

# ALUMINUM ALERT

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## *10% Duty on US Aluminum Imports to Destroy At Least 23,000 Jobs and as much as \$45 billion*

By Jorge Vazquez | HARBOR's Founder & MD.

### Special Analysis Section 232.

March 2, 2018

HARBOR assembled a team of industry and econometrical experts to model the effect that a 10% duty on US imports of aluminum products from all countries will have on the US aluminum industry and manufacturing sector. The team worked for two weeks in assessing the impact.

The expected impact of this 10% duty on all aluminum imports after 24 months of its implementation is (all other factors constant):

a) US primary aluminum production will increase by at least 690,000 mton, but the expected rise in all-in prices is projected to destroy at least 600,000 mton of US primary aluminum demand.

b) US primary aluminum smelting gross product will increase by around \$1.9 billion, at the expense of destroying at least \$12 billion and as much as \$45 billion in the US manufacturing sector. This amplified negative effect on the US manufacturing sector comes from the fact that it is 80x bigger than US aluminum downstream industry.

c) US primary aluminum smelting direct jobs will increase by around 1,900 positions, but the duty is expected to destroy at least 23,000 and as many as 90,000 direct jobs in the US manufacturing sector.

d) The most impacted manufacturing sectors would (be in order of importance): i) Fabricated metal products, machinery, electrical equipment, appliances and components (65% of the expected jobs/GDP loss), ii) Motor vehicles, bodies, trailers and parts and other transportation equipment (32% of the expected jobs/GDP loss, and iii) Furniture and related products (3% of the expected jobs/GDP loss).

e) Final prices across the aluminum supply chain (primary aluminum and downstream products) will increase by a total of around 10%. This means an all-in domestic price increase of 10% for aluminum sheet, plate, foil, extrusion, castings, forgings and wires. The all-in price of primary and secondary aluminum (billet, slab, PFA, RSI) will also increase by about 10%. For SFA (A380 and A319) we expect a lower price increase. We expect the typical F-150 truck to see a price inflation impact of around \$150.

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f) The Midwest premium will increase from a duty unpaid of around 8.5 cent/lb to a duty paid of around 19.0 cent/lb. The 10.5 cent/lb increase equals to 10% of the all-in price of primary aluminum (LME price of 96.5 per lb and MW duty-un paid of 8.5 cen/lb). Upcharges for primary and secondary aluminum billet, slab, foundry and wire rod are expected to increase by at least 1 cent/lb.

g) US aluminum scrap supply (domestic generation plus net imports) is expected to increase by 638,000 per mton on a higher all-in price for primary aluminum (incentivizes collection, sorting and processing of scrap) and an open arbitrage to import scrap units from other countries. This doesn't account for the potential increase in US scrap supply if China decides to retaliate by restricting imports of US aluminum scrap units (China imported 820,000 mton in 2017 from the US).

h) Long term survival of US smelters is not guaranteed as US smelters such as Hawesville, Warrick, Wenatchee, Mt. Holly and New Madrid would still sit (after the duty) at the third and fourth quartile of the industry cost curve (among least competitive smelters in the Western World) and thus will still be exposed to curtailment in the next cyclical downturn.

## Recap Section 232 decision: 10% duty on all US aluminum imports.

a) President Trump announced today a 10% blanket duty on all US aluminum imports per Section 232 investigation.

b) Duties will be applied to all unwrought aluminum imports (primary and secondary) and wrought aluminum imports (plate, sheet, foil, extrusions, castings, forgings and wires).

c) Duties will apply to imports of these products from all countries (Canada included).

d) Duties will exclude aluminum scrap.

e) Duties are for an indefinite period.

f) President Trump announced today he will sign the decision next week.

g) We hear that the White House wants to see how financial markets react to this announcement before signing the order next week.