Weekly Metal Macro Report

Issue 36 | March 5, 2019

('000 tonnes)	Inventory Type	As of Mar 5	Week-over-week(%)	Ytd(%)	YoY(%)
Aluminium	Social	1,744	4.31	35.61	-17.97
Copper	Bonded	505	5.47	19.39	6.77
Zinc	Bonded	83	-1.20	13.01	-61.63
	Social	215	3.17	146.82	-17.32
Lead	Social	36	-2.23	24.34	1.51
Nickel Ore	Port	10,320	-1.05	-3.64	105.99
Steel	HRC-social	2,739	0.50	49.56	-5.07
	Rebar-social	10,206	5.94	224.94	-1.32
Iron Ore	Port	13,357	0.94	2.37	-10.16

Copper: Exports, consumption recovery to accelerate domestic inventory destocking

Growing exports and recovering downstream consumption are expected to accelerate the destocking of copper inventories in China. Anticipated tax cuts would be also likely to fuel destocking. The contango structure on LME copper turned into a backwardation structure after CNY. Losses on imported copper remained above 1,200 yuan/mt.

Aluminium: Domestic prices to hover at highs as consumption pick-up remains uncertain

In the physical market in China, downstream consumers recovered from the holidays. Producers of aluminium wires and cables and industrial aluminium extrusions in the east reported modest orders. Spot discounts in Shanghai are seen at 60-40 yuan/mt against the SHFE March contract this week.

Cobalt: Quiet trades extend decline in prices of refined cobalt, cobalt salts

High inventories and quiet trades extended declines in cobalt prices in international and domestic markets last week. While some major domestic suppliers held offers stable, poor speculative demand lowered prices by 11,500 yuan/mt on the week, to 280,000-312,000 yuan/mt as of Friday March 1.

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Copper inventories, domestically and overseas, declined in 2018. Domestic stocks rebounded in the middle of January 2019 from the holiday impact, while stocks abroad continued their declines as Vedanta and Codelco shut smelters. LME copper inventories stood at about 128,000 mt as of Friday March 1, while stocks across SHFE-registered warehouses increased by close to 120,000 mt over the past six weeks to 218,000 mt.

LME cancelled warrants grew as the ratio to total stocks rose to 82%. This grew expectations of supply shortages overseas. Spot copper premiums overseas are expected to stay high, and extend significant losses on imported copper.

SMM learned that continued import losses drove some domestic copper smelters to export businesses. Some cargoes arrived at the Shanghai bonded zone last week but have not left the zone. Subsidies for deliveries to LME warehouses in Asia stood at $50-65/mt. This, together with falling imported copper premiums and high spot premiums overseas, generated arbitrage opportunities for purchasing imported copper and exporting them to overseas warehouses for warrants.

