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Zinc's turning tide amid the coronavirus outbreak

The rebalancing of zinc may have been brought forward by the coronavirus outbreak, as prices come under pressure amid the recent stock surge. And the forward curve flip-over may be a sign that a broad bearish trend is likely to unfold sooner than later



Source: Shutterstock

One prominent issue in the zinc market over last year or so has been the lack of tangible stock building which provided strong support to the zinc market amid a broad bearishness in light of its mine supply surplus and strong production growth from China. We discussed the case that there weren't enough stockpiles being built in China [here](#).

Over the last week, there are signs that the tide might be turning. First of all, there have been sharp rises in both London Metal Exchange inventories as well as the Shanghai Futures Exchange. Second, the long-standing backwardation in the LME market has flipped over into a contango market, making zinc vulnerable in the near-term. As the stock continues to climb, there would be a stronger mandate to short zinc and a broad bearish case is likely to unfold sooner than later.

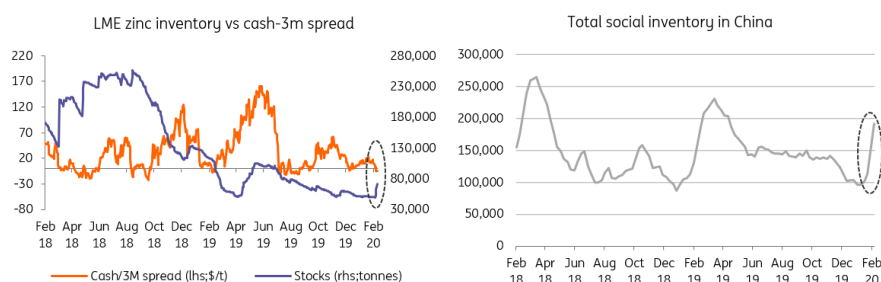
The outbreak of the epidemic did not cause the turn, it only accelerated it. It essentially

'destroys' the case that as demand picks up over Q2 coupled with low inventory, we might see some upside potential there. Now things might have changed. With short term demand stagnating, the galvanising metal continues to pile up in warehouses. The case that a strong inventory drawdown over the traditional seasonality pattern does not exist any more. Any stimulus that Beijing brings to prop up a strong demand case seems more distant.

However, this doesn't mean we won't see any support at all. Logistic bottlenecks are bringing in sulphuric acid storage issues at some smelters. The downside risk is that some smelters may be forced to cut their running rate. There are likely to be more logistics-related issues that could affect other raw material supplies after stockpiles run out.

Again, this is dependent on how the coronavirus outbreak is contained and whether smelters can manoeuvre logistics. Nevertheless, the risk from this side will need to be stronger to defy the short term stock surge.

Zinc stock rise across LME and China market



Source: Bloomberg, ING

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