

The implications of the supply side reform for aluminum industry-will curtailment sustain?

Shanghai, 25 May, 2016

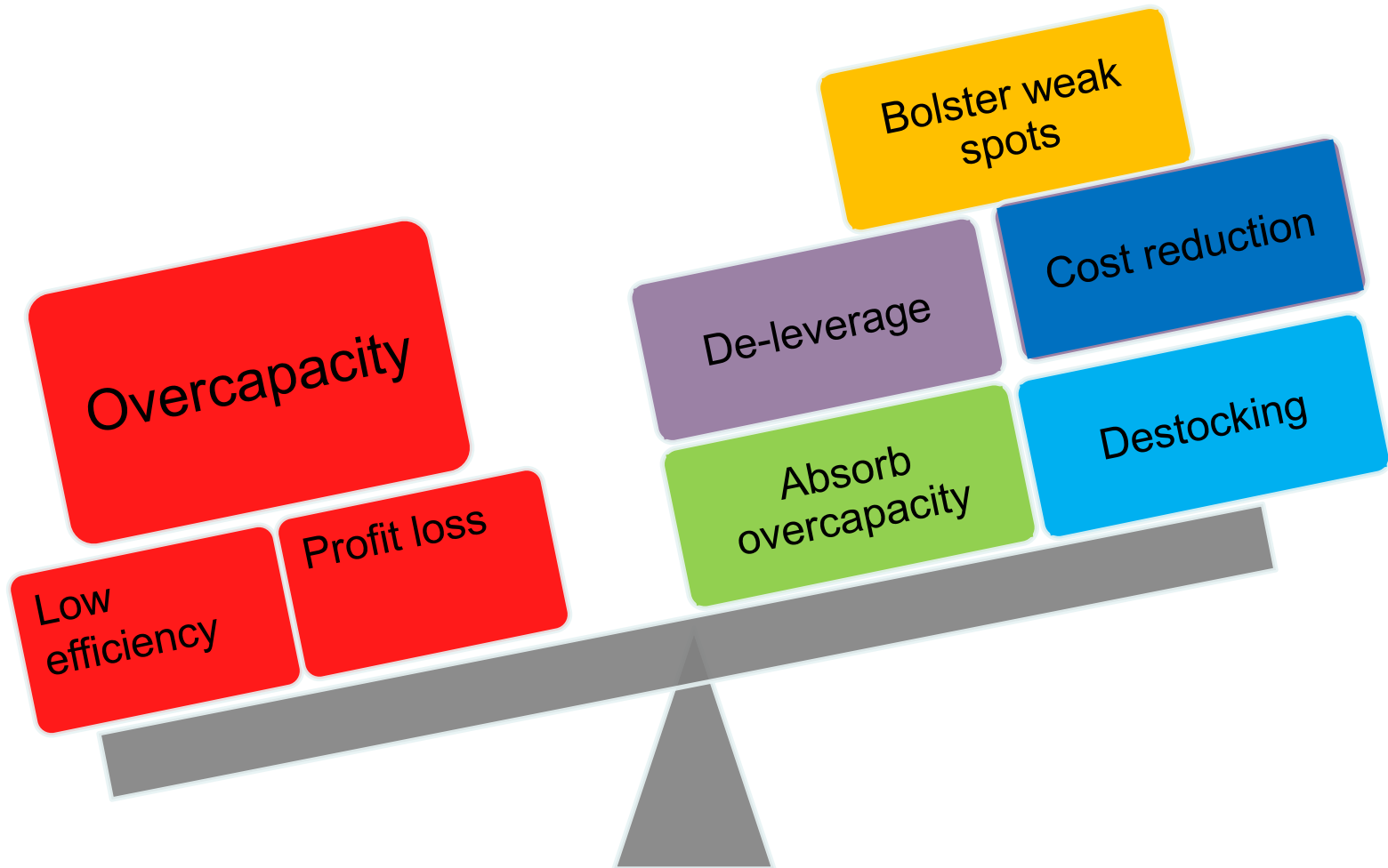
13th Shanghai Derivatives Market Forum

Wan Ling, Head of Asia, Aluminium

Structure of presentation

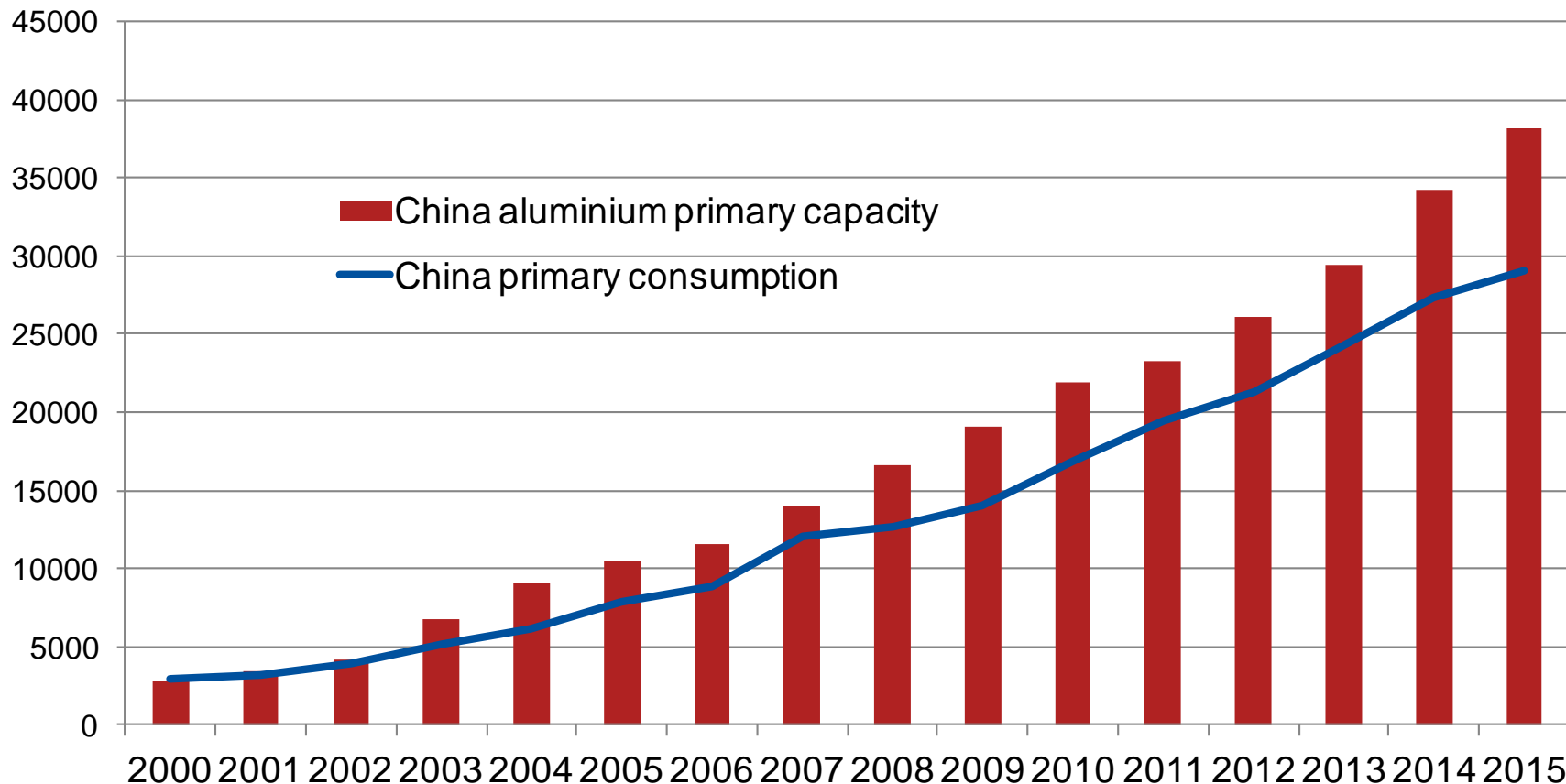
- 1 **Supply side reform**
