

Aluminium prices may gain on tight supplies

BULLISH TREND. Rise likely despite positive supply outlook in second half; weaker dollar and Fed rate cut could provide support

Subramani Ra Mancombu
Chennai

Though aluminium prices have dropped some 9 per cent since surging to a two-year high of \$2,695 a tonne on May 29, they are likely to rise due to tight supply for the rest of the year, analysts have said.

The metal hit a 5-week high on Tuesday on alumina shortage in China due to rising consumption.

"We maintain the view that supply will remain tight, fuelling price increases throughout 2024 despite a mildly more positive H2 2024 supply outlook. We have revised our estimates for the aluminium market surplus to 97,000 tonnes, a modest decrease from the previously forecast 1,16,000 tonnes, with 2024 demand growth expected to outpace that of supply," said research agency BMI, a unit of Fitch Solutions.

Though risks are prevalent on both supply and demand sides, price losses will be capped by sustained demand from China's clean en-

ergy sector and a tighter market balance, it said.

STOCKS IN FOCUS

However, ING Think, the economic and financial analysis wing of Dutch multinational financial services firm ING, said rising aluminium inventories had been in focus in recent months with LME stocks now at the highest level since 2021.

"This underscores soft spot demand for the metal, which has forced more metal into the exchange's stockpiles. These large inventory levels are likely to weigh on prices in the short term while it takes time for the market to absorb this stored material," it said.

The Australian Office of the Chief Economist (AOCE) said the LME spot price reached a two-year high of \$2,695 a tonne as the markets responded to the move to ban Russian aluminium from LME warehouses after 12 April 2024.

"The price has risen by 4.9 per cent so far in 2024 to \$2,452 a tonne as of June 25, 2024 — compared to an average \$2,258 a tonne in the



CLIMBING UP. The LME aluminium spot price is forecast to rise by 6.2% year-on-year in 2024 to average \$2,390 a tonne

second half of 2023," it said.

The LME aluminium spot price is forecast to rise by 6.2 per cent year-on-year in 2024 to average \$2,390 a tonne, the AOCE said.

BMI said, "We maintain our aluminium price forecast for 2024 at an annual average of \$2,400/tonne, with prices set to see gains compared to 2023 on improved market fundamentals this year." ING Think said a weaker dollar and a Fed rate cut could provide support to aluminium prices.

BMI said risks in aluminium are skewed to the downside as economic data from China continues to drive poor sentiment towards metals that rely heavily on Chinese consumption.

RUSSIAN FACTOR

ING Think said the Russian share of aluminium on the LME continued to fall since May. The LME banned delivery of newly produced Russian metal in April following sanctions by the US and the

UK. The AOCE said markets are expected to adjust to the ban of Russian aluminium and the new US tariffs on Chinese aluminium exports in the second half of 2024. "The ban on Russian aluminium is already impacting LME stock holdings. Large amounts of Russian aluminium appear to have been held off-warrant in the LME warehouses before April 13, 2024," it said.

However, since April 13, holders of Russian aluminium have switched their holdings back on warrant. As a result, LME aluminium stocks rose from 4,90,750 tonnes in April 2024 to 1.1 million tonnes in June 2024, said the Australian Office of the Chief Economist.

OPTIMISTIC DEMAND

BMI said the weakening of the dollar in the second half will offer support to base metal prices across the board. "We note that the price increase expected in 2024 marks a distinct shift from 2023 when the weak market fundamentals led to a 15.6 per cent decline in prices from 2022 levels," it

said. The research agency said it remains "optimistic that global aluminium demand will see growth in 2024. That said demand-side factors present a risk to our outlook."

The AOCE said curtailment of production at Australia's Kwinana alumina refinery is likely to keep the Western Australia alumina price at historically high levels, averaging \$380 a tonne (f.o.b) in 2024, up 11 per cent year-on-year. "The phasing out of production in Australia's Kwinana alumina refinery has pushed the free-on-board Western Australia alumina price up by 47 per cent so far in 2024," it said.

ING Think said the output in China is hitting record highs with restarts in Yunnan now complete due to the steady recovery of power supply. "We expect China's primary aluminium production to grow by around 2 per cent in 2024 to around 42 million tonnes. However, this will also depend on the availability of hydropower in Yunnan," said the ING financial and economic analysis wing.