



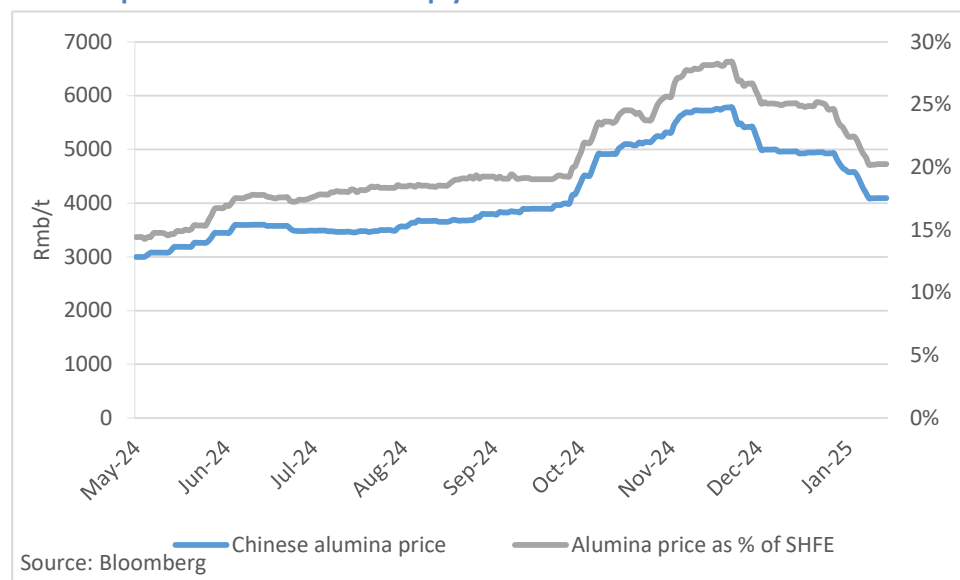
Aluminum to remain range-bound as weak demand meets tight supply

Aluminum had a good start to the year amid dollar weakness, but the rally stalled at the \$2,700/t level and prices have moved lower since. The latest downturn was inspired by weak Chinese industrial data and renewed fears that tariffs would affect global trade. However, just as aluminum and other metals were moving lower, details of the latest round of European Union sanctions on RUSAL underpinned prices.

The latest sanctions would allow imports of 275,000 tonnes of Russian metal into Europe for a one year period before a full ban comes into effect. This compares to imports of around 350,000 tonnes in 2024, although these imports have steadily declined over the past few years as companies have chosen to move away from Russian supply. Given that these sanctions give European consumers yet another year to transition to alternative sources, it seems likely that the only effect of these sanctions would be a marginal increase in the local premium.

RUSAL had already announced that they would cut aluminum production by 250,000 tonnes, in response to surging alumina prices, with a further 250,000 tonnes to be cut if alumina prices did not come down. These cuts will result in a tightening of the global supply demand balance, whereas the European sanctions will merely result in a shift in trade flows. It is unclear at what precise levels RUSAL would implement further cuts or indeed, unwind the cuts, although alumina prices have come down by close to 30% since their peak in late November, around the time that RUSAL announced their cuts.

Alumina prices have declined sharply since late November



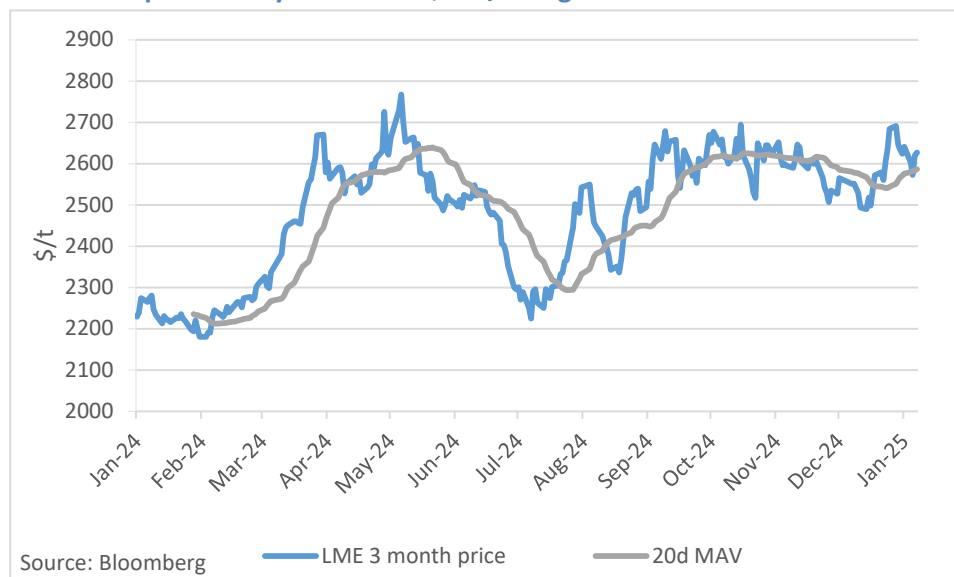
The bigger factor for supply right now is China running up against its self-imposed supply cap, which should limit future growth from China. New projects are on the horizon, including in Indonesia, but for now, aluminum supply does provide a degree of downside support to aluminum prices even if RUSAL were to restart production.

