



Aluminum Pricing and the New Price Risk Toolbox

The Trump Presidency is in full force and there are talks of protectionism, trade rebalancing, import duties, and of course - the Make It in America mandate. There's reason for optimism but also the potential for volatility and risk in the aluminum market. There has never been a more important time to assess your aluminum price risk management strategy.

When a buyer asks me "is the market going up or down?", the easy answer is usually either "Yes." or "Both." I don't have a crystal ball, but I do think the fundamentals support the recent upward trends. Rarely has there been a time in the last decade that would challenge the current margin compression of the entire supply chain. Scrap dealers, auto-shredders, smelters and brokers are coming out of two full years of extreme pricing pressure - and from that point of view I would give an upward bias to overall market pricing and limited downside in the event of demand destruction due to the possibility of recession in the next year. But many other risk factors remain - from the unforeseeable impact of any imports and duties to the balance of global aluminum supply and demand and maybe most importantly - basis risk.

For the OEM that has in-house casting or who subcontracts the casting, changes in market prices are a real concern. Fortunately, there are many tools in the toolbox for managing that risk. NASAAC contracts are now following the physical market more reliably, and the CME A38 Contract is a promising new tool to hedge against monthly Platts A380 pricing. Another option is setting fixed price contracts for metal, which shifts price risk (and opportunity) to the die caster or the smelter. For most die casters, changes in published prices do not matter much, as swings in published metal prices are a pass through event. But die casters will need to pay attention to a new risk factor on the horizon: basis risk.

Contract price deltas could change significantly - introducing a basis risk for die casters similar to what was seen when NASAAC differentials changed in 2013. How could this risk translate to a die casting company? If a die caster's pricing and profit margin with an OEM includes the expectation of buying at a certain discount, and there ever came a point where it could not get that discount anymore, that would be an example of basis risk. We just now saw this play out in the Silicon market - in just 3 months discounts evaporated and published prices moved up nearly 12 cents. We may be in for a wild ride - are you prepared?

Regardless of the market direction, one certainty is that the spotlight is on U.S. manufacturing. It's up to us to show the world why America is still a great place to manufacture.



Gary Borner, *Vice-President*
Spectro Alloys Corporation.

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