
Aluminum output cut unlikely to stop price fall

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BL reported that the sharp cut in global production, aluminum availability is expected to be in surplus till 2009. In the H1 of 2008, the metal was in surplus of 7.59 million tonnes leading to high inventory in the London Metal Exchange and sharp fall in prices.

With the current aluminum prices hovering at USD 2,050 a tonnes in LME about 75% of smelters in China, the US and Europe are operating well below their break even level of USD 2,500 a tonnes. Taking a cue from the sharp fall in prices, aluminum producers globally have decided to cut production by 6.79 million tonnes.

An analyst said that it is widely expected that the capacity of 1.5 million tonnes a year being added in China over the next 6 months may be delayed by a few months due to the global economic slowdown. The delay in capacity addition may not lead to a rise in aluminum prices as the demand has also fallen sharply.

China, the key demand driver for aluminum accounted for 32% of the global consumption in 2007 and 90% of the incremental aluminum consumption growth. Chinese aluminum consumption in the H1 of 2008 has grown 8% compared to 46% recorded in 2007.

Similar fall in demand from the realty and automobile sectors was witnessed in the US due to the recessionary trends. He said that "For instance, car production in the US is expected to down by 25% to 12 million a year against 16 million a year."

Mr Prasad Baji research analyst of Edelweiss said that barring China, aluminum consumption growth is static around 3%. US based Alcoa Inc expects aluminum consumption in North America to contract 5% in 2008 as automotive and construction sectors remain weak.

Globally, aluminum production has been adversely affected due to inadequate power supply. Electricity cost accounts for 35% to 40% of aluminum production cost.

According to International Aluminum Institute, world production growth in aluminum has slipped in first 8 months of 2008 to 6.7% from 12.3% growth in 2007. Aluminum production is energy intensive. Nearly 15,000 KWH is required to produce 1 tonnes of aluminum. Overall, at least 50% of global smelters depend upon coal based electricity grids to draw power for aluminum.

The acute shortage of thermal coal has resulted in long term contracts being settled at USD 125 a tonnes up by 125% from 2007. Coal on spot basis has touched a high of close to USD 200 a tonnes and has recently come down to USD 125 a tonnes against USD 95 a tonnes last year. This huge increase in coal prices has resulted in increasing electricity costs for aluminum smelters.

Further, coal supply in South Africa was affected due to heavy rains which prevented movement of coal. Over the years, China has closed down thousands of coal mines due to safety issues. On July 1st, China raised average electricity tariffs by 4.7% and in August further hiked on grid tariff by 5%. The increase in energy cost has raised the aluminum production cost by USD 400 a tonnes for Chinese producers.

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