Chart 1: Global visible inventory

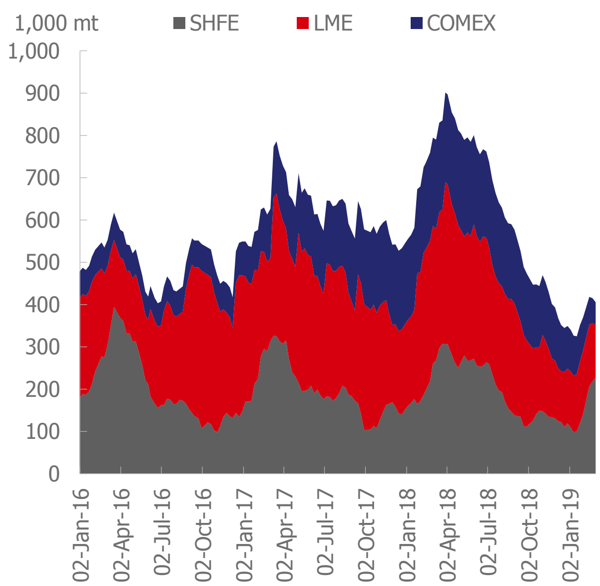
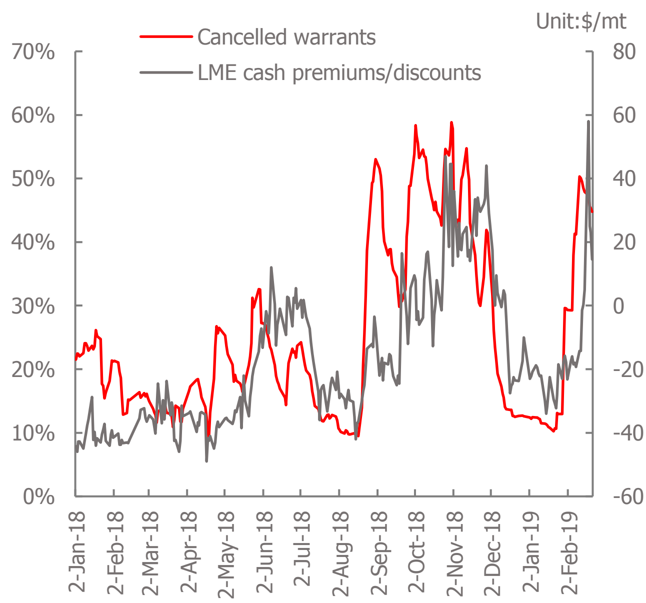


Chart 2: LME cash premiums/discounts



Aluminium: Domestic prices to hover at highs as consumption pick-up remains uncertain

Aluminium prices in China are expected to continue to trade rangebound at highs this week, as it remains unclear whether consumption will substantially pick up. The most active SHFE May contract is likely to trade at 13,550-13,800 yuan/mt this week.

Supply held relatively stable. Production cuts around the CNY break mostly occurred at aluminium smelters of the Aluminum Corp of China (Chalco). Yunnan Aluminium and Baikuang Aluminium added new capacity and Weiqiao Group resumed capacity.

Prices of alumina are expected to see further downside room.

The three-month LME aluminium is also likely to trade rangebound this week with a range of $1,880-1,930/mt, as improved overseas supplies limit upward momentum in LME aluminium.

In the physical market in China, downstream consumers recovered from the holidays. Producers of aluminium wires and cables and industrial aluminium extrusions in the east reported modest orders. Spot discounts in Shanghai are seen at 60-40 yuan/mt against the SHFE March contract this week.

Chart 3: Social inventories of primary aluminium

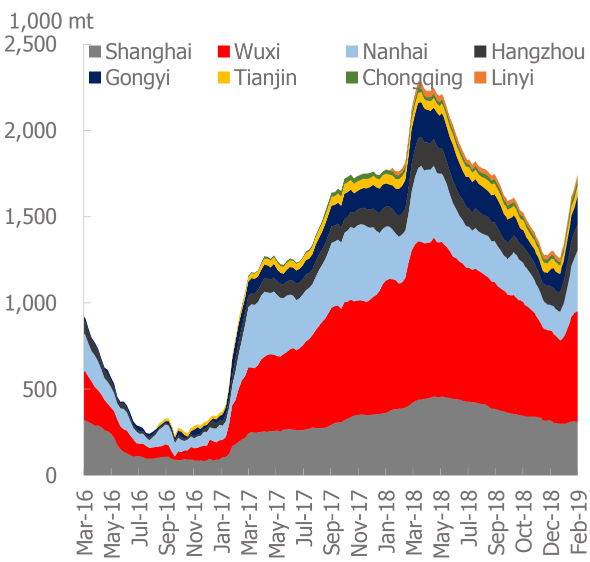
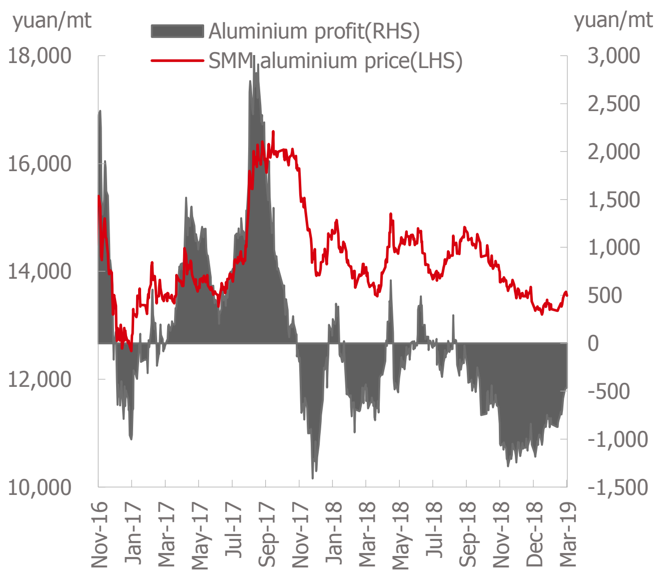


