Shanghai Metals Market

Weekly Metal Macro Report

Issue 34 | February 19, 2019

('000 tonnes)	Inventory Type	As of Feb 19	Week-over-week(%)	Ytd(%)	YoY(%)
Aluminium	Social	1,617	3.52	25.74	-11.01
Copper	Bonded	461	2.86	8.98	-5.34
Zinc	Bonded	86	3.61	18.08	-60.82
	Social	187	43.49	114.84	-3.43
Lead	Social	39	50.59	35.36	8.17
Nickel Ore	Port	10,400	-0.76	-2.89	81.18
Steel	HRC-social	2,588	23.00	41.31	20.98
	Rebar-social	8,304	15.24	164.38	3.08
Iron Ore	Port	131,999	3.23	1.17	-7.04

Copper: Spot premiums to rise as downstream consumers return after Lantern Festival

Spot quotes are expected to fall before they rise this week, between discounts of 120 yuan/mt to premiums of up to 30 yuan/mt. Downstream restarts after February 19 and the deadline of long-term contracts delivery on February 25 will likely improve transactions after Tuesday. This is expected to shrink spot discounts, especially for high-quality materials. Smaller supplies of high-quality copper than of standard quality materials will widen the price difference between the two.

Aluminium: Seasonality grows inventories of primary aluminium

Inventories of spot aluminium ingots across China's eight major markets grew 55,000 mt from Monday February 11 to 1.62 million mt as of February 14, SMM data showed. The east and south accounted for most of the growth. Train loading in Gongyi was restricted for three days during CNY, and this lowered arrivals in the region.

Iron ore: Vale issues likely to buoy iron ore prices in mid to long run

Expectations of shorter supplies after the Vale dam accident in Brazil, and higher downstream demand at the end of the first quarter, are likely to bolster iron ore prices in the weeks ahead, SMM forecasts. In the short term, iron ore futures and spot prices are expected to moderate after prices rose last week. Speculative sentiment accounted for the higher prices of iron ore in early trades last week, after trading resumed from the Chinese New Year holiday.

Copper: Spot premiums to rise as downstream consumers return after Lantern Festival

Spot quotes are expected to fall before they rise this week, between discounts of 120 yuan/mt to premiums of up to 30 yuan/mt.

SHFE copper inventories grew 64,391 mt from the prior week to 207,118 mt last week. Inventory pressure would prompt sellers to offload cargoes. Traded prices were all heard at discounts against prices of futures after the SHFE February copper contract expired.

Downstream restarts after February 19 and the deadline of long-term contracts delivery on February 25 will likely improve transactions after Tuesday. This is expected to shrink spot discounts, especially for high-quality materials. Smaller supplies of high-quality copper than of standard quality materials will widen the price difference between the two.

Chinese copper smelters are likely to try to keep treatment charges (TCs) for spot seaborne copper concentrate above the benchmark for the year, with current sufficient inventories of copper concentrate across large smelters. But SMM believes that the commissioning of new and expanded smelting capacity in China will weigh on spot TCs later in the year.

TCs for spot imported concentrates stood at $79-84/mt as of Friday February 15, down $2.5/mt from pre-holiday levels, SMM assessments showed. There were a few transactions done in the first week after the holidays.

Torrential rains across south Peru and Chile disrupted production at some copper mines earlier this month, but so far this seems to have had little impact on the market. The market is eyeing Guangxi Nanguo and Chalco Ningde copper smelting projects as well as the restart of Vedanta's Sterlite copper smelter.

Deals with TCs below $80/mt were made by non-China Smelters Purchase Team (CSPT), small and medium-sized smelters. CSPT and large smelters barely accepted TCs below $80/mt.

