

Snap | 5 July 2019

Refined zinc production picks up pace

Refined zinc production from China is picking up pace. We are forecasting the China market to enter into surplus from July and remain there for the remainder of the year. Fundamentals are turning bearish. Nevertheless, as LME (London Metal Exchange) stocks still remain at a very low level, technically market bears will still need to be very cautious



Source: Shutterstock

Refined zinc production has managed to pick up some pace from China, the world's largest producer and which contributes half of the global supply. According to Friday's (5 July) data from Shanghai Metals Market (SMM), refined production in June grew by 3.34% month-on-month (15.37% year-on-year). We forecast the China zinc market to enter into a small surplus from July and remain there for the remainder of the year.

Nevertheless, the global zinc market will still remain in a small deficit, but a much narrower one from 2018 in large part due to an improved zinc concentrate supply to smelters. Zinc mine production growth is picking up speed and is forecasted to increase by 6.2% yoy compared to 2.5% in 2018. This is helped by a number of new projects being brought online including MMG's Dugald River and Vedanta's Gamsberg as well as the Century mine tailing project. Nevertheless,

refined zinc productions cannot be catching up to the pace seen in mine supply. This leaves smelters in a better position to negotiate for higher treatment charges (TCs) both on annual benchmarks and in spot terms.

A key issue in the zinc market is that there has been a bottleneck at Chinese smelters. Despite improved concentrate availability and higher TCs, refined zinc production from China has been unable to pick up pace. This is mainly due to the relocation of one of Chinese large smelters and restrictions stemming from pollution control measures and those large-scaled ones (and often they are SOEs) have been more cautious in dealing with this.

However, things have improved recently. Some large ones have managed to return to normal production as we have seen from the latest data mentioned above. On the other hand, demand still remains subdued. The market is looking weaker from a fundamental perspective.

But there is the LME market. The inventory level has remained at a multi-year low and over the last couple of days, it has still been in a moderate decline. An increase in supply from China will be kept within the country since the LME has no warehouse there. Therefore, the chance for China to shore up LME inventory is very small. The LME zinc market appears to have been under long liquidations over the last couple of days. The outright zinc prices have retreated back to its six-month low. The bears might still need to remain very cautious.

Implied Chinese Zinc Smelters Margin



Source: Bloomberg, ING