is a risk that another province, Qinghai, may also face the same problem as the local grid has issued a warning to smelters on potential power shortage. The province has a collective capacity of around 2.8 million tonnes and relies 100% on the grid power supply instead of captive power. While many blame the nation's tight power market, many market participants hope the situation will improve after summer power consumption peaked. However, another concern arises from Yunnan as the region will be entering into dry season again from September. The previous prolonged dry season had led to lower water reservoirs at local rivers and resulted in lower hydropower generation.



Source: CEC

- 2. Floods:** Severe floods at the end of July caused disruptions to a major smelter with an annual capacity at around 440ktpa in Henan and an explosion at a local alloy maker.

- 3. Dual control:** We noted this earlier in the year with smelters in Inner Mongolia being asked to slash productions and newly built smelters unable to ramp up. Unlike power rationing or floods disruptions which may be short term problems, the dual-control is tied to China's long term pursuit for peak carbon emissions and carbon net-zero. The latest move by Changji prefecture in Xinjiang in asking local smelters to curb productions are most likely to result from the red alert the region received last week from China's central NDRC, as it failed to bring down energy intensity during 1H21, whilst receiving a yellow alert on total energy consumption. We discussed this in our note on [Monday](#).

Besides the disruptions to existing operations, some new projects have failed to ramp up on schedule for the reasons above. At the end of last year, we expected over three million tonnes of additional capacity to come online; however, this has come down to less than one million tonnes; although things remained fluid, we will need to monitor the situation. As the Chinese market remains in deficit, and those disruptions only add to wider deficits; as a result, it continues to import the metal from the ex-China market absorbing the surplus.

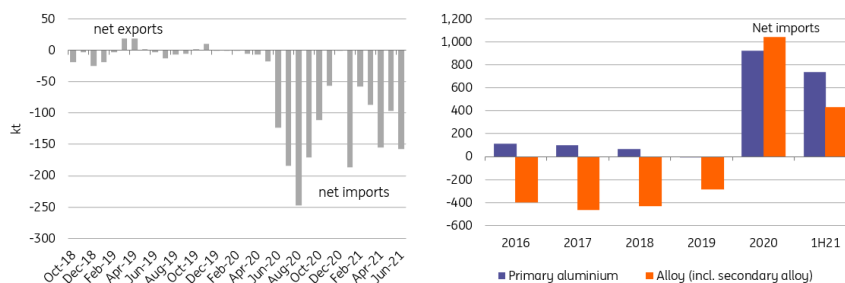
Elsewhere, there's an outage at Noble's alumina refinery in Jamaica last week. Yet, it remained to be seen whether this would further lead to raw material disruptions to its aluminium smelters customers. Earlier this month, Australia's largest aluminium smelter Tomago wared of the rising Covid-19 cases threatening their operations.

Second, supply chain bottlenecks are preventing stocks go to the right location at the right time, which further pushed the regional premia.

The aluminium market recovery has been uneven post-pandemic, where the North American market continues to see tight supply and premium continue to climb. One of the major drivers behind is the high shipping costs, and also, the US inland trucking costs are one of the key drivers behind the scene. As a result, the available stocks elsewhere are just not incentivised enough to go to the market.

Other supply chain bottlenecks are seen in the China market, where floods and the nation's draconian Covid-19 related control had led to logistic restrictions that has impacted the physical market flows.

China's imports of primary aluminium and alloy



Source: China Customs

In the end, all those supply disruptions have further lowered the supply elasticity of primary aluminium, and the pursuit of decarbonisation by China and elsewhere will have a longer-term impact on the aluminium supply landscape in the future.

Therefore, we continue to hold a constructive view towards aluminium in the long term. However, there could be a bumpy road ahead for prices in light of the macro headwinds amid the Fed's policy normalisation journey.

We maintain our price forecasts for 3Q21 at US\$2,600/t (quarterly average) and expect annual average prices could rise from this year's US\$2,420 to above US\$2,630 in 2022 and US\$2,700 in 2023.