- 2 Aluminum capacity developments and closures
- 3 Restart of the closed capacity is slow
- 4 Demand to remain firm and help the supply side
- 5 Conclusions

What does supply reform mean for aluminium ?



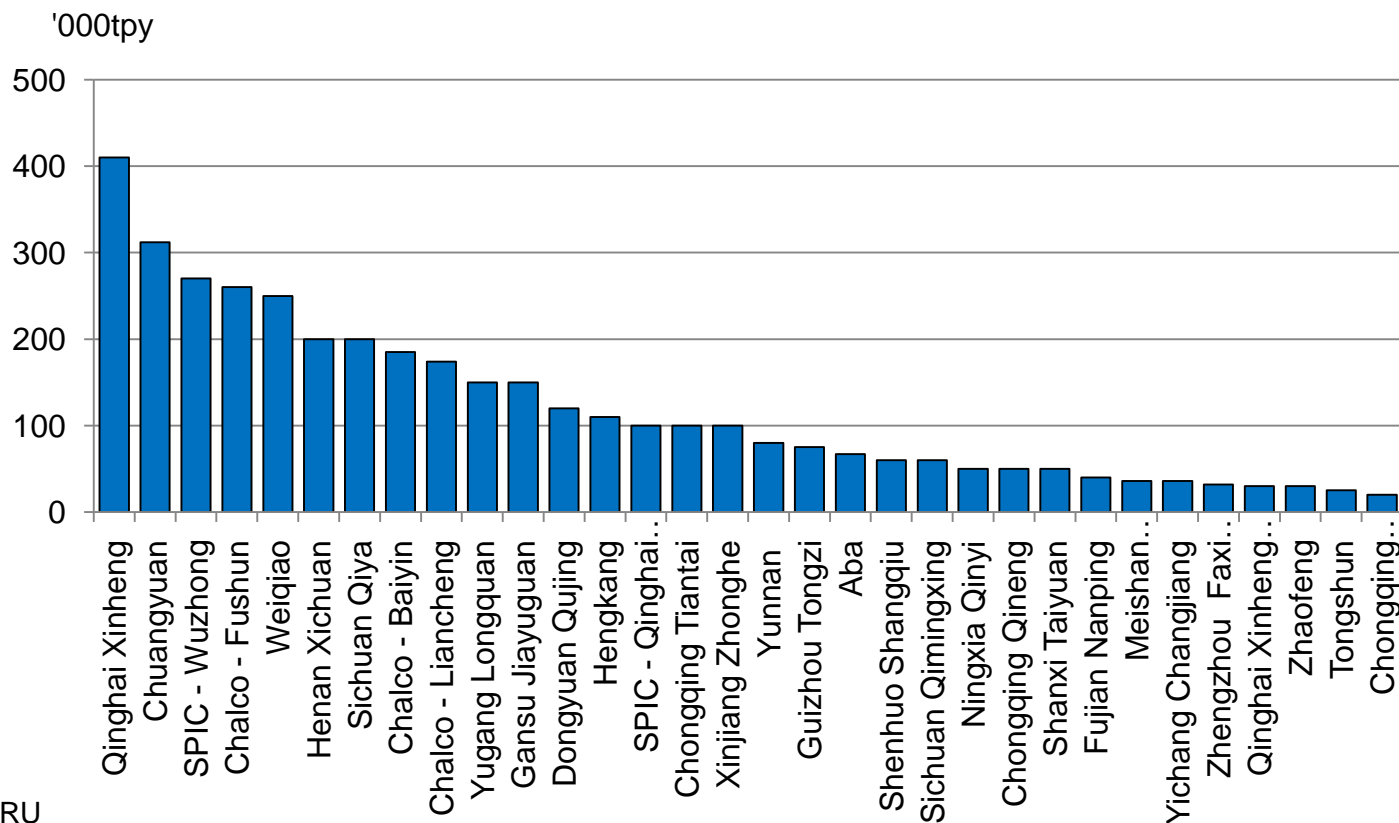
We have seen the explosive growth of Chinese capacity