Chart 4: China's aluminium profit



Zinc: Consumption recovery slows domestic inventory growth, to keep prices at highs

Declining inventories overseas are likely to shore up LME zinc this week, keeping the three-month prices at highs with most transactions at $2,700-2,850/mt. Recovering downstream consumption in China will likely bolster SHFE zinc, with the most active April contract holding onto its gains and trading at 21,600-22,600 yuan/mt. Support is seen at the 20-day moving average for the SHFE 1904 contract.

Prices in the physical market are also likely to receive a boost from further downstream recovery this week. Spot 0# zinc is expected to trade at discounts of 50 yuan/mt to premiums of 20 yuan/mt against the SHFE March contract.

Zinc stocks across LME-registered warehouses continued their declines, falling below 70,000 mt, towards lows seen in 2007. This, together with unexpected developments at smelters overseas, raised concerns over supplies and buoyed LME zinc.

Domestically, the focus moved from supply bottlenecks to growing inventories. Social inventories of refined zinc across Shanghai, Guangdong and Tianjin extended their holiday gains in the third week after the CNY break, growing pressure on spot markets.

Trades of seaborne materials are expected to remain quiet in the near term given continued wide import losses.

The growth of zinc social inventories in China slowed last week as downstream consumers returned from the holidays. This improved market sentiment and bolstered the SHFE 1904 contract on Friday March 1.

Chart 5: Zinc inventories and spot premiums

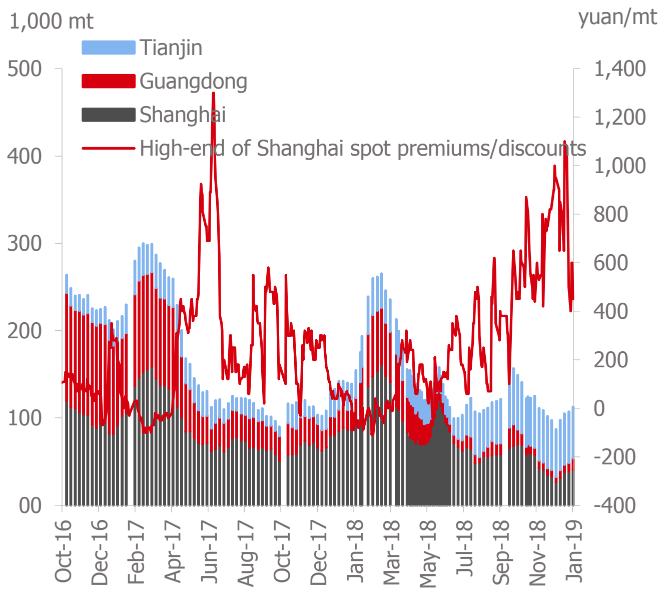
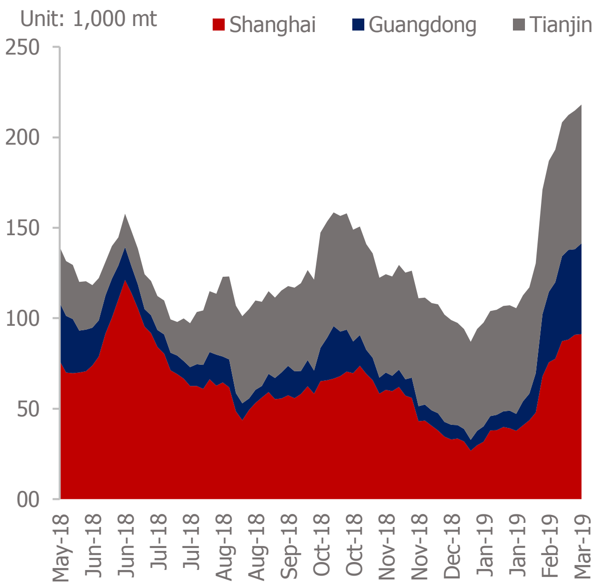


