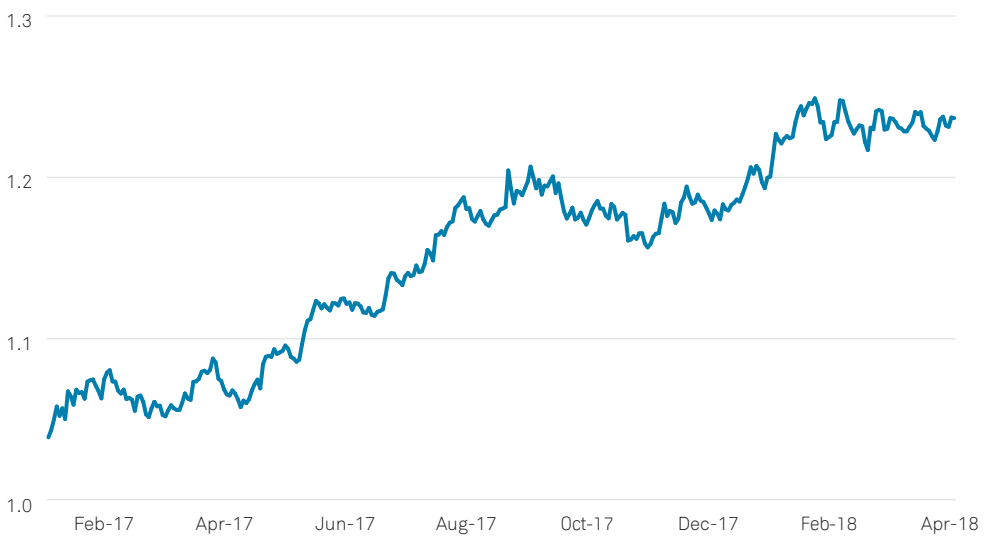
European secondary aluminum prices set to shift lower as oversupply bites

By Suzie Skipper in London and Tina Allagh in Washington

Secondary aluminum prices in Europe, after gaining €70/mt ($86) since the start of 2018, have pulled back by a similar amount toward the end of the first-quarter, and look set to shift lower throughout the balance of the year as overcapacity weighs on the market.

