


METALS & MINING

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Expert call with Rusal on global aluminium outlook

- We hosted a call with the IR team of Rusal, the world's largest aluminium producer outside China with a global footprint across 20 countries
- Aluminium price to find near-term support from export tax in Russia, higher regional premiums and deficit market
- Structural long-term support to come from a cap on capacity in China, 'green' premium and carbon mitigation costs

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We summarise takeaways from our call with Rusal's IR team and Head of Research.

Aluminium prices supported in near term: Supportive factors include the levy of a 15% export tax on Russian metal, stronger regional premiums, higher container freight rate and growing demand as well as increased costs of coal, anodes and carbon pitch due to the decarbonisation drive in China. However, higher prices may encourage an increase in Chinese exports to bridge the gap.

Global aluminium market likely to be in deficit in H2 2021 and 2022: With seasonally strong demand in H2, the global market will likely transition from a surplus in H1 to a deficit in H2 2021. Rusal estimates the 2021 global deficit at 0.4mt and expects an even higher gap in 2022. While China is continuing its strong demand growth, the ex-China market will likely reach pre-pandemic levels.

Global deficit to continue in medium term with stocks supporting the gap: Rusal forecasts a 4% aluminium demand CAGR over the next five years on the back of green demand from EVs, renewables, packaging and green buildings. Supply would grow slower than demand with ex-China production forecast to rise from 26-27mt to 28-29mt by 2023/24. Rusal also expects China to remain a net importer with its capacity capped at 45mt. This could help maintain a stable global deficit. However, global aluminium stocks of 6-7mt could bridge the deficit in market.

Long-term support from 'green' premium: Aluminium prices could see potential support from additional costs imposed through legislation and/or customer demand for greener, low-carbon products to make their own operations carbon-neutral. Legislative support could initially come from Europe, the US, Japan and S Korea.

Proposed demerger of high-carbon assets receives positive investor feedback: Rusal's proposed demerger gives investors the option to invest across two strategies – Rusal could offer a strategy to leverage low-carbon assets for maximising green premium while the demerged entity could offer a strategy to pursue improvement in ESG for high-carbon assets.



Other takeaways

Aluminium demand

- Rusal forecasts a 4% aluminium demand CAGR over the next five years on the back of green demand from electric vehicles (EV), renewables, packaging and green buildings.
- Aluminium usage in automobile applications is growing. Usage intensity is higher in an EV at 250-300kg than in an ICE vehicle at 120-170kg. Also, its use is increasing in existing ICE vehicles, particularly in high-end luxury and SUV cars to lower weight and reduce fuel consumption. However, the metal is seeing limited increase in smaller ICE vehicles due to its higher cost.
- Aluminium usage is growing in sustainable packaging applications. Rusal is seeing increased demand for aluminium can sheets with a rise in rolling mill capacity across multiple regions (North America, Europe, China). Europe is also catching up on increased aluminium use in packaging and is substituting plastic and glass containers in some applications.

Aluminium supply

- While Rusal expects China to reach its planned capacity cap of 45mt by 2023, it flags the possibility of delay in production ramp-up due to a shortage of power and logistics issues being faced in the Yunnan region.
- China has significant scope to expand the use of secondary aluminium to augment its supply, but progress is likely to be slow. The country is a relatively young consumer of aluminium and has limited availability of domestic scrap at this point. Also, current scrap prices are almost equivalent to primary prices, providing no economic incentive to increase the use of secondary aluminium.
- Ex-China, the aluminium industry is in advanced stages of implementation of close to 2mt of additional supply by 2023/2024. This supply growth is supported by smelter projects in countries such as India, Indonesia and Russia.
- Beyond these additions, the industry could consider upgrading existing lines (by raising amperage for instance) and other brownfield options to increase supply. The industry also has options to expand production with green sources of power in certain regions such as Siberia.
- While committing to new projects, the aluminium industry will have to account for carbon-mitigation costs keeping in view the long-term carbon price environment.

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