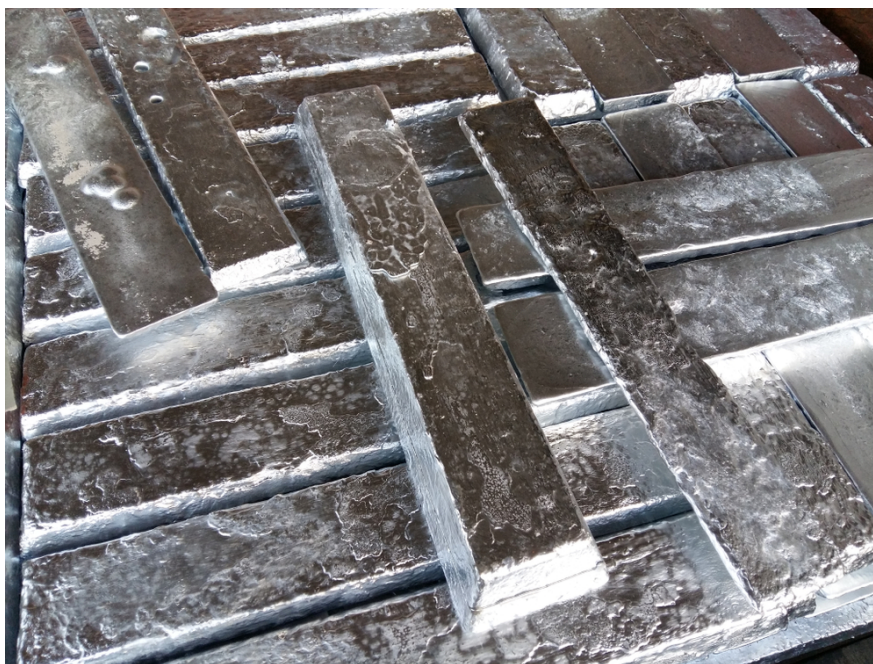


Zinc: Back on track after a turbulent year of mine supply

After a turbulent year of zinc mine supply, the market is set to return to growth but this is unlikely to happen until after the first quarter. Macro tailwinds remain supportive to prices. However, the velocity of credit expansion and tighter borrowing criteria in the property market remain a concern for the pace of China's demand growth



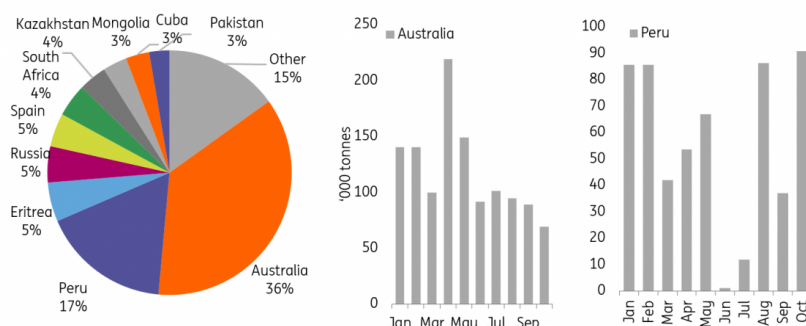
Source: Shutterstock

Concentrate market is key, and the tightness could continue into 1Q21

- Zinc increased to a two-year high amid macro tailwinds and tightness in the concentrate market. [As we have discussed before](#), zinc mine supply has been hardest hit by Covid-19 related disruptions, particularly from Peru earlier this year.
- Australia, the top supplier of zinc concentrate to China, was able to divert more concentrate to China earlier this year (Fig. 1), partially offsetting the losses caused by disruptions in Peru.

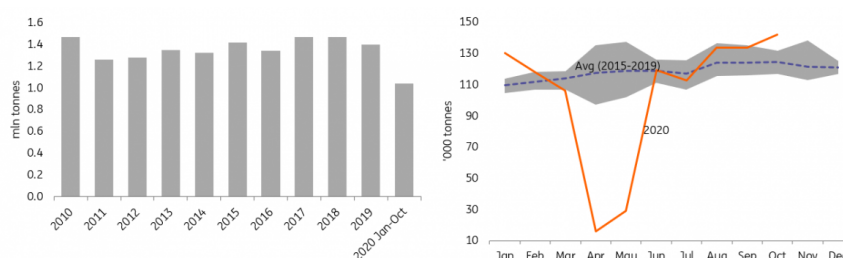
Since 3Q20, Peruvian zinc mine production appeared to be back on track (Fig. 2) though shipments to China have fluctuated in recent months. Chinese zinc mine supply improved over the summer, with spot treatment charges seeing a moderate recovery.