Chart 1: Global visible inventory

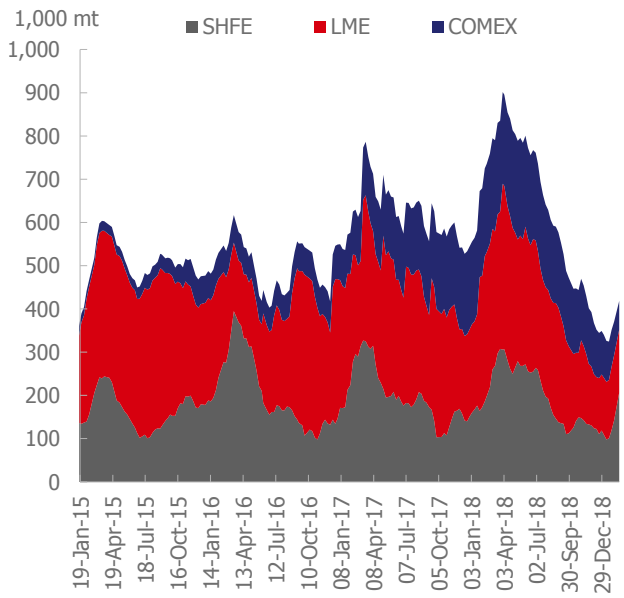
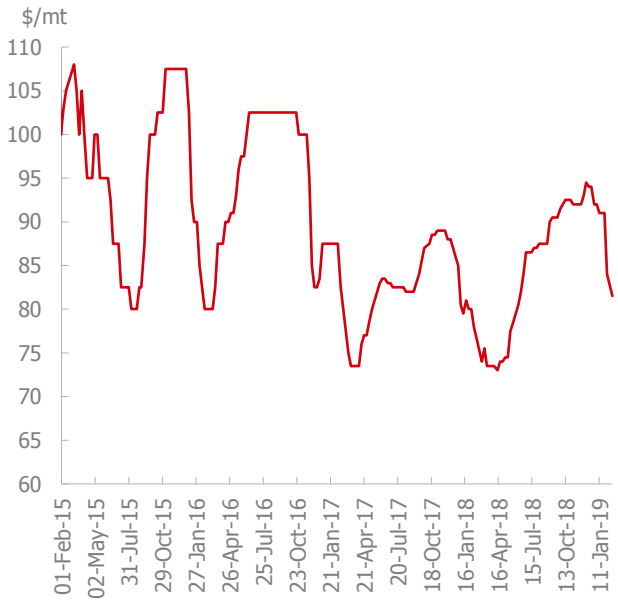


Chart 2: China copper spot TCs



Aluminium: Seasonality grows inventories of primary aluminium

Inventories of spot aluminium ingots across China's eight major markets grew 55,000 mt from Monday February 11 to 1.62 million mt as of February 14, SMM data showed. The east and south accounted for most of the growth. Train loading in Gongyi was restricted for three days during CNY, and this lowered arrivals in the region.

SMM expects stocks to continue to grow until the middle of March as downstream producers will not resume regular production until February 19. Downstream orders are expected to recover fully by March.

The total cost for smelters production of primary aluminium averaged 14,120 yuan/mt last week. Average losses across aluminium producers shrank 20 yuan/mt from pre-CNY levels to 800 yuan/mt as of Thursday, SMM calculations showed. Costs are expected to extend their declines in anticipation of further downside room in prices of alumina and prebaked anode.

China's output of metallurgical-grade alumina is expected to grow 10.5% from a year earlier to 5.61 million mt in February, with the daily average output increasing by 2,000 mt on the month to 200,000 mt.

Producers that were previously affected by environmental issues resumed production or ran at full capacity during CNY. Shandong Xinfa has returned to normal production. Producers in the south-west completed maintenance on baking furnaces in January.

