BASE METALS ANALYST

Aluminium: A Tale of Two Supply Shocks

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- **Middle East outages keep the aluminium market tighter for longer, even if the Strait reopens.** Since our last update, industry feedback and company announcements point to a slower recovery in Middle East production than we had initially assumed. Even if the Strait of Hormuz reopens under the announced interim deal, smelters cannot immediately return to full capacity as damaged potlines need repairs and curtailed capacity must be restarted gradually. Therefore, we nudge higher our Q3 2026/average 2027 LME aluminium price forecasts to $3,300/$2,950/t from $3,200/$2,750/t previously (Exhibit 1), but remain below forwards at $3,400/$3,250/t, as stronger Indonesia and China supply growth — helped by high smelter margins (Exhibit 4) — keeps our medium-term bearish view intact.
- **Middle East supply losses persist into 2027.** We downgrade Middle East output by ~660kt in 2026 and ~1Mt in 2027, as we now assume damaged capacity restarts in early 2027 rather than H2 2026. We now expect Bahrain output to return to pre-conflict levels by mid-2027 and the UAE by end-2027. Recent precedent points to around a one-year period before output can be fully restored: following the April 2025 Iberian grid outage, Alcoa completed the San Ciprián restart in mid-2026. This leaves the global aluminium market in a 720kt deficit/590kt surplus in 2026/2027 vs. a 570kt deficit/1.3Mt surplus prior, with lower Middle East output partly offset by higher Indonesia and China production (Exhibit 2). This is the tale of two supply shocks: a near-term Middle East shock that tightens the 2026/2027 balance and supports near-term prices, set against a structural China-backed supply wave, led by Indonesia, that increasingly offsets the disruption over time and keeps us bearish further out (Exhibit 7).
- **Indonesia drives medium-term supply growth.** We raise our Indonesian primary aluminium production forecast to 1.7Mt in 2026 and 2.9Mt in 2027 from 1.6Mt and 2.5Mt previously (Exhibit 9), reflecting faster ramps at Adaro, Taijing Morowali and Juwan Weda Bay, as well as the inclusion of Harita Danantara Inalum from 2027 (Exhibit 9). Recent data support the ramp, with Indonesian output up around 89% YoY YTD, suggesting projects are progressing broadly in line with the faster supply path. We also have more confidence that power availability is not a binding constraint for the 2026 projects. Expert feedback suggests producers are prioritising fast ramp-ups while margins remain high, supported by captive or dedicated power arrangements and some reallocation

of power from nickel to aluminium projects in industrial parks. This does not fully offset the Middle East loss in 2026, but Indonesian supply growth underpins our surplus forecast from 2027 onwards, reinforcing our medium-term bearish view once Middle East production starts to recover.

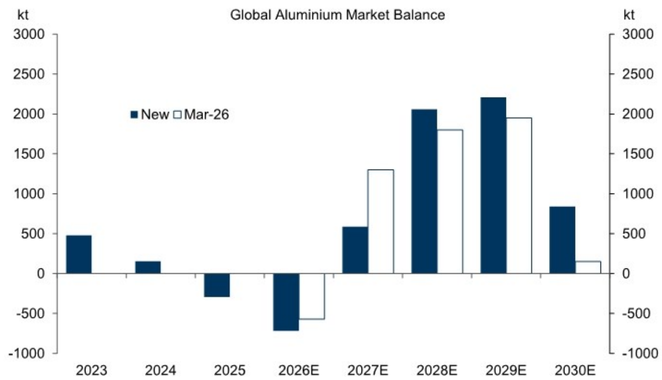
- **China adds to the supply offset.** We raise our China primary aluminium production forecast to 45.6Mt in 2026 and 46.3Mt in 2027, from 45.2Mt and 45.9Mt previously, as strong industry margins support restarts, selected replacement projects and some estimated overproduction above the headline cap (Exhibit 10). Recent data suggest China output has already moved above the headline 45Mt capacity cap on a run-rate basis (Exhibit 11). Expert feedback suggests the YTD strength could reflect unauthorized overproduction, continued operation of old capacity under capacity swap programmes and short-term potline intensification, while the production hit from recent environmental inspections and reported curtailments appears relatively small. This means China can provide another partial offset to lower Middle East output in 2026/27 alongside Indonesia.
- **Two-sided risks around Middle East supply recovery.** Risks to our Middle East supply recovery assumption are two-sided, although the announced interim deal to reopen Hormuz has lowered the likelihood of a more severe disruption beyond announced curtailments (Exhibit 12). A slower restart of damaged Middle East capacity would remove around 500kt of 2027 supply versus our base case, keeping the 2027 market fairly balanced and prices around $3,250/t. A faster restart would add around 600kt of 2027 supply, lifting the surplus toward 1.2Mt and bringing prices closer to $2,750/t.
- We close our short Dec-26 LME aluminium trade for a potential loss of ~$610/t, and roll to a short Dec-27, where our forecast sits furthest below the forward and best expresses our structural surplus view. We also reiterate our long Dec-27 copper vs short Dec-27 aluminium trade (+$1,965/t since November), where the remaining upside is now concentrated in the aluminium leg. The key risk to both is a lengthier Middle East conflict or slower restart of disrupted capacity, keeping aluminium higher for longer and delaying the move to our forecast surplus.

