Weekly Metal Macro Report

Issue 31 | January 15, 2019

('000 tonnes)	Inventory Type	As of Jan 15	Week-over-week(%)	Ytd(%)	YoY(%)
Aluminium	Social	1,282	-1.54	-0.31	-27.49
Copper	Bonded	433	0.70	2.32	-10.02
Zinc	Bonded	75	-3.23	2.74	-58.33
	Social	105	7.42	20.35	-92.65
Lead	Social	19	-0.89	3.79	61.56
Nickel Ore	Port	8,970	-2.92	-3.96	75.88
Steel	HRC-social	1,902	2.97	3.84	2.40
	Rebar-social	3,654	8.48	16.34	-7.73
Iron Ore	Port	129,296	-1.48	-0.90	-8.50

Copper: Concentrate TCs fall as expected

Treatment charges (TCs) for spot seaborne copper concentrate traded at $89-93/mt as of Friday January 11, down $1/mt from a week ago, SMM assessments showed. This is in line with SMM's previous expectations. Domestic smelters showed greater interest in resources for the second quarter of 2019.

Aluminium: Cost decline, supply growth to weigh on prices

Aluminium prices across the Chinese markets are more likely to fall than rise as costs shrink and as supply expands. For the week ended January 11, domestic alumina prices fell 1.69% to stand at 2,879 yuan/mt and FOB alumina prices slipped 3.21% to $392/mt, SMM assessments showed. Total costs that primary aluminium producers could incur fell to 14,375.9 yuan/mt as of Friday January 11 with losses down 6.81% to 1065.9 yuan/mt.

Zinc: Greater concentrate supplies fail to boost zinc supplies, supporting price

Greater supplies of zinc concentrate failed to boost output of refined zinc. China's output of refined zinc is expected to shrink for the third straight month in January, standing at 431,000 mt, down 3.84% month on month, showed an SMM survey.

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As of January 11, price spreads between copper cathode and copper scrap came in at 505 yuan/mt, 336 yuan/mt less than the start of the month and 891 yuan/mt less than a month ago, SMM calculations showed. The smaller price gaps lowered the appeal of copper scrap. SMM research showed that operating rates across Chinese copper rod producers that use copper scrap as feedstock fell 4.04 percentage points from November to stand at 54.82% in December. Rates are likely to extend their decline to 50.22% in January, down 4.6 percentage points on the month.

As demand weakens in a seasonal lull, operating rates across copper wire rods and sheet/plate/strip/foil are likely to fall 2.04 and 0.92 percentage points to 74.81% and 71.76%, respectively, in December. Across copper tube/pipe producers, rates are expected to hold stable at 74.74% as seasonality factors drive the production of air-conditioners. High inventories of air-conditioners triggered concerns about consumption. In a further sign of demand weakness, the value of China's total exports in December fell 4.4% from a year earlier, the biggest monthly drop in two years, showed customs data on January 14. Imports declined 7.6%, the biggest decline since July 2016.

Weaker demand expanded inventories of copper. Stocks of copper cathode in Shanghai-bonded areas rose 0.7% from a week ago to stand at 432,800 mt as of Friday January 11, marking the eighth consecutive week of increase, SMM data showed.

Chart 1: Spot copper concentrate TCs

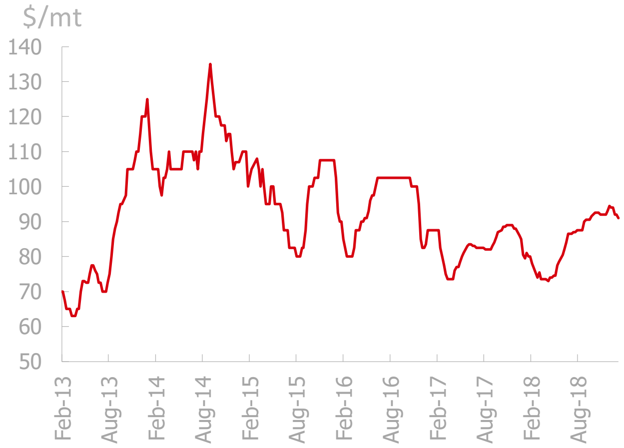
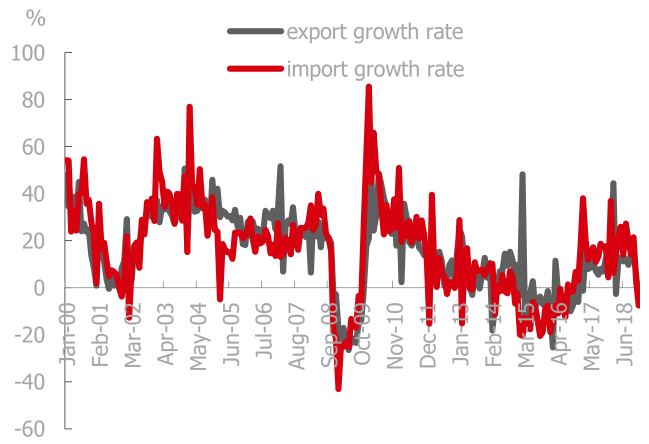


