

EUROPEAN ALUMINIUM EXTRUSIONS MARKET OUTLOOK

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European extrusion demand has exceeded expectations in 2017. Year to date consumption rose to a six year high as of Q3, and growth has exceeded that of North America for five of the past six quarters. CRU expects consumption to rise by at least 2% per year from 2017 to 2020. This reference paper provides an overview of what is behind the growth, an overview of changes in market structure and risks to future demand outlook. The accompanying presentation expands upon these points.

In 2017, European extrusion demand is forecast to rise above 3Mt for the first time since 2011. The transportation sector accounts for the highest percentage of this demand increase. However, light vehicles production growth has been mixed at best; German production in April and June fell by over 15% y-o-y. Despite this, extrusion consumption in the German transport sector is rising. While CRU forecasts German automobile production to fall 2.4% in 2017, extrusion consumption in transport is expected to grow by 2.6%. Extrusions demand in this sector is hence increasingly driven by aluminium intensity in transport vehicles instead of headline automotive production. Consumer preference for lighter, more fuel efficiency vehicles is increasing aluminium intensity in vehicles.

An improved outlook for eurozone building and construction output has strengthened extrusions demand. This is partially due to improvements in Southern Europe. Housing starts in Spain are up, and the renovation of abandoned or old properties has increased. In Q1 2017, Spanish housing starts increased 28% year on year, albeit from a low base level. CRU forecasts Eurozone construction output to rise 2% y-o-y in 2017, the highest annual growth since the financial crisis.

German billet premiums are rising because of stronger than expected extrusions demand and some modest supply disruptions. Importantly, the billet upcharge in Europe had fallen to levels where billet remelters were making only small profits. Nonetheless, primary producers are very profitable shipping billet to Europe and increases in shipments to Europe are expected in 2018. This will cap the billet premium close to current levels for 2018, although Q1 2018 may settle at a higher level.

Over the next three years, CRU forecasts total extrusion demand to rise at a 2.3% average CAGR. Despite this, extruder margins are expected to tighten due to the rising share of imports, and the euro strength against the US dollar.