Aluminium: Chinese winter cuts hit alumina refineries

Three-month aluminium prices on the London Metal Exchange bounced by over 2.2% on Wednesday amid vaccines optimism and hopes for a stimulus package remains alive. Meanwhile, the winters cuts that started at some alumina refineries in China also fueled the bullish vibe

Winters cuts have started to hit some Chinese alumina operations in several provinces including Shanxi, Shaanxi and Henan (known as Fenwei plain) as some provinces/cities have issued smog warnings, which has fueled the bullish vibe in the Chinese aluminium market.

According to Antaike, the winter cuts have so far hit a total of 3.3 million tonnes of alumina operations, mostly in the Fenwei plain region, which is geographically the northern China market. However, the restrictions are mainly hitting the calcining process at the refineries which may not lead to a full stop in supply immediately, and it remains to be seen how such events would further unfold and impact the real supply in the market. Currently, the restrictions that have been put into place are set to last until the end of December. As a result, there has been a push to higher alumina prices in the northern market. However, the southwestern market is relatively well supplied, and the local alumina prices remain under pressure. In the short term, the market strength could remain divergent between the north and the south. It remains to be seen how many further restrictions will be required should air pollution worsen.

Currently, total Chinese aluminium smelting operations remained high (39.26 mln t/year in operation, +9% year-on-year) driven by strong margins, hence the demand for alumina is robust. Apart from feeding by domestic alumina supply, China also imports a large amount of alumina from overseas markets, mainly from Australia. During the first ten months of 2020, the country imported over 3 million tonnes of alumina, compared to around 1.6 million tonnes for the full year 2019. It is likely that in case the local alumina market tightens further and leads to higher prices, imports could remain elevated and potentially alumina to move from the south to the northern market in order to ease the tightness. It is still too early to expect any significant cost inflation for aluminium production at this stage or even to have an impact on primary production. However, further news on winter cuts may continue to boost market sentiment. While the market has been paying great attention to stronger China aluminium demand, inventories have remained low compared to the traditional seasonal pattern. Although last week there was around a 4kt inventory rise that had triggered some long liquidations, this has stayed unchanged so far this week.