

## METALS & MINING

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### Aluminium: Key takeaways from China aluminium webinar

- We attended a webinar hosted by Antaika, a leading Chinese metals information provider
- Aluminium prices are at a decade high with tightening of market balance post additional supply cuts in China in Q3CY21
- Key drivers to watch for are additional supply restrictions and/or restoration of temporary cuts in China

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**Aluminium price rise has surpassed copper since early 2020:** The aluminium price rise has been driven by recent supply cuts in China, supporting higher imports by the country since Jun'20. Jan-Jul'21 imports at 1.5mt have risen 15-fold over Jan-Jul'19.

**Chinese supply cuts have tightened market balance:** Total curtailments in China have increased to 2.3mt YTD (Jan-Aug). This has resulted in a 1mt YTD cut in Chinese operating capacity to 38.6mt. New capacity launches are also running slower at 0.45mt YTD vs. the planned 1.37mt for 2021. This has led to aluminium ingot inventory dropping close to the five-year low. While strategic sales of 0.2mt in three tranches have filled up the gap partially, the supply-demand balance remains tight. Antaika now expects 5% YoY growth in aluminium output to 39.2mt in 2021 vs. 7% YoY growth over Jan-Jul'21.

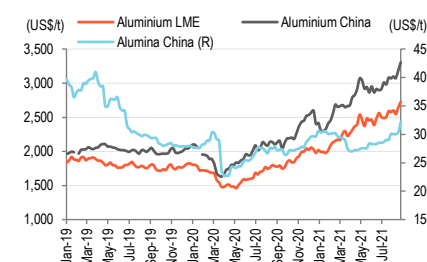
**Policy-driven supply restrictions have escalated:** There has been a further 0.4mt supply cut in Guangxi and Guangdong in Q3CY21 on top of 0.3mt of cuts in Inner Mongolia in Q1 driven by 'Dual Control' (aims to restrict energy intensity of the economy and total energy consumption at a province level). With nine provinces seeing an increase in energy consumption intensity, we need to watch for additional restrictions in Ningxia, Qinghai and Shaanxi. Besides dual control, there has been another 0.3mt of curtailment in Xinjiang in August to restrict supply at 3.2mtpa.

**Restoration of supply to ease balance but pace slow:** There have been cuts of 0.95mt in Yunnan (Q2) due to tight electric supply and 0.4mt in Henan (Q3) due to floods, with further reductions in Guanxi and Guizhou owing to tight power supply. Only 0.6mtpa has been restored till August out of a total of 2.3mt of cuts.

**Aluminium profit up, offsetting cost escalations:** Chinese aluminium profitability surged ~230% in Jul'21 (vs Jan'21) to ~US\$ 750/t as higher prices offset the 11% increase in costs. Cost pressure comes from coal (up 65% from Mar'21 lows), electricity, alumina (up 28% YTD) and anode (up 60% from 2020 lows).

**Risks to bauxite supply increase post Guinea coup:** Bauxite price is up 16% YTD to US\$ 50/t, post the military coup in Guinea which forms ~25% of global supply.

### Aluminium and alumina prices



Source: Bloomberg, BOBCAPS Research



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