Chart 2: China's trade data in dollar terms



Aluminium: Cost decline, supply growth to weigh on prices

Aluminium prices across the Chinese markets are more likely to fall than rise as costs shrink and as supply expands. For the week ended January 11, domestic alumina prices fell 1.69% to stand at 2,879 yuan/mt and FOB alumina prices slipped 3.21% to $392/mt, SMM assessments showed.

Total costs that primary aluminium producers could incur fell to 14,375.9 yuan/mt as of Friday January 11 with losses down 6.81% to 1065.9 yuan/mt. China's alumina output stood at 6.18 million mt in December, creating a supply surplus of 189,000 mt. Output is estimated to grow 0.36% month on month to 6.21 million mt in January with the surplus widening by 6.35% to 281,000 mt. This is in line SMM's bearish outlooks for alumina prices.

With winter stockpiling across downstream consumers, social inventories of primary aluminium across eight consumption areas in China, including SHFE warrants, decreased by 1.54% in the week ended January 10 to stand at 1.28 million mt, SMM data showed. SMM research found that China's output of primary aluminium is expected to stand at 3.01 million mt in January, up 0.53% from December.

Chart 3: Social inventories of primary aluminium

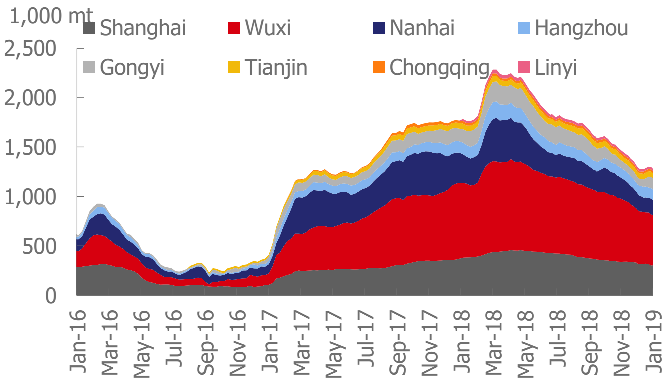
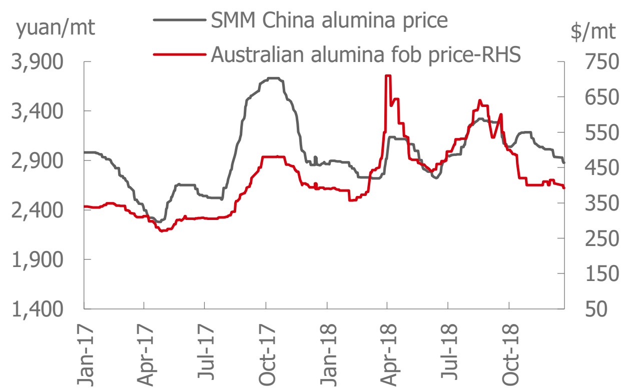


Chart 4: Prices of FOB/domestic alumina



Zinc: Greater concentrate supplies fail to boost zinc supplies, supporting price

Greater supplies of zinc concentrate failed to boost output of refined zinc. China's output of refined zinc is expected to shrink for the third straight month in January, standing at 431,000 mt, down 3.84% month on month, showed an SMM survey. Facility relocations, environmental issue and the slow commissioning of new capacity reduced output and kept inventories growing at a slow pace. This would provide support to zinc prices, but potential inflows of seaborne materials might erode the support. SMM is optimistic about demand from infrastructure after the CNY break.

