News:

In a response to a question on cutting capacity, Deputy Director of the National Development and Reform Commission (NDRC), Ning Jizhe, said: "This year, we need to work on 'breaking, adjusting, changing and maintaining' capacity elimination. In 2018, another 30 million mt will be cut in the steel industry, which will further eliminate ineffective capacities. The government will not determine the capacity reduction target for aluminium, building materials, cement and other industries."

SMM neutral on short term view as aluminium valuation returns to fundamentals

SMM maintains a neutral position on prices of aluminium in the short term. Focus is likely to be on downstream demand as high inventories and lower costs affect prices.

This year, the Chinese government stopped setting targets for reducing capacity in the aluminium industry. This helped aluminium valuation return to fundamentals.

According to SMM research, the price of alumina stood at 2,777 yuan/mt by March 7, down 2.4% year on year. It is likely that alumina supplies will surge when the heating season ends and this will put pressure on prices of alumina and aluminium. The inventory of aluminium stood at 2.13 million mt as of last week, up 100% year on year.

SMM reaffirms that aluminium prices are likely to come under pressure this year in the range of 13,000-15,500 yuan/mt.

Chart 1: Alumina price, year on year (yuan/mt, %)

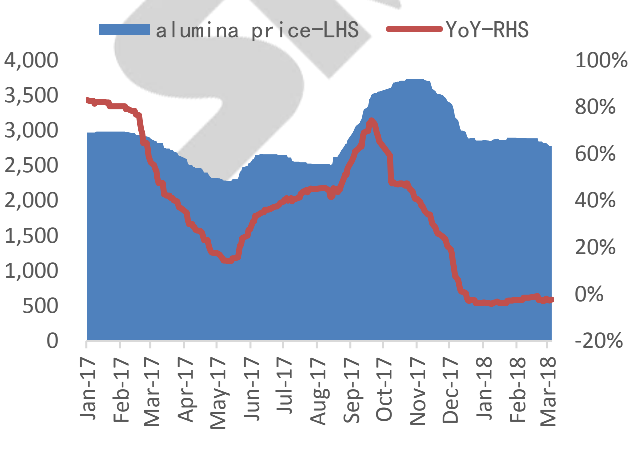
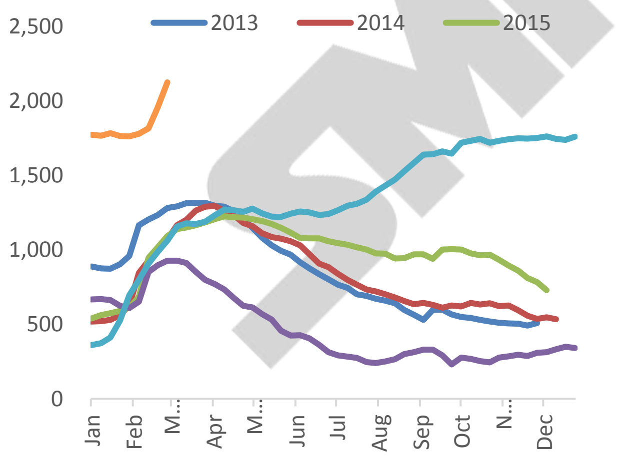


Chart 2: Aluminium inventory (2013-2018, 1,000 mt)