Chart 3: Social inventories of primary aluminium

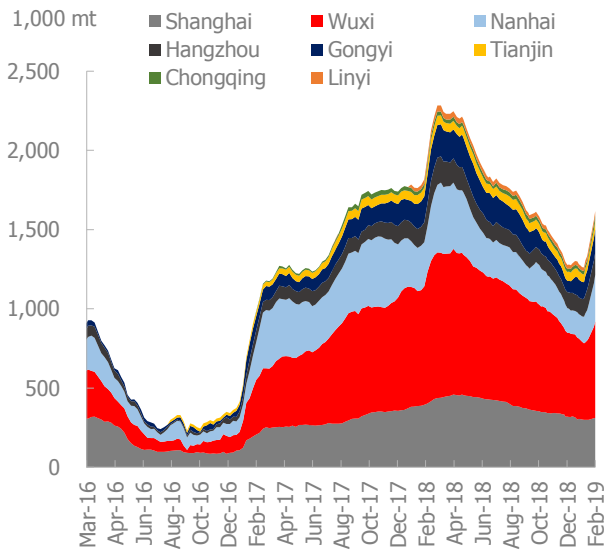
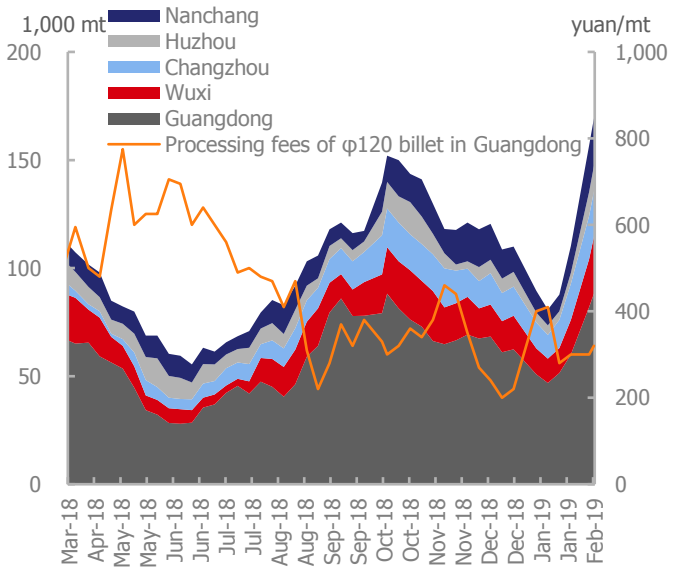


Chart 4: China's aluminium billet inventory and prices



Zinc: Concentrate TCs to stay at highs in short run

SMM expects treatment charges (TCs) for zinc concentrate to remain high in the short term.

TCs for zinc concentrate stayed at highs last week. Mainstream TC quotes stood at 5,600-6,400 yuan/mt in Zn content for domestic materials, and $220-240/dmt for imported materials, SMM assessments showed.

Current inventories, supplies of seaborne cargoes and smelting capacity constraints deterred smelters from purchasing zinc concentrate, keeping TCs for domestic materials at highs.

Mainstream traded TCs stood at 6,000-6,200 yuan/mt in Zn content in Inner Mongolia, 6,050-6,350 yuan/mt in Zn content in Shaanxi and Hunan, 5,850-6,250 yuan/mt in Zn content in Guangxi, 5,750-6,050 yuan/mt in Zn content in Sichuan, and 5,450-5,850 yuan/mt in Zn content in Yunnan.

With limited demand from domestic smelters, cash flow issues prompted some traders to raised TC offers to discharge cargoes, bolstering TCs for imported zinc concentrate.

While downstream consumers will return to the market after Tuesday, regular arrivals from smelters are likely to grow total inventories of refined zinc across Shanghai, Guangdong and Tianjin this week.

As of Friday February 15, social inventories of refined zinc across the three regions stood at 187,000 mt, up 56,700 mt from Friday February 1 and 16,000 mt from Monday February 11, SMM data showed. Operation across downstream consumers failed to significantly recover in the first week after the Lunar New Year holiday, resulting in poor purchases across the markets. This, together with stable shipments by smelters, contributed to last week's gains in zinc inventories.

