

SMM Hot News

China Metal Special Report

SMM Metals Conferences: Key Takeaways

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As the situation of COVID-19 eases in China, SMM is pleased to welcome back our industry participants to the metals conferences, where we gather and share insights on the nonferrous metal industry.

Please find in our special report, our in-house analysts and the industry experts key takeaways at the conferences.

SMM will keep you posted on the latest happenings via our website www.metal.com and our social media channels on [Facebook](#), [LinkedIn](#) and [Twitter](#).

Don't miss out on our upcoming webinars in August, while we will update you on the trending issues in China's ferrous and nonferrous metals space during this unprecedented period.

1. Demand/supply analysis and price forecasts of the copper market

The 2nd China (Yingtian) Copper Industry Summit & 15th China International Copper Industry Chain Conference, organised by SMM, took place on July 16 -17 in Shanghai, at which a number of experts and analysts shared their insights on the fundamentals and price trends of copper. The implementation of China's new standards for solid waste was also highlighted in the meeting.

Copper concentrate market forecast

Racket Hu, vice president, SMM provided his analysis of the copper concentrate market post COVID-19. Hu mentioned that production cost of copper concentrates will be on an upward trend, on the backdrop of rising cost of energy and manpower amid inflation, even as the coronavirus outbreak has significantly depressed energy prices in 2020. Falling ore

grades amid depletion of ore resources, pollutant treatment cost and investment in eco-friendly equipment will also lift production cost.

“Growing demand for ore on continuous expansion of smelting capacity and weak domestic mineral resources make China more and more reliant on imports of copper concentrate”, according to Hu. He also forecasted that imports to remain the major source of copper concentrate supply for Chinese smelters, though the commissioning of a number of new mines and expansion projects is expected to lift China’s domestic annual supply capacity by 14% during 2020 to 2022.

Copper market fundamentals and price outlook

Ye Jianhua, chief copper analyst, SMM explained the driving forces behind the rally in copper prices since end-March, which followed after a coronavirus-induced plunge in prices earlier this year.

Supply: The global copper concentrate supply has tightened as Chinese copper smelters have brought more newly expanded capacities online. China’s existing and potential copper smelting capacity in recent years has exceeded 1.5 million mt, SMM survey showed. Global copper concentrate supply is expected to decline about 450,000 mt (Cu content) amid the COVID-19 pandemic, and growth rate of output is likely to fall from 2% to -0.3%.

Chinese copper smelters have faced hiked risks of raw material shortage as 80% of their raw materials are imported. Treatment charges (TCs) for copper concentrate have declined since March and stood at \$50.3/mt on July 10. China’s copper cathode output is likely to increase about 160,000 mt or 1.8% in 2020.

Demand: Aluminium, zinc, lead and nickel consumption is more subject to the impact of COVID-19 outbreak than copper consumption, as they rely more on overseas demand. The Chinese manufacturing industry is badly hit by the pandemic, but some sectors have performed better than expected. Robust orders from infrastructure construction have lifted operating rates at wire and cable producers to new highs in recent years

The Chinese government increased investment in State Grid from 400 billion yuan to 450 billion yuan at the start of 2020, but it remained 12% lower than a year earlier. Copper consumption has increased since April amid recovered electricity consumption. Copper delivery to State Grid in the second half of 2020 is likely to be lower than the same period of previous years. China’s copper consumption is likely to rise 0.88% in 2020, higher than the 0.6% in 2019.

Price forecast: The gradual recovery of the global economy and the abundant global liquidity will promote market confidence according to SMM. The improvement of fundamentals on a month-on-month basis was better than expected and the macro-level

linkage was better. Domestic prices of copper will rise to 56500 yuan/mt and LME copper is likely to stand at \$ 6,200- \$6,800/mt.

Sulphuric acid market analysis

Li Chong, secretary general of China Sulphuric Acid Industry Association, gave an analysis on the operation, consumption, import and export trend of the sulphuric acid industry in China.

Apparent consumption of sulphuric acid in 2019 was 95.72 million mt, a year-on-year decrease of 0.8%. Consumption has reached a plateau, given negative growth for three consecutive years.

