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MINING | METALS | FERTILIZERS

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# Has the premiums bubble burst?

## Aluminium Market Outlook

Monthly update: February 2015

# Chinese surplus flooding out and premiums fall sharply

## World ex-China

Chinese semis exports hit primary demand

## China

Primary exports are providing a release valve but low prices maintain pressure on producers

## Prices, balances and premiums

European and Asian premiums fall sharply. Chinese surplus flooding out, but the LME price stabilises

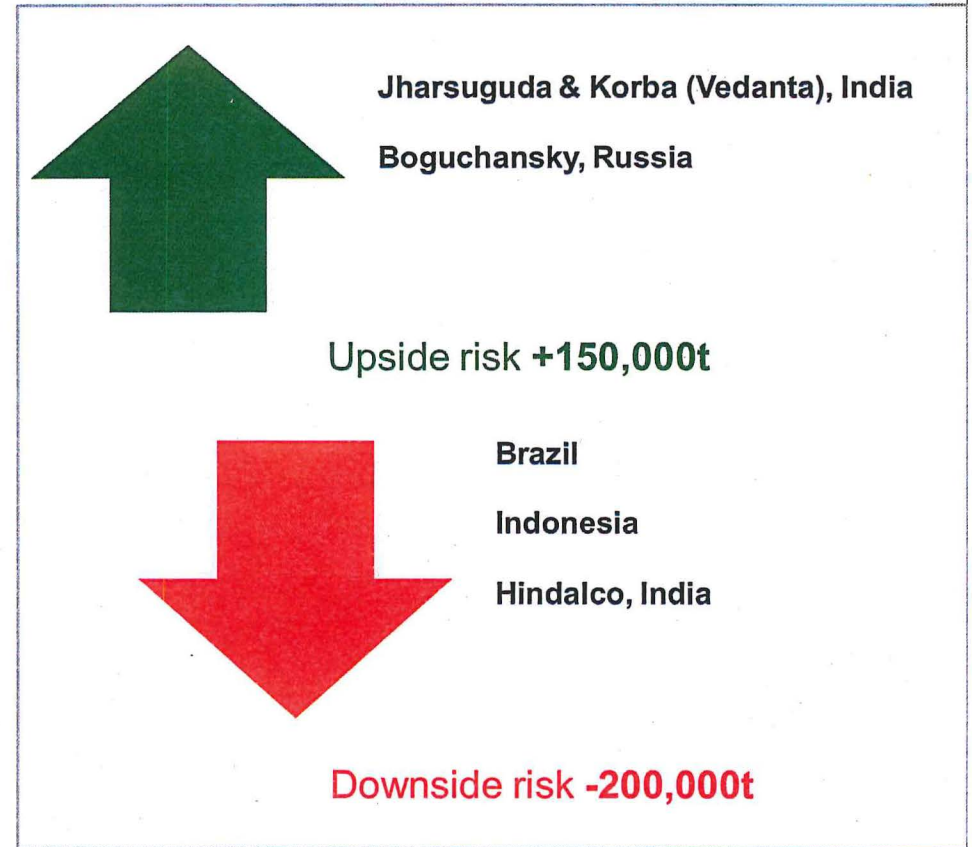
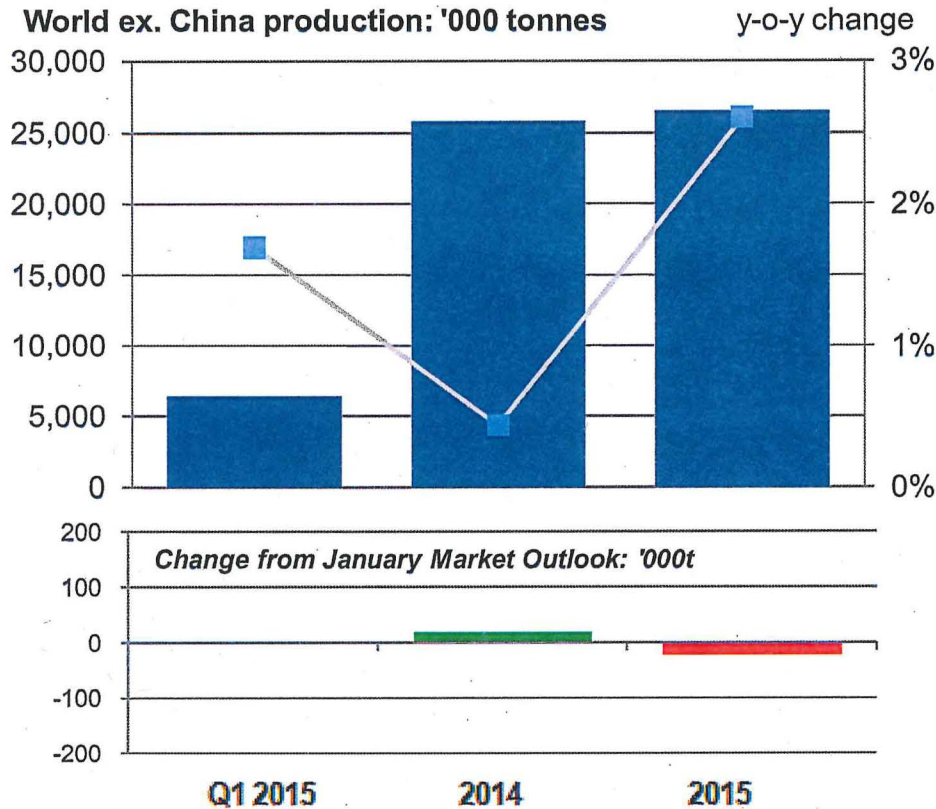
## Conclusions