Chart 5: TCs for domestic/imported zinc concentrate

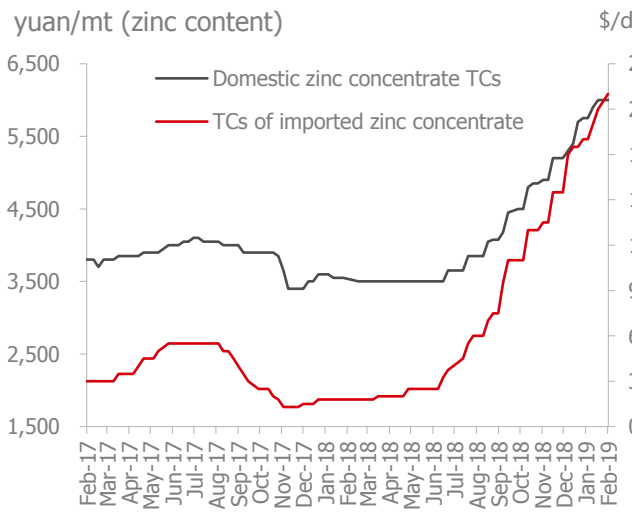
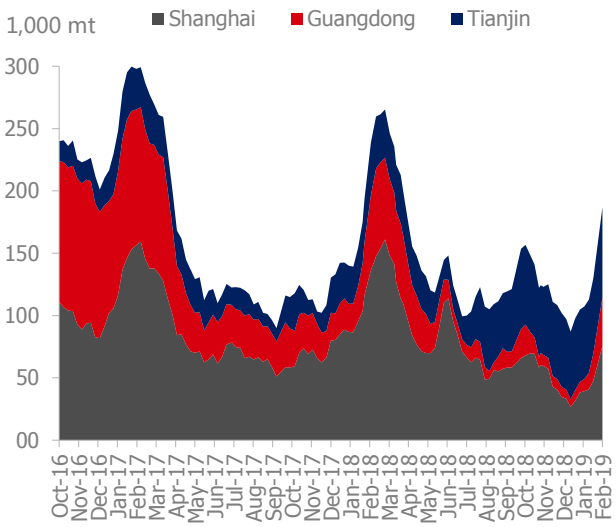


Chart 6: Social inventories of refined zinc



Lead: Smelters to continue inventory destocking this week

In the first week after CNY, large lead-acid battery producers gradually recovered production while some small and medium-sized plants remained closed. Sharp losses in lead prices at the start of last week and pre-holiday stockpiles held back lead buyers from inquiring about prices, and kept spot trades quiet. Trades improved later in the week as lead prices stemmed declines.

Most primary lead smelters maintained regular production during CNY, except for some in the provinces of Yunnan and Hunan that undertook maintenance. This grew in-plant inventories across smelters and prompted some to destock after the holiday. However, higher prices of secondary lead drove demand to primary lead, and this buoyed offers by primary smelters to premiums of up to 80 yuan/mt over the average price of #1 SMM refined lead as of Friday February 15. This compared with discounts of up to 50 yuan/mt at the start of last week.

Traders stood on the sidelines and offered domestic primary lead at premiums of 50-75 yuan/mt over the SHFE

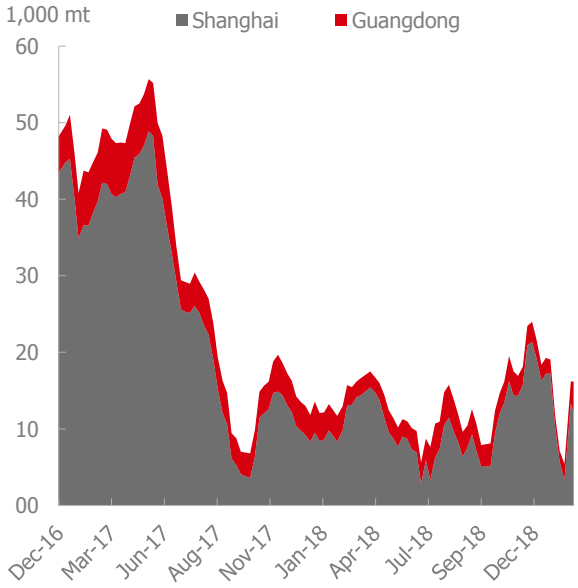
March contract as of last Friday.

Losses deterred resumption across secondary lead smelters after CNY, and exacerbated shortages of secondary refined lead. As of last Friday, offers of secondary refined lead stood at a premium of 50 yuan/mt over the average price of #1 SMM refined lead, with some premiums at a high of 200 yuan/mt. Actual transactions were limited.

