

Zinc: the ongoing tug of war between technicals and fundamentals

The tightening of zinc spreads over the last few days is reflecting a ‘tug of war’ between LME technicals and zinc’s fundamentals. In addition, China's July refined zinc productions came in lower than the previous month, but we'll be back to positive growth in August



Zinc ingots at a warehouse

The tightening of zinc spreads over the last few days is just another ‘usual’ practice resulting from persistent low inventories in the LME sheds and the big concentrations of LME warrant holdings against live stocks. The activities of dominant holdings correlate with nearby spreads.

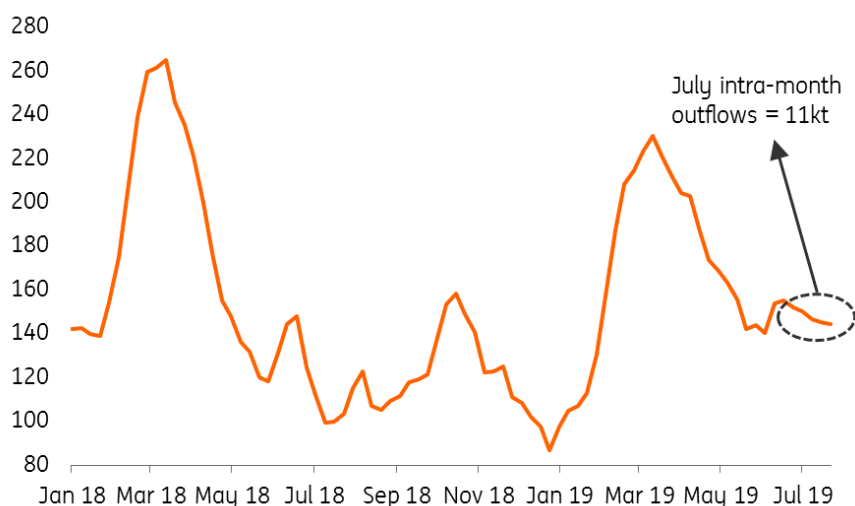
The LME banding report shows that last Thursday (July 25) there was a holder with 90% cash warrants, the same with tom-next, and the concentrations reduced to 80-89% on Tuesday (July 30). Zinc's outright prices also found some support over the past week. However, the galvanising metal extended losses of over 2% on Thursday (Aug 1) after a strong spike in the dollar index and fresh stocks delivered in LME warehouses.

While the LME stocks are reducing, China's market still looked attractive to zinc

There seems to be a 'tug of war' between LME technicals and zinc's fundamentals, and this is perhaps reflected in zinc's prices which have been trading range-bound between \$ 2,350-2,550 per tonne (LME 3M). The recent LME inventories are still at eleven-years lows, with the latest reading at 73.2kt. This is now lower than the Chinese bonded warehouses stocks which were reported at 89.5kt at the end of July.

The exchange inventory only provides an incomplete picture of the supply and demand dynamics as it is also true to some other metals. Last week the LME said it was considering reforms to its warehousing system and was trying to attract metals back to the exchange. The answer is elusive in terms of when will we see stocks beginning to rise from LME warehouses. Instead, the China onshore market continue to appear to be attractive to zinc stocks. According to the latest data, China imported 379kt refined zinc and alloys during H1, up by 20% YoY. This is after a 6% growth in the full-year imports from 2018.

China refined zinc inventories (Shanghai, Guangzhou, Tianjin; 1,000 tonnes)



Source: Bloomberg, ING

China July refined zinc productions down 3% MoM, but this is only temporary

A stronger momentum in zinc over the past week comes amid a backdrop where China's total inventories have come off recently, and production in July came in lower than the previous month as a result of pretty intensive summer maintenance work at smelting plants. There are nuances in market expectations in terms of production numbers coming out of China. A decline in month-on-month production growth should not change the overall supply recovery picture. We expect China zinc production in August will come back to positive growth of about 3% MoM.