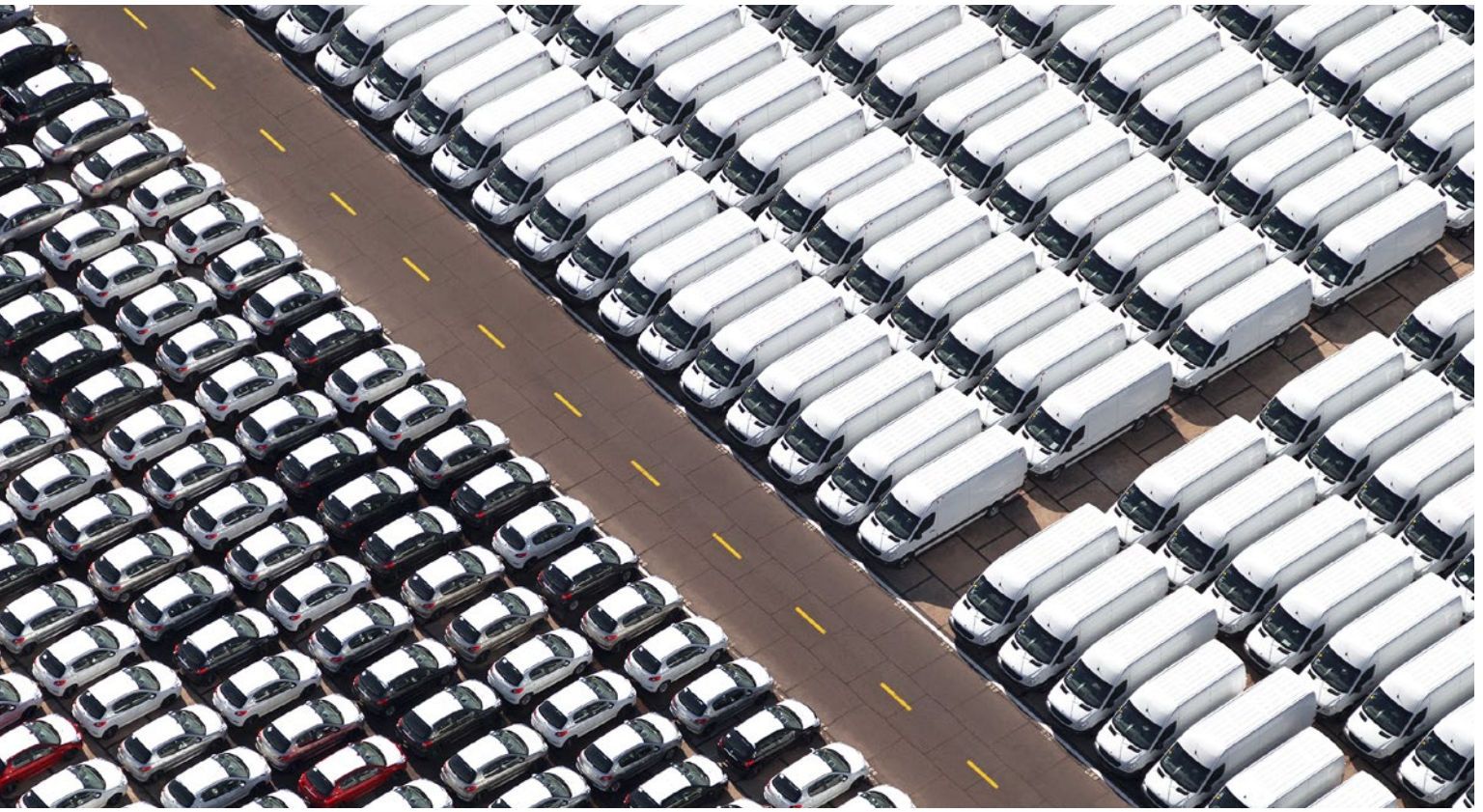
US DOLLAR/EURO EXCHANGE RATE



Source: London Metal Exchange

Commodity-grade 226 aluminum alloy, as reported by S&P Global Platts, spurred on by strong demand in the fourth quarter of 2016 and predicted consumption levels for the first quarter of this year, moved up from a low of €1,690-€1,740/mt delivered at the start of October 2017, reaching a high of €1,830-€1,880/mt delivered in mid-February 2018. But in March, 226 prices have shifted steadily lower to €1,750-€1,850/mt delivered by the end of the month.

Europe's recycled aluminum market has simply not had the export outlets, notably into Asia and the US which, more often than not, help to balance European supply.



One of the main reasons for the lack of exports has been the strength of the euro against the US dollar, which in Q1 has remained strong since the start of the year at between $1.19-$1.24.

The strong euro, in addition to the higher prices in Europe during Q1, has meant that export volumes to Asia and the US have been much reduced, leaving excess capacity in Europe. Secondary aluminum exports during Q1 were estimated at 500-1,000 mt/month, much reduced from an average 3,000-4,000 mt/month and considerably lower than the peak level of 8,000-10,000 mt/month.

Most European market players predict that the pressure seen on 226 market prices during Q1 is likely to continue, at least for the short term, with the metal likely to oscillate between €1,700-€1,750/mt for the balance of the year.

"Once 226 prices reach €1,700/mt then we will see Asian buying interest emerge and exports will be a possibility...and this will help firm up European prices," said a Spanish producer. This scenario is also dependent on both the euro/dollar and the Yen/dollar rates being favorable.

Others expected to see much more pressure on prices going into the second-half of the year with market prices, perhaps slipping below the €1,700/mt delivered level.

"Given the market situation I think prices are too high and we will see more pressure on prices later in the year," predicted a European diecaster, citing high melting capacities in Europe and good scrap availability.

Uncertainty surrounding US import duties on aluminum (10%) and steel (25%) has also had a destabilizing effect on the European market. While the European Union won at least temporary exemption, European market players have been concerned over the possible impact.

"Some of our customers working for US car makers, such as GM in Europe, may be forced to put the price up of their casted parts by 10%," said a southern European producer, adding that perhaps the price of secondary aluminum and casted parts would slide lower so that the European market can continue to trade with the US.

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European demand to stay strong

Demand in 2018 was predicted to remain equal to 2017, or even exceed it, and in reality not much has changed to these forecasts. The European automotive industry, the main consumer of 226, 231 and other grades of recycled aluminum, remained strong during Q1.

Aluminum alloy consumption in Europe is estimated to increase by a further 2%-3% in 2018 with some areas of growth higher than others.

"Demand this year should be similar to last year, we perhaps may even see an increase," said an Italian producer.

Alloy suppliers have noted that the reduction in demand for diesel cars after the Volkswagen emissions scandal has begun to have an impact in the French market, particularly for PSA and Renault during Q1.

