Aluminum Alloy Market Report Q1 2009

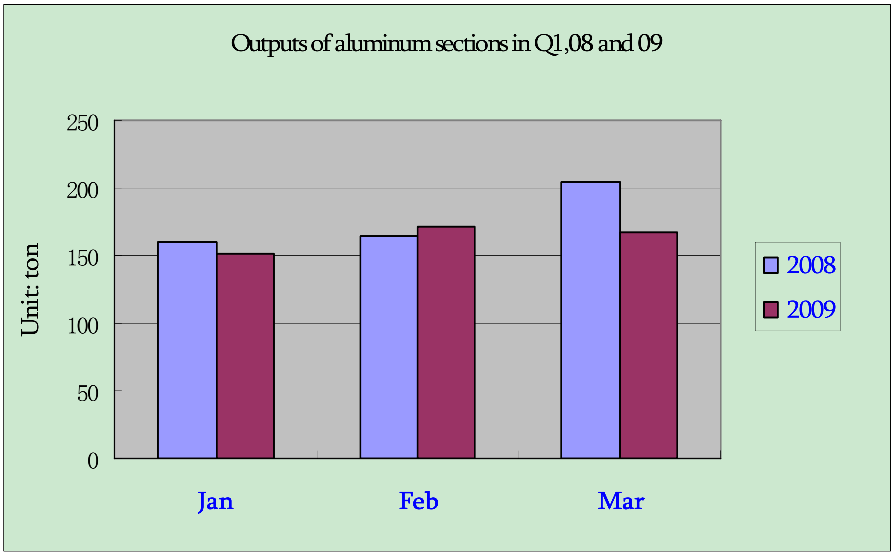
1. Market review

Impacted by the global financial crisis, the aluminum processing plants lacked orders and failed to run normally in the first quarter of 2009. Many plants entered into the Spring Festival holiday ahead of the schedule in January and the market stayed quiet for a long period of time. With the close of the traditional long holiday, a large number of plants had to postpone the reopening date over and over again. Though many producers came back to the market in February and March, many of them were almost out of production most of the time as they cannot get enough orders to maintain the production. For producers of die-casting parts and aluminum sections, the orders from consumers in the overseas market take up a large amount of the total. However, as the spot aluminum ingot price in Chinese market was much higher than that in the overseas market in a long time, it is difficult to export the products. Therefore, the export market stayed quiet. Some producers started to establish the relationship with customers in the domestic market, but the demand from Chinese consumers cannot be inspired in a short time. Thus, many plants ran in red in the first quarter. The State's Reserve Bureau purchased the aluminum ingot from major smelters in China and pushed up the spot aluminum ingot price to the high level of RMB14,000/t successfully at the end of March, but it did not promote the demand from downstream market significantly and even had worsened the export market of aluminum products. All in all, the downstream aluminum market moved on inch by inch with soft demand in the domestic market and thin orders from foreigner customers in the first quarter.

1. **Supply and demand for aluminum products**

1.1 Production of aluminum sections in Q1

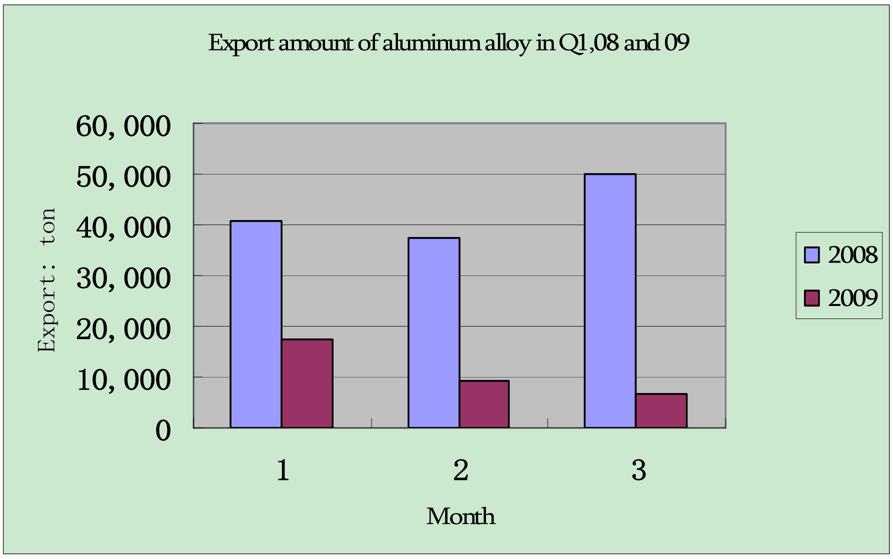
According to the status released by the National Statistics Bureau, the whole output of aluminum sections was 4,901,100t in China in the first quarter of 2009, while it stayed at 5,289,800t at the same time late year, a 7% fall year on year.