Chart 6: China social zinc inventory



Lead: Trade optimism, low inventories to bolster prices

Lead prices rose significantly last week. Lead-acid battery producers purchased on demand. Battery producers are expected to continue on-demand procurement this week as consumption will enter a seasonal lull in March. Supplies of primary lead are likely to rise this week as smelters in Hunan recover from maintenance and this is expected to widen spot discounts by smelters. Traders were keen to discharge cargoes last week as prices climbed. Their selling enthusiasm is expected to continue this week. For secondary lead, profit recovery across smelters and high inventories of finished goods are likely to return spot offers to discounts.

Chart 7: SMM, LME lead prices

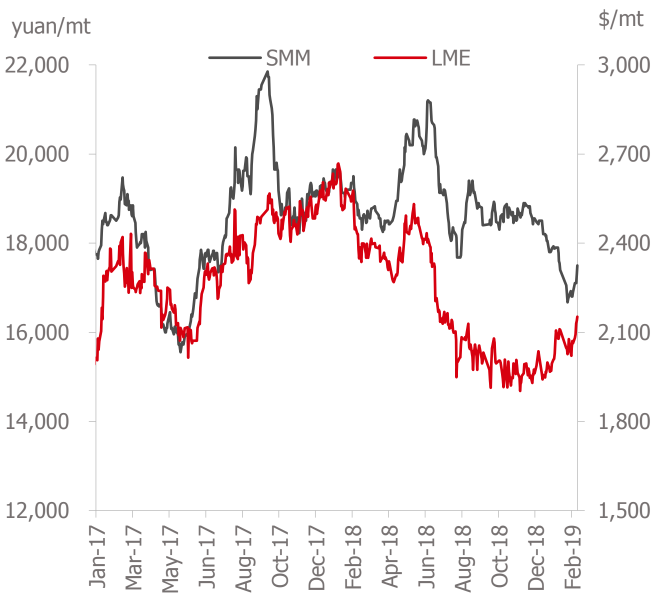
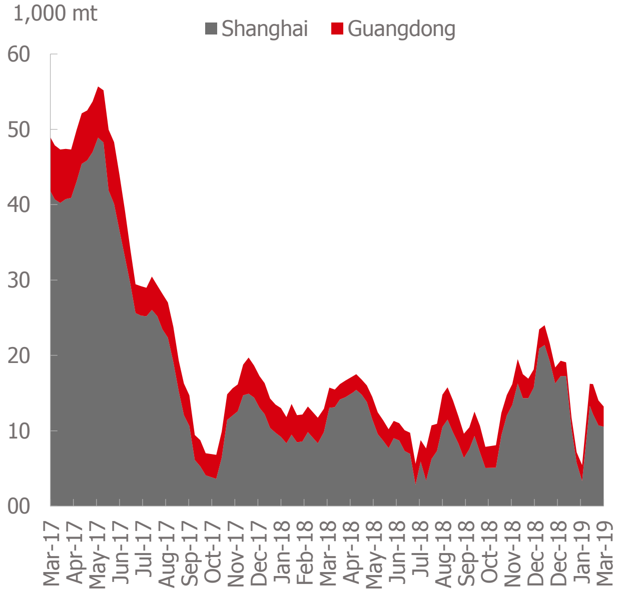


Chart 8: Social inventories of primary lead



Nickel: Higher prices of stainless steel to support premiums of NPI

Discounts of high-grade NPI returned to premiums over refined nickel last week as stainless steel mills continued to stockpile, and this tightened the supply of high-grade NPI. Prices of high-grade NPI may receive further support as prices of stainless steel rise with nickel prices. But it remains unclear how long price gains will last as end-user demand did not recover fully.

