

Aluminum: Where the US and China Align

By Saurabh Lele, CFA, Vice President, Senior Commodities Analyst

KEY TAKEAWAYS

- Recent trade actions against Chinese aluminum imports may result in higher tariffs.
- China continues to cut its aluminum supply ahead of the National People's Congress meeting in the fall of 2017.
- Ironically, Xi may hand Trump a win on the aluminum trade in exchange for leniency on other products.

ALUMINUM INVENTORIES HAVE BEEN BUILDING

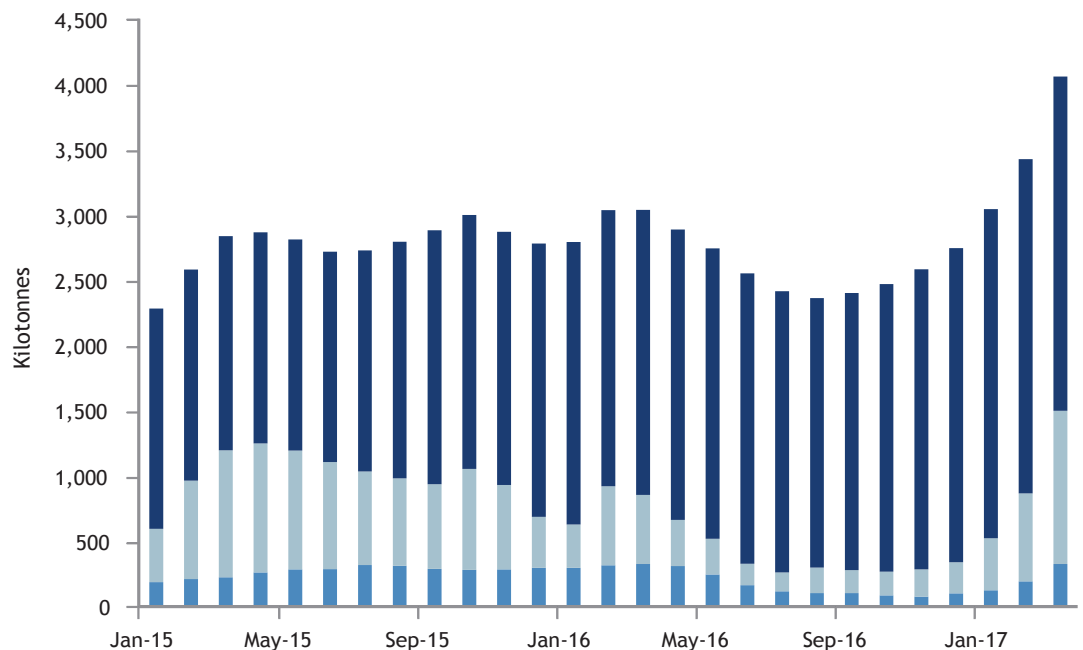
Source: CRU, Bloomberg, BofA Merrill Lynch Global Research.

Data as of March 31, 2017.

- Unreported
- Non-Shanghai Futures Exchange
- Shanghai Futures Exchange

Aluminum has been outperforming most other base metals in recent weeks as China continues to shutter its aluminum plants in order to reduce pollution and overcapacity.

Chinese supply cuts are crucial to the aluminum market since the country's aluminum overcapacity and the corresponding exports have been hurting aluminum prices all over the world, including the US. Unlike copper, the world has enough reserves of low-cost bauxite (aluminum ore), so aluminum supply largely depends on refining capacity and energy costs. Inventories have been rising as China continues to build new smelters. Without Chinese production discipline, we could be looking at rising surpluses and record inventories for the rest of the decade.



Trump, Trade & Tariffs

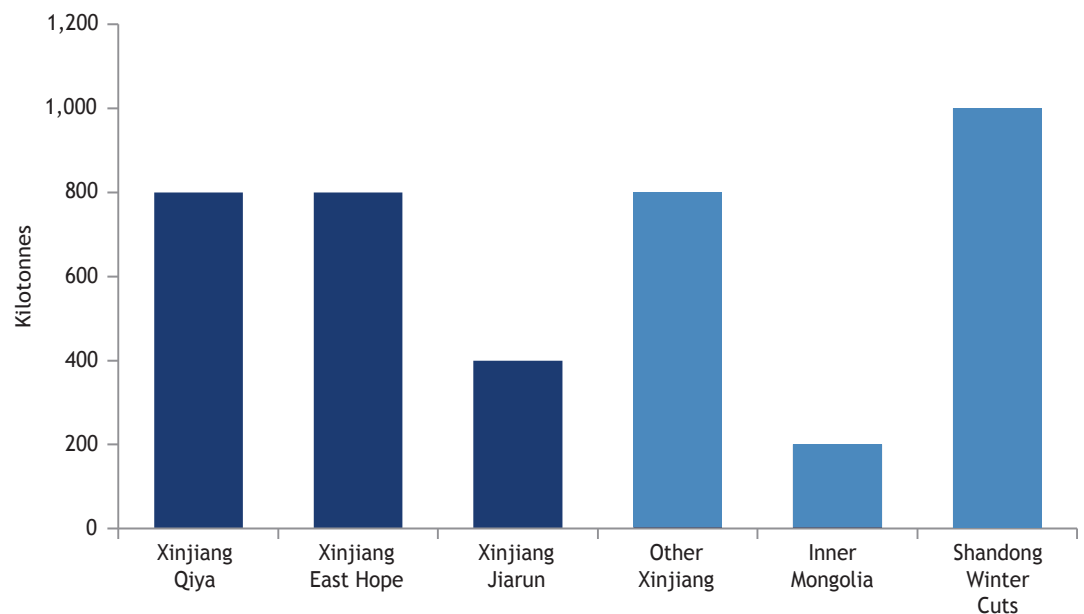
As President Trump’s trade policy comes into focus, trade actions against aluminum imports, particularly from China, are a distinct possibility. Earlier in the year, the US launched a complaint against China with the World Trade Organization (WTO), alleging that subsidies given to China’s aluminum producers have artificially expanded their capacity, production and market share. And on April 27, the Trump administration launched an investigation into the impact of aluminum imports on national security. These actions could result in higher tariffs on Chinese aluminum imports in the coming months, which may raise US domestic aluminum prices. The US aerospace and defense and beverage industries are the most likely to feel the pinch of higher aluminum prices.

CHINA CAPACITY CUTS 2017

Source: SMM, CRU, SASAC, Macquarie Research.

Data as of April 30, 2017.

■ Real
■ Potential



Ironically, aluminum is one of the few areas where the interests of President Trump and China’s President Xi align. The Chinese government appears focused on cutting aluminum and other polluting industries ahead of the National People’s Congress meeting in the fall of 2017. Xi may not be averse to handing Trump a win on the aluminum trade in return for leniency on other products, like electronics, as it fits with Xi’s agenda.

AUTHOR



SAURABH LELE, CFA
VP, Senior Commodities Analyst

Disclosure

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