What Trump's import tariffs mean for metal prices

President Trump has confirmed he will impose 10% duties on all imports of aluminium (primary and products) and 25% on steel. Costs to be borne by local consumers have already surged and have further to go. The all-important details on Canada remain unknown

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A perfect storm for aluminium premiums

US aluminium premiums have rallied 62% year-to-date to 15c/lb. These are highs not seen since LME stocks were backlogged by queues lasting over 100 days. The queues have since gone but new tariffs on imports will now pass new costs on to consumers. If Canada is not exempt, the effect will be almost 1:1 but Trump is yet to give firm details. The ruling will extend across primary aluminium and products and is clearly for most countries, not just China.

A 10% duty on aluminium supposes an additional premium of around 10c/lb (based on the LME and pre-duty landing price in Baltimore) however it is important to remember that much of the latest rally had already priced in the premium effect. Other factors like a constraint on logistics had pushed up freight costs and there is also the lockout affecting half the production at Alcoa's ABI smelter in Canada. If we assume half of the original 7.7% duty recommended by commerce was priced in when we crossed 13c/lb then 20 c/lb seems a reasonable target.

We had already expected curtailed US smelters to restart this year but the US will nonetheless remain in a big structural deficit, relying on imports to fill the void. Self-sufficiency would be some years away since it would require significant greenfield investment. Century has confirmed Hawesville will ramp up some of its curtailed capacity but Mt Holly remains gridlocked in negotiations over electricity costs. ING forecasts USA production to increase 180kt in 2018 and 440kt in 2019. Even so, it will need to import 4.7Mt this year and 4.4Mt next. Read our full analysis on the US aluminium duty exposure at Stakes are high for section 232 and Making US Aluminium great again?

As premiums rally, the race is now on for traders to customs clear aluminium into the US ahead of the duties. Already we have seen material cancelled at LME Asian sheds but the timing could be tight. Preliminary trade estimates show shipments from Europe are also on the rise. Mike Bless of Century estimated 0.5Mt are on the move west. The more time given for shipments into the states, the more we expect a knock on effect to premiums globally. MJP quarterly negotiations in Asia have already opened 31% higher.

For China, the risk is another lost customer market for its exports of semi-fabricated aluminium. Primary aluminium has a 15% export tariff so is rarely exported officially (so-called "fake semis'' do get remelted but this flow is on the decline). This supports our overall bullish position on LME aluminium prices, although the near-term volatility of stocks into the US and supposed drawdown could create extra bumps in the road. Read our full analysis here: For once, it's not all about China.

Source: Harbor, ING Research