FIRST LIGHT

16 June 2022

RESEARCH

Metals & Mining

Expert call with Alcoa - Supply deficit to prop up aluminium price

SUMMARY

Metals & Mining

- Aluminium price is being supported by deficits as supply disruptions outpace demand weakness
- While demand is softer with extended lockdowns in China and disruptions in auto, we may still see modest 2% growth in CY22
- China supply has rebounded faster, but curtailments in Europe and potential cuts in Russia are likely to put pressure on the supply chain

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Daily macro indicators

Indicator	13-Jun	14-Jun	Chg (%)
US 10Y yield (%)	3.36	3.47	11bps
India 10Y yield (%)	7.6	7.58	-2bps
USD/INR	78.04	78.01	0.0
Brent Crude (US$/bbl)	122.3	121.2	(0.9)
Dow	30,517	30,365	(0.5)
Hang Seng	21,068	21,068	0.0
Sensex	52,847	52,694	(0.3)
India FII (US$ mn)	**10-Jun**	**13-Jun**	**Chg ($ mn)**
FII-D	(215.9)	(42.2)	173.7
FII-E	(408.7)	(456.4)	(47.6)

Source: Bank of Baroda Economics Research

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We hosted Jim Dwyer, VP – Investor Relations and Pension Investments, Alcoa (AA US, Not Rated). Summarised below are our key takeaways together with highlights from company participation in other conferences over May-June.

Aluminium price supported by market deficits: Alcoa forecasts a higher deficit of 2mt for CY22 as supply disruptions outpace demand weakness. Inventory also remains low at the mid-40-day level. Despite the decline in prices, Alcoa expects Apr-Jun'22 to be a strong quarter with healthy EBITDA, albeit down QoQ.

Demand weak but should still grow in CY22: Alcoa forecasts positive demand growth of 2% in CY22. While extended lockdowns in China and a further pullback in automotive demand pose downside risks, a strong order book in North America, good offtake from European customers and healthy regional premiums indicate strong demand. Though the possibility of a demand shock remains, it is not a foregone conclusion yet. China's consumption is likely to rebound at some point given the committed high level of stimulus.

Supply disruptions continue: Out of 5mt of European smelting capacity, 0.7-0.9mt has already been curtailed and there is a further risk to 1-2mt of capacity due to the high energy prices. While Russian aluminium output decreases appear modest, the import of alumina into the country seems to be running at only half the required rate of 400kt per month. China's supply rebound has been faster, reaching a 40mt annualised run-rate, but is likely to top out at ~42-43mt over the next couple of years.

Medium-term outlook positive: Alcoa sees strong supply-demand dynamics over the medium term. Supply is likely to be constrained as China adheres to the announced cap of 45mt and the industry appears reluctant to build new smelters using conventional technologies, or without having adequate renewable power.

Working on breakthrough technologies: Alcoa's smelting solution, Elysis, is nearing completion with commercial utilisation targeted for FY24. The company is working on two technologies for refining and recycling post-consumer scrap (Astraea).

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HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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