

## Aluminium Update: April 2020

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Domestic aluminium producers who were already struggling with weak commodity prices and muted demand are now staring at piling inventories of the metal.

Global aluminium production outpaced demand in Q3 FY20. Total global production was about 15.9 million tonnes against consumption of 15.84 million tonnes, resulting in market surplus of 0.06 million tonnes.

China's aluminium production rose by 2.8% y-o-y during the first two months of 2020 despite lockdowns measures adopted by the country to contain the spread of the Coronavirus. Demand from user industries however remained muted leading to sharp rise in inventories. Many major auto companies across the globe have cut productions. Construction activity has come to a standstill. While demand from user industries has plummeted production of aluminium is expected to outpace demand which will put further pressure on aluminium prices unless substantial production cuts are announced by aluminium smelters from China and the rest of the world.

### *Global scenario:*

Global aluminium consumption declined by 1% in CY19, lowest since the global financial crisis. Demand from China, which consumes more than half of the world's aluminium grew by a marginal 0.5% in CY19 vs 4% in CY18. Globally, demand for the commodity faced headwinds from the US-China trade war, uncertainty related to Brexit and geopolitical tensions in the Middle East. Subdued global industrial and economic activities have resulted in tepid demand for the metal.

Total global production of primary aluminium fell by 0.9% to 63.7 million tonnes in CY19 vs CY18. This was mainly due to 1.9% fall in output from China that accounts for half of the world's total production. Two of the largest smelters in China were shut due to accidents and flooding in August 2019. China's aluminium production fell during August-October 2019.

However, despite of the outbreak of the pandemic Coronavirus in China, the country's aluminium production during Jan-Feb 2020 grew by 2.4% over the first two months of last year. Demand for the metal collapsed due to the lockdowns. As a result, inventory of the metal stocks held in Shanghai Futures Exchange (ShFE) warehouses surged to over 528 thousand tonnes in March 2020 from 185 tonnes at the end of December 2019.

**Indian scenario:**

Demand for aluminium remained weak even in the domestic market due to slow down in major end user industries like power transmission, automobiles, and construction and white goods. Domestic aluminium demand fell by 0.4% to 21.7 million tonnes during April-Jan FY20 as compared to the same period last year.

**Table 1: Performance of end-user industries and economic growth**

	FY20	y-o-y change
Power generation	Apr-Feb	1.6%
Automobiles production	Apr-Feb	-13%
GDP growth	Apr-Sep	5.1%
Industrial output	Apr-Jan	0.5%

Source: CEA, World Bank

India's primary aluminium production declined by 1.6% to 3,045 thousand tonnes mainly due to weakness in domestic as well as international demand.

India is a net exporter of primary aluminium. Exports during the period fell by 5.8% to 1,551 thousand tonnes. Import of primary aluminium fell by a sharp 18.6% to 227.1 thousand tonnes.

**Table 2: Production, Import and export of primary aluminium in India**

	Apr-Jan FY19	Apr-Jan FY20	Y-o-Y % change
	('000 tonnes)		
Production	3,095.6	3,045	-1.6%
Exports	1,646	1,551	-5.8%
Imports	279	227.1	-18.6%
Consumption	1,728.6	1,721.1	-0.4%

Source: Ministry of Mines, Ministry of Commerce

Production of primary aluminium fell by 4.6% to 350.3 thousand tonnes in April-January FY20 as compared to the corresponding period last year. Production by Nalco, Balco and Vedanta fell during the period. Hindalco was the only company to report a growth in aluminium production. The company's production grew by a marginal 1.3%.

**Table 3: Company-wise production of primary aluminium**

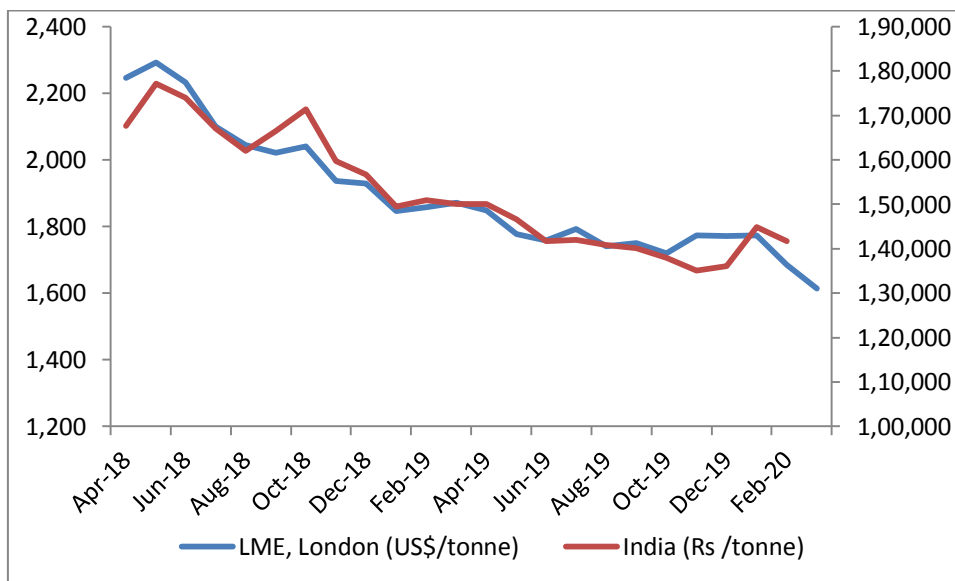
	Apr-Jan FY19	Apr-Jan FY20	Y-o-Y % change
	('000 tonnes)		
Nalco	367	350.3	-4.6%
Balco	479.2	468.6	-2.2%
Hindalco	1083.7	1,098.3	1.3%
Vedanta Ltd	1165.7	1,127.8	-3.3%
<b>Total Production</b>	<b>3095.6</b>	<b>3045</b>	<b>-1.6%</b>

Source: Ministry of Mines

**Aluminium prices:**

Aluminium prices at the LME have been under pressure since the last two years due to the prolong trade war between US-China and subdued global demand. Aluminium prices at the LME fell by 14% to average USD 1,750 per tonne in FY20 as compared with USD 2,035 per tonne in FY19. Domestic prices followed the international trend and fell by 13.6% to average Rs 141,547 per tonne in April-February FY20 vs the same period last year.

**Chart 1: Trend in international and domestic aluminium prices**



Source: LME, CMIE

**Outlook:**

Aluminium prices are likely to remain under pressure due to uncertainty related to extensions of lockdowns due to the Coronavirus pandemic. Aluminium is widely used in power sector in India. Slowdown in manufacturing activities due to lockdowns across the country will hit demand for the metal. Demand from other user industries like automobiles is also expected to remain muted as major automobiles manufacturers have already shutdown their plants due to lower demand and lockdown measures announced by government.

**In the short term (April-June 2020), we expect international aluminium prices to be around US\$ 1,500-1,800 per tonne. Domestic prices are likely to follow the trend in the international prices.**

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