Sanctions aren't the only thing affecting the supply and demand of aluminum, with the threat of tariffs overhanging the market, with President Trump threatening tariffs of 25% on imports from Canada and Mexico. The US already has Section 232 tariffs on the import of aluminum at a rate of 10%, although some countries are exempt from this, including Canada and Mexico. When these tariffs were introduced, the MWP increased from around 8c/lb to averaging around 20c/lb over the past few years and slightly above that today. Because Canada was exempt, importers of Canadian aluminum didn't have to pay tariffs, rather, they kept the higher margin. In essence, these tariffs resulted in US consumers subsidizing the Canadian aluminum industry.

By imposing tariffs on Canada, this would at least result in some parity with the rest of the world if the tariff were at 10%, in line with Section 232 tariff rates. This might not even have a significant effect on the MWP as it would simply mean that Canadian exporters would no longer enjoy the windfall profits that their exemption provided to them. However, if imposed without exemptions, a higher 25% rate would significantly affect the MWP. It is important to note that Canada (and Mexico) are not the only countries that are exempt from Section 232 tariffs, with Australia also exempt, while the US maintains quota deals with Argentina, Brazil, South Korea, the EU, Japan and the United Kingdom. Alcoa has already suggested that they would shift exports around and would increase shipments from Australia to the US in a bid to avoid the impact of tariffs. Canada does have a trade deal with the EU, that they could utilize to increase exports. Obviously, without a more coordinated approach to tariffs, other countries will increase exports to the US and reduce any potential impact on the MWP. With a coordinated approach, the MWP will likely rise significantly if tariffs over 10% are imposed on Canada.

Our near term expectations for prices are for them to have a slight downward bias, amid tepid demand conditions, although we also believe that there is very good support at around \$2,500/t, provided by the relatively tight supply outlook. We therefore anticipate range-bound trade between \$2,500/t and 2,700/t. To break out of this range on the downside, the most likely trigger would be sustained tariff inspired trade wars that would damage global trade. The upside seems to be more challenging to break out from, given that the market has failed to breach \$2,700/t a number of times. As such, a combination of a stronger than expected economic growth and sluggish supply growth would be needed for an upside break out.