For the week ended January 11, social inventories of refined zinc across Shanghai, Tianjin and Guangdong expanded 7.42% to stand at 104,700 mt while stocks in Shanghai bonded areas decreased by 3.23% to 75,000 mt, SMM data showed. For the same week, TCs for domestic zinc concentrate gained 0.88% to stand at 5,750 yuan/mt in Zn content and TCs for seaborne materials rose 2.7% to $190/dmt. SMM sees limited upside room in TCs of zinc concentrate as they currently stand at highs not seen since 2013.

Chart 5: TCs for domestic/imported zinc concentrate

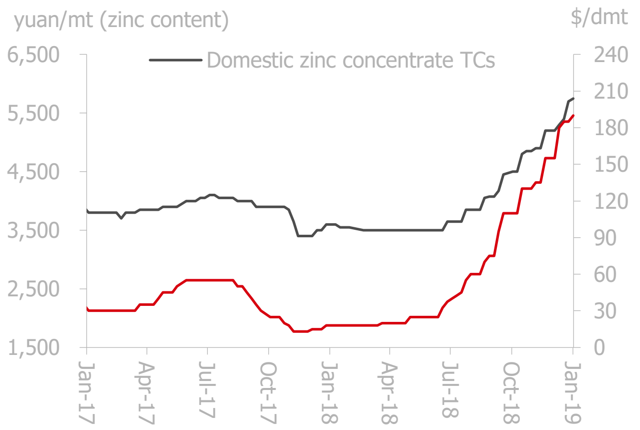
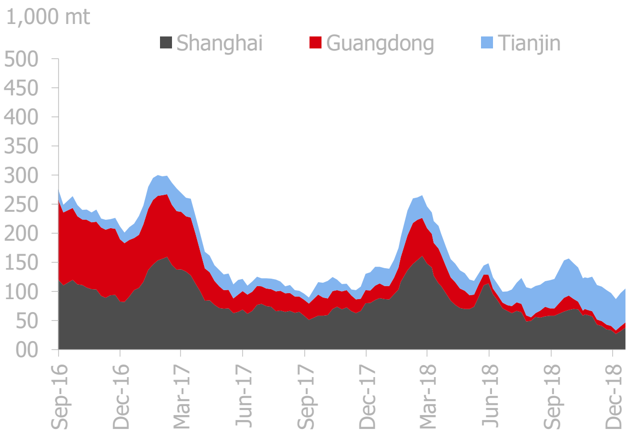


Chart 6: Social inventories of refined zinc



Lead: Weaker demand, stable supply to grow inventories, pressure prices

Lead prices across the Chinese markets are likely to remain under pressure as weaker demand and stable supply grow inventories. Social inventories of primary lead across Shanghai and Guangdong dipped 0.89% from a week ago to stand at 19,100 mt as of Friday January 11, SMM data showed.

For the same week, operating rates at lead-acid battery producers across Jiangsu, Zhejiang, Jiangxi, Hubei, and Hebei averaged 62.07%, down 2.53 percentage points week on week, showed an SMM survey. Rates are likely to drop significantly when battery producers begin their CNY break in the second half of January.

As lead-acid battery consumption failed to pick up considerably, battery producers remained cautious about stockpiling raw materials. Inventories of raw materials across smelters stayed at 38 days and such relatively high inventories kept smelters from purchasing. This is likely to keep TCs for lead concentrate at current levels.

For the week ended January 11, TCs for domestic lead concentrate remained unchanged at 1,800 yuan/mt in Pb content and TCs for seaborne materials also stayed flat at $25/dmt, SMM assessments showed. Profit margins on imported lead concentrate fell 500yuan/mt to 1,500 yuan/mt.