Premiums are falling in earnest, the market is waiting for the bottom

**Note: All charts refer to changes since the January Aluminium Market Outlook**

# World ex. China Production: India is key to growth

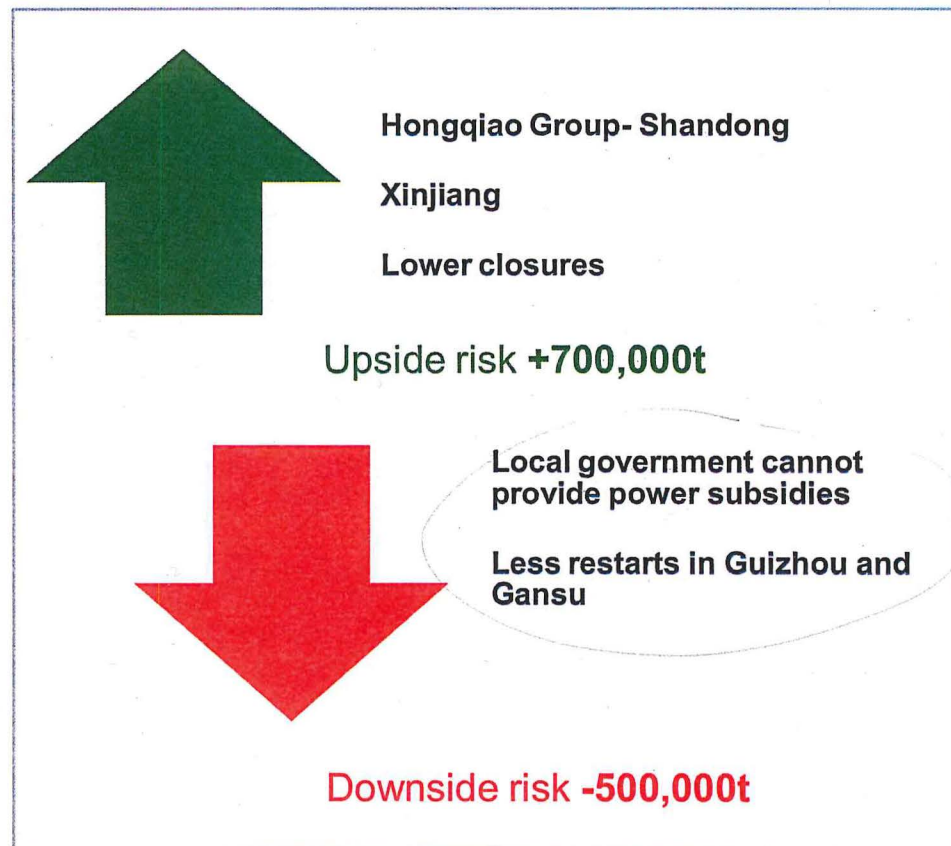
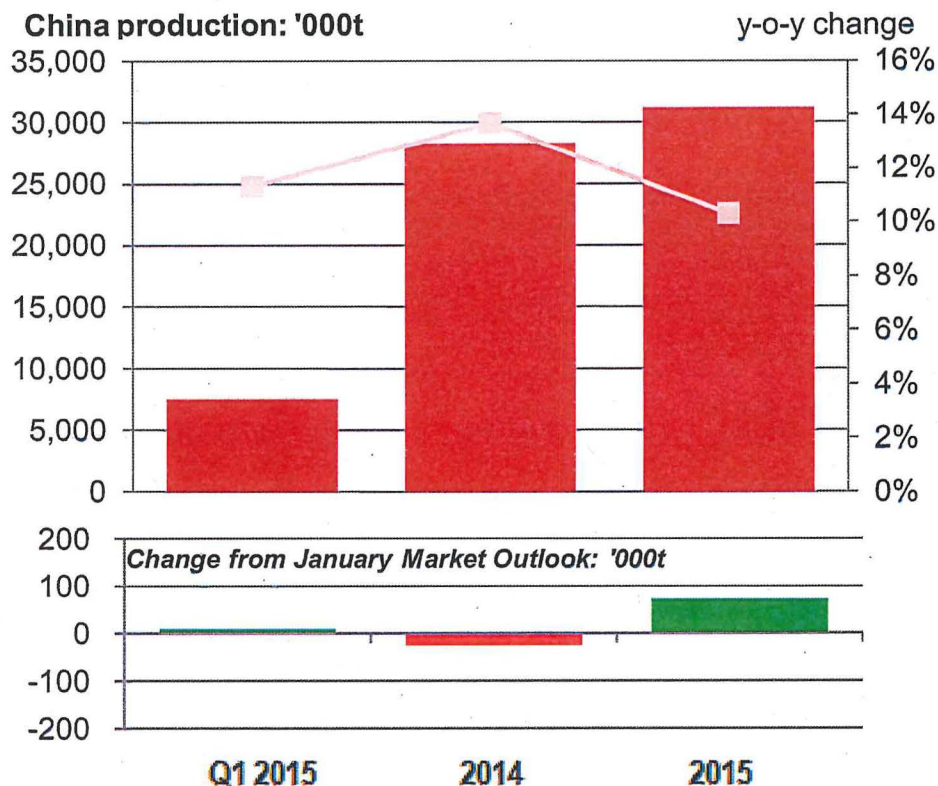
2015: 26.5Mt, 2.8% increase y-o-y