000s tpy



China closed 3.8Mtpy aluminum smelting capacity in 2015

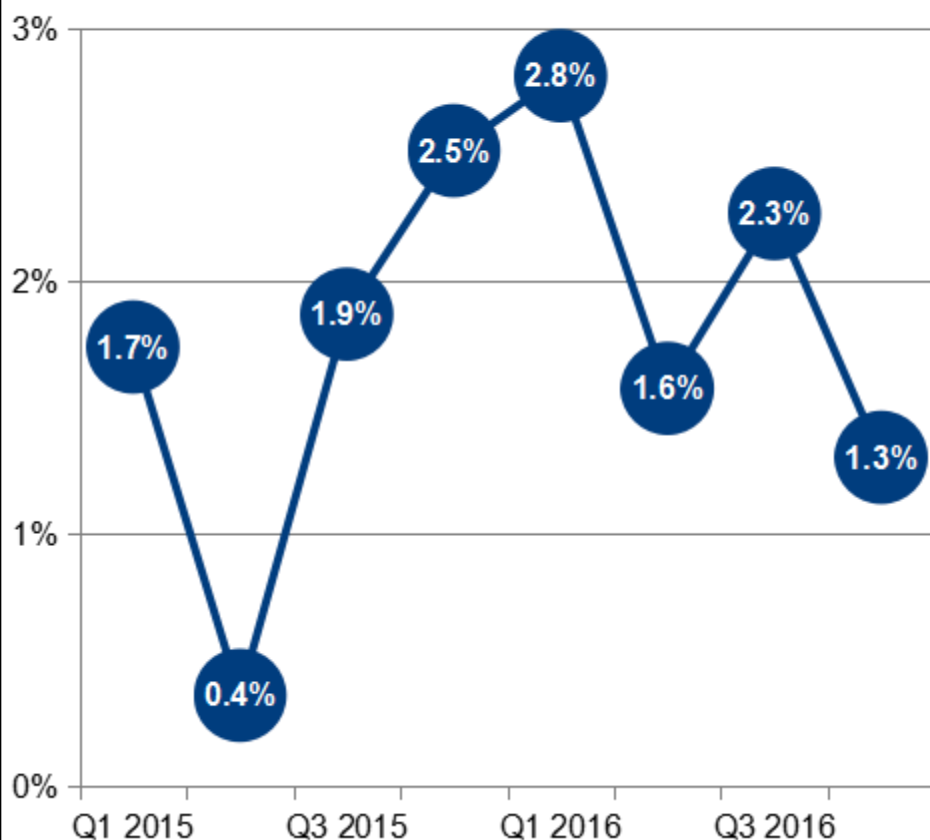
The capacity closures by aluminum smelter in China in 2015