Chart 7: TCs for domestic/imported lead concentrate

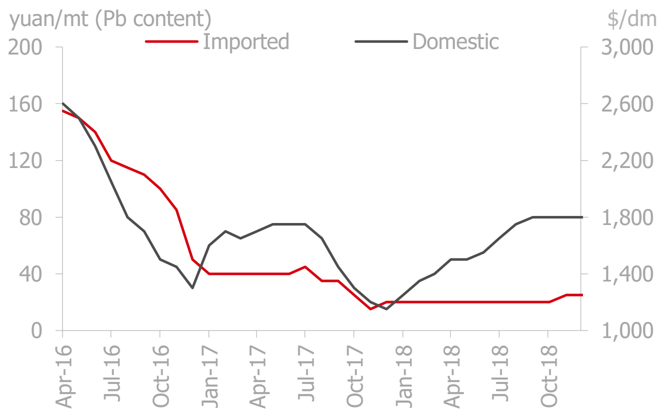
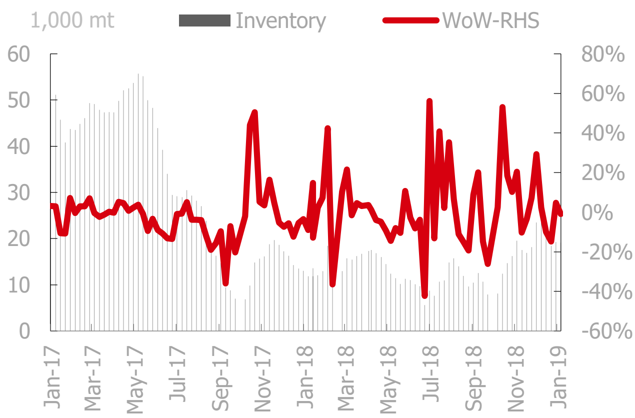


Chart 8: Social inventories of primary lead



Nickel: Prices to find support from raw materials costs

Supply and demand in the nickel market will shrink in January and costs of nickel ore are expected to underpin nickel prices, SMM expects. Offers of Indonesia's nickel ore with 1.65% Ni fell close to export costs of $25/wmt at some high-cost mines.

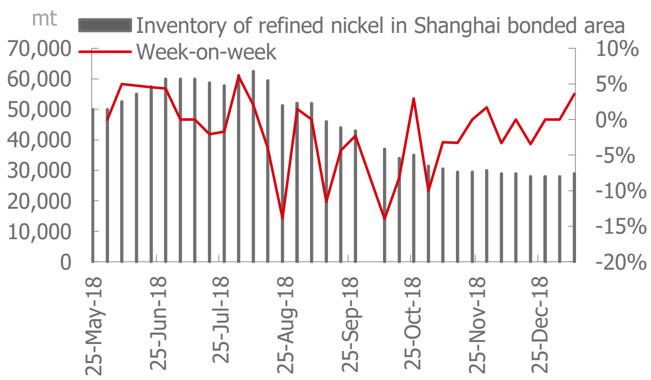
Construction issues will postpone the commencement of production of some 21,600 mt/year of newly-built nickel pig iron (NPI) capacity in Indonesia, to March of 2019. This, coupled with lower NPI production in Inner Mongolia from tight power supplies, will slow the pace of NPI growth in January. **January's NPI output in Inner Mongolia is likely to fall 9.76% from December, standing at 49,000 mt in nickel content, lower than SMM's previous expectation.**

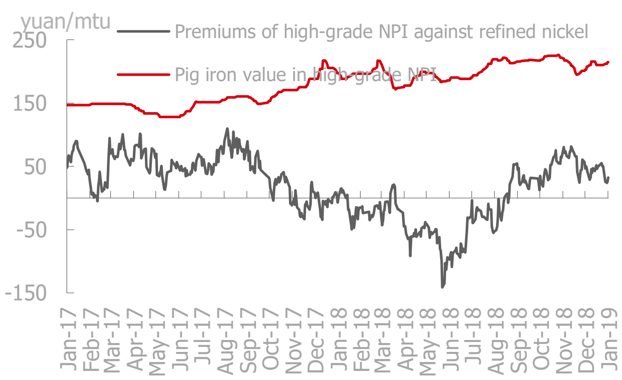
Smaller supplies will keep premiums of high-grade NPI over refined nickel at highs. As of Friday January 11, premiums of high-grade NPI came in at 32.5 yuan/mt in Ni content, over refined nickel. Downstream stainless steel mills planned to undergo maintenance in January-February, which will affect output of #300 series products. For the first quarter of 2019, China's production of #300 stainless steel is estimated to fall 12.91% on the quarter, to 3.06 million mt.

