Hilco Global
AN ORIX COMPANY

SMARTER PERSPECTIVE: METALS

How Tariffs, Conflict, and the Gulf Are Reshaping the Global Metals Market

By Michael Sullivan

June 2026

The metals market is not simply volatile right now. It is actually being structurally reshaped in real time. What began as a policy-driven shift in U.S. trade has now collided with a geopolitical shock in one of the world's most important production regions. The result is a market defined by constrained supply, rising costs, and rapid repricing risk. For lenders and companies with exposure to metals – particularly aluminum – the issue is no longer whether conditions are unstable but, rather, how quickly that instability is feeding into balance sheets.

Trade Policy Set the Stage

The current environment started with policy, not conflict. Since early 2025, the United States has materially tightened its metals trade posture through Section 232 tariffs. Steel and aluminum duties, initially set at 25 percent, were then increased to 50 percent. Copper was later pulled into a similar framework. Country-level exemptions that had previously softened the impact were largely removed.

The structure now effectively applies the highest tariffs to primary metals, with somewhat lower rates on derivative products and metal-intensive equipment. The intent is clear: push production onshore and reduce reliance on imports. The reality is far more complicated.

The United States still relies heavily on imported aluminum. According to the Aluminum Association, imports account for roughly half of domestic consumption, with Canada supplying the majority of primary aluminum. That dependency means tariffs function less as a short-term protective measure and more as a direct cost increase for downstream industries. The cost of primary aluminum ingot imported into the United States has increased from approximately $3,400 per metric tonne in February 2025 (prior to the latest round of tariffs) to $6,100 per metric tonne in May 2026. The majority of that increase is tariff-based, with the balance driven by Iran-war related supply disruptions. U.S. aluminum users are now paying significantly more for imported aluminum while expansion of U.S. production remains limited.

Automotive, aerospace, construction, packaging, and clean-energy manufacturing have all felt the pressure. Retaliatory measures from Canada and the European Union have added another layer of friction. By the start of 2026, even before the Middle East conflict escalated, the aluminum market was already tight. Prices were elevated, sourcing was less flexible, and buyers had fewer options.

Why the UAE Matters So Much

The disruption in the Gulf matters because the United Arab Emirates (UAE) is not a marginal player in aluminum markets. It is one of the industry's structural anchors. Aluminum smelting is fundamentally an electricity business. Power is typically the largest production cost, and reliability matters as much as price. This is where the UAE has historically held a major advantage, largely because the country built its aluminum industry around vertically integrated energy systems. Emirates Global Aluminium (EGA) operates with dedicated generation assets specifically designed to support smelting operations. These systems provide continuous baseload power at industrial scale, which is critical because aluminum smelters cannot tolerate power instability. Even short interruptions can damage electrolytic cells and force costly restarts.

Historically, that advantage came from abundant natural gas resources. More recently, the UAE has reinforced its position through nuclear and solar generation, including the Barakah nuclear facility and major solar projects. The result is one of the most energy-efficient and operationally reliable aluminum production hubs in the world.

EGA alone accounts for roughly four percent of global aluminum production, making it one of the largest producers outside China. The UAE's importance is not based on raw materials. It is based on the ability to convert energy into aluminum at scale, continuously, and at globally competitive costs.

That is what makes current disruptions so consequential. When UAE production is impaired, the market is not losing marginal supply. It is losing a core source of globally integrated primary aluminum embedded in automotive, aerospace, packaging, and construction supply chains.

Middle East Supply Shock

The conflict in the Middle East turned a tight market into a constrained one almost overnight. Gulf Cooperation Council countries produce roughly 6 million tonnes of aluminum annually, or about 9 percent of global output, much of it shipped through the Strait of Hormuz.

The crisis is straining global aluminum supplies at the exact moment demand remains strategically important for industries ranging from fighter jets and beverage cans to solar infrastructure and electric vehicles. Iran's strikes on Gulf aluminum facilities, combined with prolonged disruption through the Strait of Hormuz, have impaired both production and logistics flows.

When shipping through the corridor became unreliable, the impact was immediate. Material that would normally flow into Europe and Asia was delayed or diverted, tightening global availability and pushing prices higher across regions, including North America. LME aluminum prices reacted quickly as markets repriced both physical scarcity and geopolitical risk. Freight costs and insurance premiums also moved sharply higher.

Major aluminum facilities in the UAE and Bahrain then experienced shutdowns or partial curtailments, including damage and forced interruptions at the Al Taweelah smelter complex. Importantly, analysts have characterized this as a significant but localized production shock, not a systemic collapse of UAE aluminum capability. Still, aluminum smelting cannot be restarted easily. Restarting production requires a staged and technically complex process that can take months. Shipping disruptions reduced available supply, and production curtailments extended that reduction further. Together, they have created a sustained gap in the market.

Where the Pressure Lands in the U.S.

For U.S. companies, the pressure is coming from both directions. Tariffs have already limited access to lower-cost imports. Now, supply from a key export region is less reliable. That combination is narrowing sourcing options while simultaneously increasing costs.

The United States imports a significant portion of the aluminum it consumes, and the UAE and Bahrain have historically been meaningful contributors. Canada remains the most stable alternative supplier, but its capacity is not unlimited. India and parts of Africa can help fill some gaps, though with different cost structures and longer logistics chains.

The effects here are already visible. Inventories are tightening, regional premiums over LME benchmarks are widening, and volatility is increasing. Some firms, including StoneX, have pointed to inventory drawdowns as evidence of mounting stress in the physical market. While weaker global demand has partially offset pricing pressure, that balance remains fragile. If demand stabilizes while supply remains constrained, prices could move materially higher.