While consumption of hot-rolled steel was robust last week, demand for cold-rolled steel remained poor as many downstream producers remained closed. As a result, prices of cold-rolled stainless steel failed to grow as quickly as hot-rolled products, which narrowed their price spread.

Domestic inventories of refined nickel depleted in a closed import arbitrage window. This buoyed prices of nickel and lifted offers of stainless steel, which improved margins at steel producers.

Nickel inventories in the east (excluding stocks in SHFE-registered warehouses), shrank some 500 mt last week. Nickel inventories in the Shanghai bonded areas changed little from a week ago and stood at 30,400 mt as of Friday March 1, SMM data showed.

The import arbitrage window remained closed with larger import losses this week. This prevented importers from moving cargoes from bonded warehouses to the domestic spot market. Limited forward cargoes arrived at bonded warehouses this week, SMM learned.

Chart 9: China Nickel inventory in bonded area

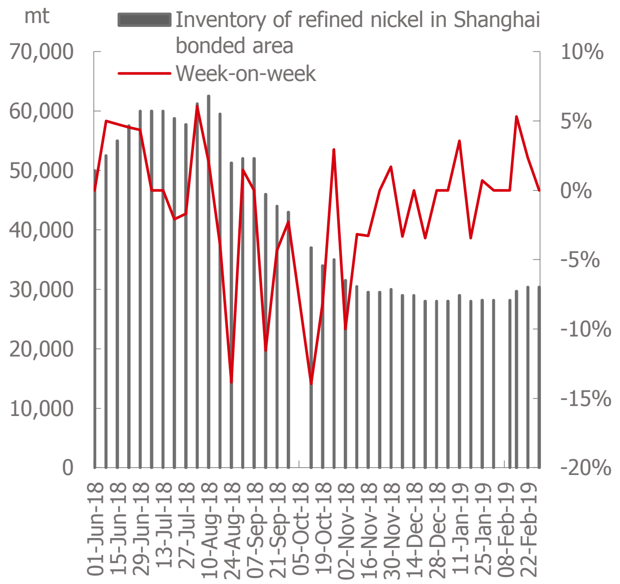
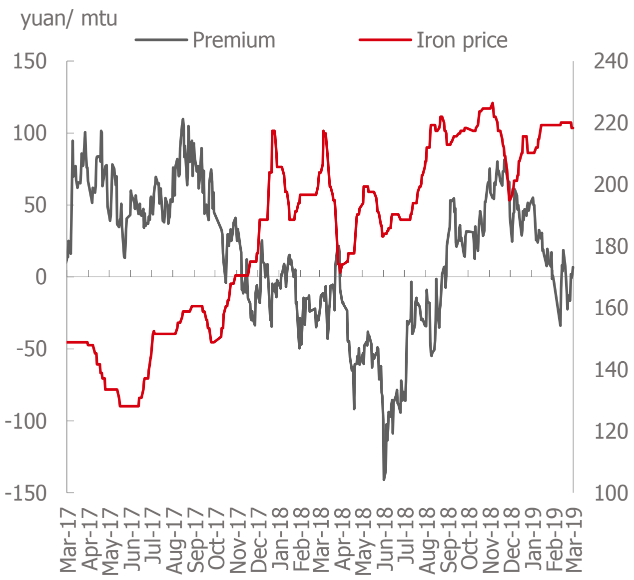


Chart 10: Premium/discount of high-grade NPI over refined nickel



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Prices of cobalt salt also weakened further as cash flow issues drove producers in the south to destock. Price of cobalt sulphate dipped 2,000 yuan/mt week on week to 62,000-64,000 yuan/mt as of last Friday. Spot prices of cobalt chloride were assessed at 69,000-71,000 yuan/mt as of Friday, down an average 2,000 yuan/mt on the week. Prices of nickel sulphate stabilised at 24,500-26,000 yuan/mt last week.