- Production to rise by 673,000t in 2015 (January report: 694,000t), India makes up 280,000t of increase
- India: New coal blocks allocation will increase costs for Hindalco but coal import prices are falling
- Downside potential from higher curtailments in Brazil and Indonesia and slower ramp-ups by Hindalco

# China Production: Ramp-ups continue apace

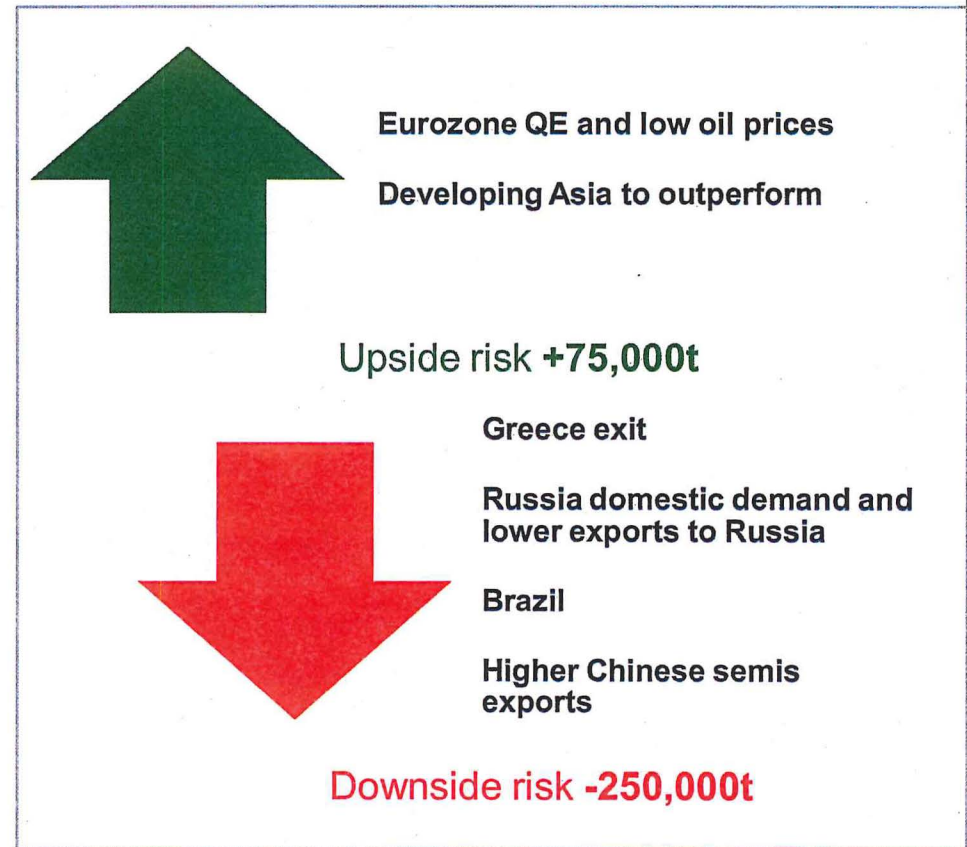
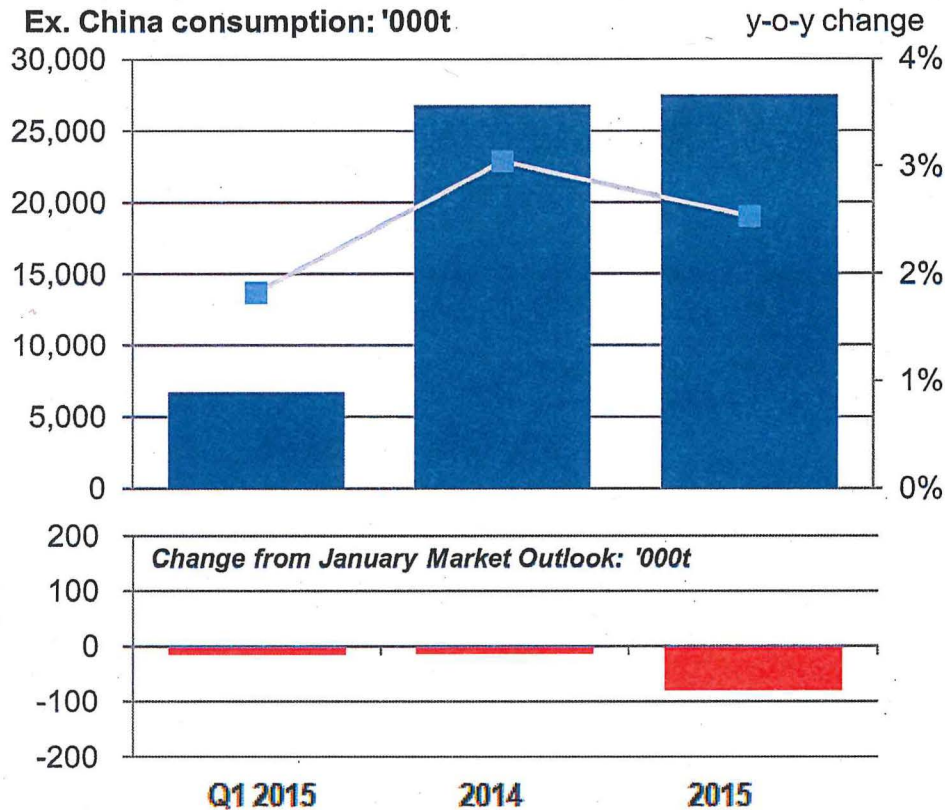
2015: 31.2Mt, 10.3% increase y-o-y