Spot deals are likely at 16,650-17,100 yuan/mt this week with trades improving as most medium-sized and small battery plants return online. While maintenance at some primary smelters ended, output is unlikely to be generated until next week and this will keep offers by primary smelters stable this week. Smelters are expected to continue to remain keen to deplete their inventories this week.

Chart 7: Shanghai spot lead prices

Chart 8: Social inventories of primary lead



Nickel: Expectations of higher post-CNY purchases to underpin prices

In the first week after the CNY holiday, higher inventors of refined nickel and tepid downstream purchases lowered premiums of Jinchuan materials and expanded discounts of Norilsk nickel. Downstream demand has yet to recover significantly as of last Friday, with a few purchases heard from electroplating, alloy, and steel mills in the second half of last week.

Destocking drove Jinchuan Group to reduce ex-work prices by 500 yuan/mt from February 1, to 98,000 yuan/mt as of Friday February 15. This further narrowed the price spread between Jinchuan materials and Norilsk nickel, to 500 yuan/mt as of last Friday, and attracted purchases of Jinchuan materials from distributors and traders.

Market participants expect the spread to grow in the near term. After August 2018, the price gap remained above 1,000 yuan/mt, and exceeded 3,000 yuan/mt in September to mid-December, according to SMM assessment.

Premiums of Jinchuan nickel over the 1903 contract on the Wuxi Stainless Steel Exchange declined to 300 yuan/mt on last Friday, from some 900 yuan/mt pre-CNY. Discounts of Norilsk nickel expanded from 100 yuan/mt to 200 yuan/mt during the same period.

Last week, the most-active SHFE 1905 nickel contract declined to around 96,500 yuan/mt on Friday after it opened at highs and rose to nearly 102,000 yuan/mt on Monday. A stronger US dollar and weaker speculative sentiment around ramifications from the Vale iron ore tailings dam accident accounted for lower prices.

Market talk last week suggested that the European Union will impose quotas on 16 categories of Chinese stainless steel products and levy a duty of 25% on imports exceeding those quotas, to ease the supply glut from the US-China trade war. This could depress market sentiment this week but downstream resumption of demand is nontheless expected to support nickel prices.

Last week, prices of nickel pig iron (NPI) stood firm, supported by stockpiling at steel mills.

Chart 9: China's inventories of refined nickel

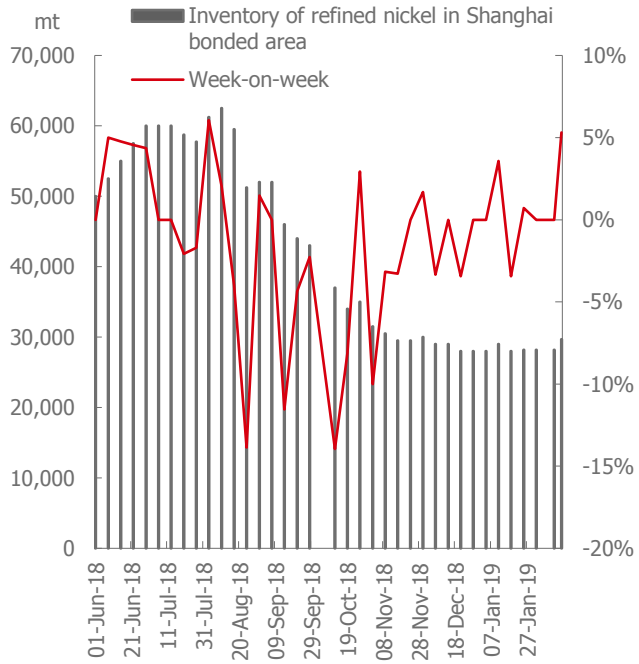
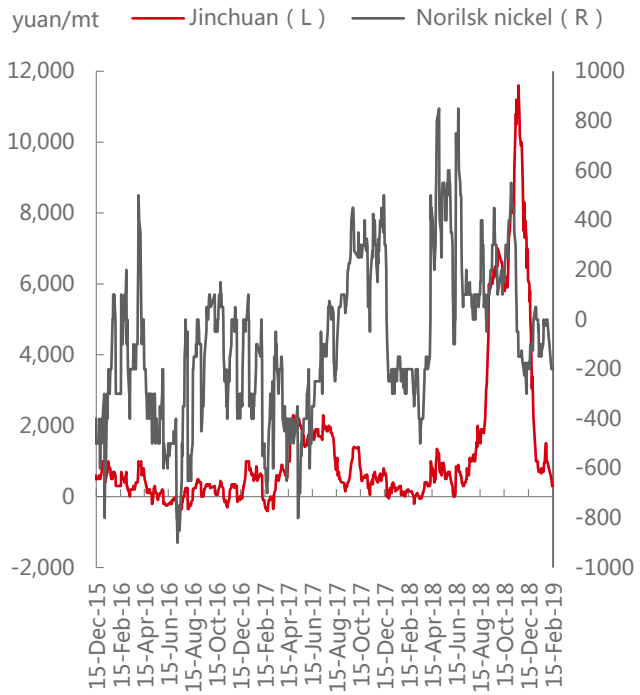