The latest statistics for Europe show that demand for passenger cars in the European Union grew significantly in February 2018, rising by 4.3% to 1,125,397 units compared with February 2017, according to the European Automobile Manufacturers Association (ACEA).

In volume terms, these were the best February results since 2008. Nearly all major EU markets posted growth, except for the UK (-2.8%)—where car sales declined for the 11th consecutive month—and Italy (-1.4%). Spain (+13.0%) recorded the strongest gains, followed by Germany (+7.4%) and France (+4.3%).

From January to February 2018, demand for new cars increased by 5.8% in the European Union, counting 2,378,965 units in total. Momentum is starting to slow down in certain markets, especially in the UK (-5.1%). However, passenger car registrations continued to grow in Spain (+16.4%), Germany (+9.5%) and France (+3.4%) during the first two months of 2018.

European demand for secondary aluminum is expected to move higher once again in 2018 by some 2%-3%, propelled by the European automotive market, albeit at a slightly slower rate than in 2017.

Prices are predicted to stay within a narrow corridor of between €1,650 and €1,750/mt delivered for the balance of the year. If European supply is squeezed by exports to Asia or the US later in the year, or the market experiences supply difficulties, we could see prices in this highly volatile market move up towards €1,800/mt delivered but any sudden and unexpected increase would most certainly be capped at €1,900/mt delivered.

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US market sees similar demand scenario

Meanwhile, in the US alloy market, the demand scenario was quite similar, with demand expected to be flat from last year, but with a more bullish pricing scenario going forward, due to higher input costs.

According to the North American Die Casting Association, aluminum diecasters are

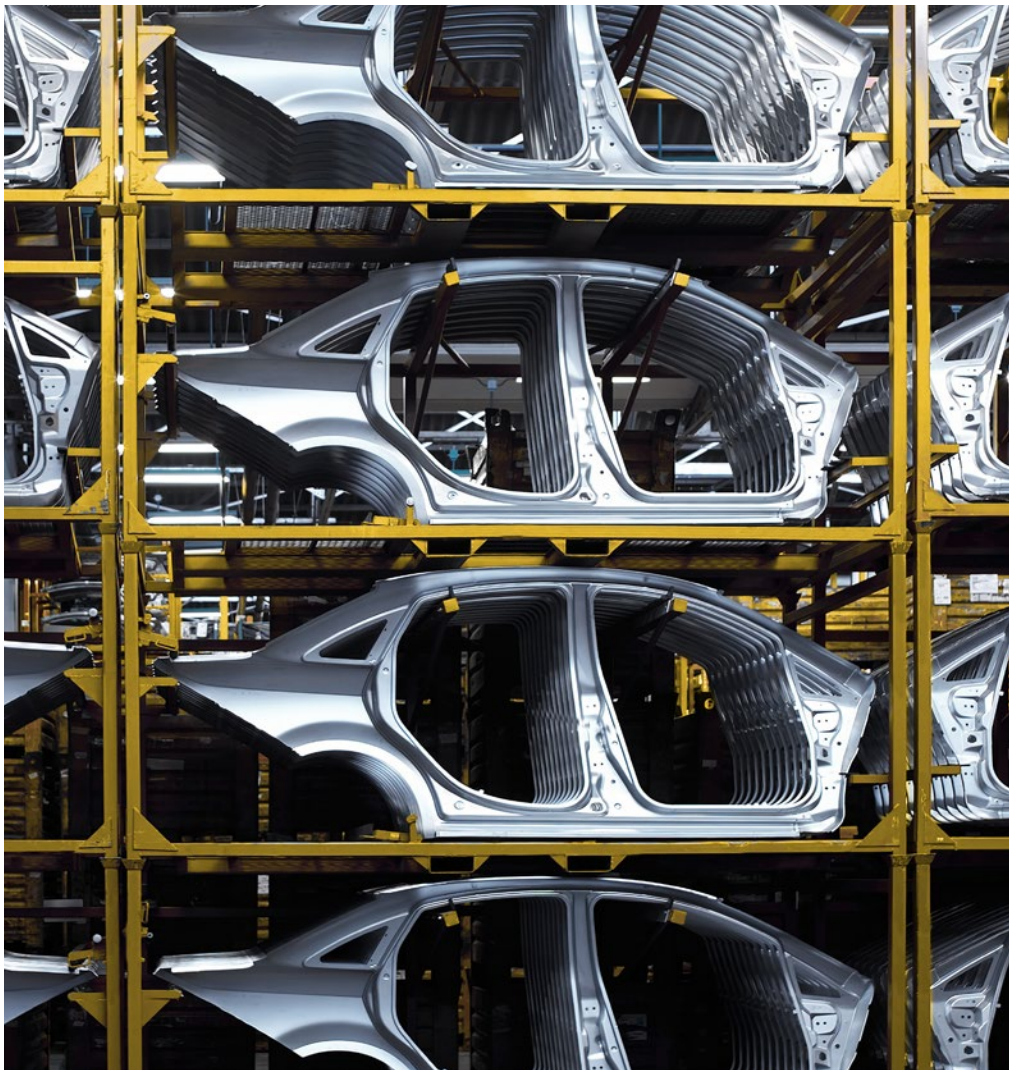
expected to see demand at flat to a slight increase of less than 1%, according to a survey of diecasters. Overall shipments in 2017 versus 2016 were up 2.4%.