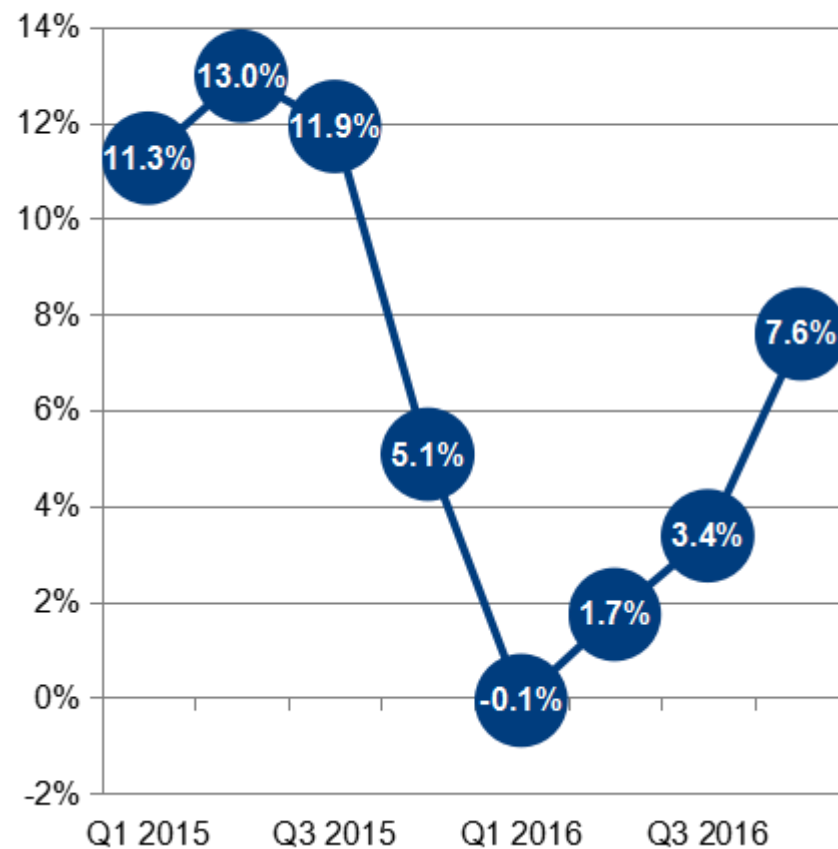
Data:CRU

World production: Curtailments lower production in China and USA

Growth in world excluding China aluminium production, % y-o-y



Growth in Chinese aluminium production, % y-o-y



Restart pace is slow for the moment

Smelter	Capacity to restart ('000 tpy)	Restart date	Notes
Zhaofeng	120	16-Apr	Restarted in early April
Shanxi Taiyuan	50	16-Mar	Restarted in late March - early April
Chongqing Qineng	50	16-Feb	Restarted in late February
Aba	67	16-Mar	Full restart by June 2016
Guizhou Tongzi	50	16-Apr	Full restart by June 2016
Qinghai Xinye	100	16-Mar	Full restart by June 2016
Total	437		

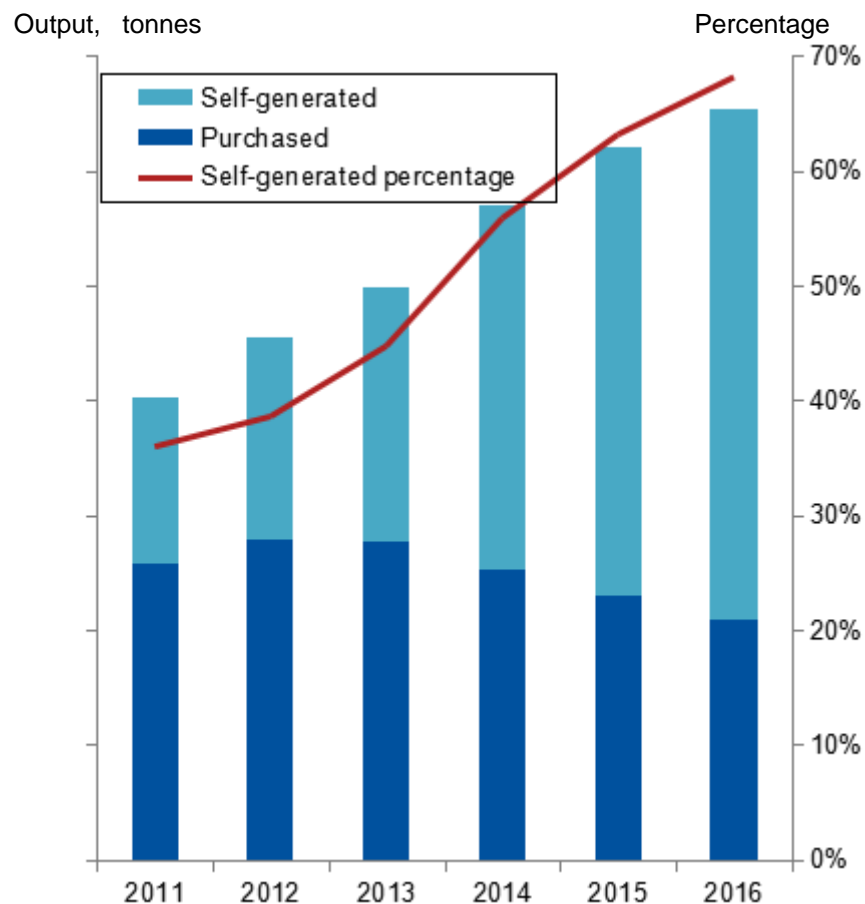
Restart process is slow due to:

