

Teck's production disruption not a game-changer to zinc

Based on the estimates of production loss from Teck Resources' Trail smelter disruptions, we think this is unlikely to be a game-changer to the overall zinc market. However, there may be other side effects to the short term market



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The Canadian zinc miner and refiner Teck Resources disclosed on 26 August that [an equipment failure at Trail operations](#) could result in an estimated production loss of 20-30kt. Based on the current projected losses, we don't think this disruption will be a game-changer to the overall zinc market, but there are some possible consequences to the short term market.

First of all, the production loss from Trail would help to tighten the supply to the North American market, and this may shore up physical premium in that market in the short term. More importantly, we see this is likely to encourage the short-term divergence of market strength between China and ex-China markets. And that may continue to encourage stock outflows from China bonded warehouses. That said, exports out of China bonded warehouses may potentially act to offset the impacts from Trail's disruption loss.

Currently, there is a 134kt deficit in the global refined zinc balance over 1H19 according to ILZSG (International Lead and Zinc Study Group), and we think the deficit is mainly in the ex-China market. However, we think the China market entered into a small surplus in July and this should widen during the remainder of the year. Therefore, despite the overall bearishness towards the zinc market, the ex-China market is still relatively tighter than the China market and this may be priced in the relative performance between LME (London Metal Exchange) and ShFE (Shanghai Futures Exchange).

We've also noticed that China's refined zinc exports were 16kt during July, nearly doubled from the prior month (+92%MoM). A majority of these exports are done via Chinese bonded area, which means they are likely to be exported out of bonded warehouses. This is also evidenced from the reported decline in China bonded warehouse stocks currently reported at around 90kt. More detailed data showed that around 65% of exports within July went to China Taiwan (11k) and around 23% was shipped to Malaysia (3.7kt). Both locations have LME approved warehouses. They don't seem to have hit the LME inventory, but in theory, they could be registered as LME warrants if necessary within a couple of days if they are sitting next to an LME facility.