Chart 10: Premium/discount of Jinchuan, Norilsk nickel



Cobalt: Thin trades continue to lower prices overseas, domestically

This week, SMM expects spot trades to continue to decline. Transactions for short term contracts will continue in a buyer's market. Last week, cobalt prices in the international market continued to drop, and remained in discounts over domestic prices. Slow recovery of demand in the first week after CNY and in-plant stockpiles kept downstream buyers on the sidelines and producers maintained offers pre-holiday.

Eurasian Resources Group (ERG) suspended operation at its Chambishi cobalt-copper refinery in Zambia last week. This is likely to have limited impact on cobalt prices given high inventories of refined cobalt and a global supply glut of cobalt raw materials, SMM forecasts.

The relatively significant price spread between overseas and domestic prices of cobalt eroded profits across Chinese smelters, who will turn to negotiating long-term agreements this year. This is likely to shake up the current monopoly that foreign offers of refined cobalt have on prices of cobalt raw materials.

Chart 11: Domestic prices of cobalt

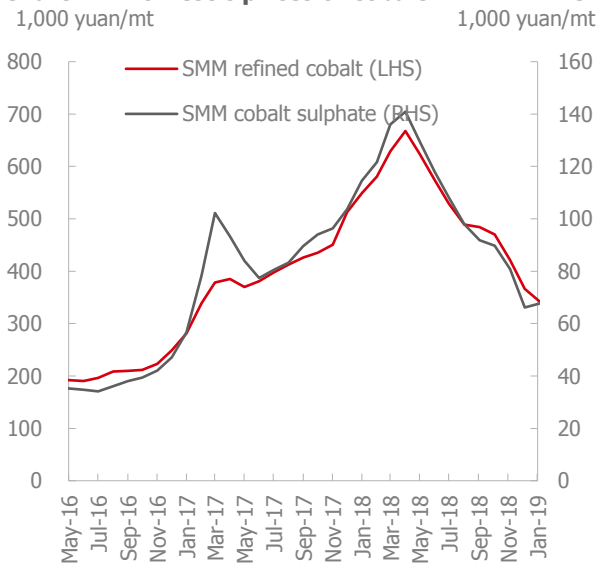
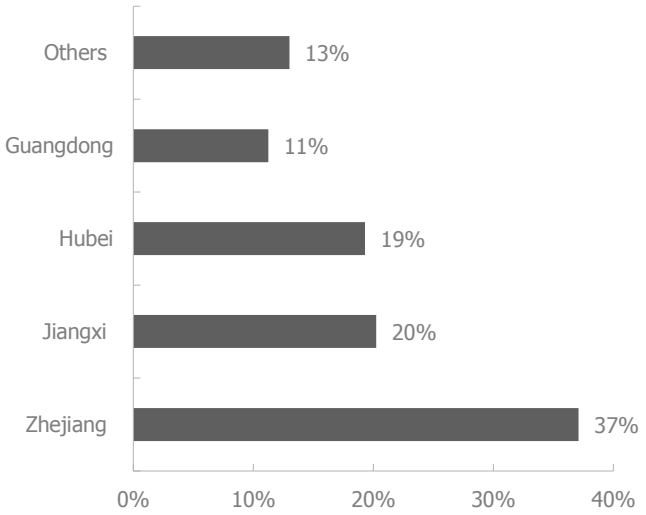


