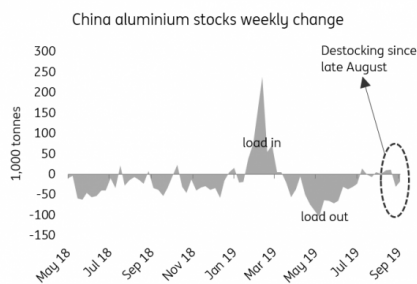
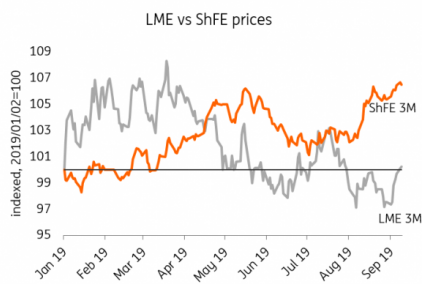


Aluminium, the LME market is feeling it

Weaker supply combined with recent disruptions have helped the Chinese market reduce stock somewhat. The Shanghai Futures Exchange aluminium prices continue to outperform the London Metals Exchange, but we think the LME is now finally beginning to feel it



Source: Shutterstock



Source: Bloomberg, ING

Aluminium prices have been standing relatively strong in the LME market throughout September. We think it is now playing catch up with Shanghai Futures Exchange which has been outperforming the LME since August.

On 23 August, we said that the recent [supply-side development from China may eventually provide some support to the LME market](#), and we think the LME aluminium market is now feeling it. Since the beginning of August, LME stocks have decreased by over 10%, which may also play a part in price strengthening although we think the overall negative correlation between the two has largely become distorted in recent years.

[Read all about Chinese supply-side aluminium disruptions here](#)

So why is the Chinese market looking stronger?

Perhaps, the real reason is primary aluminium production in China has weakened this year. According to the latest data released by Shanghai Metals Market, August primary aluminium production in China fell by 3.5% MoM, and production for the first eight months declined by 1.9% YoY. The smelter production disruptions led to the weaker production in August, leading to the destocking process picking up pace as a result of reduced shipment.

In the meantime, a stronger Chinese market means that this will discourage exports. According to Chinese customs data, Chinese aluminium exports in August including primary, alloy and semis were the lowest since February despite a weaker yuan. Detailed trade data for August will be released at the end of September. In fact, we are already seeing weakening signs. Exports of major semis products have slowed during June and July. For example, the main aluminium semis exports i.e. sheets/strips rose by 5% YoY during H1, and this has slowed down to 1.8% YoY in the first seven months.

Looking forward, primary supply in China is expected to recover from August, but it's still early to judge whether the destocking will continue at this pace.

The market is still waiting for signs of improvement in physical demand riding its seasonality pattern. Total aluminium exports trend remains important to watch as continuous weakening of exports do not bode well for China's domestics destocking, and this is likely negative feedback for ShFE or physical aluminium prices before demand picks up.