One Midwestern diecaster, who supplies the truck and RV markets, said he saw very healthy demand, "but I am not sure how long it will stay that way. The casting business is a cycle. Business can be booming, but there is too much competition coming in. Business can be good, but our profits are down."

The diecaster said he did not expect to see much slowdown in the market through July, with maybe a slight dip in the summer. "Everyone is pretty optimistic," he said.

Some of the bright spots in the market demand surprisingly are the ATV market as well as heavy trucks. "Those are up big time," he said, adding that overall he expected a "very good" 2018, after coming off of the "best year we ever had" in 2015.

A second diecaster said he expected to be "a little lighter on demand through the end of the year. We are typically softer during the summer since we have a fair amount of lawn and garden work, and we are wrapping up some projects that are moving to China for the local market there."



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He said he was expecting some increased volume in 2019 from awarded projects that will be ramping up next year. "I can't say I have good sense for where pricing is going, but I am hearing from more broker types looking to find a home for 380-type RSI and other non-spec material, perhaps dampening pricing for spec material."

"New technologies have been developed and others are in development for the diecasting industry," said Stephen Udvardy, president of NADCA, during his State of the Industry address at the end of last year. "These will assist in keeping the industry strong and able to compete globally and with other processes through improved operational efficiencies and improved cast part performance."

According to NADCA, major markets have been fairly steady. "However, softening of the automotive market is forecast for 2018 and may result in diecasting shipments declining a few percentage points unless the

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growth in structural die castings for the automotive industry and growth in non-automotive industries offset the automotive market softening."