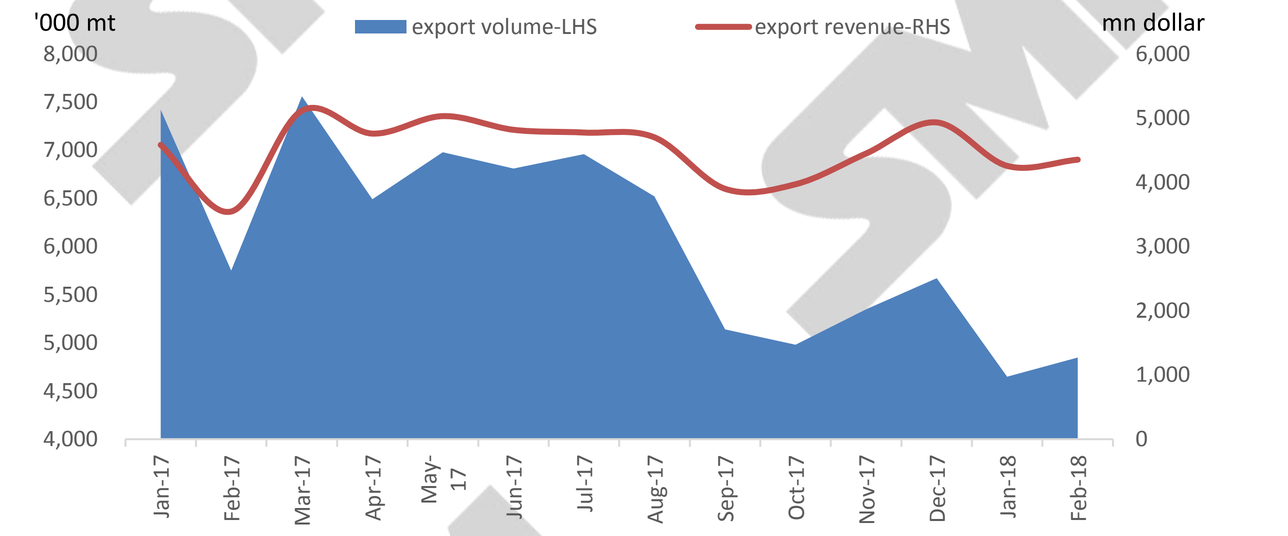


Source：SMM

Demand to drive steel prices with capacity cuts

The government aims to remove another 30 million mt of ineffective capacity in the steel industry in 2018. SMM expects this process to be relatively smooth as supply is fragmented. It is likely that the marginal change in demand will affect prices significantly as supply elasticity declines. In the short term, SMM is bullish on steel prices as exports recover and production resumes after the Chinese New Year holiday.

Chart 3: Steel production export volume and revenue (2017- Feb 2018)



Source：SMM

Chart 4: Total inventory of rebar (2013-2018, 1,000 mt)

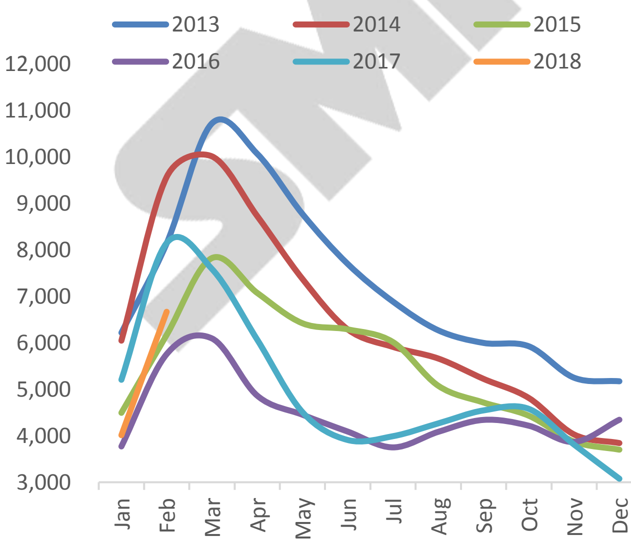
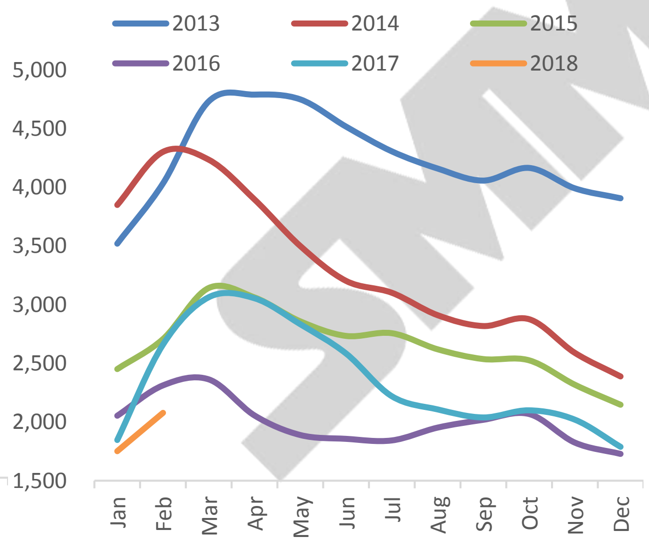


Chart 5: Total inventory of hot-rolled coil (2013-2018, 1,000 mt)



Source：SMM

SMM Shanghai Metals Market

SMM provides a comprehensive **China Cost Database** for nonferrous and ferrous metals, by visiting and interviewing a majority of Chinese metal producers. These include small to large enterprises as well as SOEs and private companies. We collect their detailed cost breakdown for individual plants/mines and production process, and update our database regularly as well as monitor updates.

We also provide a **Cost Database** for steel, iron ore, aluminium, copper, copper mine, nickel, nickel pig iron, tin, manganese, lead and lead ore, etc.

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