

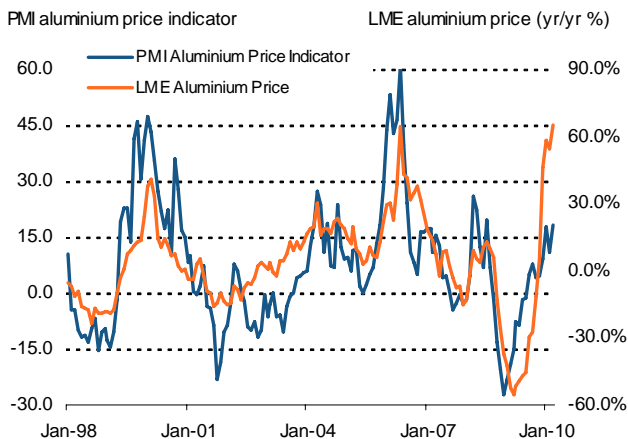
Commodities / aluminium

Aluminium prices hit 19-month high as demand expectations rise

The price of aluminium climbed to \$2,423 on the London Metals Exchange (LME) in mid-April, its highest level since the Lehmans collapse. That represents a rise of around 88% from its low point just over a year ago, although prices remain below the peak of \$3,075 in July 2008.

Higher exchange-quoted prices are feeding through into worldwide manufacturers' purchasing costs: data compiled by Markit show that the incidence of increased prices paid for aluminium items during March was the highest since July 2008.

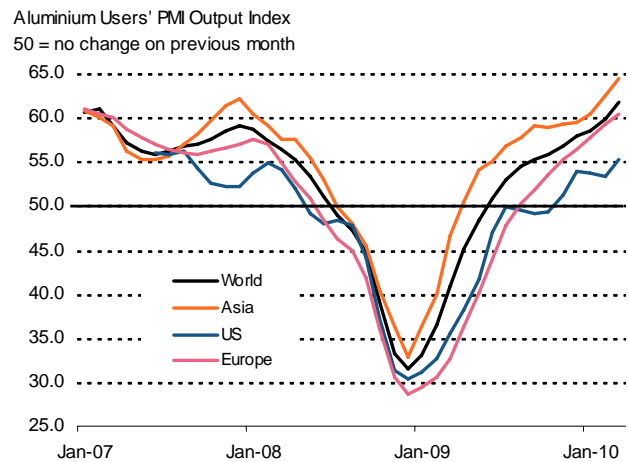
Aluminium Price vs. PMI



The rise in prices reflects strengthening demand from industrial users and increased confidence among investors as to future demand prospects. This is underlined by PMI data which show a strong recovery in output at aluminium-intensive firms.

The upturn has been led by Asia, followed by Europe. The US has seen a weaker expansion to date but is now starting to post solid growth. Production in Asia increased at the fastest pace in over six years of data collection in March whilst the latest rises in Europe and the US were the strongest for just over three and two-and-a-half years respectively.

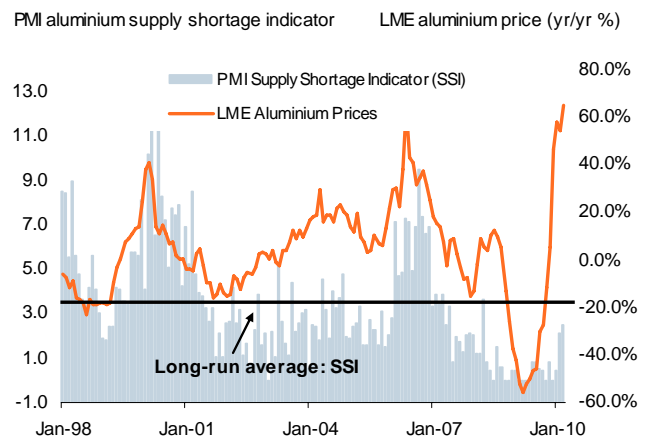
PMI Output Index



The outlook for aluminium prices depends on the extent to which current expectations for strong demand growth are borne out. Last week's buoyant Chinese growth figure (GDP rose at an annual rate of 11.9% in Q1) is one such indication that these expectations are justified.