A Tale of Two Supply Shocks

Exhibit 1: We Raise our 2027 Price Forecast to $2,950 But Our Forecast Stays Well Below the Forwards

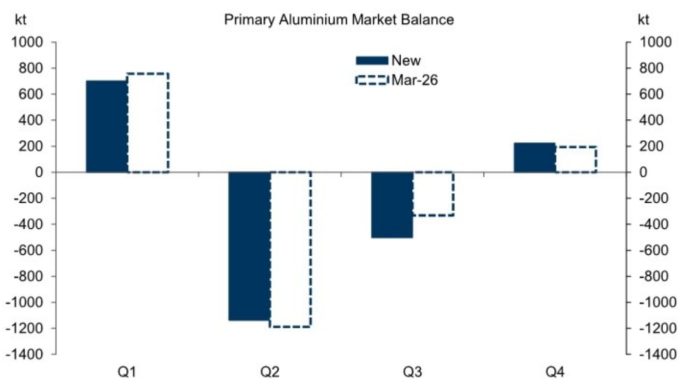
Source: Bloomberg, Goldman Sachs Global Investment Research

Exhibit 2: We Expect the Global Aluminium Market to Shift into a Smaller Surplus in 2027 Than Previously Forecast on Lower Middle East Supply



Source: CRU, Wood Mackenzie, SMM, Goldman Sachs Global Investment Research

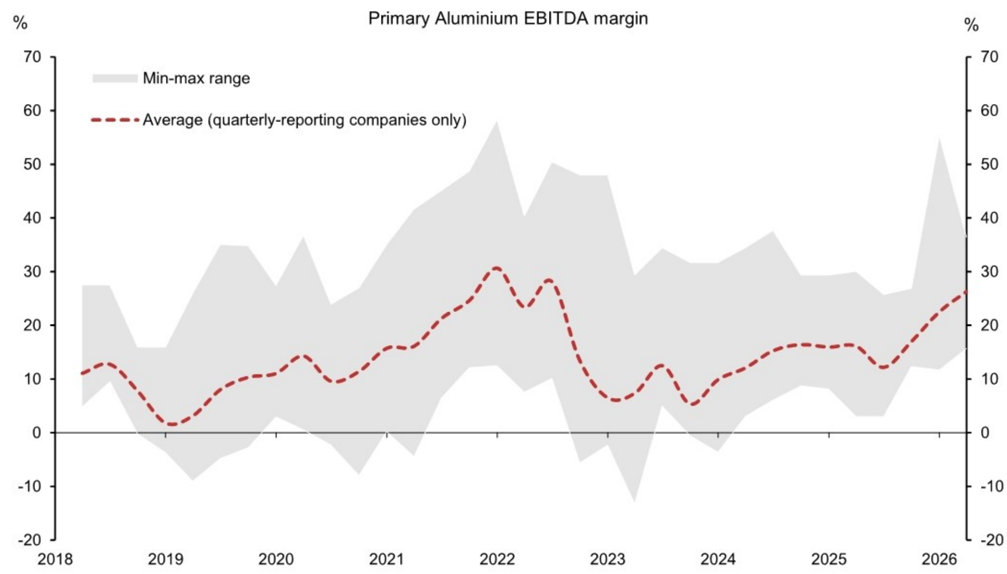
Exhibit 3: We Expect a Larger Q3 Deficit Before the Market Returns to Surplus in Q4



