

Aluminium: China aluminium trade snapshot

China saw strong imports in aluminium-related raw materials, notably bauxite and alumina, in the first half of 2020. Unusually, primary and alloys together hit record amounts. Exports of semi products remain under pressure

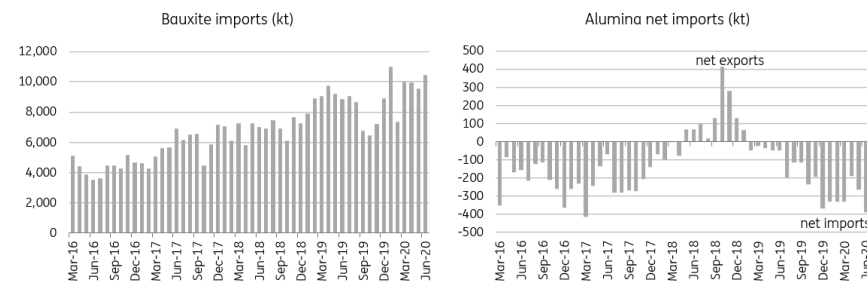


An aluminium alloy products factory in Tangshan City, China

1 Strong raw material intake

Chinese imports of aluminium raw materials have been continually rising to feed the country's growing capacity. Bauxite imports rose by 9% YoY in 1H20, which also reflect a ramp-up of overseas projects that have started bringing material home. Alumina imports resumed compared to last year's net exports, and net imports jumped twelve-fold in the first half of the year.

Strong imports of raw materials



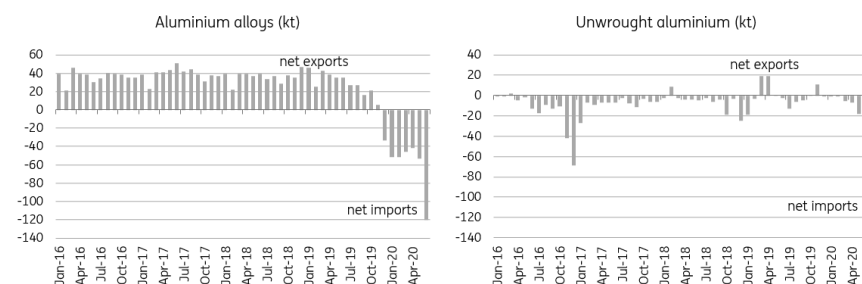
Source: China Customs, ING

2 Surging imports in primary aluminium and alloys is a rare phenomenon

We noted in early May that a [decoupling market](#) between LME and ShFE had prompted rare import arbitrage opportunities and we can see that in the latest trade data for June. According to China Customs, primary aluminium imports surged to their highest rate in over a decade riding on those arbitrage opportunities. That led to imports in June rocketing to more than 123kt (574% MoM) and brought the total imports in the first half of the year to 162kt (389% YoY).

Alloys imports also surged amid a favourable import arbitrage and, in our view, it's also been filling a void created by reduced scrap imports. Robust imports by China have been helping to absorb some excess supply in the ex-China market, and the arbitrage buying is supportive of the prices there, namely the LME. Those current themes could well carry on into the third quarter, and we've talked about that [here](#).

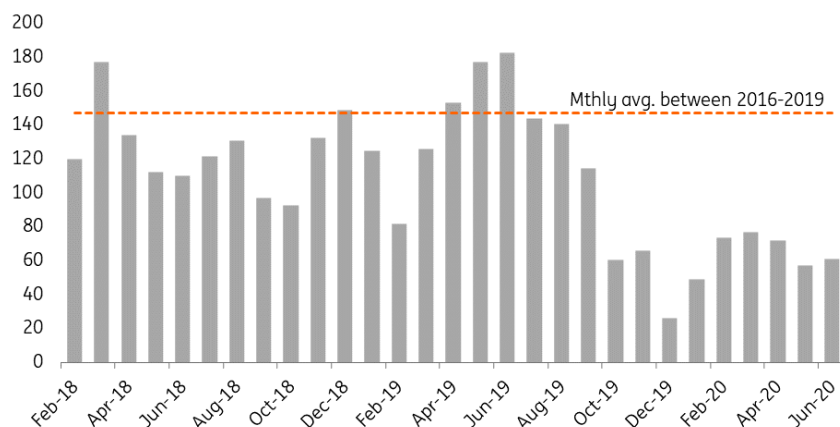
A rare surge in inflows of primary and alloys



Source: China Customs, ING

Scrap imports have been a big uncertainty and there were doubts whether that area could recover given the global slowdown caused by the Covid-19 pandemic. China was supposed to recategorise scrap from 1st July to 'resources' rather than 'garbage' and we were expecting a new trade HS code. However, latest reports say this has yet to happen and plenty of scrap is tangled up in nearby Asian ports. It's unclear when this will be sorted out.

Scrap imports have halved from a year ago



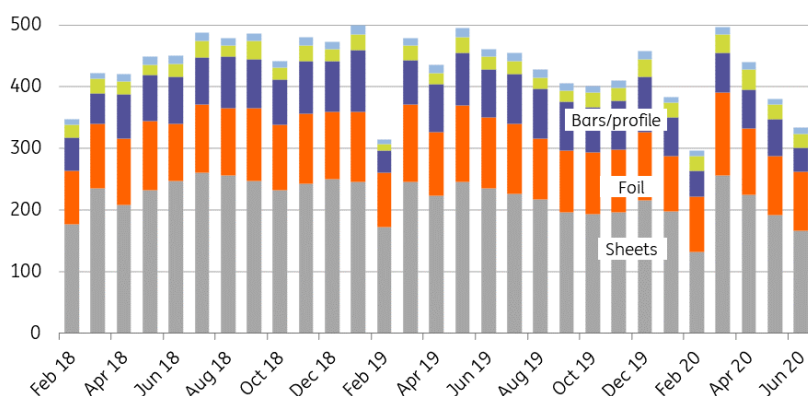
Source: China Customs, ING

3 Exports of semis products under pressure

One of the key arguments why the market has been bearish towards China demand is the weak export expectations for this year, notably over the past couple of months. The main product, aluminium sheets, saw exports shrink by 15% YoY in the first half. Though under pressure, the aggregated semis exports have yet to fall off a cliff. The trajectory ahead will largely be dependent on demand recovery from the external market as those countries are mostly behind the curve of Covid-19.

Meanwhile, the strength of the Chinese yuan against the dollar should also play a part. If Shanghai prices are to hold on to their strength, this will need continuous support from either more robust real demand or stockpiling to allow it to carry on at lowered borrowing costs. A combination of the two could offset any adverse impact of weaker exports.

Semis exports remain under pressure



Source: China Customs, ING