Social inventories of stainless steel are expected to slow their declines and start to accumulate in the short run as low season sets in. As of December 30, 2018, social inventories of #300 stainless steel stood at 218,600 mt, down 6.58% on the month, SMM data showed.

Chart 9: High-grade NPI premiums over nickel plate

Chart 10: Nickel plate inventories in bonded areas





Manganese: Post-CNY demand optimism to support prices

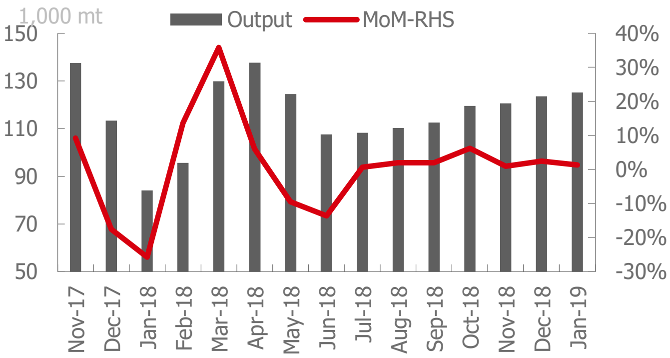
Supply and demand in the Chinese manganese market are expected to remain weak before CNY, but expectations of higher demand from stainless steel after the holiday will keep prices of manganese at current highs till CNY. Major #200 stainless steel plants mostly completed restocking raw materials for January and February, as they planned to undergo maintenance or cut production around CNY. In the first quarter of 2019, SMM expects China's production of the #200 series to increase 4.46% on the quarter to stand at 1.96 million mt. SMM expects output to grow after CNY.

In January, more manganese producers will resume from environmental suspension, and this will pull up operating rates by 0.7 percentage point from December, to 54.1%. Output of manganese is estimated to rise 1.29 the month to 125,200 mt.

Slow resumption of manganese mining raised costs of manganese smelters without self-owned mines or power plant to 13,500-14,000 yuan/mt as of January 11. For producers without power plants but provided their own raw materials through plants that they own, costs stood at 12,500-13,000 yuan/mt, SMM research found. As of Friday January 11, SMM assessed spot manganese prices in major production areas at 13,100 yuan/mt and imported manganese at $1,900/mt fob, both flat from a week ago.

Chart 11: SMM domestic manganese prices

Chart 12: Estimates of manganese production



Steel: Prices to climb post-CNY

Traders stockpiled spot steel products at slower paces ahead of CNY, compared to the same period last year. This slowed the accumulation of social stocks from a year ago, and will limit growth in supply after the holiday. Steel mills also kept smaller in-plant stocks of raw materials, which is likely to affect production of blast furnaces after CNY, and support prices.

Prices of coke and coking coal grew after a coal mine collapsed on January 12, near the Yulin area of Shaanxi province, a major production area of the raw materials. This underpinned prices of steel.

As of Thursday January 10, four weeks to CNY, social inventories of rebar stood at 3.65 million mt, and in-plant stocks at 1.82 million mt, down 13.1% and 21.1%, respectively from a year earlier. On a weekly basis, overall inventories inducing social and in-plant stocks grew 1.86% and stood at 13.05 million mt as of January 10, but the week-on-week growth fell 326,000 from a week earlier. China stepped up investment to infrastructure projects to offset lower exports in January. SMM expects this to hasten recovery across producers after CNY.