Source: CRU, Wood Mackenzie, SMM, Goldman Sachs Global Investment Research

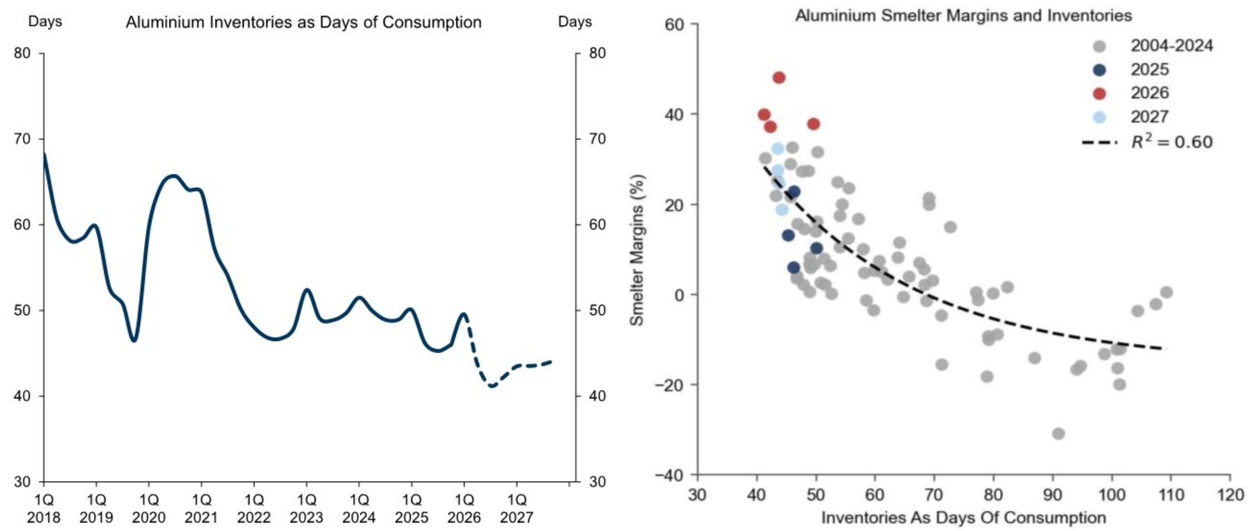
High Smelter Margins Support Stronger Supply Growth

Exhibit 4: Aluminium Production Margins Are Approaching the 2022 Highs



Source: Company filings, Goldman Sachs Global Investment Research

Exhibit 5: Low Inventory Cover Supports Higher Smelter Margins

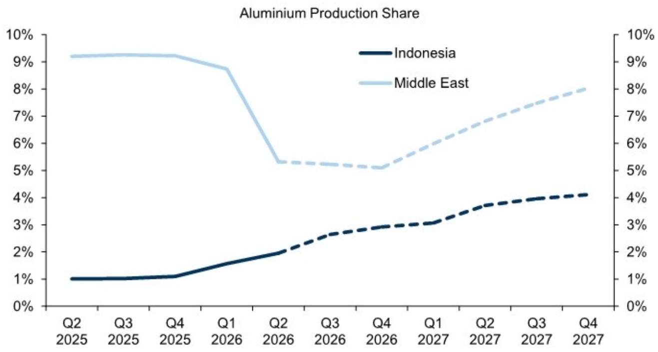


Total stocks include visible liquid inventories, including LME, SHFE, CME, Japan port stocks and China social inventories, as well as producer inventories, government stockpiles and estimated unreported inventories. RHS observations are quarterly. Data from 2004-2024, excluding the period from Q4 2009-Q4 2011 when LME warehouse queues impacted prices.

Source: Bloomberg, CRU, Goldman Sachs Global Investment Research

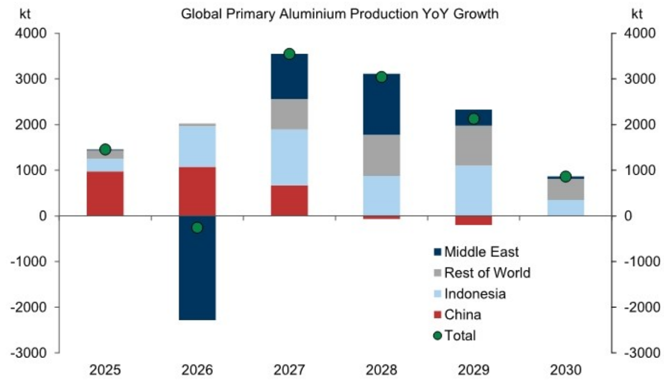
A China-Backed Supply Wave Offsets the Middle East Shock Over Time

Exhibit 6: Two Supply Shocks: Middle East Output Falls, Indonesia Supply Catching Up