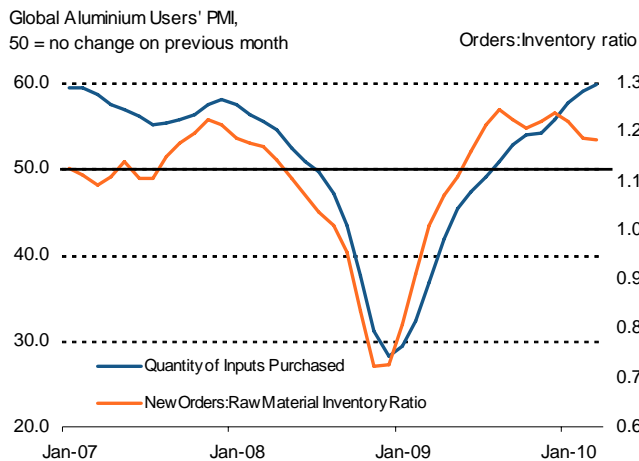
However, there is also some evidence to suggest caution. First, there is little evidence as yet of aluminium shortages. LME inventories currently stand at a relatively high 4.57 million tonnes. Moreover, purchasing managers surveyed by Markit have reported few difficulties acquiring aluminium inputs – in marked contrast to previous price spikes in 2000 and 2006.

Supply Shortage Indicator (SSI)



Second, PMI data from aluminium-using firms suggests that inventory cycle effects may well have peaked. The ratio of aluminium users' order books to stocks of inventories tends to move in advance of changes in purchasing activity. This ratio has eased at the start of 2010, suggesting that restocking at manufacturers will provide less of a support to demand than has been the case in recent months.

Inventory Cycle – aluminium users



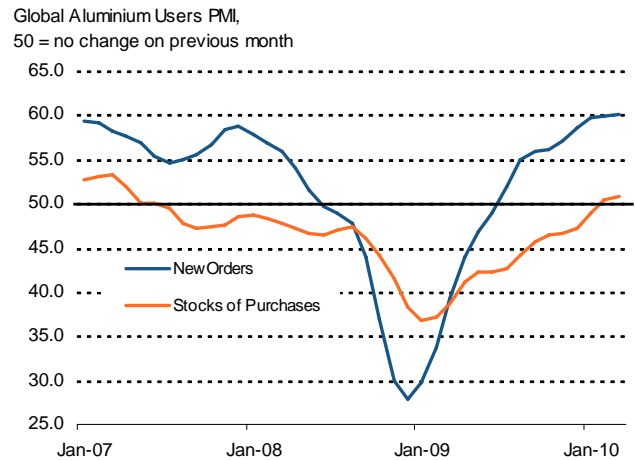
Monitoring developments at aluminium-intensive manufacturers in the coming months will provide an important indication of whether demand and supply fundamentals can support current high prices or whether a correction could be on the cards.

PMI survey of aluminium using manufacturers

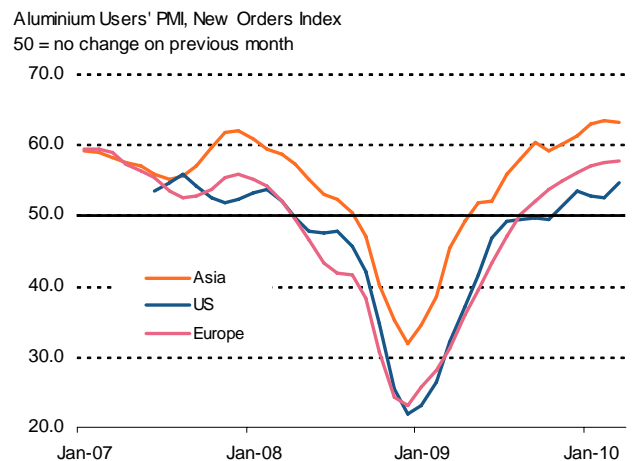
Using data from our established survey panels across Asia, Europe and the US, Markit produce data tracking trends at aluminium-intensive goods producers. Data cover indexes for output, new orders, new export orders, input purchasing, stock holdings, prices, vendor delivery times and employment.

For further information on commodities PMI data, please contact economics@markit.com.

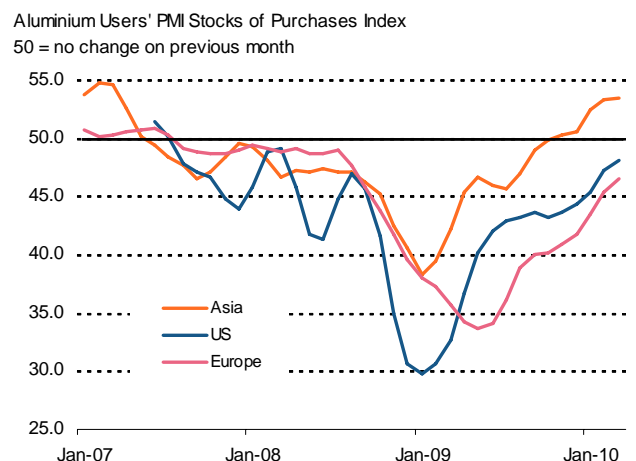
New orders and inventories



New orders by region



Inventories by region



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