- Power tariff hike after the aluminum prices rallied

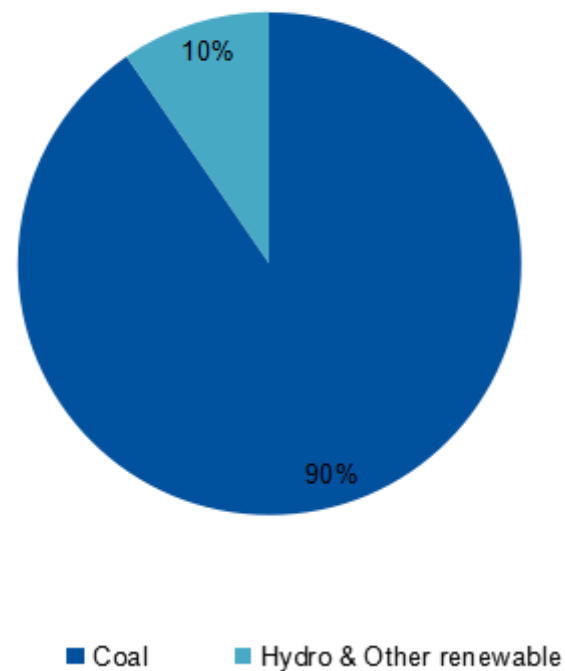
- The smelters find it difficult to get the amount of the money to get the idle capacity restarted

- Tightness of cathode block as the demand for the cathode block increased suddenly in a short time

The percentage of primary aluminium output based on self-generated power keeps rising