(Chart 1: Comparison of outputs for aluminum sections in Q1 of 2008 and 2009)

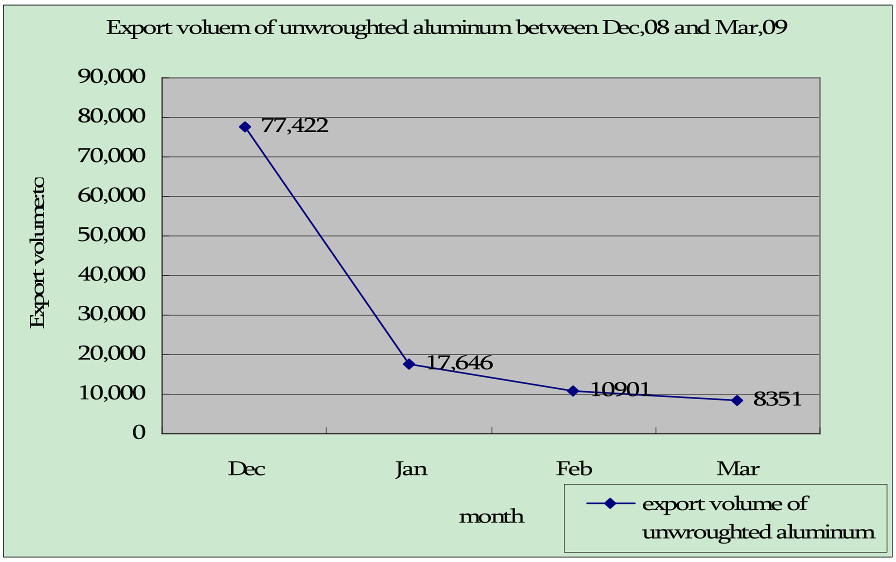
1.2 Export of some aluminum products

The export amount of aluminum alloy products was 17,564t, 9,081t and 6,668t in January, February and March respectively in 2009, a continuous declining movement month by month, against the volume of 40,805t, 37,306t and 49,840t at the same time last year.



(Chart 2: Comparison of export amount for aluminum alloy in Q1, 2008 and 2009)

As the correlative datum indicated, the export volume of unwrought aluminum was 8,351t in March, down by 75.4% year on year. The whole volume in the first quarter of 2009 decreased to 36,989t compared to the same time last year.



(Chart 3: Export volume of unwrought aluminum from December,2008 to March, 2009)

In addition, the export amount of aluminum wire, not alloyed (cross-sectional dimension＞7mm) including aluminum wire rod also dropped greatly. It was 1,269,048kg in February but dropped further to 537,555kg in March.

3. Market analysis

3.1 Brief introduction

The orders decreased sharply in many domestic plants in the first quarter of 2009. Some plants halted production since the New Year holiday and entered into the Spring Festival holiday ahead of the time. They expected that the market could see any improvement. However, the market demand recovered much more slowly than that those participants anticipated before. Therefore, the most common phenomenon is that aluminum plants which halted production before the Spring Festival cannot resume normal running and some of them even still stood out of the market till the end of the first quarter. Within the three months, there were also a lot of plants which stopped production again and again due to the lack of orders from consumers. That’s to say, many plants, especially small-and-mid sized ones, were out of production and stayed out of the market.