Fig 1. China zinc concentrate imports by country



Source: China Customs, ING

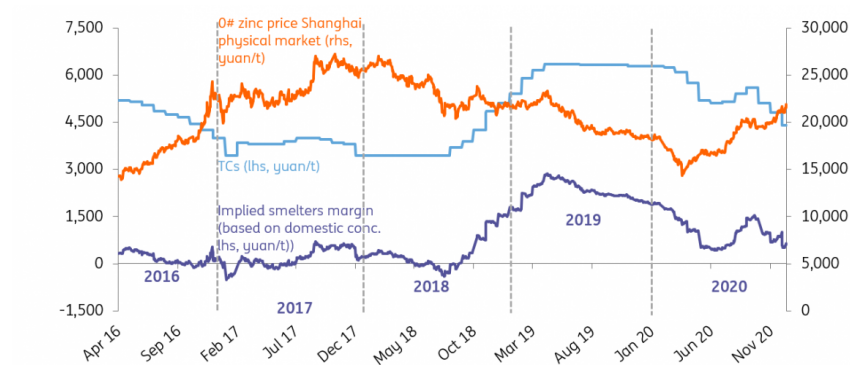
Fig 2. Peruvian zinc mine production



Source: MINEM, ING

- This didn't last into the fourth quarter as expectations over smelters' winter restocking activities further exacerbated the tightness in the concentrate market, which was also fuelled by a mine [accident](#) at Vedanta's Gamsberg mine in South Africa on 18 November. The spot TCs (import market) have fallen to around US\$80/tonne compared to US\$310/t at the beginning of the year, down by 74% year-to-date. Meanwhile, following reports on seasonal suspensions at several domestic mines in Northern China, the TCs for the Chinese home-produced concentrate have also come under continued pressure. Falling TCs have been weighing on smelters' margins (Fig. 3), though historically the current implied margins (based on domestic concentrate) are still better than we saw back in 2016/17 partly due to relatively higher by-product revenue.
- Looking ahead, we expect the concentrate market tightness to continue into the first quarter and should improve towards the second half of the year. For the full year, we currently expect a moderate surplus (90kt) in the concentrate market balance. This is based on estimates that there will be net growth of 450kt zinc mine supply next year through mining expansions/new projects. However, we also assume that Gamsberg could return to operation somewhere in 1Q21 and that mines in South America continue to recover.

Fig 3. Treatment charges vs smelter margins (indication)

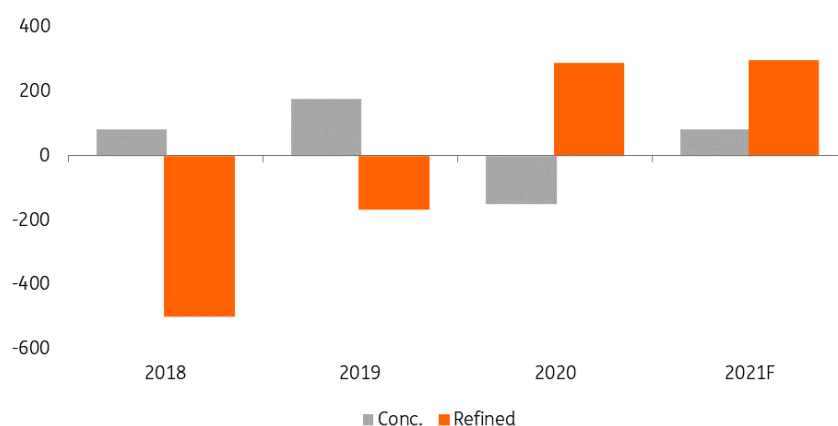


Source: Antaika, ING

Refined market in surplus, strong demand recovery from China

- In 2020, world production of refined zinc and zinc alloys together will increase only mildly, by 0.7% YoY to just below 14mln tonnes as a result of more robust growth from China offsetting a moderate decline from elsewhere. Chinese zinc production, representing around half of the total world supply, is expected to grow by 2.7% YoY to 6.3mln tonnes this year, based on Antaika data.
- It's a similar picture on the demand side. We expect China's zinc demand to rise by 1.5% YoY with a sharp decline in demand of more than 6% from the ex-China market; hence the net effect will be only 0.8% YoY growth in zinc demand globally this year.
- Galvanising demand, zinc's major primary usage, has been the key to driving zinc usage, benefiting from the nation's automotive and infrastructure projects as well as strong exports of home appliances. Comparatively speaking, the alloy sector's performance has been rather dull, with partial ingot demand displaced by imported slags (2020 first 10 months 162kt vs. 2019 total 58kt). It is not yet clear whether imports of such material (mainly dross as we suspect) will continue to grow at the current pace but should the trend hold into next year, that is a bearish sign for ingot demand going forward.

Fig 3. Market balance: zinc concentrate and refined zinc (kt)



Source: ILZSG, Antaika, ING

Macro tailwinds, concentrate tightness, but short term demand set to enter seasonal lull...