Source: CRU, SMM, Goldman Sachs Global Investment Research

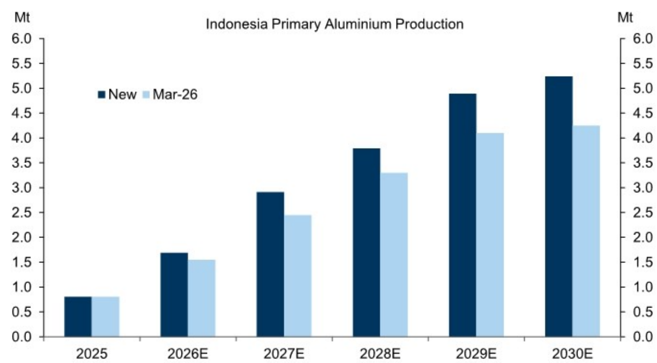
Exhibit 7: We Expect Indonesia and China Production Growth to Partly Offset Middle East Losses



Source: CRU, SMM, Goldman Sachs Global Investment Research

Indonesia Drives Medium-Term Supply Growth

Exhibit 8: We Raise Our Indonesian Primary Aluminium Production Forecast to 1.7Mt in 2026 and 2.9Mt in 2027



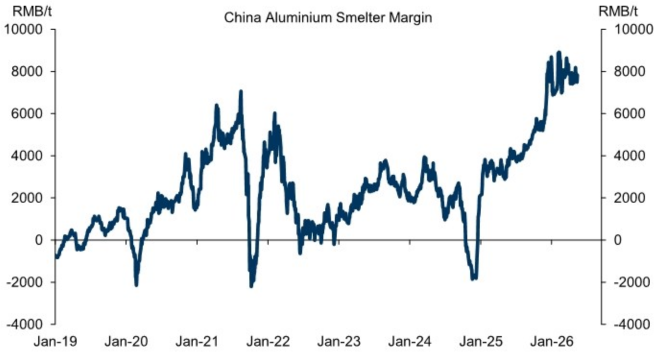
Source: CRU, Goldman Sachs Global Investment Research

Exhibit 9: We Include Harita Group Smelter from 2027 in Our Base Case

Source: CRU, Goldman Sachs Global Investment Research

China Adds to the Supply Offset

Exhibit 10: High China Smelter Margins Support Further Output Growth



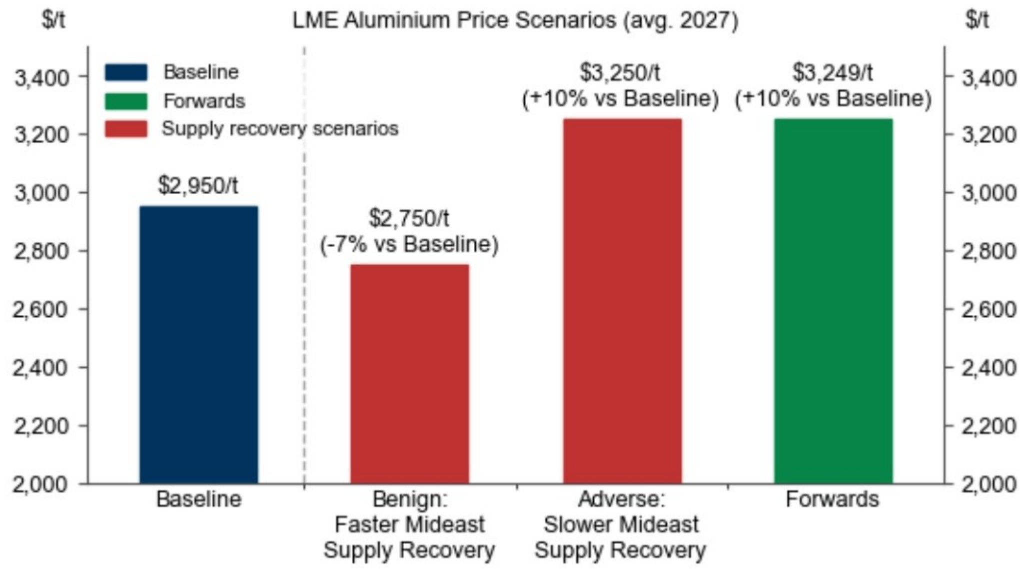
Source: Wind, SMM, Goldman Sachs Global Investment Research

Exhibit 11: China Output is Testing the 45Mt Capacity Cap

Source: SMM, Goldman Sachs Global Investment Research

Two Sided Risks Around Middle East Supply Recovery

Exhibit 12: Risks to our Middle East Supply Recovery Assumption are Two-Sided



Source: Bloomberg, Goldman Sachs Global Investment Research

Appendix

Exhibit 13: We Still Expect the Global Aluminium Market to Move into Surplus From 2027 Onwards

