

Why the tide could be turning for lead

Lead has been the second-best performer among LME base metals this year, but it's seen the biggest weekly losses this week faced with headwinds from China. Latest numbers show that weekly inventories have surged by 35%



The small lead market has surprised many, having been the second-best performer this year. Compared to copper, lead seems to be immune to macro impacts. The recent pullback, in our view, is largely driven by developments from China. Last week, the ILZSG estimated that global refined lead would fall by 0.3% in 2019, with a 46kt deficit in the balance. The deficit is in large part due to an unplanned outage in the middle of the year and has yet to return to normal operation. Smelters produced 160kt of refined lead last year. LME stocks have fallen by 35% year-to-date, and it remains at the lowest level since early 2012.

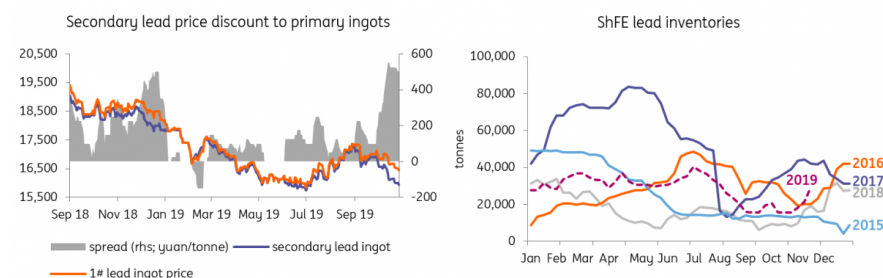
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We haven't seen any significant change in fundamentals in the western market that would trigger the slump which is why we're looking at China. Firstly, there has been a surge in reported stocks.

ShFE stocks gained more than 10.1kt over a week. In the weekly stock report, this has increased by 35% WoW. Meanwhile, demand from battery makers is recently lacklustre. Adding to that, we think that secondary lead production, particularly from China, has remained the most significant swing factor in lead's overall supply picture, and this has remained a wild card on the statistical radar. Since October, a widened discount of secondary lead to primary ingots might imply a risen supply of the former driven by improved secondary margins.

Scrap availability is part of the reason we call the secondary supply a swing factor. If secondary supply does rise, then a remaining question is whether this is sustainable going forward, and we doubt that will be the case. We need to wait until the discount stabilises, and we have seen that narrowing slightly this week.

Turning to LME, there has been a very moderate decline by around 1% WoW. The latest LME warrants data (Nov 5th) shows there were some pretty large dominant position holdings across each near-dated contracts and there is still backwardation in the near-end of the forward curve. Thus, yesterday we said the LME lead is facing a dilemma; bears need to be cautious.



Source: Bloomberg, ING