Author

Alissa Lefebvre

Economist

alissa.lefebvre@ing.com

Deepali Bhargava

Regional Head of Research, Asia-Pacific

Deepali.Bhargava@ing.com

Ruben Dewitte

Economist

+32495364780

ruben.dewitte@ing.com

Kinga Havasi

Economic research trainee

kinga.havasi@ing.com

Marten van Garderen

Consumer Economist, Netherlands

marten.van.garderen@ing.com

David Havrlant

Chief Economist, Czech Republic

420 770 321 486

david.havrlant@ing.com

Sander Burgers

Senior Economist, Dutch Housing

sander.burgers@ing.com

Lynn Song

Chief Economist, Greater China

lynn.song@asia.ing.com

Michiel Tukker

Senior European Rates Strategist

michiel.tukker@ing.com

Michal Rubaszek

Senior Economist, Poland

michal.rubaszek@ing.pl

This is a test author

Stefan Posea

Economist, Romania
tiberiu-stefan.posea@ing.com

Marine Leleux
Sector Strategist, Financials
marine.leleux2@ing.com

Jesse Norcross
Senior Sector Strategist, Real Estate
jesse.norcross@ing.com

Teise Stellema
Research Assistant, Energy Transition
teise.stellema@ing.com

Diederik Stadig
Sector Economist, TMT & Healthcare
diederik.stadig@ing.com

Diogo Gouveia
Sector Economist
diogo.duarte.vieira.de.gouveia@ing.com

Marine Leleux
Sector Strategist, Financials
marine.leleux2@ing.com

Ewa Manthey
Commodities Strategist
ewa.manthey@ing.com

ING Analysts

James Wilson
EM Sovereign Strategist
James.wilson@ing.com

Sophie Smith
Digital Editor
sophie.smith@ing.com

Frantisek Taborsky
EMEA FX & FI Strategist
frantisek.taborsky@ing.com

Adam Antoniak
Senior Economist, Poland

adam.antoniak@ing.pl

Min Joo Kang

Senior Economist, South Korea and Japan

min.joo.kang@asia.ing.com

Coco Zhang

ESG Research

coco.zhang@ing.com

Jan Frederik Slijkerman

Senior Sector Strategist, TMT

jan.frederik.slijkerman@ing.com

Katinka Jongkind

Senior Economist, Services and Leisure

Katinka.Jongkind@ing.com

Marina Le Blanc

Sector Strategist, Financials

Marina.Le.Blanc@ing.com

Samuel Abettan

Junior Economist

samuel.abettan@ing.com

Franziska Biehl

Senior Economist, Germany

Franziska.Marie.Biehl@ing.de

Rebecca Byrne

Senior Editor and Supervisory Analyst

rebecca.byrne@ing.com

Mirjam Bani

Sector Economist, Commercial Real Estate & Public Sector (Netherlands)