Lower prices of cobalt raw materials grew caution across downstream consumers, and lowered their confidence in cobalt products. SMM assessed prices of cobalt (II, III) oxide at 210,000-220,000 yuan/mt as of last Friday, down an average 5,000 yuan/mt on the week.

With thin trades, prices of cobalt oxide declined with prices of cobalt (II, III) oxide, and also lost an average of 5,000 yuan/mt week on week, to stand at 207,000-217,000 yuan/mt.

Last week, producers of cobalt powder lowered offers but this failed to attract downstream purchases. SMM expects cobalt powder prices to extend their weak trends in the weeks ahead.

As of Friday March 1, prices of cobalt powder came in at 325,000-345,000 yuan/mt, down an average 5,000 yuan/mt from a week earlier.

Chart 11: Domestic prices of cobalt

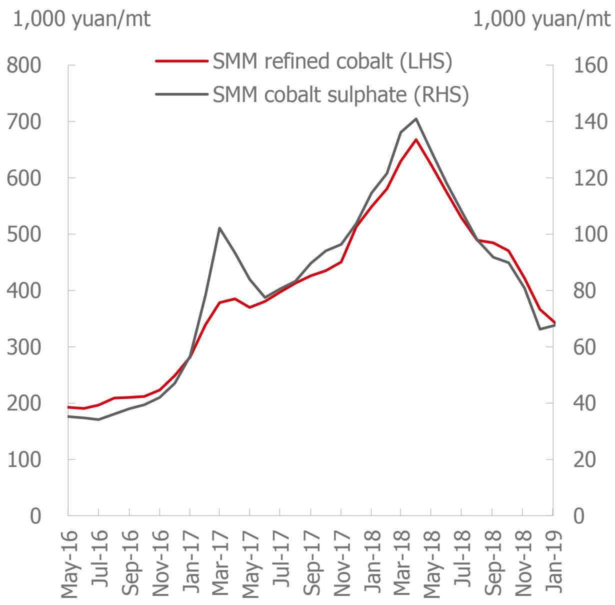
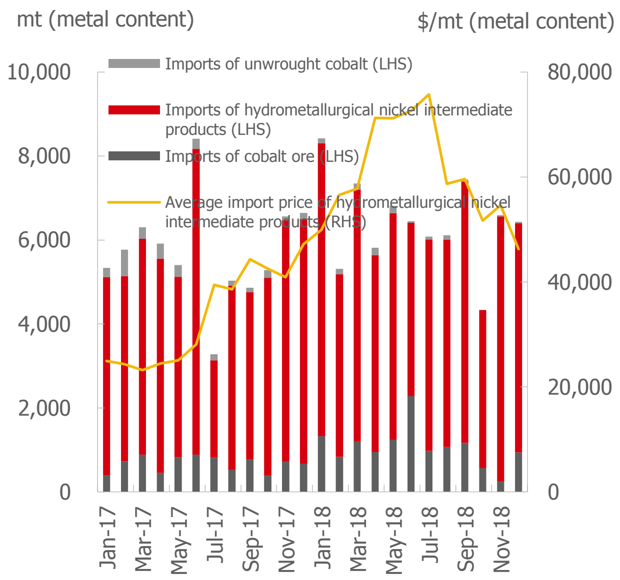


Chart 12: China imports of cobalt ore



Steel: Environmental curbs, demand recovery to bolster steel prices

Environmental restrictions occurred frequently across most regions last week before the two political sessions began on Sunday March 3, and this is expected to bolster prices of steel this week.

Last week, the improved weather accelerated the resumption of downstream demand, which extended the robust trend in prices of rebar. Average prices of rebar increased 127 yuan/mt, or 3.38% week on week, and stood at 3,887 yuan/mt as of Friday March 1.