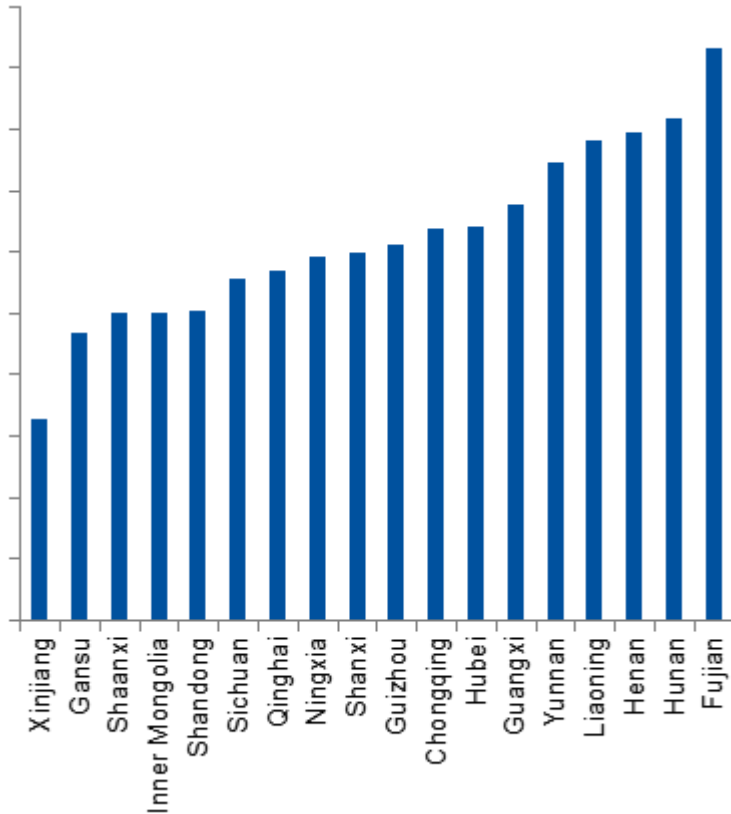


Chinese smelters are heavily dependent on coal-fired electricity

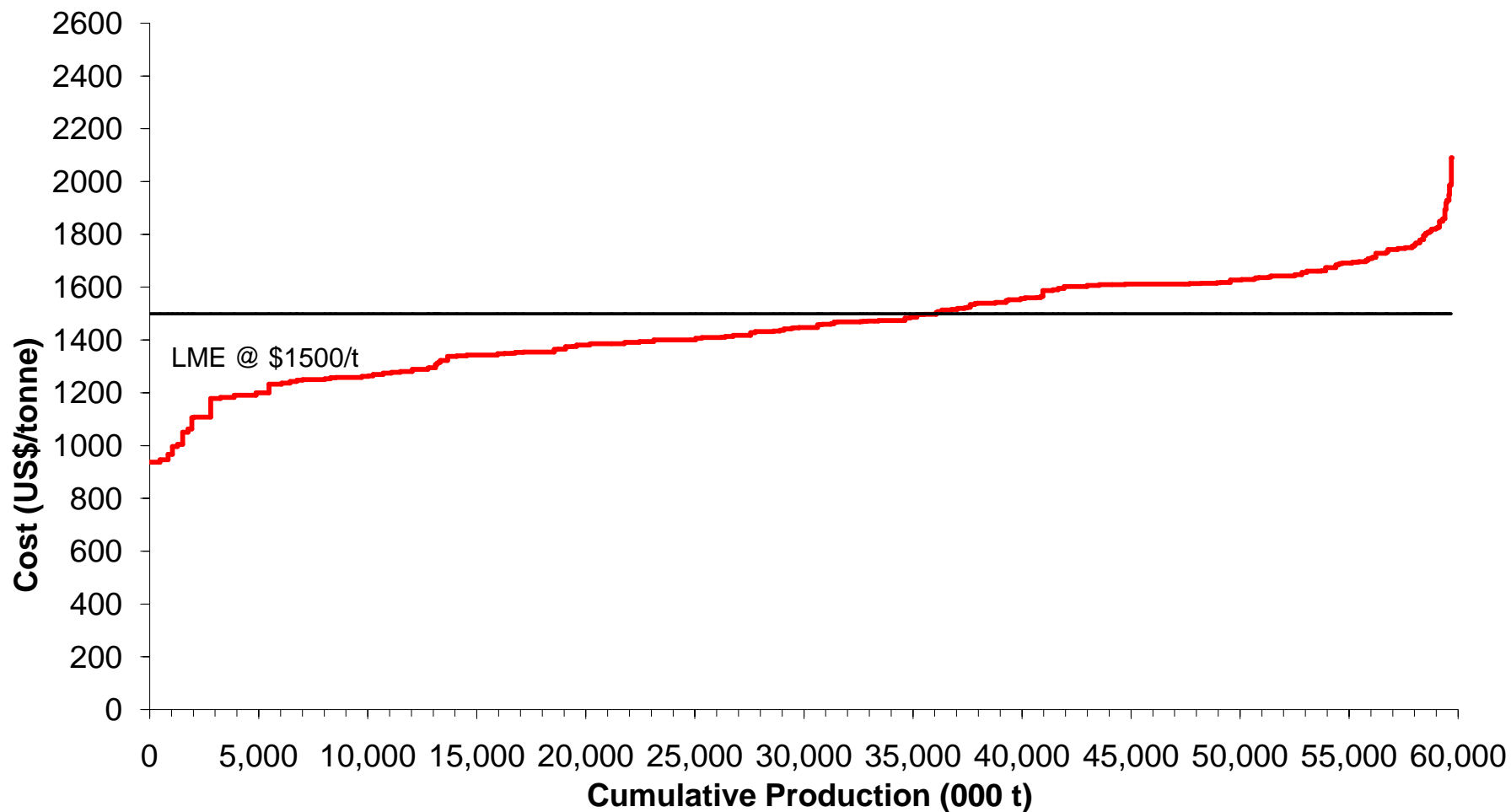


The weighted average power tariff by province in 2016

RMB/MWh