Chart 12: China cobalt production by province in Jan. 2019



Steel: Recovery of downstream demand to stem decline in prices

Last week, lower prices of hot-rolled coil than pre-CNY levels attracted some purchases, and lowered the inclination across sellers to cut offers. This, coupled with gradual resumption of downstream demand, will improve spot trades and cap the decline in prices this week, SMM believes. In the short run, US-China trade and environmental issues will determine steel prices.

The slow resumption of downstream demand after CNY failed to support prices of hot-rolled coil last week. This came despite concerns over Brazilian iron ore supply following the Vale accident. On Monday February 11, the first trading day after the holiday, spot and futures prices of hot-rolled coil gained but poorer speculative sentiment lowered prices in the second half of that week.

As of Friday February 15, the SHFE hot-rolled coil 1905 contract fell below pre-CNY levels to 3,567 yuan/mt. It declined for four consecutive days after it rose 3.3% to 3,745 yuan/mt on Monday February 11. The biggest drop in the contract last week came in at 4.75%.

Spot prices of hot-rolled coil averaged 3,744 yuan/mt as of last Friday, compared with the pre-CNY price of 3,802 yuan/mt. This followed after prices rose to a high of 3,891 yuan/mt last Monday. The steepest decline in spot prices stood at 3.2% last week.

Inventories of hot-rolled coil extended their gains as of Thursday February 14, to 3.63 million mt, as downstream demand has yet to recover completely. Inventories climbed 21.5% from before CNY, but fell 8.3% from the same lunar period in 2018.

Chart 13: Rebar social inventories

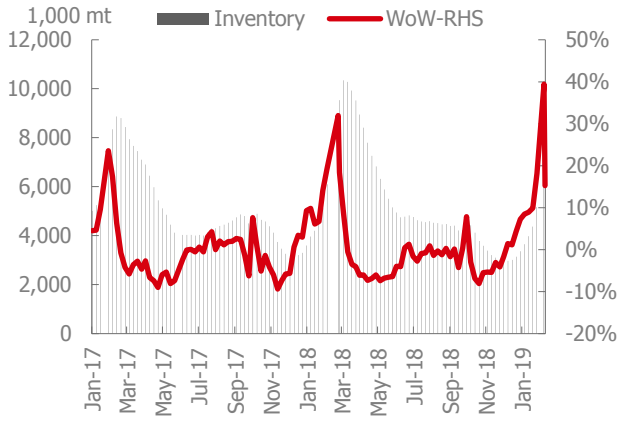
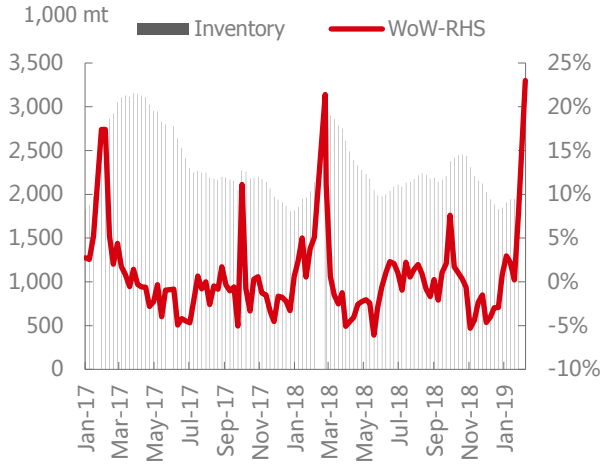


Chart 14: Hot-rolled coil social inventories



Iron ore: Vale issues likely to buoy iron ore prices in mid to long run

Expectations of shorter supplies after the Vale dam accident in Brazil, and higher downstream demand at the end of the first quarter, are likely to bolster iron ore prices in the weeks ahead, SMM forecasts.