- 2015 production set to rise by 2.9Mt
- 575,000 tpy of capacity has been shuttered since H2 2014, with 150,000 tpy shut in February 2015
- 1M tpy of capacity set to restart after Chinese New Year holiday, based on greater power subsidies

# World ex. China consumption: All eyes on Europe

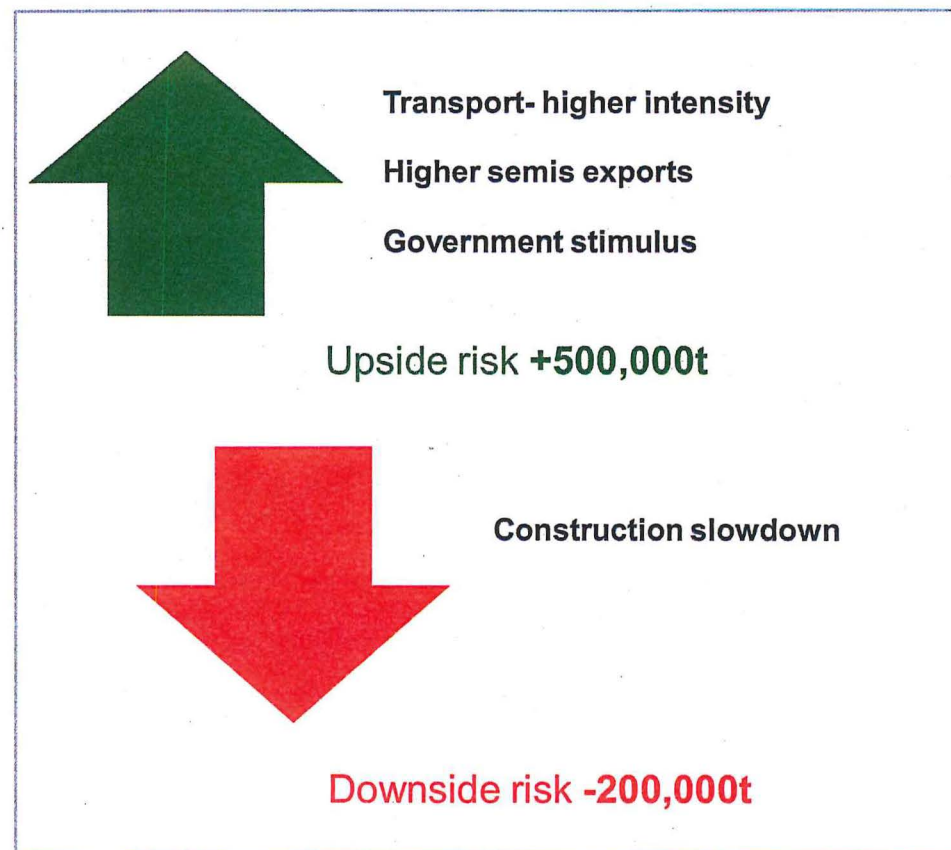
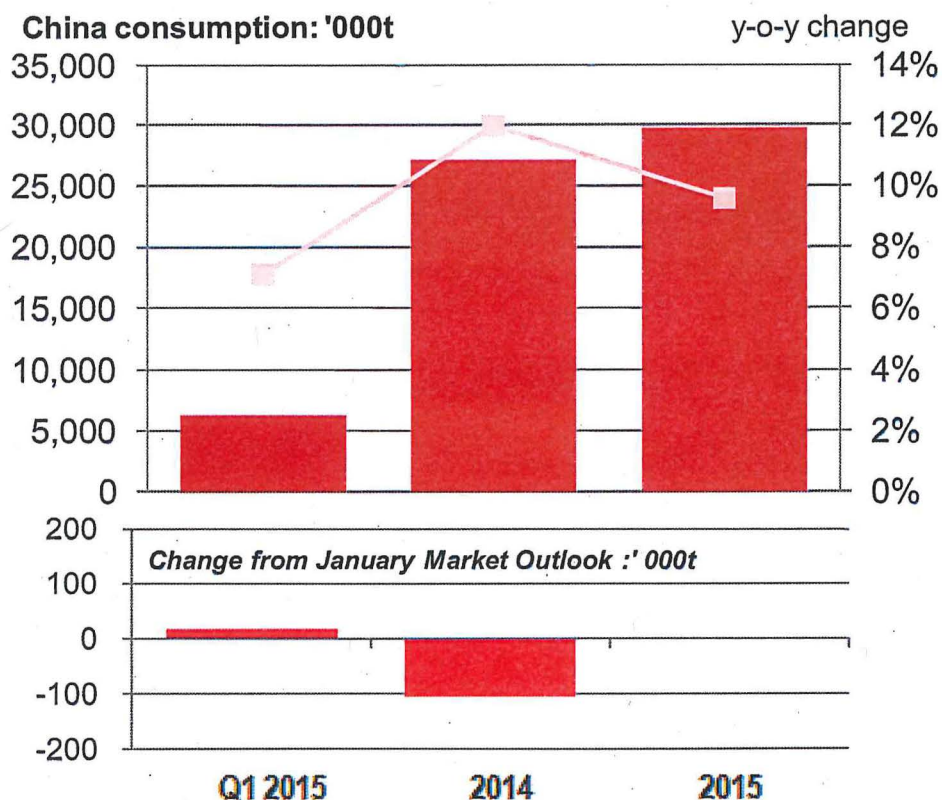
2015: 27.5Mt, 2.5% increase y-o-y



- Demand growth is still expected to drop in 2015, on higher Chinese semis exports and Russian slowdown
- 8% decrease in Russian demand expected this year, down from 4.4% in our last report. If January's 25% y-o-y decline in car sales is sustained, the knock on impact will be felt across Europe
- Eurozone QE gives upside risk, but is countered by continuing uncertainty surrounding Greece