China's sulphuric acid prices dropped sharply in 2019, tumbling from 340 yuan/mt to 150 yuan/mt. Serious overcapacity and weak downstream demand were the main reasons for the price decline. However, China's export of sulphuric acid continued to expand in 2019, increasing 69.8% on the year to 2.175 million mt. Average export price was \$46.2 /mt, a year-on-year decrease of 7.2%.

Revised "Solid Waste Law" to be implemented on September 1

China has revised the law on the prevention and control of environmental pollution by solid waste will take effect on September 1, 2020, after being passed through the country's top legislature earlier in the year.

Li Xinmin, former inspector of the Department of Pollution Prevention and Control of the Ministry of Environmental Protection, shared his view on the impact from the new "Solid Waste Law" at the conference.

Li said that about 160 million nonferrous mines were exploited in 2006, producing 120 million mt of tailings, 7 million mt of red mud, 7.66 million mt of slag, more than 2.3 million mt of SO₂, and 270 million mt of waste water. The solid waste utilisation rate in China currently stands at about 13% as domestic resource utilisation technology and advanced harmless treatment technology still lag far behind international advanced levels.

A penalty of up to 5 million yuan will be imposed on anyone who dumps, stacks, discards and discharges the sludge produced by urban sewage treatment facilities and treated sludge, collects, stores, uses and disposes hazardous waste without a license or permit, or imports foreign solid waste into China or through China.

Recycled metals sector is an important part of China's nonferrous metal industry. China's output of recycled copper, aluminum, lead and zinc reached 14.37 million mt in 2019. That saved 16.41 million mt of standard coal, 1.98 billion m³ of water and reduced solid waste by 1.72 billion mt, compared with the production of the same amount of primary metals.

2. Demand/supply and price trend analysis for the cobalt and lithium markets

The SMM (5th) China International Nickel, Cobalt and Lithium Summit Forum and China International New Energy Lithium Battery Materials Conference took place on July 13 and 14 in Ningbo, where a number of experts and analysts shared their views on how the global cobalt lithium market will fare on the backdrop of policy support.

Louie Qin, team lead of Cobalt/Lithium and New energy, SMM, expected a compound annual growth rate of 30% for China's new energy vehicle production over the next decade, with the proportion of passenger vehicles reaching 94% by 2030.

The development of nickel-rich battery will speed up in the coming decade as ternary battery is the main type of batteries used to power NEPVs. While lithium ore stocks fall sharply, stockpiles of refined products and ore in China still require time to be depleted. "Global lithium raw materials demand and supply is likely to turn to a balance in 2022."

Serafina Huo, senior cobalt analyst, SMM said that the global cobalt raw materials supply looks set to be affected by the COVID-19 pandemic in 2020. "Copper and cobalt ore will concede the mainstream status, and supply from recycled materials is looming large. Cobalt raw materials are likely to reach a demand and supply balance in 2025 before destocking begins." Huo expects prices of electrolytic cobalt in China to average 251,000 yuan/mt in 2020, while global demand for cobalt is estimated to increase 2% to 139,000 mt from 2019, and lithium battery is likely to account for 61% of global demand for cobalt in 2022.

Liu Bowen, director, R&D department at Shandong Haike Chemical Industry Group said that NEVs demand is likely to bottom in Q2 2020 as the pandemic is taking its toll on the European and Chinese markets. A sharp rebound in EVs sales is expected in H2 in view of goals set by first-tier Chinese cities including Beijing and subsidy support. "The lithium battery sector is expected to grow at a CAGR of 30% in China in 2019-2025, while at a rate of 33% beyond China in anticipation of huge market potential in Europe and the US. China's demand for lithium batteries is estimated to grow 15% to 137GWH in 2020, driven by smaller vehicles and 5G energy storage, while demand overseas will expand 17% to 113GWH. Global demand for lithium batteries will increase by about 16% to 249GWH this year."

