



# ALUMINUM

## CURRENT TRENDS

- The COVID-19 pandemic hit the U.S. aluminum sector hard causing a sharp drop in demand and pricing. Prices reached an 11-year low on April 8, 2020.
- Worldwide production and mining levels were affected in the first half of 2020 because of pandemic-related issues; however, worldwide production levels remained relatively stable and ended the year higher by 3.1%.
- End-market demand varied by sector with the construction and packaging sectors strong; however, the automotive and aerospace transportation markets were affected for most of the year.
- Aluminum tariffs implemented during the U.S. and China trade war remain in place but have been softened by multiple country specific exclusions. Market sentiment anticipates these tariffs will be unwound in the near future.

## PROJECTED VALUES (12-MONTH OUTLOOK)



## APPROXIMATE NET RECOVERY ON COST

**70-85%**

finished goods

**55-65%**

raw materials

**60-70%**

billets

## LONDON METAL EXCHANGE ALUMINUM HIGH GRADE - CLOSING PRICE



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**EFFECTS OF COVID-19:** The COVID-19 pandemic hit the U.S. aluminum sector hard causing a sharp drop in demand and pricing. The price of high-grade aluminum ingot as reported on the London Metal Exchange reached \$1,422 per metric ton on April 8, 2020, a level not seen since May 2009. While prices have subsequently rebounded and exceeded early 2020 pricing levels as of April 2021, the overall sector was negatively affected by the drop in pricing and demand.

U.S. aluminum production and mining capacity utilization dropped below 80% for the first time since October 2009. Smelting capacity utilization dropped to 55.9% from 61.1% in 2019. Supply is provided by a combination of domestic suppliers and imports with a significant volume also coming from recycling sources. There are only a handful of companies in the U.S. that provide a primary source for aluminum.

While the sector was considered an essential industry, the shutdown of much of the aerospace and automotive industrial sectors dropped shipment demand by upwards of 30% to 50% in the second quarter of 2020. In early June most primary mills and extruders were running at reduced capacity, some as little as 30% to 40% of normal levels. Mill product net new orders were down 27.6% from 2019, foil orders were off 30.3% and extruded products orders were down 38.7% as of May 2020.

Worldwide production and mining levels were heavily affected in the first half of 2020 because of pandemic-related issues. However, worldwide production levels remained relatively stable and ended the year higher by 3.1% driven by strong production growth in China, Canada and Bahrain. Despite a drop of 9.3% in U.S. production in 2020, Chinese production grew by 5.4% buoyed by strong demand from construction and infrastructure projects.

Additionally, aluminum production in Canada grew following the passage of the United States-Mexico-Canada Agreement (USMCA) related to intercontinental trade and a 2019 rollback of the U.S. tariff on Canadian aluminum imports. Canadian imports of aluminum to the U.S. resumed and was largely responsible for the year-over-year growth in Canadian aluminum production in 2020. Canadian production was lower in 2020 over 2018 and 2019, so much of this growth was a rebound to normal levels of imported product.

**END MARKET PERFORMANCE:** Aluminum is consumed in a variety of end industries in the U.S. including transportation applications (34%), packaging (16%), construction (12%), electrical (9%), consumer durables (8%) and machinery (8%), among others (13%).

Transportation sector production levels, most notably automotive and aerospace, were off considerably in 2020 from 2019 levels. Both automotive and aerospace manufacturing levels are expected to be down approximately 30% for 2020 compared to 2019.

A strong housing market with starts and completions up 6.9% and 2.5%, respectively, and public construction spending trends, which were up 4.9% over 2019 are also positive drivers for the industry. Demand in other sectors was robust with packaging demand improving aided by strong demand for aluminum cans, which totaled 121 billion units in 2020 versus 115 billion in 2019.

Despite the ongoing pandemic, the worldwide demand outlook has been strong overall with expectations for 3.8% growth in 2021 over 2020. The pace of growth in the U.S. and Canadian markets is expected to be more subdued at 2.3% and 0.9%, respectively. Despite concerns regarding a supply overhang until some of the restocking-related pandemic supply chain issues are resolved, current market dynamics are very tight.

In recent market commentary from S&P Global, Platts' analysts noted the Midwest transaction premium was low to attract imports at an adequate level. Most current inquiries are not from exporters looking to sell. Rather, they are from exporters notifying buyers about late shipments stating, "Logistics issues continue to plague the market and freight rates remain high."

**LINGERING TRADE POLICY ISSUES:** Aluminum tariffs implemented during the U.S. and China trade war in 2018 remain in place but have been softened by multiple country-specific exclusions. Market sentiment anticipates the 10% section 232 tariff will be unwound entirely at some point soon.

The U.S. Department of Commerce initiated a countervailing duty (CVD) investigation of imports of common alloy aluminum sheet from 18 countries in March 2020. One year later in March 2021, the U.S. International Trade Commission ruled CVD rates, which affect approximately 17.3% of total domestic aluminum imports based on 2019 data, could be established in the case of 16 of these 18 countries. The rates for those 16 countries are set to be determined in April 2021.

The U.S. Department of Commerce issued its preliminary determination of the CVD investigation of foil imports from China in June 2020 and set preliminary subsidy rates on two Chinese importers of foil products. While the USMCA entirely rolled back the effect of the section 232 tariffs with Canada, current trade policy has provided some level of protection against aluminum imports from the rest of the world.

**ALUMINUM TYPES IMPACT RECOVERY VALUES:** Aluminum is produced in a variety of forms and alloys. Base aluminum prices are tracked for either billet or scrap, but most aluminum is sold and used in a fabricated form such as sheet and coil, bar stock, extrusions, forgings and castings, among others.

For certain applications, such as aerospace and military, aluminum may be produced in proprietary grades to conform to industry specifications. As such, the cost and value of fabricated aluminum is more difficult to update and track while the price of base billet can be tracked daily.

In a liquidation, the value of aluminum is driven by marketplace demand and need, with proprietary forms of aluminum, absent a waiting customer, generating a scrap value. Aluminum products in standard sizes and quantities with materials certifications that are widely used generate strong recoveries in the secondary marketplace.

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