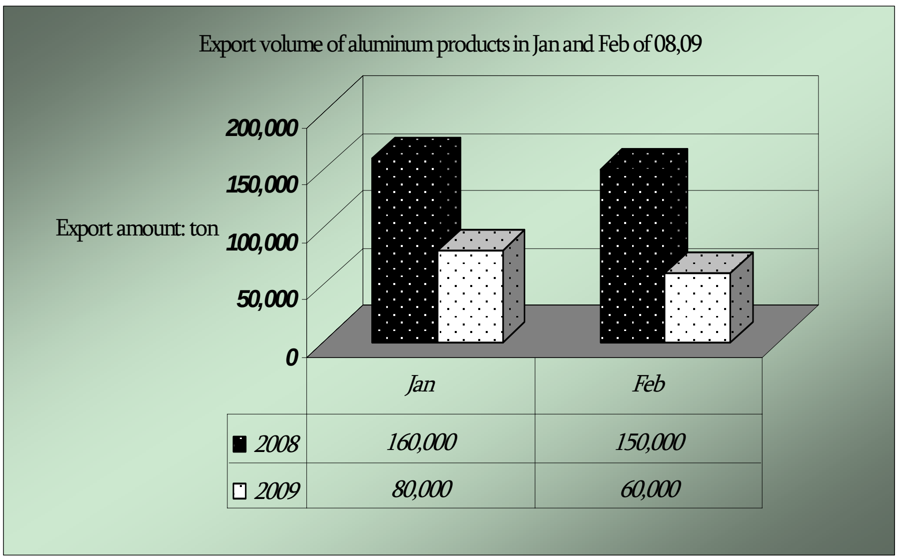
3.2 Impacts of relative policies on downstream aluminum market

3.2.1 Aluminum reservation plan yields little result for downstream demand promotion

In December, 2008, the government of Yunan Province took the lead in reserving nonferrous metals with the total volume of 1 million tons. Among the reserving plan, the volume of aluminum ingot takes up 300,0000t. It is purchased from aluminum smelters within Yunan Province. The State Reserving Bureau decided to store up 290,000t of aluminum from Chalco, and the other seven major smelters in Henan, Shanxi and other provinces on May 25, 2008. The purchasing price was RMB12,350/t. Henceforth, other provinces like Guangxi, Henan and Shanxi also released the purchasing plans for aluminum. The reservation plans by government are the first step that has been fulfilled to resolve the problem that the nonferrous industry confronts. It has played a role in relieving the oversupply of spot aluminum ingot and the market pressure.

Seeing the great rebound of aluminum ingot price, the reserving policy has played an effective role in promoting the aluminum price and lowering the losses of smelters. However, the big prices gap between international and overseas market that it resulted in cooled down the export market of aluminum products heavily. Moreover, more and more imported aluminum ingot streamed into Chinese market, and it was opposite to the purpose of reserving plan which expected to reduce the supply and the losses that smelters suffered. Impacted by the financial crisis, the demand from overseas market has been soft, and moreover, the aluminum ingot price in China kept higher than that in the overseas market, worsening the export market. Thus, it resulted in the lack of orders for aluminum manufactories which depend on the overseas orders greatly.

Here is a comparison of export volume for aluminum products in the first two months of 2008 and 2009:



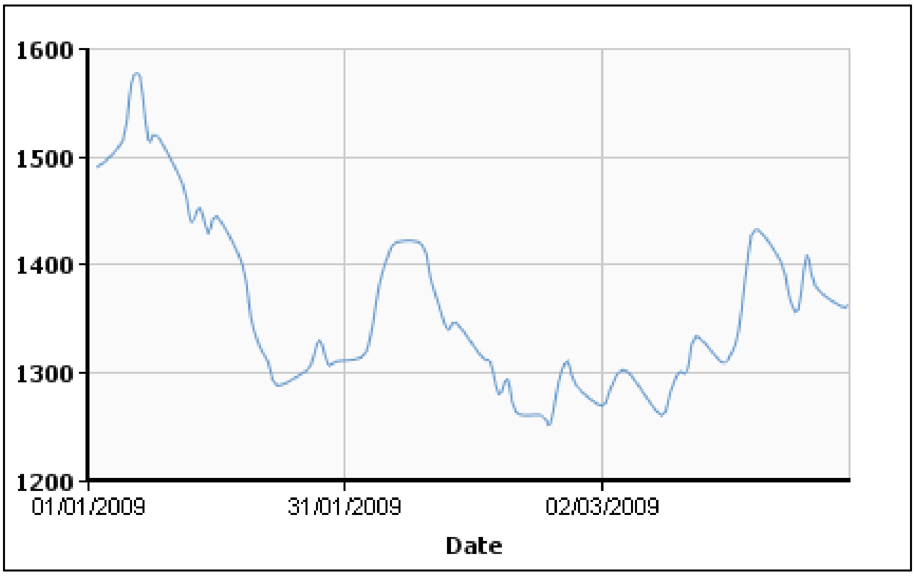
(Chart 4: Export amount of aluminum products in the first two months of 2008 and 2009)