Chart 13: Rebar social inventories

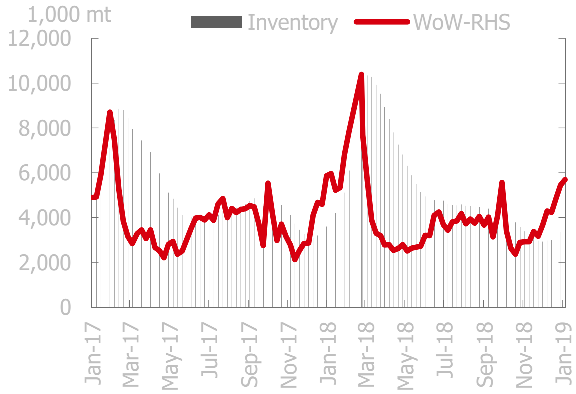
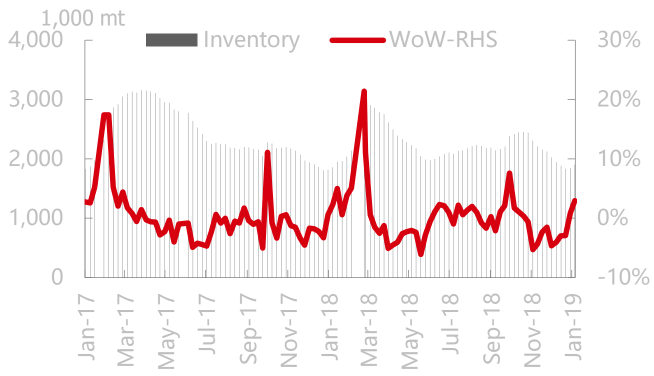


Chart 14: Hot-rolled coil social inventories



Iron ore: Slower purchases by steel mills next week to cap price gains

Upward room in iron ore prices is likely to be limited as steel mills slow restocking next week, and as an appreciating yuan continues to weigh on costs of imported ore. Iron ore daily deliveries departing major Chinese ports are likely to remain robust and stand above 2.5 million mt this week. This, coupled with higher prices of coke and coking coal, will support prices of iron ore this week.

Pre-holiday purchases from steel mills buoyed average daily deliveries of iron ore departing 35 major Chinese ports by 3.56% week on week, to 2.53 million as of last Friday, in line with SMM's expectations. Higher deliveries from ports, together with smaller-than-expected seaborne arrivals, lowered iron ore stocks at those ports by 1.48% on the week, to 129.29 million mt as of Friday January 11.

Sixty-seven vessels carrying 9.53 million mt of iron ore are expected to arrive at major Chinese ports in the week ended Thursday January 10, down 2.76% from the previous week, SMM data showed. For the same week, iron ore shipments departing Australian ports are expected to decrease by 6.39% from the prior week to 14.35 million mt, and those leaving Brazilian ports are likely to fall by 2.53% to 7.7 million mt. Port maintenance at the start of the month lowered shipments.

Chart 15: Daily throughput of iron ore

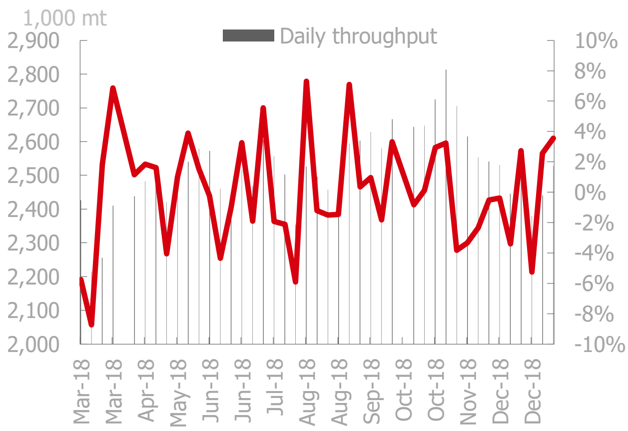
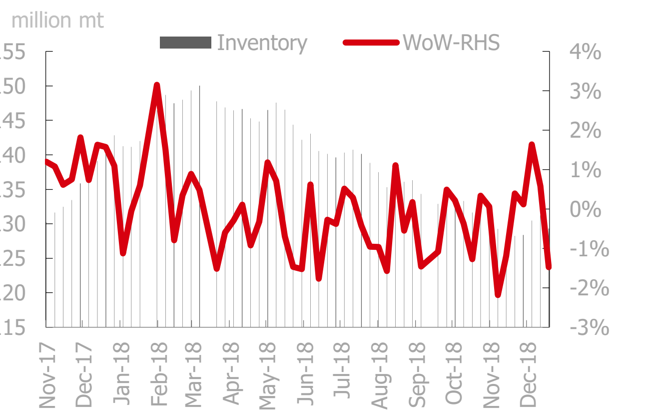


Chart 16: Iron ore port inventories



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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