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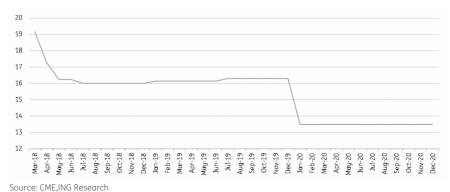
US aluminium's runaway freight train is ready to turn

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)



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The consumer bidding frenzy has overun

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 allencompassing 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.

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