

Zinc: A delicate supply status

Zinc prices spiked on the latest shipping issue from Red Dog Mine in Alaska, meanwhile, the mine supply from major disrupted mines in South America were just about to make their way to a recovery path albeit with significant uncertainties. Looking into the second half of 2020, other potential themes are likely to play out and be the sources of more volatility



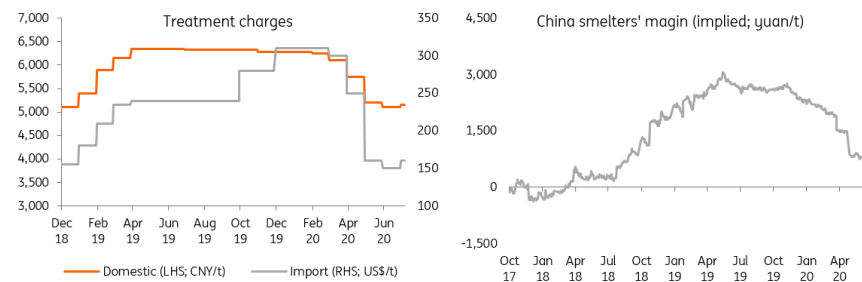
Source: Shutterstock

1 Covid-19 disruptions have erased more than half of mine supply growth

So far Covid-19 related disruptions have helped to erase more than half of expected Zinc mine supply growth in 2020. Mine supply losses (including price related) have so far hit 0.65 million tonnes mainly from Peru, Mexico and Bolivia. Yet Australia, the largest zinc producer and the top supplier to China has remained unaffected.

Nevertheless, we are still expecting around 200kt mine growth, but this is primarily based on the assumption that mines could return to schedule over 2H20.

Fig 1. Falling TCs are taking a toll on smelters' margin



Source: Bloomberg, ING

2 Losses also seen from smelters and China supply has remained muted

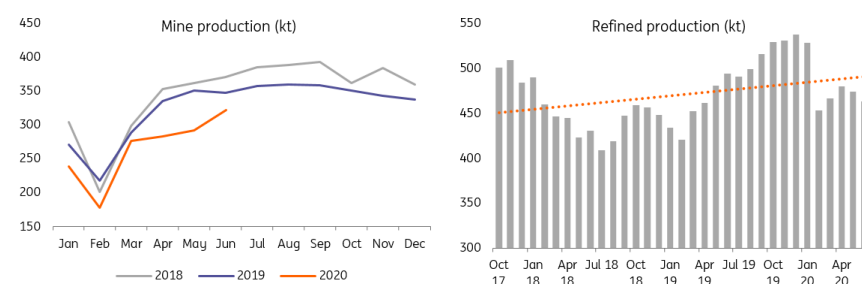
Production losses have also been seen in refined zinc. So far the losses totalled to just above 100kt from multiple regions around the world, including China, Namibia (Skopian), Mexico (Torreon), India (Hindustan) and Peru's Cajamaquilla has been running at reduced capacities.

As [we noted in early May](#), expectations have since risen over concentrate supply tightness which dovetailed with low concentrate inventories in hand from smelters which together halved the spot treatment charges. And as expected, falling treatment charges (TCs) saw smelting margins deteriorate over 2Q20 and weaker refined production over May and June.

Meanwhile, domestic mines accelerated over the past two months, but is still below the levels seen from previous years.

[Zinc still has new stories to tell](#)

Fig 2. Production from China has remained muted so far



Source: Bloomberg, ING

3 Mine supply risks exist in 2H despite recent TCs upbeat

Since late May, mines have been gradually returning including Antamina, which is set to return to full operations by 3Q20. Tail risks still exist along with the recovery path rather than being derailed. More recently into July, treatment charges for both imported and domestic concentrate have risen moderately, but it's still too early to call concentrate tightness is over unless smelters are pushed to stay in maintenance for longer or even production cuts.

The latest shipping issue with Teck's Red Dog has also added more concerns with mine supply in the market, with LME 3-month prices now sitting comfortably above its 60-day moving average. The impact is still waiting to be seen, but this may have come at a 'bad' time as things were just about to improve, and also because most of their concentrate sales are focused in 2H because of a seasonal pattern due to local climate impacts to shipments.

In this case, we reckon it may delay a treatment charges recovery in the market.

4 Overall lack of a prevalent theme, but mind short-term dislocations in supply and demand geographically

Despite a lack of prevalent themes in fundamentals, prices have been range-bound at around US\$2,000/t over the past two months. Other than the above-discussed supply issue that we are keeping an eye on, we also identify a few potential themes that could unfold in 2H.

a) **Inventory - reportable vs available**; Reportable inventories have risen this year from around 50kt to the latest 120kt, and historically this is still the lowest since 1Q08. This is backed by anecdotal reports that warehouse companies have offered incentives to attract metals back online and stock financing deals have also helped to the stock visualisation. We raised a similar question regarding [aluminium](#), to what extent existing inventories are available for end-users. In the LME market, last Friday's aluminium tom-next spread spike is backing this concern, and we won't be surprised if the same was happening to zinc. In addition, to further consider below scenarios b) and c), this could keep the ex-China market tight and upside risks with LME spreads or physical premiums are likely.

b) **Pent-up (end-use) demand in the ex-China market** – Downstream activities from Europe and the US are picking up post lockdown, as we have seen in the car market and construction sector. It remains to be seen as to whether this would follow a similar path as seen in China i.e., a restocking along the supply chain and support demand recovery for zinc in Europe and the US.

c) **China arbitrage** is still likely given the asymmetric recovery path after Covid-19 and different market dynamics. This will lead to inventories leaning towards the Chinese market as this has already been seen in 2Q20.