Wu Hui, general manager, research department, EVTank and Ivy Economic Research Institute said that Europe's tough emissions rules and subsidies will stimulate the growth of NEVs across the region again. In order to stimulate EVs sales, Germany has agreed to increase subsidies for EV buyers and extend the program to 2025 from the originally scheduled 2022, while China has extended its subsidy program by two years from the previous scheduled 2020 and set quotas for the double-point scheme in advance. China's NEVs sales are estimated to decline to 1.1 million units in 2020, but the outlook for

the next five years remains optimistic. In addition to China, Europe and the US will be the major NEVs markets following the recovery from COVID-19. Global demand for lithium-ion batteries, including those used in EVs, small vehicles and energy storage will be close to 900Gwh.

Racket Hu, vice president, SMM, delivered an address on the opportunities and challenges faced by the NEV industry. He said that the results of the extensive development of China's NEV industry chain cover four aspects.

(i) *Rapid capacity expansion and oversupply*: China has become a big producer of smelting products and battery material after rapid capacity expansion, but capacity utilisation ratio are below overseas levels for an extended period.

(ii): *Heavy capital investment but low return*: Taking nickel sulphate sector as an example, except for a few industry leaders, many companies have invested heavily but reported low operating income.

(iii): *A rich variety of products but of weak technical structure*. Although China has rich variety of cathode materials, the proportion of high-nickel materials with higher technical barriers is still far lower than that of Japan and South Korea.

(iv): *Weak crisis awareness*. Some local enterprises ignored rules of market development, investing blindly to expand production, and economic losses were caused as a result. Industry integration is the trend, and the future competition will be not competition between enterprises but rather competition between value chains.

Opportunities to the nickel sulphate market by rapid growth in NE industry

Rachel Liu, head of nickel team, SMM said that the total output of nickel sulphate in 2020 will be at 523,100 mt, a decrease of 15.82% month on month, on the back of excess inventory accumulated in 2019 and the consumption loss caused by COVID-19. End-user consumption of nickel sulphate will recover on the back of stimulus policies if COVID-19 is under control in 2021, and production of nickel sulphate will also increase accordingly.

China's nickel sulphate output is estimated to decrease 98,000 mt year on year to 523,000 mt, while demand is expected to stand at 569,000 mt. This indicates that stockpiles will be lowered by 43,200 mt this year, as low profits and weak demand prompted most of nickel sulphate producers to trim or suspend production, and the supply and demand will turn more balanced in 2020.

On the raw materials front, **Cai Jianyong, chairman, Ningbo Liqin Resources Technology Development**, gave a deep-dive on the demand trends for nickel and cobalt in the NEV industry. Global demand for class 1 nickel is expected to reach 3.01 million mt by 2024, while supply is estimated at only 2.92 million mt, producing a deficit of about 80,000 mt. Demand for nickel used in batteries will reach 400,000 mt by 2024. As for nickel sulphate, global demand will reach 440,000 mt Ni by 2024, with 400,000 mt Ni used in batteries.

As for the current status and development of high-nickel ternary cathode materials for batteries, the present domestic ternary material technology competition is fierce, and the product upgrading speed is fast. Manufacturers are turning to nickel-rich ternary materials such as NCM622, 721, 811, and 900505, from NCM111 and 532 which had been widely used in digital batteries, said **Hu Guorong, Central South University**.

2.Demand/supply analysis and price forecasts for the nickel chrome and stainless steel market

The 2020 China Nickel Chrome Stainless Steel Industry Market and Application Forum, organised by SMM, took place on July 20 in Wuxi, Jiangsu province, at which a number of experts and analysts shared their insights on the fundamentals and price trend in the industry.

Rachel Liu, head of nickel team, SMM expected near-term prices of nickel and stainless steel to hover in a broad range with prices of ferrochrome stabilising. Prices in H2 2020 will elevate from the H1 levels.

With the increase in nickel pig iron (NPI) imports from Indonesia, refined nickel supply in China will gradually exceed demand, but the situation will not be worse than Q1. "NPI imports primarily contribute to the excess supply. The impact of the macroeconomic development on refined nickel consumption will also determine near-term nickel prices."

The destocking trend in the stainless steel market has slowed, pointing to the re-emergence of a slight supply glut in the market. Liu expected domestic stainless steel inventories may even begin to pile up in the near future as consumption will not be strong enough to sustain a continued decline in inventories, following the release of pent-up demand as the COVID-19 outbreak is under control in China.

