

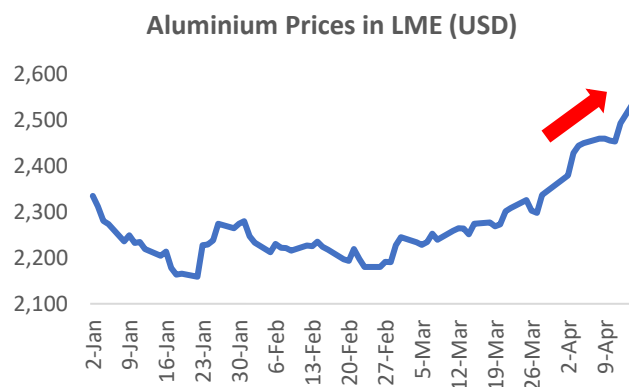
Aluminum Prices Surge as UK and US Impose Sanctions on Russian Metals**Key highlights**

Report date: 16.04.2024

The London Metal Exchange (LME) saw a record high in aluminum prices as a result of US and UK sanctions banning the delivery of Russian supplies from Friday. The sanctions intend to deter President Vladimir Putin from financing his warfare. Yet, the sanctions have created a great level of uncertainty in the commodities markets. Aluminum increased by as much as 9.4%, the highest since the contract's current version was introduced in 1987. With the nickel rising as much as 8.8%, brokers are preparing for a significant disruption in the supply chain. Fears that the sanctions would limit Russian supplies to the Western markets drove the immediate price action.

Base metal prices in LME

Based on the last trade on the LME on Monday, April 15th, aluminum prices closed at USD 2,548, marking a 2% surge compared to the previous day and a 9% increase in price YTD. Throughout the month of April 2024, prices surged by around 7%. Additionally, copper prices surged by approximately 12% YTD, while nickel prices soared by more than 9% YTD in Friday's trade on the LME.



Source: Bloomberg

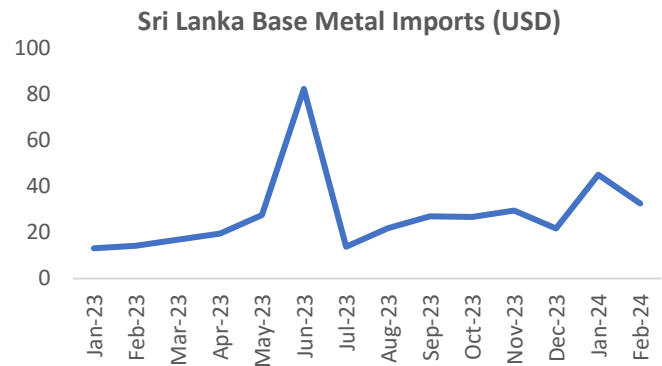
Impact on the listed counters on the CSE

The ban on Russian metals such as aluminum and copper could disrupt global supply chains, potentially causing delays or shortages in Sri Lanka's import of these metals. This could impact industries like construction, manufacturing, and infrastructure development, leading to increased input costs and project delays. Of the listed counters, manufacturing companies particularly engaged in the construction sector could see a negative impact due to higher input costs. Some of the counters that are exposed are ACL, SIRA, KCAB, ALUM, ALUF, LALU, and PARQ. The higher input costs could potentially squeeze profit margins of these companies unless they can pass on the increased costs to consumers through higher selling prices. Further, higher product prices could dampen consumer demand for goods manufactured using base metals, which could negatively affect companies' revenues and profitability. On the other hand, the disruptions in the global supply could lead to delays in completing manufacturing orders, further dampening the volumes. This could lead to higher operating leverage in construction companies. Given below is a description of the construction counters that are exposed to this risk.

Company	Products
ALUM.N	Manufactures aluminum doors, windows, curtain walls, building systems, shop fronts, partitions, handrails, aluminum pipes and solar mounting systems
LALU.N	Manufactures aluminum doors and windows
ALUF.N	Offers aluminum windows, doors, and facades
PARQ.N	Produce aluminum doors, windows, kitchen cabinets, curtain walls, shop fronts and partitions by its subsidiary Swisstek Aluminium
ACL.N	Produces over 250 types of cables (aluminum & copper) and aluminum blade fans
KCAB.N	Manufactures electric cables and fans
SIRA.N	Manufactures electric cables

Base metal imports in Sri Lanka

In February 2024, Sri Lanka imported base metals valued at USD 32.5 Mn, representing a 129% increase compared to the previous year and a 28% decline compared to the previous month. Base metal imports accounted for an average of 2% of total imports and 3% of imports of intermediate goods. Sri Lanka's trade balance could see a negative impact due to the increased import costs for base metals. The majority of aluminum articles imported to Sri Lanka originate from the USA, UK, Australia, New Zealand, and Canada. (UN Comtrade)



Source: CBSL

Russia's position in the metal market

According to LME data for March 2024, the available aluminum stocks in warehouses registered with the London Metal Exchange were 91% Russian-origin. This figure remained constant from the previous month. Certain producers, who compete with Russia's Rusal (one of the world's largest aluminum producers, based in Russia), and some Western consumers, who have shunned Russian metal since Moscow's invasion of Ukraine in 2022, have expressed concern about the high percentage of Russian-origin metal in LME inventories. According to the LME, the proportion of Russian-origin copper stocks increased to 62% in March from 52% in February and the proportion of Russian nickel increased to 36% from 35% in the same time frame.



Source: Bloomberg

AMBEON SECURITIES (PVT) LIMITED

No: 10, 2nd Floor
Gothami Road,
Colombo 08,
Sri Lanka.

T : +94 11 532 8 100

F : +94 11 532 8 177

E: research@ambeonsecurities.lk



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Sales Team

Charith Kamaladasa

Director/CEO

charithk@ambeonsecurities.lk

Niranjana Niles

Executive Director

niles@ambeonsecurities.lk

Romesh Kenny

Senior Manager Institutional Sales

romesh@ambeonsecurities.lk

Chinthaka Weeraratna

Senior Investment Advisor

chinthaka@ambeonsecurities.lk

Pasindu Yatawara

Senior Investment Advisor

pasindu@ambeonsecurities.lk

Research Team

Hansinee Beddage

Manager Investment Research

hansinee@ambeonsecurities.lk

Shashikala Hanshani

Trainee Investment Research Analyst

Amoda Prasansana

Trainee Investment Research Analyst

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