3.2.2 Adjustments of export duties for some aluminum products

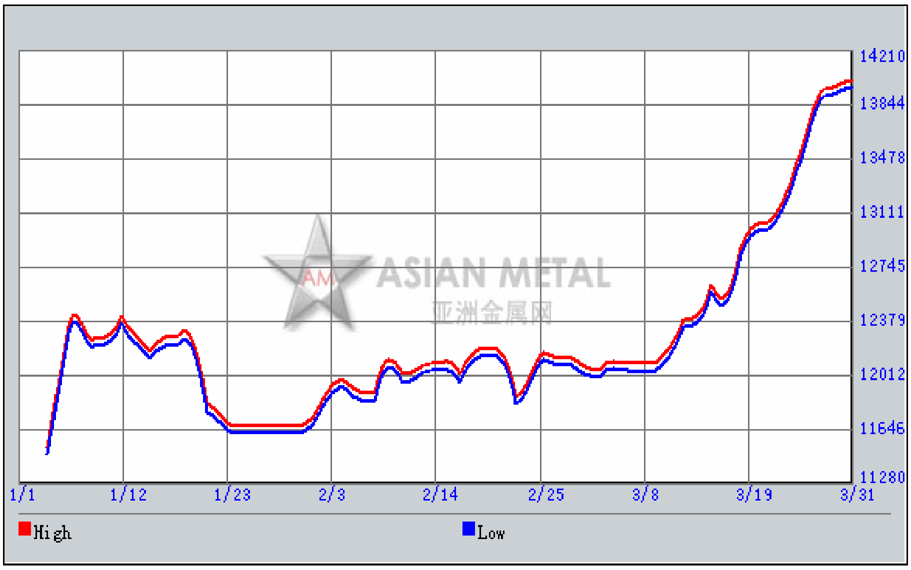
The Chinese government declared to resume the exemption of export tax for aluminum bars and rods of not alloyed since February 1. On March 26, the executive meetings of the State Council decided to promote the export rebate rate on high-grade aluminum foil, aluminum profiles, aluminum sheet and strip from 5% to 15% since April 1. At the same time, it will rise to 17% for the intensive processing products which are made not from imported products but their substitutes produced in China. The aluminum alloy sections which enjoyed no export rebate before also can get a 5% of export rebate since then.

The adjustments for export duties are meaning to establish a comparatively fair environment for international competition. The effect it takes is not very significant in a short time. Moreover, the big gap of aluminum prices between domestic and overseas markets is not good for the export of aluminum products.

Here is a contrary of 3month aluminum on LME and Chinese spot aluminum price:



(Chart 5: 3month aluminum price on LME in Q1, 2009)



(Chart 6: Spot aluminum ingot price in China in Q1, 2009)

The spot aluminum ingot price maintained at around RMB11,600-14,000/t in China, about USD1,700-2,050/t. However, 3month aluminum on LME always stayed blow USD1,600/t. Therefore, though the government adjusted up the export rebate rate for some kinds of further processing aluminum products greatly, the export market did not see much improvement.

3.3 China confronts a challenge from protectionist policies in foreign trading

Referring to the facts mentioned above, in order to stimulate the export market and attract foreign orders, the Chinese Government changed the export duties and export rebate rate for some aluminum products. However, the problems that China faces are not only the soft demand in the overseas market, but also the appearance of more and more trade protectionism. It may confront more trade frictions in future. At the end of January, India's Directorate General of Shipping (DGS) started to investigate the special protective measures for aluminum flat rolled products and aluminum foil imported from China, ordering the interested party to define their position before February, 27. Another piece of information came out on February that the Canadian Government made the final adjudication on the anti-dumping and countervailing case, insisting that the Chinese aluminum extrusion industry does not belong to market-oriented ones, and they also decided to impose high anti-dumping duty and anti-subsidy duty. All these measures made the quiet export market confront more challenges.

4. Conclusion

Impacted by the aluminum reserving, there is still room for the aluminum ingot price to go up in China in the second quarter. However, seeing the soft demand from downstream market in March, producers predict that the recovery speed would be very slow in the second quarter. Participants hold negative views towards the future market and will keep watching the market. It is predicted that the capacity utilization rate will improve to some extant but the outputs will remain low. Benefited from a series of policies to stimulate the domestic demand, the sales condition will turn better at the end of the second quarter in line with the recovery of demand in the domestic market. However, the export market will remian slow.