A Strategic U.S. Smelter Push

The most important long-term response may now be the planned Oklahoma aluminum smelter being developed through a partnership between Emirates Global Aluminium and Chicago-based Century Aluminum.

In May 2025, EGA announced plans to help build what would become the first new U.S. primary aluminum smelter since 1980. Through a joint venture named Oklahoma Primary Aluminum, the facility is expected to produce up to 750,000 metric tons annually, effectively more than doubling current U.S. primary aluminum production capacity. The strategic importance of this project goes beyond volume. It represents an attempt to transplant the Gulf's energy-centric aluminum production model into the United States itself.

Oklahoma was selected largely because of its access to natural gas, growing wind and solar resources, and relatively reliable power infrastructure. The logic closely mirrors the UAE model: aluminum production follows abundant, stable, low-cost electricity. That reality underscores a broader truth about the industry. Aluminum production has always been closely tied to power prices. The proposed Oklahoma smelter could require more than 11 terawatt-hours of electricity annually, roughly equivalent to the yearly power consumption of a major U.S. city such as Boston or Nashville.

Securing that electricity supply has become one of the project's central gating issues. Oklahoma Primary Aluminum has reportedly spent months negotiating a long-term power agreement with Public Service Company of Oklahoma, a subsidiary of AEP. The project is also expected to receive substantial support, including hundreds of millions of dollars in state incentives and a reported $500 million grant from the U.S. Department of Energy.

Meanwhile, Century Aluminum has simultaneously expanded existing domestic capacity. In April 2026, the company announced that it had begun

expected to increase Century's primary aluminum production by roughly 10 percent once fully ramped.

These efforts align with a broader push to strengthen domestic supply chains for strategically important metals. Century Aluminum has openly supported stricter tariff enforcement and has framed domestic expansion as part of a broader reshoring effort. At the same time, the Oklahoma project highlights a major paradox in current U.S. industrial policy. Even as Washington pushes aggressively for domestic reshoring, one of the country's most important aluminum projects still depends heavily on foreign industrial expertise and partnership capital from one of the very Gulf producers now affected by geopolitical instability.

Domestic Capacity Is Not a Near-Term Solution

Even with these projects underway, domestic aluminum production is not a quick fix. Primary aluminum smelting is capital-intensive, energy-intensive, and slow to scale. Industry consensus is that meaningful new production capacity takes years, not quarters, to develop. Many projects also rely on global partnerships, imported technology, and international supply relationships. That means disruptions affecting overseas producers can still feed back into domestic expansion timelines. Domestic capacity may improve long-term resilience, but it will not fully solve near-term supply tightness.

It is also important to point out that while aluminum is the most exposed metal in this scenario, it is not isolated. Rising energy costs are affecting other energy-intensive metals such as zinc and nickel. Freight and insurance costs are also increasing across shipping lanes, embedding additional cost into global supply chains.

China remains the critical swing factor. As the world's largest aluminum producer, operating near a stated capacity ceiling of roughly 45.5 million tonnes annually, China's production decisions will heavily influence future pricing direction.

What All This Means for Lenders

The current metals environment is creating a faster-moving and more dynamic operating landscape. Metal prices, regional premiums, and supply chain conditions are shifting more rapidly, affecting collateral values, input costs, and working capital needs across parts of the sector. However, many borrowers that purchase aluminum and other metals use contractual pricing mechanisms and financial hedging strategies to help manage commodity price volatility.

In this environment, more frequent monitoring tied to LME pricing and regional premium data can provide additional visibility in industries with significant commodity exposure. Regular borrower engagement is equally important. Understanding sourcing strategies, pricing structures, customer demand, and hedging practices provides a clearer view of how companies are managing through changing conditions. Importantly, temporary margin pressure or working capital strain does not necessarily indicate a long-term credit issue. In many cases, fundamentally sound businesses are adapting to shifting trade flows, freight costs, and timing differences between raw material pricing and customer pass-through mechanisms.

The metals market continues to evolve as trade policy and geopolitical developments reshape global supply patterns. For aluminum in particular, some disruption has affected regions with historically low-cost energy and large-scale production capacity. At the same time, policymakers and industry leaders increasingly view aluminum production as strategically important to manufacturing resiliency, infrastructure development, and defense supply chains.

For both lenders and companies with metals exposure, maintaining current market visibility and operational flexibility will remain important. Organizations that stay close to pricing trends, supply chain developments, and customer behavior are generally better positioned to respond effectively as conditions evolve.

MICHAEL SULLIVAN

SENIOR DIRECTOR

INVENTORY/M&E APPRAISALS

Michael performs inventory valuation appraisals for the purposes of Asset Based Lending (ABL) for steel and aluminum coils and plate, steel long products (welded and seamless tubes, beams, angles, channels), aluminum extrusions, titanium products, silicon metals, aluminum casting, brass casting, iron and stainless steel casting. Hilco's clients include fully integrated steel and stainless mills, aluminum smelters, casting facilities, steel service centers, fabricators, stampers, smelting and recycling facilities, mining and minerals businesses- including coal mining companies with a total of more than five billion dollars in sales.

Michael can be reached directly at msullivan@hilcoglobal.com or 847.420.4473.

The views and opinions expressed are provided for general informational and educational purposes only and are subject to change without notice. This publication does not constitute investment, tax, or legal advice, nor should it be relied upon as a recommendation regarding any course of action. The information contained herein is provided "as is" without any representations or warranties as to its accuracy, adequacy, or completeness. While Hilco Trading, LLC has exercised reasonable care in preparing this publication, it assumes no liability for any actions taken or not taken based on its contents. Past performance is not indicative of future results.