
WHAT'S HOT: POTENTIAL FOR EU SANCTIONS ON RUSSIAN ALUMINIUM

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As the two-year anniversary of the Ukraine war approaches¹, there is speculation that another round of sanctions on Russia will be announced. However, the European Union is running out of things it can feasibly sanction. An article in the Politico magazine² raised the possibility of sanctioning all Russian aluminium. Previous rounds of sanctions left around 85% of Russian exports to the EU untouched. In December 2023 the United Kingdom widened its aluminium sanctions to include almost all Russian material. The US applies a punitive 200% tariff on Russian aluminium. Hence the speculation in the EU will follow.

EU's Russian dependency maybe declining paving way for sanctions

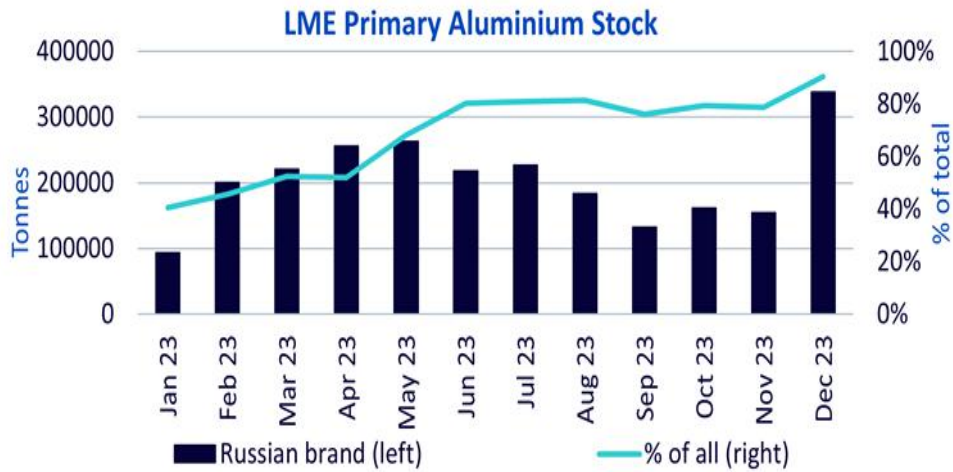
High dependency on Russian aluminium imports was most likely reason why it escaped previous rounds of sanctions. According to Fastmarkets, the EU imports 4.5 million tonnes of aluminium of which more than 1 million tonnes were from Russia prior to the war. However, trade data shows that imports of Russian aluminium ingots in the EU fell by 40% to around 10% of total imports. Many European companies have voluntarily 'self-sanctioned' to distance themselves from Russian risk.

LME overwhelmed with Russian stock

That may also explain why 90% of primary aluminium stock at the London Metals Exchange (LME) is from Russia. While the LME has banned Russian brands from UK warehouses, that ban does not apply through its international network of warehouses. Although the UK government restricted UK persons acquiring, importing, supplying, and delivering Russian-origin metal on 15 December 2023, the issuance of a trade licence³ allows certain activities by the exchange and its members. Effectively Russian aluminium can be delivered and traded at the LME. That is why the exchange is seen as the venue of last resort among traders. In January 2023, Russian brands only accounted for 41% of LME stocks, by December 2023 it became 90%.

Upside price pressure for aluminium

A potential EU ban on Russian aluminium could force the LME to follow suite as it becomes overwhelmed with Russian stocks. We believe that has the potential to tighten the market and we expect if we were to get an announcement from the EU or LME, it would act as a catalyst for upside price increases in aluminium.



Source: London Metal Exchange, WisdomTree, January – December 2023.

Historical performance is not an indication of future performance and any investments may go down in value.

Sources

- ¹ The war started on 24th February 2022, when Russia invaded Ukraine
- ² <https://www.politico.eu/newsletter/brussels-playbook/ursula-von-der-leyens-campaign-rules/>
- ³ <https://www.gov.uk/government/publications/trade-licence-for-acquisition-of-metals-warrant>

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