

More casualties in zinc supply pushing prices

Rising supply disruptions to refined zinc supply from Europe and China due to the ongoing energy crisis amid a low inventory in the market, together with a sticky tightness in the concentrate market, could keep zinc prices elevated



Zinc ingots at a warehouse

The current energy crunch in multiple regions continues taking its toll on refined zinc supply. Against a backdrop of low inventories, zinc prices surged by more than 4% in LME after Nyrstar, the world's single largest zinc smelter, stepped up by announcing more cuts at its three zinc smelters in Europe due to higher energy prices. This came after an announcement last week by the producer that it cut production at its smelter in the Netherlands. Altogether, we estimate that there could be around 40kt-50kt losses of zinc metal per month. Simultaneously, some smelters in China are also been hit by the power rationing. As a result, refined zinc production growth from China is likely to fall short of expectations.

Earlier, the International Lead and Zinc Study Group (ILZSG) had forecasted a 2.5% YoY growth in world refined zinc production this year to 14.13 million tonnes, and this was primarily the result of the anticipated 3.2% growth from China. In case the power shortage issue lasts for longer, this raises the risks of further supply losses from both China, the world largest zinc producer, and

Europe.

True that power shortage is also hitting demand downstream such as alloy makers and galvanisers, but supply disruptions could outweigh the demand destruction at this stage as energy intensity per tonne of production in the smelting sector is outpacing their downstream in the value chain.

Looking at the mine supply, concentrate supply outside China has been recovering from last year's severe disruptions due to Covid-19. Yet, spot treatment charges (TCs) have remained low from the pre-pandemic level. Additional disruptions arise from logistics due to Covid control measures and 'dual control' earlier this year have complicated the supply picture. As mines in northern China start to head into winter hibernations, smelters stockpiling before winter only increase demand for concentrate in the short term. This also highlights the sticky tightness in the concentrate market.

All in all, a tight concentrate market and rising disruptions in the refined end amid low inventories are the major fundamental drivers behind the strong zinc market. Prices could stay elevated at least before the current power crisis dissipates.