



FOR IMMEDIATE RELEASE
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A window into Global Aluminium demand and pricing

How supply shortages and rising LME is impacting Australian Aluminium suppliers to the window and door market

If you'd sat behind the desks of the CEOs of Australia's leading Aluminium window and door businesses in March 2021, as the first wave of COVID restrictions were rolling across Australia you'd never have predicted the turn events the industry would experience over the coming 18 months. Like many within the construction industry, Aluminium window and door manufacturers were forecasting reduced demand, construction down turns, contemplating staff reductions and operational stand downs.

Fast forward 18 months and as an industry we are riding a collective wave of strong construction demand, particularly across residential sectors. Local manufacturers are benefiting from the reduced presence of imported Aluminium window and door products, spurring on increased demand for locally produced Aluminium window and door systems.

Like many suppliers to Australia's construction industry, the strong growth and demand across the sector has created a different type of challenge for local Aluminium window and door manufacturers who are now faced with supply challenges due to material shortages and supplier capacity whilst subject to unprecedented Aluminium pricing pressures.

In fact, capacity to supply Aluminium products within Australia has never been pushed so hard with pricing impacts and supply shortages affecting everything from beer cans to car parts, not to mention Aluminium windows and doors.

Capral Aluminium is Australia's largest producer and distributor of Aluminium products. The diversified business supplies to a wide range of industrial sectors including, transport and marine but is also one of Australia's primary extruders of Aluminium for the local window and door industry.

Capral CEO Tony Dragicevich comments:

"Capral has seen a significant change in requirements for local aluminium supply over the past 18 months, we are noticing growing market share against import products. Of course, the Australian housing market is very buoyant benefitting from government stimulus and our customers supplying this sector are under pressure to meet the strong demand."

Australia is not the only country where the economy has been boosted by government stimulus, in addition to supply pressures there has been a significant lift in global commodity demand and prices, including aluminium.

Aluminium pricing can be complicated to understand for those of us who don't delve into the world of commodity markets, for Australian window and door manufacturers supplying into the local construction market there are 3 core elements impacting on the price of aluminium, all of which are experiencing record highs and ultimately impacting on price of windows and doors.

1. LME

LME is the market traded price of aluminium on the London Metal Exchange and is used globally (outside of China) as the primary cost of Aluminium. LME prices are currently at 10-year high and reached a record high of \$4.00/kg in October 2021, up a massive 50% from the start of the year.

2. Billet Premiums

Aluminium extrusion manufacturers, including Capral, extrude the aluminium profiles from a billet, being the base material extruders use for production. Billet is purchased from primary aluminium smelters both in Australia and internationally, where smelters add a number of base premiums for extrusion billet supply.

Over the past decade base billet premiums have been stable due to a reasonable supply/demand balance for billet across the globe. The situation has changed dramatically for 2022. Global demand for billet in 2022 has outstripped supply and has led to up to 350% increases in premiums for 2022 smelter supply contracts.

3. Extrusion Supply

With record levels of local extrusion supply and many extruders operating a full capacity it is likely that Australian window and door manufacturers will see the cost increases of aluminium raw materials experienced by the local extruders passed on through the supply chain. No doubt this will also place pricing pressures on builders and construction teams as the cost of common construction commodity items – like windows and doors- is set to rise over the coming year.

So, what is the forecast for 2022? Industry experts are purporting the cost of Aluminium will remain relatively high throughout 2022. Global factors play a large part in understanding this scenario, not least the impact of government directives in China and Russia who have traditionally been strong suppliers of Aluminium to the global market.

In August this year, Russia imposed a 15% export tax on aluminium. This has further increased regional market premiums and presents an upside risk on prices, if extended into 2022.

As China decarbonises, increasing smelting cuts have been taken to meet regional energy consumption and energy intensity targets under China's 5-year plan to reduce emissions. China aluminium cuts are now ~2.3MT/year with risk of further cuts in coming months.

Combined with other factors already described this has driven up LME metal prices to multi-year highs

Finally, freight costs and availability continue to place pressure on the local supply of imported billet with spot prices for containers increasing by more than 200% in 2021 and the shortage of containers is expected to persist in 2022. Costs for importers to ship to Australia will also increase significantly. Therefore, from a profitability perspective, aluminium smelters may be able to generate higher margins in alternative markets, such as the EU and US, relative to Australia with strong product and market premiums. To maintain the flow of billets in Australia, the product premiums have substantially increase.

Tony Dragicevich comments,

“From a local perspective this really is a double edge sword for Australian extruders, we have excellent demand, but costs continue to rise. At Capral Aluminum we are working very hard to ensure our plants are operating at full capacity and maximum efficiency so we can mitigate any unnecessary cost increases for our customers within the window and door industry and meet their expectations around timely supply. We are committed to supporting the local window and door manufacturing industry and have worked very hard to establish the additional capacity needed to supply local manufacturers. Throughout 2021 we have made a number of capital improvements and have even brought an additional extrusion press online to meet demand”

“Aluminium windows and doors products represent the largest segment of the Australian Window and door industry, these products are versatile, durable, strong and infinitely recyclable. We are lucky to have such a strong local industry, developing and supplying locally designed, tested and manufactured products to the market.”

“There are few industries who are not facing unprecedented times in response to COVID 19 and the changes it has brought to our economy, the Aluminium window and door industry is no different, I hope the Australian construction industry will continue to support our local manufacturers well into the future.”

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