SMM learned that most distributors maintained stable deliveries, though shipments were smaller than pre-CNY levels. Current high prices kept downstream consumers purchasing as needed.

CNY barely affected planned production of rebar in February. Scheduled output of rebar across steel mills for February increased 1.04% from production in January, to 7.62 million mt.

Resumption of construction demand slowed the accumulation of rebar inventories in the week ended Thursday February 28, SMM data showed. As of Thursday February 28, inventories across steel mills stood at 3.43 million mt, down 2% from a week ago but up 1.1% from last lunar year. Social stocks rose 5.9% on the week but dipped 1.3% on the year to stand at 10.21 million mt as of February 28.

Chart 13: Rebar social inventories

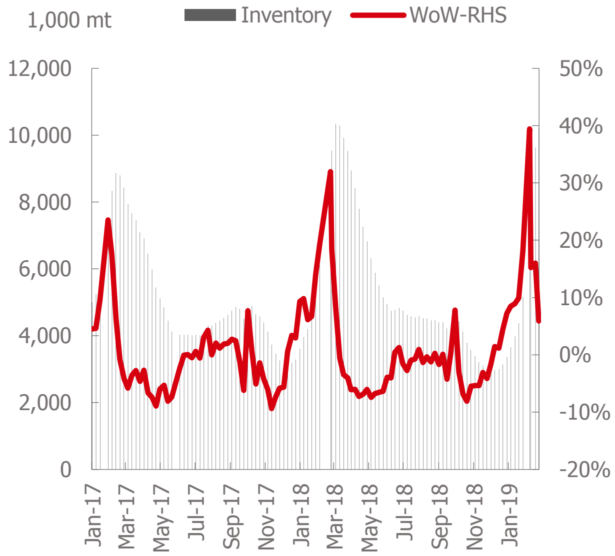
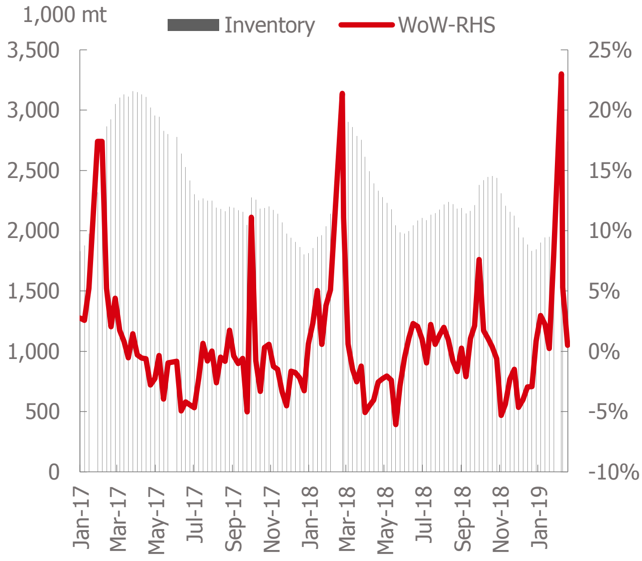


Chart 14: Hot-rolled coil social inventories



Iron ore: Steel prices to underpin iron ore prices

Daily iron ore deliveries leaving Chinese ports are unlikely to extend their gains this week as the two political sessions and the severe smog alert in Tangshan erode demand and impact transportation.

SMM learned that more steel mills will conduct maintenance in March, which will also lower demand for iron ore. Environmental production curbs and maintenance are expected to buoy prices of steel products. This, coupled with gradual recovery of downstream demand, is likely to keep prices of iron ore at highs in the near term.

Iron ore deliveries leaving 35 major Chinese ports averaged 2.69 million mt per day in the week ended March 1, up some 70,000 mt from the previous week, and up significantly from the same period last lunar year.

Steel mills stepped up iron ore procurement after prices of futures rallied in the second half of the week. This grew deliveries from major ports.