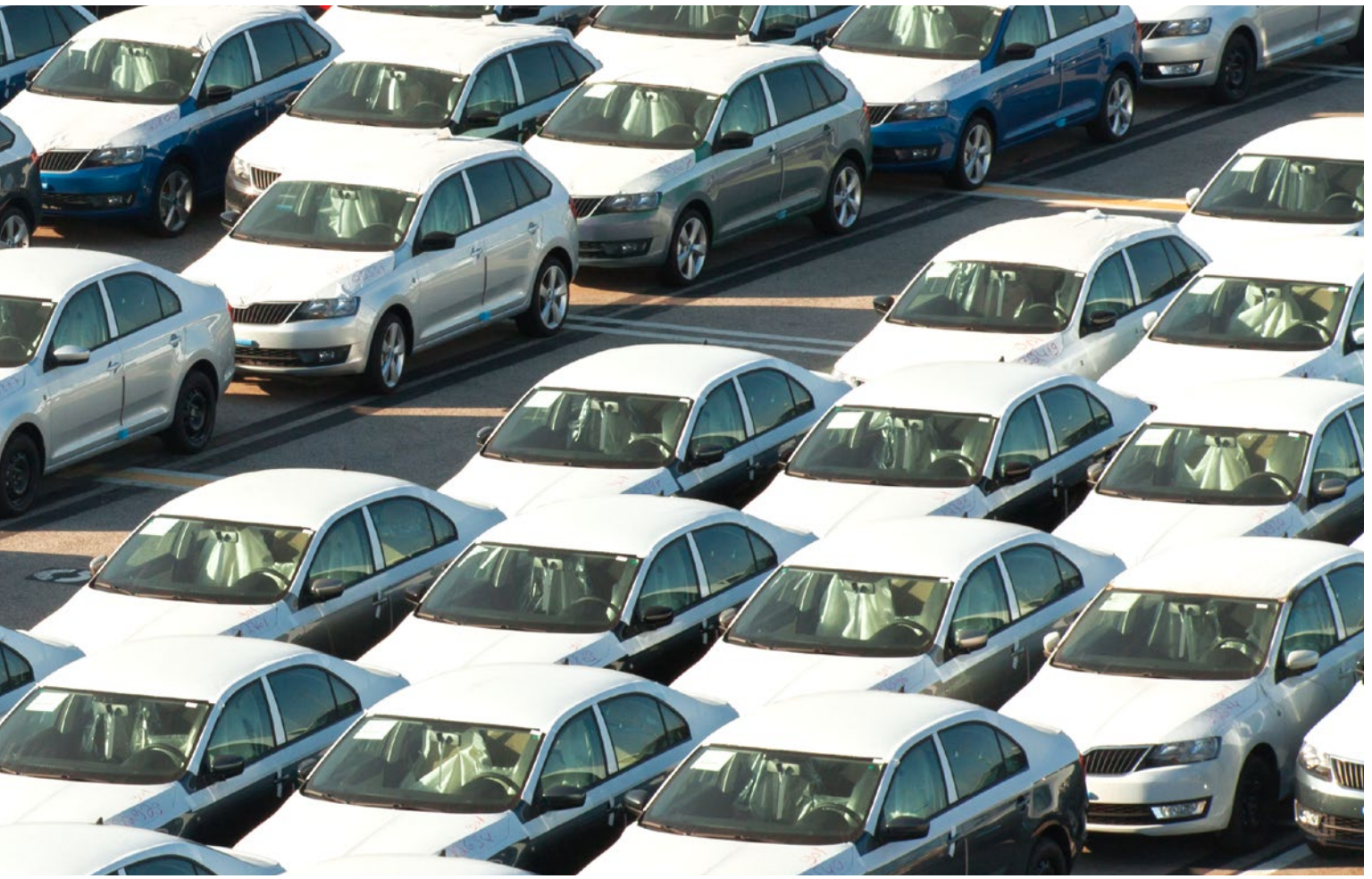
Jeff Schuster, senior vice president of forecasting at LMC Automotive, said in a forecast at the beginning of the year that "on the heels of a strong close in 2017 to 17.2 million units, optimism for a solid 2018 seems to be growing. Most variables are aligned favorably, with the majority of that positive weight being carried by an expected boost in the economy." LMC's forecast for 2018 total light vehicle sales is just under 17 million units, a decrease of 1.4% from 2017.

A secondary alloy producer said he expected alloy pricing to remain strong through the summer and into the third quarter, although there are a "few factors at play for lower prices," namely a potential for softer LME NASAAC prices. "I am leaning toward slightly higher prices in September than today," he said. "I do not think demand will drop off enough over the summer to cause a dip in prices. I think things will stay flat to up."

The producer said he found that the OEMs were "moving quickly to move jobs back to the US" as Section 232 comes to the forefront. "It's a big initiative to move jobs back instead of having parts manufactured in China," he said. However, he said this could backfire if the Chinese decide to fully assemble those products in China and ship them to the US, thus creating more competition.

Another producer said he expected "secondary alloy prices to continue to rise into June and then maybe settle downward through the summer. But with demand remaining high into Q3, prices will begin to rise again."

Factors expected to support alloy prices this year are higher silicon, copper and transportation costs.



A couple of producers said their silicon costs alone increased by 30 cents/lb on annual contracts in January 2018 from 2017 levels.

A producer said he expected the Platts benchmark A380 alloy price to inch up sometime this year to $1.03-$1.05/lb, delivered Midwest, from 97.5-100 cents as of March 22. The Platts assessment had not seen $1.00 on the high end since April 2015.

However, the producer said while he was "pretty confident" on the automotive market—as his transplant customers were adding units—he noted that the wildcard in the market was the bankruptcy by industry giant Real Alloy.

Said a trader: "Real Alloy throws a wrench in all of our forecasts. The question is how long can they operate, and are they making any money? And will their plants run or will they shut down?"

Real—which has 27 facilities in six countries across North America and Europe—filed for Chapter 11 bankruptcy protection in November 2017. In late March the Bankruptcy Court for the District of Delaware approved the sale of the company to a group of noteholders. Under the terms of the sale, the noteholder group, led by DDJ Capital Management, is buying Real Alloy Holding.

Real Alloy president Terry Hogan said at the time he foresaw no major changes to the operations of the company. ■