mirjam.bani@ing.com

Timothy Rahill

Credit Strategist

timothy.rahill@ing.com

Leszek Kasek

Senior Economist, Poland

leszek.kasek@ing.pl

Oleksiy Soroka, CFA

Senior High Yield Credit Strategist

oleksiy.soroka@ing.com

Antoine Bouvet

Head of European Rates Strategy

antoine.bouvet@ing.com

Jeroen van den Broek

Global Head of Sector Research

jeroen.van.den.broek@ing.com

Edse Dantuma

Senior Sector Economist, Industry and Healthcare

edse.dantuma@ing.com

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

Rico Luman

Senior Sector Economist, Transport and Logistics

Rico.Luman@ing.com

Jurjen Witteveen

Sector Economist

jurjen.witteveen@ing.com

Dmitry Dolgin

Chief Economist, CIS

dmitry.dolgin@ing.de

Nicholas Mapa

Senior Economist, Philippines

nicholas.antonio.mapa@asia.ing.com

Egor Fedorov

Senior Credit Analyst

egor.fedorov@ing.com

Sebastian Franke

Consumer Economist

sebastian.franke@ing.de

Gerben Hieminga

Senior Sector Economist, Energy

gerben.hieminga@ing.com

Nadège Tillier

Head of Corporates Sector Strategy

nadege.tillier@ing.com

Charlotte de Montpellier

Senior Economist, France and Switzerland

charlotte.de.montpellier@ing.com

Laura Straeter

Behavioural Scientist

+31(0)611172684

laura.Straeter@ing.com

Valentin Tataru

Chief Economist, Romania

valentin.tataru@ing.com

James Smith

Developed Markets Economist, UK

james.smith@ing.com

Suvi Platerink Kosonen

Senior Sector Strategist, Financials

suvi.platerink-kosonen@ing.com

Thijs Geijer

Senior Sector Economist, Food & Agri

thijs.geijer@ing.com

Maurice van Sante

Senior Economist Construction & Team Lead Sectors

maurice.van.sante@ing.com

Marcel Klok

Senior Economist, Netherlands

marcel.klok@ing.com

Piotr Poplawski

Senior Economist, Poland

piotr.poplawski@ing.pl

Paolo Pizzoli

Senior Economist, Italy, Greece

paolo.pizzoli@ing.com

Marieke Blom

Chief Economist and Global Head of Research

marieke.blom@ing.com

Raoul Leering

Senior Macro Economist
raoul.leering@ing.com

Maarten Leen
Head of Global IFRS9 ME Scenarios
maarten.leen@ing.com

Maureen Schuller
Head of Financials Sector Strategy
Maureen.Schuller@ing.com

Warren Patterson
Head of Commodities Strategy
Warren.Patterson@asia.ing.com

Rafal Benecki
Chief Economist, Poland
rafal.benecki@ing.pl

Philippe Ledent
Senior Economist, Belgium, Luxembourg
philippe.ledent@ing.com

Peter Virovacz
Senior Economist, Hungary
peter.virovacz@ing.com

Inga Fechner
Senior Economist, Germany, Global Trade
inga.fechner@ing.de

Dimitry Fleming
Senior Data Analyst, Netherlands
Dimitry.Fleming@ing.com

Ciprian Dascalu
Chief Economist, Romania
+40 31 406 8990
ciprian.dascalu@ing.com

Muhammet Mercan
Chief Economist, Turkey
muhammet.mercan@ingbank.com.tr

Iris Pang
Chief Economist, Greater China
iris.pang@asia.ing.com

Sophie Freeman

Writer, Group Research
+44 20 7767 6209

Sophie.Freeman@uk.ing.com

Padhraic Garvey, CFA

Regional Head of Research, Americas

padhraic.garvey@ing.com

James Knightley

Chief International Economist, US

james.knightley@ing.com

Tim Condon

Asia Chief Economist

+65 6232-6020

Martin van Vliet

Senior Interest Rate Strategist

+31 20 563 8801

martin.van.vliet@ing.com

Karol Pogorzelski

Senior Economist, Poland

Karol.Pogorzelski@ing.pl

Carsten Brzeski

Global Head of Macro

carsten.brzeski@ing.de

Viraj Patel

Foreign Exchange Strategist

+44 20 7767 6405

viraj.patel@ing.com

Owen Thomas

Global Head of Editorial Content

+44 (0) 207 767 5331

owen.thomas@ing.com

Bert Colijn

Chief Economist, Netherlands

bert.colijn@ing.com

Peter Vanden Houte

Chief Economist, Belgium, Luxembourg, Eurozone

peter.vandenhoute@ing.com

Benjamin Schroeder

Senior Rates Strategist

benjamin.schroeder@ing.com

Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE

chris.turner@ing.com

Gustavo Rangel

Chief Economist, LATAM

+1 646 424 6464

gustavo.rangel@ing.com

Carlo Cocuzzo

Economist, Digital Finance

+44 20 7767 5306

carlo.cocuzzo@ing.com