World Aluminium Market Balance								
'000 tonnes	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**
Market balance								
Primary Production	70,689	73,247	74,703	74,445	77,995	81,039	83,168	84,032
Primary Consumption	70,210	73,091	74,997	75,165	77,405	78,979	80,958	83,192
Market balance	**479**	**156**	**-294**	**-720**	**590**	**2060**	**2210**	**840**
Total Inventories	9,559	9,715	9,421	8,702	9,291	11,351	13,561	14,401
As days of consumption	50	49	46	42	44	52	61	63
Reported Inventories	3,671	3,796	3,631	2,900	3,504	5,564	7,775	8,615
y/y change	*264*	*125*	*-164*	*-731*	*604*	*2060*	*2211*	*840*
Production								
Primary Production	70,689	73,247	74,703	74,445	77,995	81,039	83,168	84,032
y/y change	*2.7%*	*3.6%*	*2.0%*	*-0.3%*	*4.8%*	*3.9%*	*2.6%*	*1.0%*
China	41,584	43,547	44,523	45,600	46,270	46,200	46,000	46,000
World Ex-China	29,105	29,700	30,179	28,845	31,725	34,839	37,168	38,032
Consumption								
Total Aluminium Consumption	98,175	100,982	103,442	104,149	106,993	109,174	111,834	114,887
y/y change	*2.3%*	*2.9%*	*2.4%*	*0.7%*	*2.7%*	*2.0%*	*2.4%*	*2.7%*
of which								
Grid & Power Infrastructure	11,479	12,490	13,344	14,418	15,224	15,946	16,855	17,868
EVs & Renewables	7,734	9,298	10,804	10,943	11,696	12,297	13,658	15,253
Electrification share of demand	*20%*	*22%*	*23%*	*24%*	*25%*	*26%*	*27%*	*29%*
China building	10,038	9,435	8,055	7,068	6,680	6,425	6,232	6,045
Rest of World	68,924	69,758	71,238	71,720	73,393	74,505	75,089	75,721
Primary Aluminium Consumption	**70,210**	**73,091**	**74,997**	**75,165**	**77,405**	**78,979**	**80,958**	**83,192**
y/y change	*1.4%*	*4.1%*	*2.6%*	*0.2%*	*3.0%*	*2.0%*	*2.5%*	*2.8%*
China	42,888	45,471	46,815	47,090	48,404	49,573	51,132	52,777
World Ex-China	27,322	27,620	28,182	28,075	29,001	29,406	29,826	30,415
Total Scrap Consumption	**29,928**	**29,911**	**30,514**	**31,067**	**31,728**	**32,378**	**33,113**	**33,994**
y/y change	*4.5%*	*-0.1%*	*2.0%*	*1.8%*	*2.1%*	*2.0%*	*2.3%*	*2.7%*
Scrap share of Consumption	30%	29%	29%	29%	29%	29%	29%	29%
Aluminium price forecast, $/t	**2,285**	**2,457**	**2,640**	**3,300**	**2,950**	**2,800**	**2,700**	**2,800**
Regional Aluminium Market Balance								
Before Primary Aluminium Net Trade								
China	(1,304)	(1,924)	(2,291)	(1,490)	(2,134)	(3,373)	(5,132)	(6,777)
World Ex-China	1,783	2,080	1,997	770	2,724	5,433	7,343	7,617
China Primary Aluminium Net Imports	*1,458*	*2,097*	*2,479*	*2,700*	*3,000*	*3,900*	*5,400*	*6,600*
After Primary Aluminium Net Trade								
China	154	173	188	1,210	866	527	268	(177)
World Ex-China	325	(17)	(482)	(1,930)	(276)	1,533	1,943	1,017

Source: CRU, Wood Mackenzie, SMM, Bloomberg, Goldman Sachs Global Investment Research

Exhibit 14: We Expect the LME Aluminium Price to Average $3,300 in Q3 2026, Before Moving Lower As Inventory Rebuilds From Q4 2026

	GS Forecast ($/mt)		
	LME Aluminium New	LME Aluminium Prior	LME Aluminium Futures
2026	3,300	3,200	3,404
2027	2,950	2,750	3,249
2028	2,800	2,600	3,127
2Q26	3,550	3,450	3,548
3Q26	3,300	3,200	3,397
4Q26	3,200	3,000	3,362
1Q27	3,100	2,900	3,312
2Q27	3,000	2,800	3,270
3Q27	2,900	2,700	3,229
4Q27	2,800	2,600	3,185
Jun-26	3,510	3,365	3,548
Jul-26	3,410	3,285	3,402
Aug-26	3,300	3,200	3,397
Sep-26	3,265	3,135	3,392
Oct-26	3,235	3,065	3,380
Nov-26	3,200	3,000	3,362
Dec-26	3,165	2,965	3,344

Source: Bloomberg, Goldman Sachs Global Investment Research

Disclosure Appendix

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