- A strong run in recent zinc prices (+24% since the beginning of 4Q20; over 27% year-to-date) has been driven by macro tailwinds along with a strong steel market in China. Construction activity has been extended from certain regions in China during winter, which has continued to drive consumption in the galvanised sector compared to its traditional weaker seasonal pattern. Zinc (along with nickel) has also been carried along by the bullishness in the steel market mainly as these two metals are largely exposed to the steel industry (galvanised/stainless) which are used in construction.
- In zinc, concentrate tightness and the above-mentioned stronger demand, together with strong exports in zinc downstream products, have supported the market during the recent bull run. However, there are headwinds as we move into 1Q21 should refined inventory start to build. In fact, higher zinc prices are flagging risks of demand substitution from stainless steel or aluminium, for example.
- The refined zinc inventory in China's market follows a seasonal pattern, and the level is currently low. We think that the recent strong momentum in downstream demand is critical in preventing a quicker build-up of inventories, but in our view, this is unlikely to last long. The historic pattern would suggest that inventories start to rise ahead of the lunar New Year Holidays (February 12). In the medium term, zinc demand will see a moderate recovery in ex-China markets as some leading indicators, such as the US construction sector, are sending positive signals. But we don't expect the absolute volumes to return to pre-Covid levels until 2023 at the earliest. We expect China's real demand to remain stable next year, but 'three red lines' in the property market (caps on debt-to-cash, debt-to-assets and debt-to-equity ratios for developers who want to borrow more) and the velocity of credit expansion will likely weigh on sentiment. Some headwinds towards the second half of next year in conjunction with the concentrate market improvement (est. 2H21) may weigh on prices.

Author

Amrita Naik Nimbalkar

Junior Economist, Global Macro

amrita.naik.nimbalkar@ing.com

Mateusz Sutowicz

Senior Economist, Poland

mateusz.sutowicz@ing.pl

Alissa Lefebvre

Economist

alissa.lefebvre@ing.com

Deepali Bhargava

Regional Head of Research, Asia-Pacific

Deepali.Bhargava@ing.com

Ruben Dewitte

Economist

+32495364780

ruben.dewitte@ing.com

Kinga Havasi

Economic research trainee

kinga.havasi@ing.com

Marten van Garderen

Consumer Economist, Netherlands

marten.van.garderen@ing.com

David Havrlant

Chief Economist, Czech Republic

420 770 321 486

david.havrlant@ing.com

Sander Burgers

Senior Economist, Dutch Housing

sander.burgers@ing.com

Lynn Song

Chief Economist, Greater China

lynn.song@asia.ing.com

Michiel Tukker

Senior European Rates Strategist

michiel.tukker@ing.com

Michal Rubaszek

Senior Economist, Poland

michal.rubaszek@ing.pl

This is a test author

Stefan Posea

Economist, Romania

tiberiu-stefan.posea@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Jesse Norcross

Senior Sector Strategist, Real Estate

jesse.norcross@ing.com

Teise Stellema

Research Assistant, Energy Transition

teise.stellema@ing.com

Diederik Stadig

Sector Economist, TMT & Healthcare

diederik.stadig@ing.com

Diogo Gouveia

Sector Economist

diogo.duarte.vieira.de.gouveia@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Ewa Manthey

Commodities Strategist

ewa.manthey@ing.com

ING Analysts

James Wilson

EM Sovereign Strategist

James.wilson@ing.com

Sophie Smith

Digital Editor

sophie.smith@ing.com

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@ing.com

Adam Antoniak

Senior Economist, Poland

adam.antoniak@ing.pl

Min Joo Kang

Senior Economist, South Korea and Japan

min.joo.kang@asia.ing.com

Coco Zhang

ESG Research

coco.zhang@ing.com

Jan Frederik Slijkerman

Senior Sector Strategist, TMT
jan.frederik.slijkerman@ing.com

Katinka Jongkind
Senior Economist, Services and Leisure
Katinka.Jongkind@ing.com

Marina Le Blanc
Sector Strategist, Financials
Marina.Le.Blanc@ing.com

Samuel Abettan
Junior Economist
samuel.abettan@ing.com

Franziska Biehl
Senior Economist, Germany
Franziska.Marie.Biehl@ing.de

Rebecca Byrne
Senior Editor and Supervisory Analyst
rebecca.byrne@ing.com

Mirjam Bani
Sector Economist, Commercial Real Estate & Public Sector (Netherlands)
mirjam.bani@ing.com

