

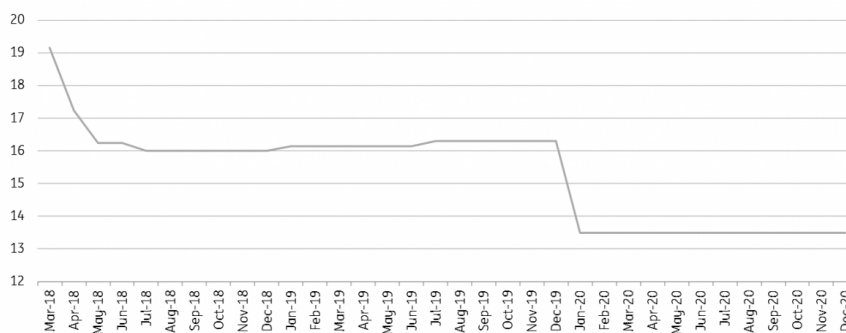
US aluminium's runaway freight train is ready to turn

US aluminium premiums are being reported at 20¢/lb but the CME forward curve now sees a sharp drop. Given tariff exemptions, markets should not be pricing this high



Source: Shutterstock

CME forward curve sees US premiums falling (¢/lb)



Source: CME, ING Research

The consumer bidding frenzy has overrun

The Midwest US aluminium premium (amount paid by US consumers above the LME price) has rallied 110% this year after consumers frantically bid for material ahead of section 232 import duties and bottlenecks in domestic freight. From March 23, 10% duties are set to be imposed. But since the exemption of Canada (over 50% of primary imports) [the damage has largely been undone](#).

Australia's exemption is also significant. Australia exported 1.3Mt of aluminium last year, largely into Asia, but this could represent 28% of US import needs if the premiums remain attractive to divert flows. This means duty paid primary metal supplies from Middle East/Russia etc could potentially stand at just 22% and likely lower as more exemptions could follow, duty cleared stocks can be drawn down, and Canada might be able to boost its contribution. Even an all-encompassing 10% duty without exemptions would propose a premium increase of around 10¢/lb, a good deal of which was being priced in as we passed 13¢/lb. The CME curve of 16¢/lb seems a fair near-term target but further weakness could also come about should spread and freight turn.

The latest support for the premium has come from a rebound in the LME contango which supports the financing of stocks and withholding material from the spot market. The Cash-3M is today trading at \$21.25 contango from a record \$50b high in February. We think this will be short-lived. The real costs sit on monthly rolls that have a habit of jerking into backwardation near expiry. A lack of on warrant LME stock in an environment of lower warehouse incentives renders this systematic. [Read our 2018 Aluminium outlook](#).

The final driver is freight. New rules on electronic logging, cold weather and lack of capacity have driven Midwest rates up 32% year-on-year, according to weekly truckstop data. As the rules become commonplace, the weather and capacity ease, this could also take the premiums trend down.