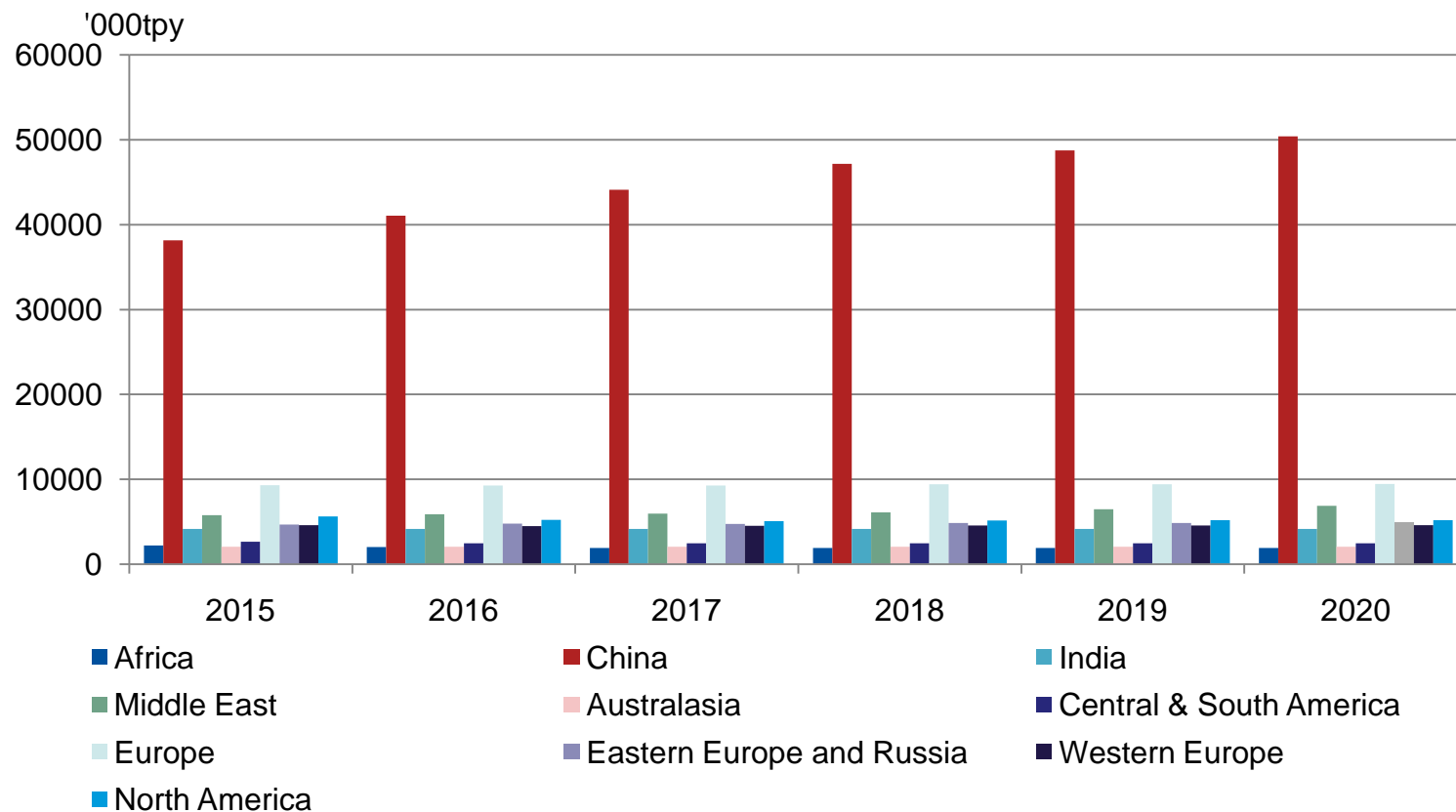


World aluminium smelting Business Costs (BC) in January 2016



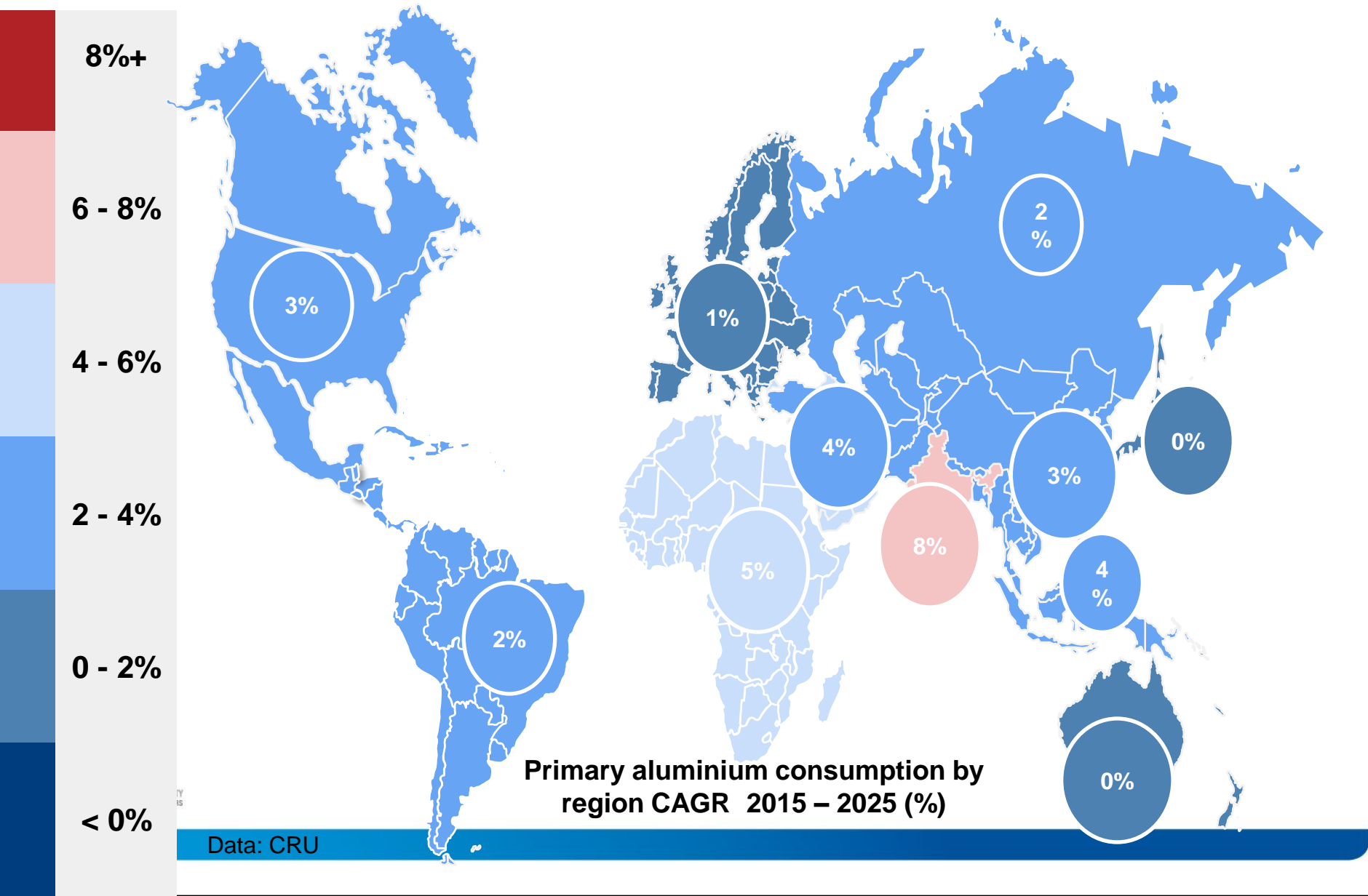
World's aluminum smelting capacity additions will be mainly from Shandong, Inner Mongolia, and Xinjiang