Stable operations at stainless steel mills in H2 will rely on low prices of raw materials, while mills face pressure from elevated inventories and low profits. "Stainless steel plants will highly likely to maintain normal production amid sufficient supply of NPI."

Zhang Lingying, senior nickel analyst, SMM provided her insight into the nickel ore and NPI market. She estimated a negative growth in China's NPI output in 2020, with production falling to 490,000 mt in Ni content, as Indonesia nickel ore export ban starting from January 2020 leaves China into raw materials shortage. China's NPI production rose 28% year on year to 580,000 mt in Ni content in 2019, driven by high profits, fading impact of environmental protection curbs and the additions of new capacity.

There would remain 56,000 mt in Ni content of nickel ore inventories in China by end 2020 if not taking into account stockpiling demand. However, reduced nickel ore shipments from the Philippines amid rainy season (from November to next year's April) failed to meet purchase demand from Chinese NPI producers. This may trigger a large-scale output cut at China's NPI mills in early 2021.

Phasing out of domestic outdated capacity started in Q2, but this is offsetted by additions of new capacity in Q3 and Q4. This will cap the decline in NPI production this year.

Yu Wen, senior nickel analyst, SMM expected the demand and supply fundamentals of high-carbon ferrochrome to improve significantly by the end of 2020. Production of the downstream sector- stainless steel has increased sharply since April, when Chinese high-carbon ferrochrome producers operated at just a rate of 48.6%. Lockdown restrictions introduced in late March by countries including South Africa, the major chrome supplier, have led to a more than 20% year-over-year decline in China's imports of ferrochrome and chrome ore. The South African government expects the outbreak in the country to peak in September, and its supply of ferrochrome and chrome ore is set to come under pressure again.

COVID-19 will send China's production of high-carbon ferrochrome and imports of ferrochrome into a contraction for the year of 2020, SMM believes, while China's high-carbon ferrochrome market will flip into a deficit of 213,400 mt by the end of the year from a surplus of 268,400 mt in 2019.

Li Chuntian, senior nickel analyst, SMM gave her analysis on the demand and supply pattern and prices of the stainless steel industry chain. On the raw materials front, high-grade NPI accounts for a high proportion among nickel raw materials used by stainless steel mills. NPI prices are expected to struggle to strengthen in Q3 and Q4 amid ample supply, while losses will be limited by ore prices. Prices of high-grade NPI will remain weak and rangebound, while prices of ferrochrome will edge down as chrome ore prices come off from highs in H2. Therefore, costs for producing stainless steel in China are likely to fall.

On the demand and supply side, China's stainless steel production is recovering on the back of the resumption of some mills in Q2, while supply from Indonesia is also increasing on the ramp-up of new capacity in the Southeast Asian country. Demand for stainless steel, however, grows slower than supply, as demand has gradually returned to normal after a peak in March-to-April, and the stainless steel market will be well-supplied in H2. Li expects demand to be the major driver of the stainless steel market in H2 2020 and costs to offer support against the backdrop of sufficient supply. Prices of cold-rolled stainless steel are expected to move at 12,800-14,000 yuan/mt.

Further Reading

1. [15th China International Copper Industry Chain Conference: COVID to send global copper output into a 0.3% decline in 2020](#) (Jul 17, 2020)
2. [2020 China Stainless Steel Forum: China's nickel ore imports from the Philippines to drop 20.4% in 2020](#) (Jul 17,2020)
3. [15th China International Copper Industry Chain Conference: China's domestic copper concentrate capacity to increase by 14% till 2022](#) (Jul 17, 2020)
4. [China NiCoLi Summit 2020: Cobalt raw materials supply uncertainty remains, global cobalt demand to revive in 2021-2022](#) (Jul 14, 2020)
5. [China NiCoLi Summit 2020: COVID-19, capacity spike in Indonesia to put China's nickel market in a wide surplus in 2020](#) (Jul 14,2020)
6. [China NiCoLi Summit 2020: A shift from extensive growth to prudent investment](#) (Jul 14,2020)
7. [China Tungsten Summit 2020: Tungsten concentrate prices to regain upward momentum in H2](#) (Jul 15, 2020)

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