SMM data also showed that stocks of iron ore across major Chinese ports expanded 1.25 million mt from a week ago to stand at 133.57 million mt as of March 1, down 14.43 million mt from the same period after 2018's Lunar New Year.

In the week ended Thursday February 28, some 77 vessels carrying 10.75 million mt of iron ore are expected to arrive at major Chinese ports, up 760,000 mt from the previous week, SMM data showed.

Seaborne arrivals are likely to increase at major ports in the east and north, as well as at some ports along the Yangtze River.

For the same week, shipments will grow at major ports across Australia and Brazil. Iron ore shipments departing Australian ports are expected to grow by 850,000 mt from the prior week to 15.74 million mt. Iron ore leaving Brazilian ports are likely to expand by 810,000 mt to 7.2 million mt.

Chart 15: Daily throughput of iron ore

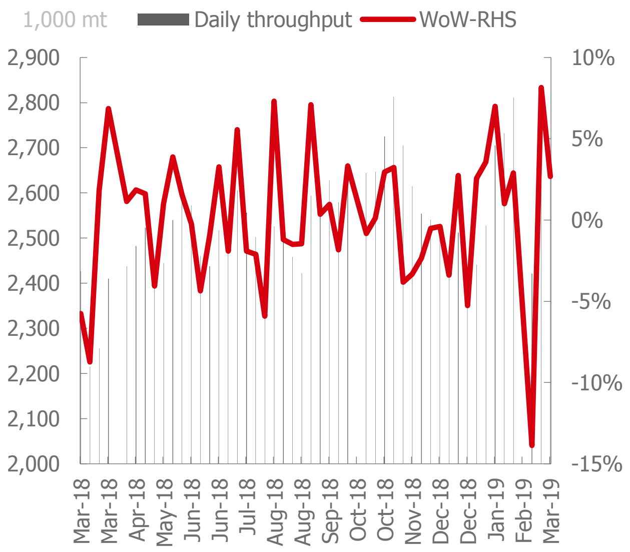
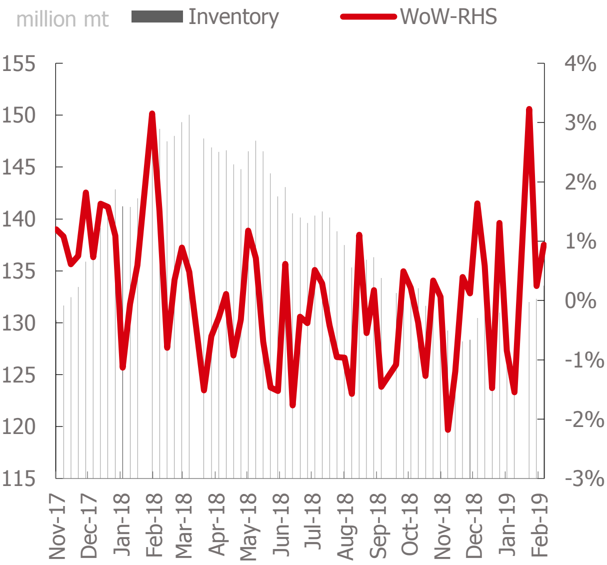


Chart 16: Iron ore port inventories



Related Research

1. SMM Monthly Metal Macro Report (Issue 1, May 3, 2018)

2. SMM Monthly Base Metal Output Forecast (Issue 1, May 8, 2018)

3. Demand of Cobalt and Nickel to Benefit from China's EV Subsidy Policy in 2018

4. 2018 Annual Copper TC Set at US$82.25/ton; SMM Bullish on 2018 Copper Prices

5. China's Supply-Side Reform Continues to Reduce Capacity

6. China's Elimination on Excess Capacity in Steel Continue to Act Positively

7. Spot Copper Concentrate TCs Fall Further in Q2, in Line with SMM Expectation

8. Base Metals Diverge on Rising Supply and Delayed Demand Pickup

9. Aluminium and Nickel Return to Fundamentals with Sanctions on Rusal in Flux

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