# China Consumption: Chinese New Year slowdown in full effect

2015: 29.8Mt, 9.6% increase y-o-y

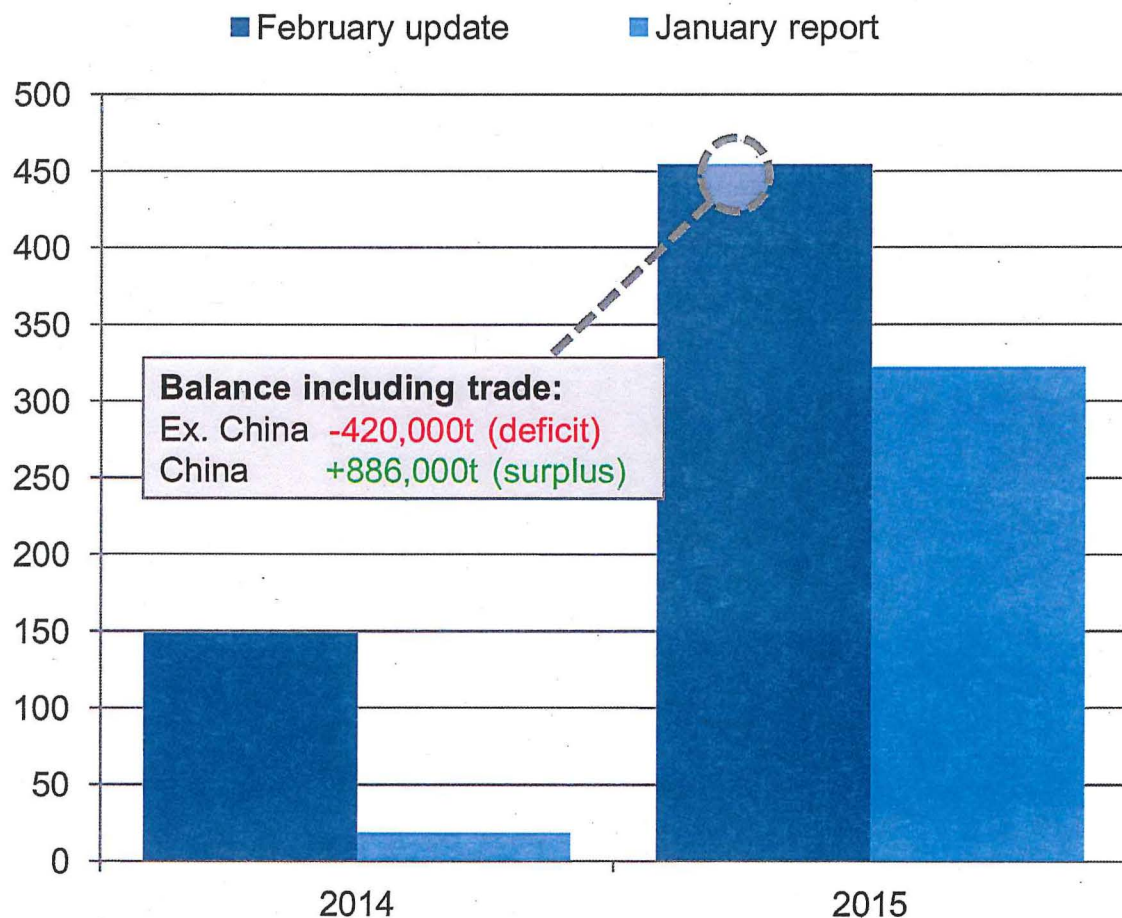


- CRU has downgraded 2014 Chinese primary demand. We now consider extrusions exports to Malaysia and Vietnam as primary exports, not semis, which reduced domestic primary demand in Q4
- 2015 growth could come in above expectations, higher semis exports and increasing intensity of use in the transport sector offer upside. A sizeable slowdown in construction would be disastrous, but the government is well positioned to stimulate growth in the short to medium term

# Global balance: Chinese surplus rises and exports surge

## Higher global surplus on deterioration in China

Global market balance: '000t



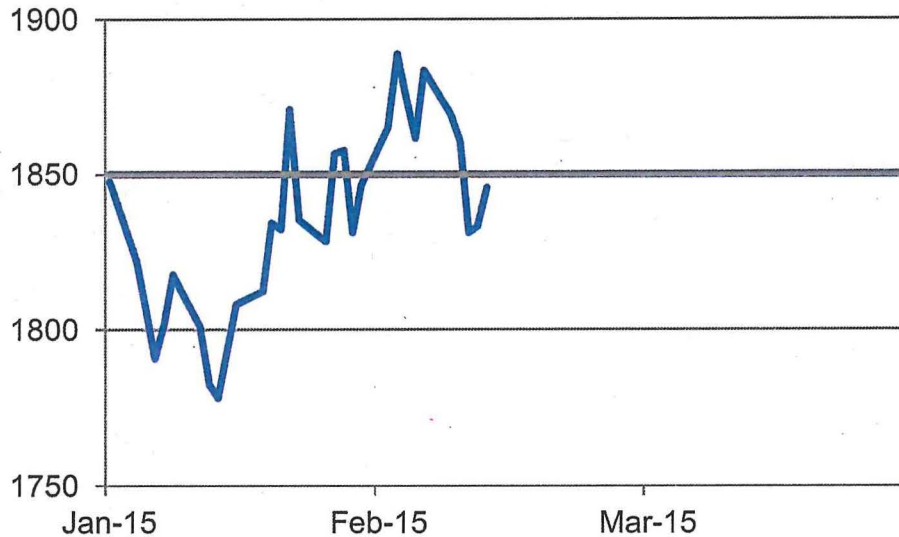
- Chinese primary demand has been revised lower on higher exports of primary metal disguised as primary
- 2014 Chinese primary exports have been revised up to 503,000t from 393,000t in the January report
- Chinese primary exports will rise to 560,000t in 2015 and could rise further
- Chinese semis net exports (rolled products and extrusions for genuine consumption) are set to reach 2.1Mt in 2015 up from 1.7Mt in 2014
- The 420,000t deficit outside of China for 2015 could be erased on higher Chinese primary exports than our base case

# LME price: Stabilises on investor inflows

CRU holds Q1 LME 3-month 2015 price forecast at \$1,850/t

LME aluminium price: \$/t

— LME 3-month aluminium price  
 — Current forecast (unchanged from Jan' 15 report)