Timothy Rahill
Credit Strategist
timothy.rahill@ing.com

Leszek Kasek
Senior Economist, Poland
leszek.kasek@ing.pl

Oleksiy Soroka, CFA
Senior High Yield Credit Strategist
oleksiy.soroka@ing.com

Antoine Bouvet
Head of European Rates Strategy
antoine.bouvet@ing.com

Jeroen van den Broek
Global Head of Sector Research
jeroen.van.den.broek@ing.com

Edse Dantuma

Senior Sector Economist, Industry and Healthcare
edse.dantuma@ing.com

Francesco Pesole
FX Strategist
francesco.pesole@ing.com

Rico Luman
Senior Sector Economist, Transport and Logistics
Rico.Luman@ing.com

Jurjen Witteveen
Sector Economist
jurjen.witteveen@ing.com

Dmitry Dolgin
Chief Economist, CIS
dmitry.dolgin@ing.de

Nicholas Mapa
Senior Economist, Philippines
nicholas.antonio.mapa@asia.ing.com

Egor Fedorov
Senior Credit Analyst
egor.fedorov@ing.com

Sebastian Franke
Consumer Economist
sebastian.franke@ing.de

Gerben Hieminga
Senior Sector Economist, Energy
gerben.hieminga@ing.com

Nadège Tillier
Head of Corporates Sector Strategy
nadege.tillier@ing.com

Charlotte de Montpellier
Senior Economist, France and Switzerland
charlotte.de.montpellier@ing.com

Laura Straeter
Behavioural Scientist
+31(0)611172684
laura.Straeter@ing.com

Valentin Tataru

Chief Economist, Romania

valentin.tataru@ing.com

James Smith

Developed Markets Economist, UK

james.smith@ing.com

Suvi Platerink Kosonen

Senior Sector Strategist, Financials

suvi.platerink-kosonen@ing.com

Thijs Geijer

Senior Sector Economist, Food & Agri

thijs.geijer@ing.com

Maurice van Sante

Senior Economist Construction & Team Lead Sectors

maurice.van.sante@ing.com

Marcel Klok

Senior Economist, Netherlands

marcel.klok@ing.com

Piotr Poplawski

Senior Economist, Poland

piotr.poplawski@ing.pl

Paolo Pizzoli

Senior Economist, Italy, Greece

paolo.pizzoli@ing.com

Marieke Blom

Chief Economist and Global Head of Research

marieke.blom@ing.com

Raoul Leering

Senior Macro Economist

raoul.leering@ing.com

Maarten Leen

Head of Global IFRS9 ME Scenarios

maarten.leen@ing.com

Maureen Schuller

Head of Financials Sector Strategy

Maureen.Schuller@ing.com

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@asia.ing.com

Rafal Benecki

Chief Economist, Poland

rafal.benecki@ing.pl

Philippe Ledent

Senior Economist, Belgium, Luxembourg

philippe.ledent@ing.com

Peter Virovacz

Senior Economist, Hungary

peter.virovacz@ing.com

Inga Fechner

Senior Economist, Germany, Global Trade

inga.fechner@ing.de

Dimitry Fleming

Senior Data Analyst, Netherlands

Dimitry.Fleming@ing.com

Ciprian Dascalu

Chief Economist, Romania

+40 31 406 8990

ciprian.dascalu@ing.com

Muhammet Mercan

Chief Economist, Turkey

muhammet.mercan@ingbank.com.tr

Iris Pang

Chief Economist, Greater China

iris.pang@asia.ing.com

Sophie Freeman

Writer, Group Research

+44 20 7767 6209

Sophie.Freeman@uk.ing.com

Padhraic Garvey, CFA

Regional Head of Research, Americas

padhraic.garvey@ing.com

James Knightley

Chief International Economist, US

james.knightley@ing.com

Tim Condon

Asia Chief Economist
+65 6232-6020

Martin van Vliet

Senior Interest Rate Strategist
+31 20 563 8801
martin.van.vliet@ing.com

Karol Pogorzelski

Senior Economist, Poland
Karol.Pogorzelski@ing.pl

Carsten Brzeski

Global Head of Macro
carsten.brzeski@ing.de

Viraj Patel

Foreign Exchange Strategist
+44 20 7767 6405
viraj.patel@ing.com

Owen Thomas

Global Head of Editorial Content
+44 (0) 207 767 5331
owen.thomas@ing.com

Bert Colijn

Chief Economist, Netherlands
bert.colijn@ing.com

Peter Vanden Houte

Chief Economist, Belgium, Luxembourg, Eurozone
peter.vandenhoute@ing.com

Benjamin Schroeder

Senior Rates Strategist
benjamin.schroeder@ing.com

Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE
chris.turner@ing.com

Gustavo Rangel

Chief Economist, LATAM
+1 646 424 6464

gustavo.rangel@ing.com

Carlo Cocuzzo

Economist, Digital Finance

+44 20 7767 5306

carlo.cocuzzo@ing.com