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Why does Alcoa of the US, the world's third largest Aluminium producer after United Company Rusal and Rio Tinto (takeover of Canadian Alcan gave it the volume) get so much attention in India this time of the year? Alcoa neither smelts the metal here nor has it got plans to build a smelter in India anytime in future. It, however, has a service centre here for customers using its offerings of high value products.

Our industry officials from Mr SK Roongta of Vedanta Aluminium to Mr Ansuman Das of National Aluminium Company will eagerly await Alcoa announcement of fourth quarterly results because of the global demand and supply guidance the company provides. Why only our industry officials, Alcoa, the first S&P 500 company off the block with annual results, is seen as the bellwether of the US industry in general for the white metal's wide application in swathes of areas from aerospace to automobile to packaging.

The world Aluminium industry struggled through 2012, except for the final quarter with some good macro stories finally emerging from China and the US, and the European recession appearing to be less severe than before. It managed to negotiate volatile metal prices and global economic instability, including whether China would be able to escape a hard landing, as Aluminium consumption rose 6% last year. Alcoa chairman and CEO Mr Klaus Kleinfeld has forecast that demand for the metal will accelerate to 7% in 2013, once again principally on the back of China and to a lesser extent India. In the forecast of nine per cent Indian Aluminium demand rise to 3.8 million tonnes, Mr Roongta and Mr Das will find vindication of their earlier assessments. Aluminium use in China is to advance 11% to 23 MT.

On the grounds that Alcoa, which went about the task of weeding out its high cost smelting capacity with vengeance, posted a net profit of USD 242 million in 2012 Q4 against a loss of USD 191 a year earlier we have reasons to hope that our Aluminium industry too, will show better working in the quarter ended December. Realization of average Aluminium price of USD 2,325 per tonne in the quarter when also there was 12% trimming of costs helped Alcoa to earn profits. Das told this paper earlier that huge tonnage tied up in financing deals and also stable inventories are driving premiums on Aluminium. Making price predictions is like playing a game of roulette. Even then, according to a poll of 20 analysts by a leading agency, median price forecast is USD 2,150 per tonne for 2013, USD 2,292 for 2014 and USD 2,400 for 2015 plus premiums.

India is in the midst of creating large smelting capacity, largely through Greenfield projects heralded by Hindalco and Vedanta. In this context, Indian investment in new capacity will find justification in the Alcoa forecast that global Aluminium demand will rise from 39.5 MT including 16.5 MT in China and 23 MT in the rest of the world in 2010, to 73.4 MT in 2020 at a CAGR of 6.5% with Chinese requirements racing to 37.7 mt. In retrospect, Alcoa is found conservative in its assessment, as the CAGR run rate of eight per cent in the first three years will bear it out. So, at 2012 end, the world Aluminium demand was 46.1 MT including 20.7 MT for China where CAGR was 12%.

The part of Kleinfeld presentation on China shows the country will remain relentless in building new smelter feedstock alumina capacity as also Aluminium capacity. While China produced 36.55 MT of alumina in 2012, this year it will have an incremental local supply of 4.15 MT also to be reinforced by imports of 3.9 MT. China buying alumina in the world market is always good news for Nalco with large exportable surplus. More impressively than rapidly expanding alumina capacity, China this year will have an additional Aluminium production of 2.8 MT over 20.8 MT in 2012.

Since simultaneously there will be a high cost capacity cut of 250,000 tonnes, a continuing exercise, the country will have metal supply of 23.5 MT against likely demand of 23 MT. Chinese demand may turn out to be better than is forecast as the country is to launch several recently sanctioned infrastructure projects. The North American demand will be up four per cent to 6.2 MT while the negative demand growth in Europe will lessen from 2% to one per cent to leave a use volume of 6.5 MT.

Source - Business Standard

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