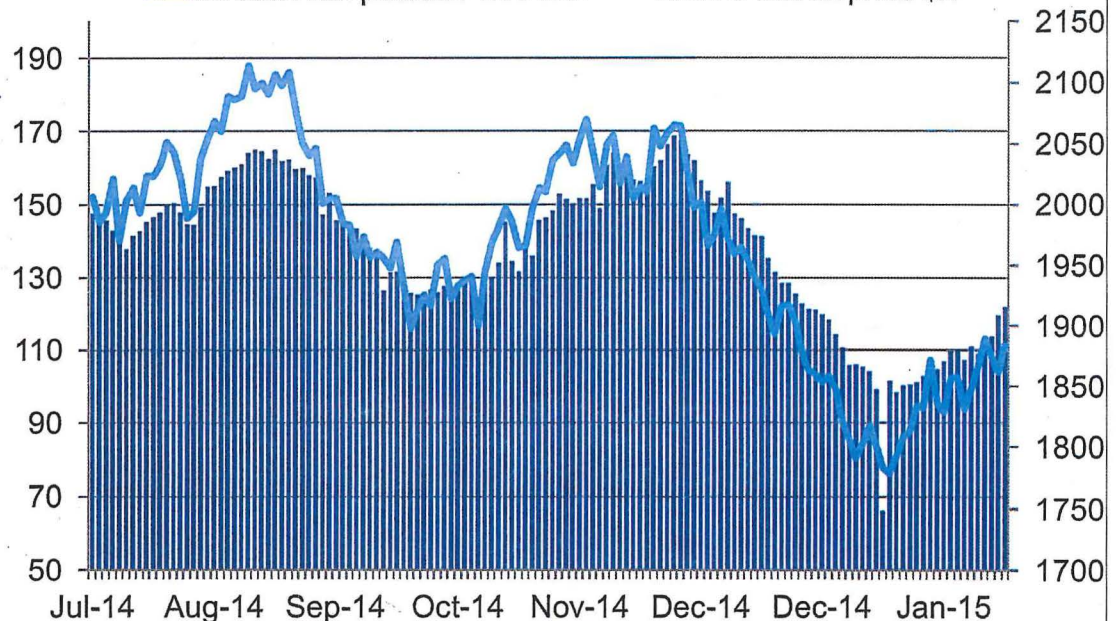


LME 3-month price forecast	Q1 2015	Q2 2015	Q3 2015	Q4 2015
February Update	1850	1900	2010	1990
January Report	1850	1900	2010	1990

Investor net long rises from January lows lifting the price

Managed Money (MM) net long position: lots. LME 3-month price \$/t

■ Investor net position '000 lots — LME 3-month price \$/t

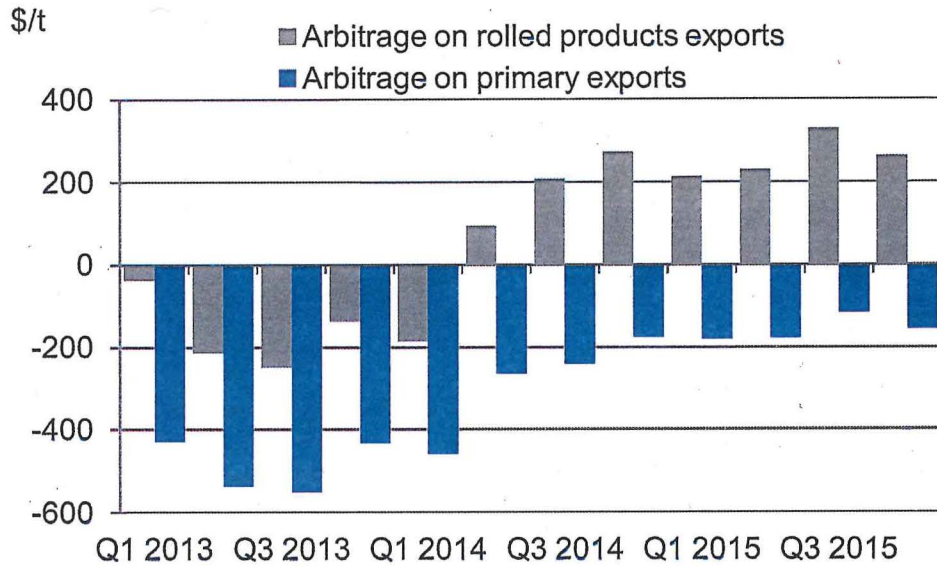


- Price has stabilised over \$1,800/t with large increase in speculative long positions after prices declined in mid January
- Prices will be capped to limit Chinese exports; LME price at \$2,000/t and SHFE price of RMB12,500/t would open primary export arbitrage