In the short term, iron ore futures and spot prices are expected to moderate after prices rose last week. Speculative sentiment accounted for the higher prices of iron ore in early trades last week, after trading resumed from the Chinese New Year holiday.

On Wednesday February 13, market talk suggested that Vale, the world's largest iron ore miner, had declared to some Chinese customers that the company will be unable to fulfil its export contracts due to unforeseen circumstances. A Vale mine that accounted for nearly 9% the company's output had closed after a tailings dam collapsed on January 25. However a domestic steel mill that has iron ore contracts with Vale did not receive any notice of a force majeure last week, an SMM survey found

The closure is likely to impact Chinese monthly imports of some 800,000 mt of Brazil's iron ore concentrate, and 220,000 mt of pellet imports, SMM assessed from customs data. Data from China Customs showed that imports of iron ore concentrate stood at 89 million mt in 2018, with Brazilian cargoes accounting for 11%. China imported some 18.79 million mt of pellet last year, of which 14% came from Brazil.

Surveyed steel mills took a wait-and-see stance on iron ore prices as they had restocked in-plant inventory before Chinese New Year, and are awaiting more clarity around the strength of the steel demand pickup into peak construction season. Another steelmaker told SMM that higher iron ore prices lifted its overall costs to some 300 yuan/mt and narrowed profits. Some mills expressed concerns over price hikes and would turn to alternatives such as steel scrap or lower-grade ore if prices continued to increase.

Chart 15: Daily throughput of iron ore

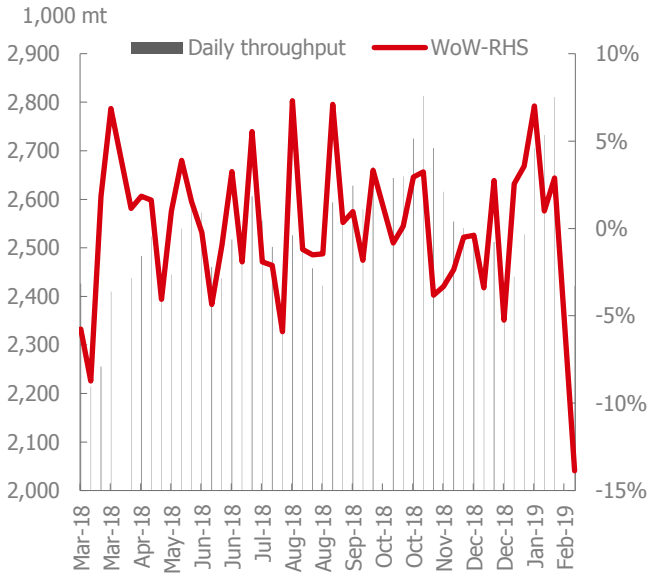
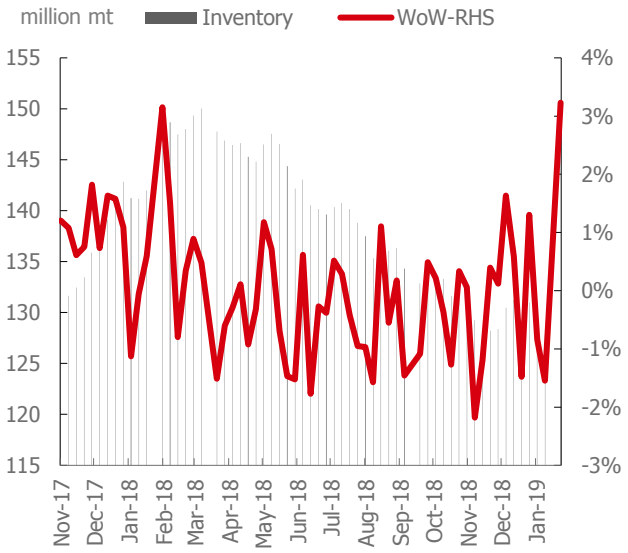


Chart 16: Iron ore port inventories



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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