Aluminum prices likely to trade in \$200/t range for now



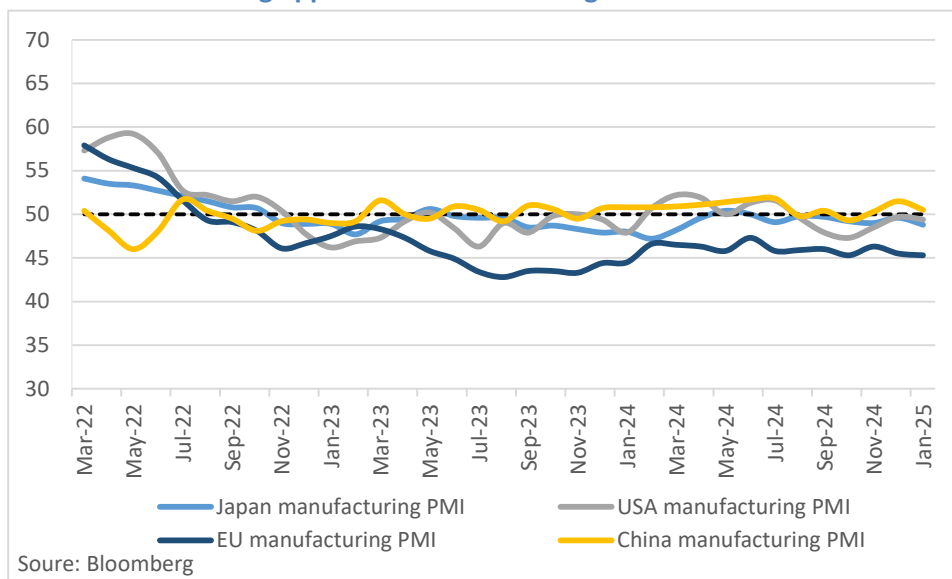
Demand

Demand for aluminum had appeared to be edging higher over the final part of 2024, although a good deal of this, notably in China, has now fizzled out. Chinese durable goods and other industrial products makers appear to have front loaded production in a bid to ship items before the introduction of tariffs. With the Chinese New Year now upon us, when factories typically are closed for one or two weeks, we are in for a period of weak demand, which is likely to be extended owing to the frontloading that we noted above. Moreover, China's elimination of VAT rebates on exports of semi-finished aluminum will further weigh on Chinese production to some degree, although this should be offset by an equal upturn in semis output in the rest of the world, unless higher costs lead to substitution. Over the short term, we expected a period of sluggish industrial growth over the next month or two but an early spring recovery in demand seems likely to at least some degree, absent a major trade war.

There are major uncertainties over the near term outlook for demand in a number of countries though, including the US, China, Europe and Japan. The threat of tariffs, in addition to sanctions, looms large over the aluminum market and while this appears to be a larger threat for the supply side of the aluminum balance, there is also significant global trade in aluminum semis that will affect demand across different regions. The potential for higher costs and disruptions from logistics are merely short term difficulties, but the worry is that higher costs lead to the proliferation of uncompetitive companies that ultimately hurts consumption. That is for the medium to longer term though.

For now, global industrial activity seems to be delicately poised and could easily go one way or another. Latest data for December revealed that the global manufacturing PMI dipped to 49.6 from 50 the prior month. Activity slowed in China, the US and the European Union and remained weak in Japan. Latest readings for January are available for the US, which reveal the manufacturing PMI climbing to 50.1, although the situation worsened in Japan and Europe, where industrial activity remains bleak.

Global manufacturing appears to have stalled again



The automotive sector has been a major source of demand growth, over and above rates of car production, owing to continued gains in the intensity of use of aluminum amid light-weighting and fuel efficiency efforts by automakers. Growth in electric vehicles has played a part in this as their heavy batteries encourage weight savings in other parts of the vehicle. The pace of growth of electric vehicles slowed sharply in the US last year, although continued to gain in the rest of the world.

The new administration in the US is likely to reduce incentives to purchase electric cars, although this is merely likely to reduce the pace of growth, rather than lead to their purchases and output contracting. The administration is likely to cut fuel efficiency requirements that have also encouraged the production of electric vehicles but even if this does happen, California sets its own fuel efficiency standards and a large number of states then follow these rules. Given that companies that produce cars in the US will wish to sell into those states, and indeed, many are also foreign producers, it seems highly unlikely that they would significantly alter their own fuel efficiency goals. Thus, the longer term bull case of aluminum's penetration into cars is unlikely to be significantly altered by any change to US fuel efficiency rules in the next four years.