# Premiums: End game?

## Chinese exports remain attractive

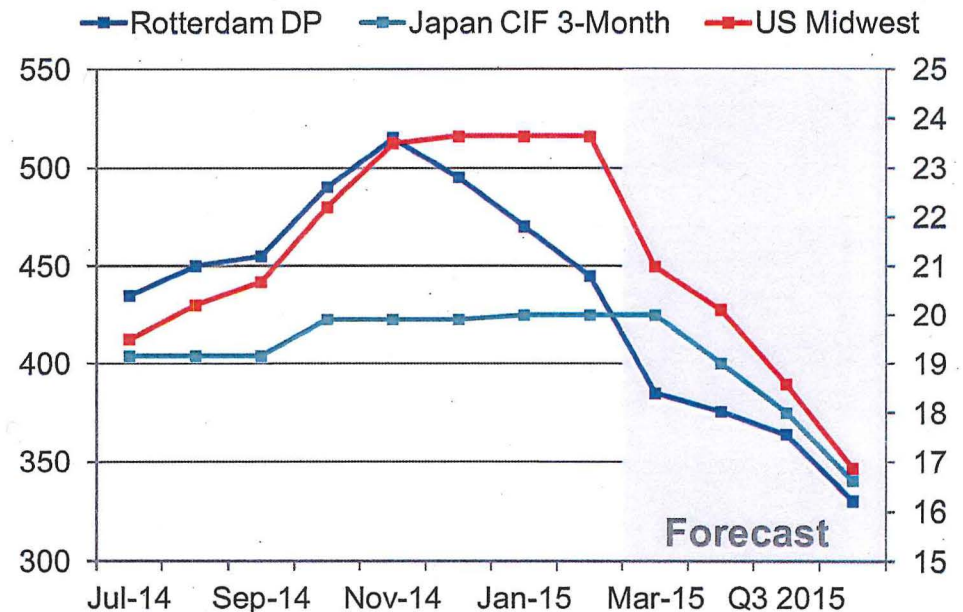


- Liquidation of stocks by traders in Europe has pushed the duty unpaid ingot premium to \$340/t down from \$420/t in December 2014
- There are reports of metal available from Detroit warehouses at 4¢/lb discounts to the US Midwest premium
- Consumer buying in Q2 will stabilise premiums, but further sharp falls could occur if selling pressure persists

- The arbitrage on Chinese rolled products exports is set to remain open throughout 2015. This will support genuine semis exports and higher exports of CC coil
- Exports of Chinese metal, in particular to Asia have led to a metal glut and depressed Japanese spot and Korean ingot premiums

## European ingot premiums fall sharply

\$/t (lhs), ¢/lb (rhs)



# Conclusions

## 1. World ex. China

- Russian demand is set to fall by 8% in 2015 and sharper declines are possible
- Upside to production is limited, and growth is dependent on Indian ramp-ups

## 2. China

- 2014 consumption has been downgraded on higher primary exports. Higher semis exports in 2015 could lift growth above our 9.6% y-o-y forecast
- Over 500,000 tpy of capacity has shut since H2 2014, restarts planned after the New Year holiday but low SHFE prices are a hurdle

## 3. Prices, market balances and regional premiums

- The LME 3-month aluminium price has stabilised over \$1,800/t on inflows of speculative funds. The rally has been supported by firmer oil prices and a stabilisation in the US dollar
- Chinese exports of primary aluminium (disguised as semis) and genuine semis exports are shifting the Chinese market surplus out into the rest of the world
- In 2015, Chinese semis net exports will exceed 2Mt (2014:1.7Mt) and primary will rise to 560,000t (2014: 503,000t)
- Regional premiums have fallen sharply, on higher Chinese exports and liquidation of stocks by traders. Consumer buying in Q2 should help to slow the falls in premiums



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## Aluminium Raw Materials



Michael Insulán  
Principal Consultant\*



Paul Williams  
Group Manager -  
Aluminium



Wan Ling  
Manager - China  
Nonferrous Metals



Anthony Everiss  
Consultant



Terece Muir  
Consultant



## Aluminium Primary and Products



Marco Georgiou  
Managing Consultant\*



Paul Williams  
Group Manager -  
Aluminium



Wan Ling  
Manager - China  
Nonferrous Metals



Eoin Dinsmore  
Senior Consultant



Charlie Durant  
Senior Consultant



Mike Southwood  
Senior Consultant



Yuya Pan  
Consultant



Yuriko Kato  
Consultant



Laura Page  
Consultant



## Aluminium Costs



Kelly Driscoll  
Managing Consultant\*



Paul Williams  
Group Manager -  
Aluminium



Wan Ling  
Manager - China  
Nonferrous Metals



Yanchen Wang  
Senior Consultant



Sion Roberts  
Consultant



Helena Norrgren  
Research Analyst

\*Team Manager

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