Alumina market to tend towards surplus in 2010

Saturday, 21 Nov, 2009

Reuters reported that Alumina producers will continue to exercise restraint all 2010 but the market will be in surplus as output is still likely to outpace aluminium smelter needs.

Recent restarts and new capacity will ensure ample supplies of the intermediate material, used to produce primary aluminium. This will act as a cap on prices and, if anything, they will drift lower.

Mr Ralston Johnson of Brook Hunt, the metals arm of consultancy Wood Mackenzie said that he expected the alumina market to record a 1.0 million tonne to 1.5 million tonnes surplus 2010.

Mr Johnson said that the surplus will be large enough for people to know that alumina is readily available, that there's no shortage. Outside top aluminium producer China, he predicted little demand for the material from reactivations of smelter capacity, mothballed after the slump in global aluminium consumption from the key car and construction industries. But he thought alumina producers could moderate their output to reduce over supply if prices trended below costs. He added that "I don't expect prices to revisit the March lows predicting an average of USD 270 per tonne in 2010.

By March, in the depths of the global economic crisis, spot alumina prices had fallen to around USD 180 per tonne. They have recovered in recent months and stand at around USD 300 per tonne on an Australia FOB basis due partly to production cuts, as well as higher energy and aluminium prices.

Stronger aluminium prices help to support prices for alumina sold through long term contracts which are normally settled at 12% to 13% of the London Metal Exchange cash aluminium price. Global aluminium prices rose sharply after falling to 7 year low of USD 1,279 per tonne in late February. By August, the LME 3 months price had risen to USD 2,115 and has since held on to most of those gains. At 1220 GMT they were indicated at USD 2,032 to 2,042 per tonne.

Mr Nikhil Shah of industry consultants CRU Group said that "Alumina prices are not going to move too far from current levels. I don't think we're going to see prices significantly below USD 250 per tonne to USD 260 per tonne. There's good support above that level."

(Sourced from Reuters)

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