Aluminum smelting capacity additions, 2015-2020

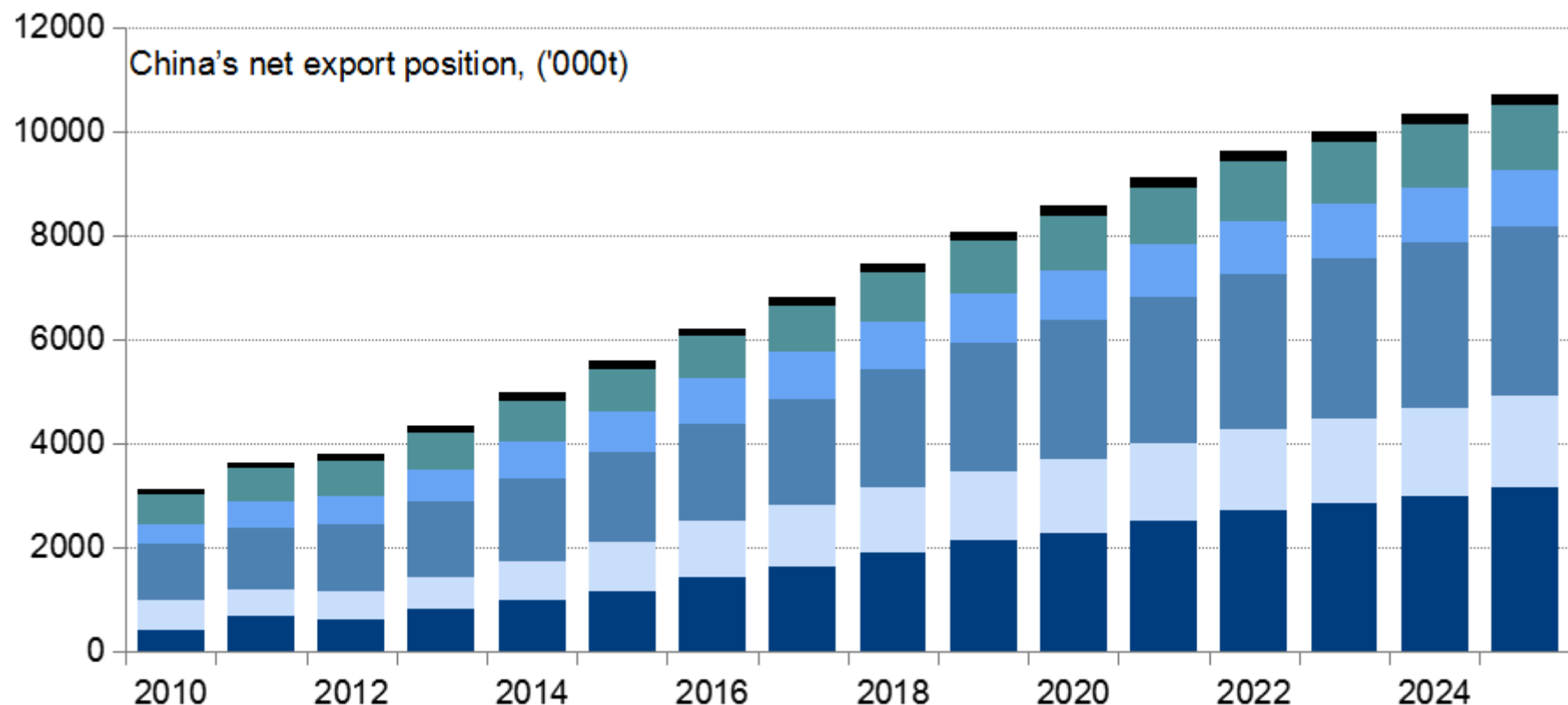


Data: CRU

Aluminium demand to grow strongly in OBOR countries



China will increasingly turn to export aluminium products



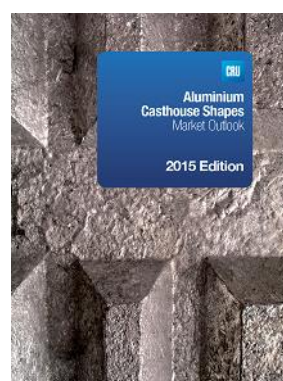
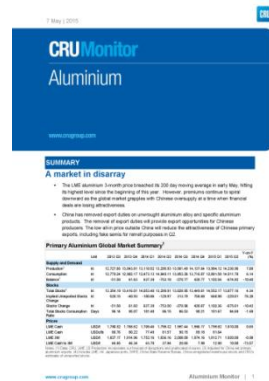
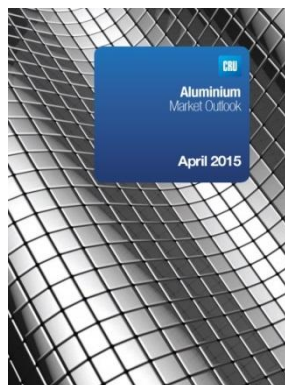
■ Rolled products ■ Extrusion and other ■ Fabricated products ■ Foil ■ Aluminium wheels ■ Air conditioners

Fabricated products HS codes 7610-7616

There are more further final goods not captured in chart above e.g. motor bikes

Conclusions

- China closed 3.8Mtpy capacity in 2015 in respond to the low aluminum prices and supply side reform. The restart pace is slow for the moment.
- World's smelting capacity additions will be mainly from the three provinces in China, Shandong, Inner Mongolia, and Xinjiang.
- Primary aluminum demand is expected to remain firm in China, which will help the supply side reform in China.
- China's aluminum downstream is moving to high value added products. The majority of the products will be consumed in the domestic market, but the international market is a key target market for Chinese aluminum semis products.



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