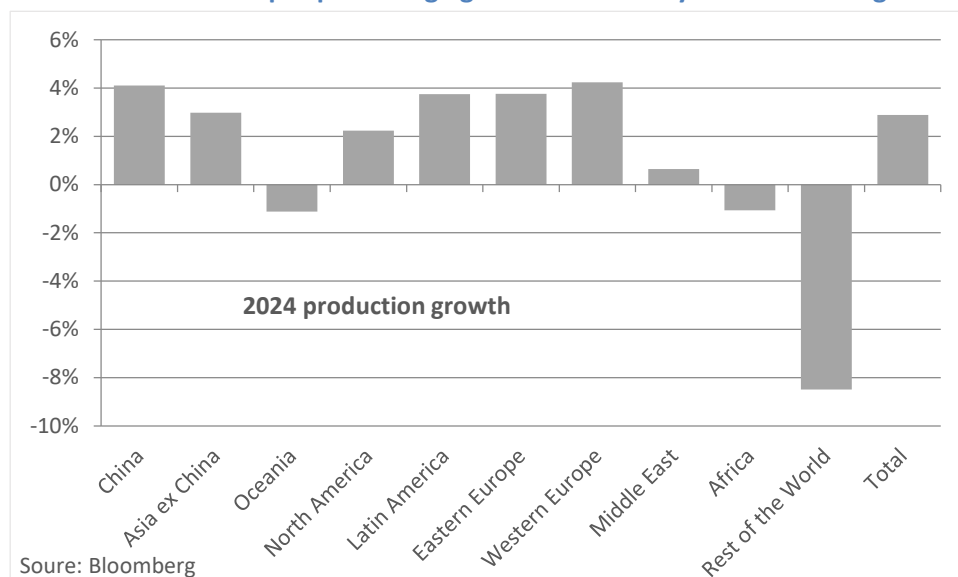
Meanwhile, overall car production remains weak in the US, having contracted by close to 20% in December, although output rose by a much stronger 11% in China, while car sales edged higher in Europe. With interest rates expected to remain somewhat elevated in the US at least, car production growth is expected to remain muted for now, although prospects are slightly more favorable in rest of the world as many countries embark on a rate cut regimen. This should also be moderately supportive of other industries.

Supply

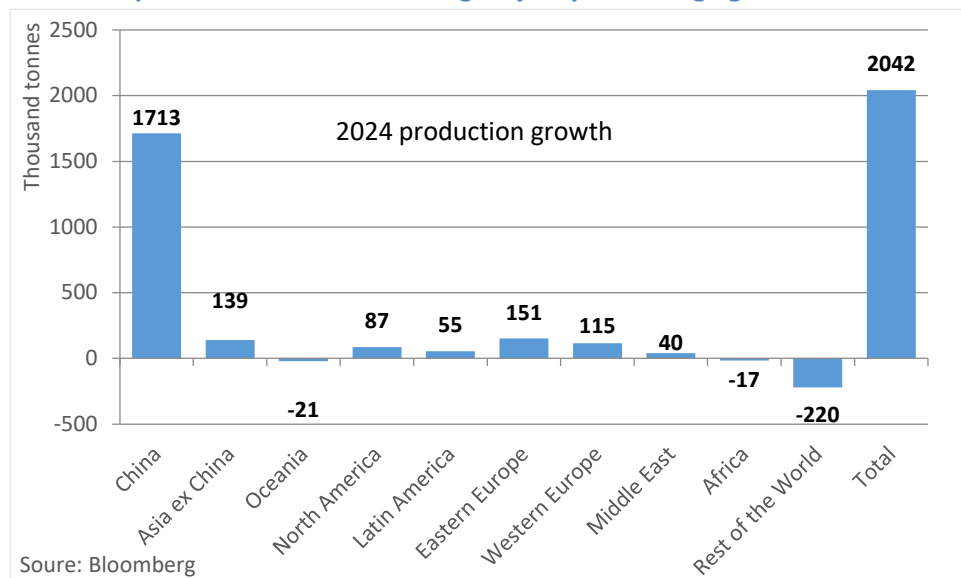
Global aluminum production had been slowing through the third quarter of last year but picked up pace in the final two months amid a reacceleration in Chinese output. Global production rose by 3.0% in each of the last two months of 2024, after rising only 1.6%, 1.3% and 1.5% in the August to October period. This was driven by an upturn in China and came despite surging alumina prices that were said to be hurting smelter margins.

For the year as a whole, global output rose by 2.9% in 2024, according to data from the International Aluminum Institute, boosted by strong growth of 4.1% in China but by also steady percentage increases from a number of other regions, including North and South America, Europe and Asia ex-China. The challenge for growth will come next year, with China now bumping up against its self-imposed capacity cap and RUSAL announcing that it will reduce production owing to elevated alumina costs. Growth will need to come from other areas, such as the new smelter in Indonesia, but it is unclear how much growth is possible from other regions, given how little nominal tonnage growth was produced from solid percentage gains.

Global aluminum output percentage growth was steady across most regions



But China provided the overwhelming majority of tonnage growth



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