

Aluminium: Demand optimism prevails

China's October aluminium production grew by 9.7% year-on-year but investors are focusing on optimism about demand and the favourable macro picture

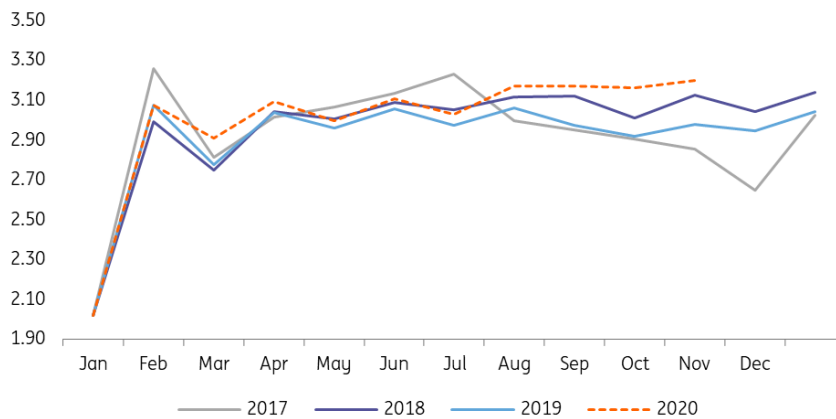


Source: Shutterstock

Aluminium prices have proven to be resilient since our last update (October 14-[Aluminium: Facing turbulence with resilience](#)), with LME aluminium jumping to its highest level since March 2019 after receiving a double boost from both macro and Chinese demand optimism, which has outweighed concerns over a supply surge.

On Monday, the Chinese National Bureau of Statistics (NBS) released production numbers showing aluminium production of 3.2mln tonnes (+9.7% YoY), taking total production to 30.63mln tonnes during the first 10 months of 2020 (+3.5% YoY). Production growth has picked up pace since 4Q20. As a result, increased total capacity under operation, with mostly newly added capacity, has been ramping up since August. Yet there is another 900kt in the pipeline to come before the end of the Chinese Lunar year-end.

Fig. China monthly aluminium production (mln tonnes)



Source: Chinese National Bureau of Statistics

Rising production is something the market had expected. With continuous price recovery since 2Q20 and strong smelter, margins have been incentivising restarts and the ramping up of new capacity. Yet no significant visible inventory has been built in China's market. Unlike the LME inventory, the total reportable inventory in China has been a solid gauge of the market's supply and demand dynamics. This has continued to point to destocking over the last week, beating many expectations. The billet inventory has also gone down in some key consumption areas from China. In the meantime, ShFE deliverable inventories are also low, and the forward curve has remained in backwardation since 2Q20. Spreads have often tightened up before the front-month contract expired in the middle of each month, making it painful to roll short positions.

For now, the focus on demand optimism prevails as the macro picture looks favourable following new developments on a vaccine and the US election result, as well as the latest positive macro data from China.