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RusAl Predicts Competitors Will Cut Output in 2012

By The Moscow Times

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HONG KONG — Top aluminum producer RusAl said Monday that it expects more companies to cut aluminum output this year, with China accounting for about a third of global cuts, but still forecast that global output would top demand.

A supply glut on the back of a deepening European debt crisis and global economic slowdown has hurt demand and prices for the lightweight metal, sending many aluminum producers into the red and triggering a round of production cuts, including at top U.S. aluminum maker Alcoa.

"RusAl's estimation is that primary aluminum production losses ex-China may achieve 2.7 million tons in 2012, and expects that China closures will cut 1.2 million tons," RusAl said in a statement.

That would equal a total cut of 3.9 million tons, about 8 percent of its previous 2012

production forecast, and take forecast global output to about 48.75 million tons, a RusAl spokesman said.

RusAl, which is considering cutting aluminum output by 6 percent in the next 18 months, said it expected demand to rise 7 percent to 48.2 million tons, with 11 percent growth in China offsetting flat demand in Europe.

China accounts for about 40 percent of global output, and analysts cautioned that it was hard to gauge the outlook for production cuts in China.

"RusAl can say China will cut production, they don't know. The key variable is to see how Chinese output responds to rising costs. Chinese suppliers are swing, but quite nimble and can come on quite quickly," said ANZ Bank senior commodities strategist Mark Pervan.

Some analysts expect excess capacity in aluminum smelting will drag on for years as political pressures in China and Russia to keep jobs and push self-sufficiency prevent or delay plant closures.

Recovery Eyed

In a bright note, RusAl said demand remains well above 2009 recession levels, and it expected evidence of a potential recovery to come in the second quarter of 2012.

At around $2,254 a ton for three-month aluminum on the London Metal Exchange, prices have fallen by a third since hitting a record high of $3,380 in July 2008.

"Aluminum is a losing business because aluminum prices are very, very close to their cost curve. RusAl has already estimated that about 30 percent of world aluminum smelters are loss-making at today's prices," said Judy Zhu, analyst at Standard Chartered in Shanghai.

Highlighting the uncertain outlook for the industry, BHP Billiton has halted investment in the metal, while Alcoa said in January that it would slash output at two Spanish smelters and shut its Portovesme smelter in Italy. Norwegian producer Norsk Hydro has said it plans to idle a third of its output at a plant in Australia.

Global miner Rio Tinto also acknowledged a gloomy outlook for the sector last week, when it slashed the book value of its Alcan unit by $9 billion.

Under Pressure

RusAl said it believed that about a third of Chinese aluminum production capacity was unprofitable at current prices.

Many producers have been plagued by high costs. Aluminum Corp of China, the country's top aluminum maker, said in January that it expected profits for 2011 would fall more than 50 percent from a year earlier.

RusAl forecast the cost of production in China to continue rising in 2012 as Beijing maintains its efforts to rein in growth in energy-intensive industries, although it said low-cost aluminum production in the western parts of China may partly replace losses from high-cost

production.

Beijing was already imposing measures to address some of these issues, analysts said.

"In China we have seen very high-cost smelters still running, but we have seen structural changes already happening in the last few years, ... when we saw new capacity being built in western China where energy prices are lower," Standard Chartered's Zhu said. "We have also seen increased pressure for the closure of high-cost smelters in eastern China."

RusAl said worldwide primary aluminum production in 2011 was estimated at 45.6 million tons, a rise of 8 percent and higher than forecast aluminum consumption of 45.1 million tons, which was up 10 percent from 2010.

RusAl said its aluminum output rose 1 percent to 4.12 million tons in 2011 and alumina production was up 4 percent at 8.15 million tons.

The company decided to partially shift sales of aluminum produced at the end of 2011 to 2012, and revenue from these sales would be reflected in the first quarter of 2012, it said.

"The dynamic growth of the world economy in the first half of 2011 slowed down significantly by the end of the year, impacting the situation in the aluminum industry," RusAl said.

The company's shares lost more than half of their market value in 2011 before rebounding about 35 percent so far this year.

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