Weekly Metal Macro Report

Issue 35 | February 26, 2019

('000 tonnes)	Inventory Type	As of Feb 26	Week-over-week(%)	Ytd(%)	YoY(%)
Aluminium	Social	1,672	3.40	30.02	-14.65
Copper	Bonded	479	3.86	13.19	2.09
Zinc	Bonded	84	-3.13	14.38	-60.61
	Social	208	11.34	139.23	-12.85
Lead	Social	37	-6.05	27.17	7.07
Nickel Ore	Port	10,430	0.29	-2.61	83.95
Steel	HRC-social	2,725	5.31	48.81	4.95
	Rebar-social	9,634	16.02	206.73	1.01
Iron Ore	Port	132,323	0.25	1.42	-9.66

Copper: Downstream recovery to provide strong support to copper prices

As downstream consumers returned after the Lantern Festival on February 19, consumption recovery in the coming weeks will provide robust support to copper prices. Macroeconomic developments and fundamentals currently offer solid support to copper. Inventories at the three large bourses – LME, SHFE and COMEX, stood low compared to the same period last year.

Aluminium: Anticipated consumption boom to bolster aluminium prices

While the downtrend of alumina prices is likely to continue near term with news that Malaysia will resume bauxite exports from April, however aluminium prices are expected to strengthen in anticipation of stronger consumption. Sales of pre-sale homes in 2017 and housing starts over the past two years indicated that a large number of homes will complete construction this year. In addition the start of 9 UHV power projects this year will also add 100kt to aluminium consumption this year.

Nickel: Low stocks, expectations of higher demand pull nickel prices above high-grade NPI

Last week, nickel destocking from a closed import window and higher offers by downstream stainless steel plants added to confidence in longs, which buoyed the most-active SHFE nickel May contract to highs around 102,700 yuan/mt on Friday February 22, exceeding a previous high of 101,950 yuan/mt on Monday February 11. The increase is likely to extend into this week.

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Stock accumulation after the Chinese New Year holiday grew SHFE copper inventories to 217,794 mt. Ample domestic supplies deterred SHFE copper from performing as robustly as its LME counterpart. Upward momentum waned when SHFE copper rose to around 50,000 yuan/mt. With SHFE copper underperforming its LME counterpart, import losses have expanded to 1,500 yuan/mt, driving smelters to export businesses. This is likely to ease domestic inventory pressure.

Spot transactions were quiet last week as high copper prices sidelined downstream buyers. But downstream producers have broadly resumed operation, which is set to improve consumption and buoy copper prices near term.

Glencore plans to cut output at its Mutanda mine in the Democratic Republic of Congo. The mine produces some 200,000 mt of copper each year. SMM expects this to grow market concerns about a higher disruption ratio and to weigh on TCs.

Indeed, spot treatment charges (TCs) for copper concentrate have declined quickly in recent weeks, falling below TCs for long-term contracted materials in 2019, sparked by concerns over supplies given many recent disruptions to mines globally.

Disrupted production and the smooth commissioning of new and expanded capacity in China prompted traders to lower TCs for small, medium-sized, non-China Smelters Purchase Team (CSPT) smelters who have limited long-term contracted supplies. This caused spot copper concentrate TCs to fall since late-January.

Chart 1: Global visible inventory

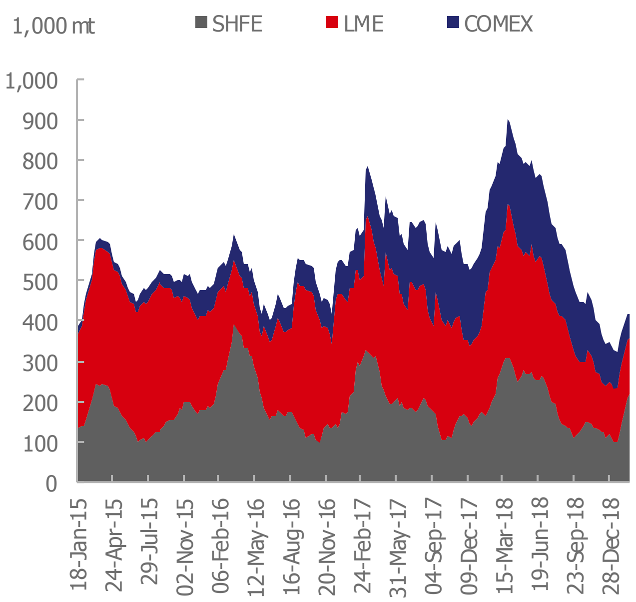
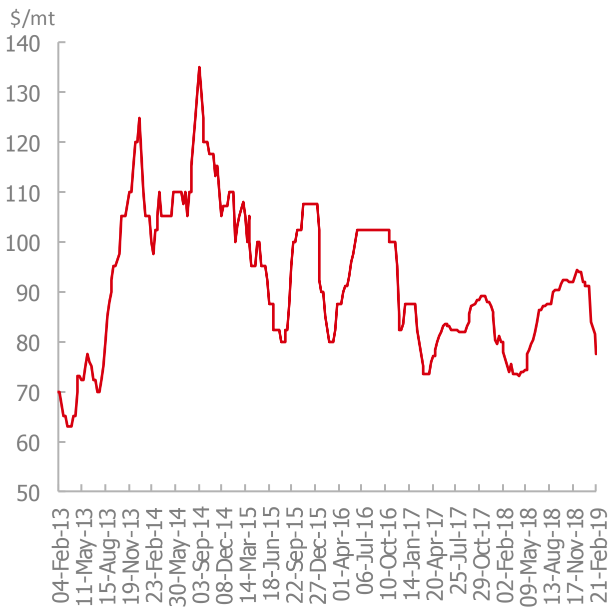


Chart 2: China copper spot TCs



Aluminium: Anticipated consumption boom to bolster aluminium prices

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Inventories of primary aluminium ingots across China's eight major markets grew 55,000 mt from a week ago to stand at 1.672 million mt as of February 21, SMM data showed. Stocks expanded by 408,000 mt in five weeks (two weeks before and after CNY, during CNY), which is in line with SMM's forecast. The east and south accounted for most of the growth last week.

Stocks in Henan shrank 7,000 mt last week as strong orders drove local processors to resume production rapidly, ramping up consumption, and as restrictions on loading affected arrivals.

SMM learned that most downstream producers resumed production, but kept low operating rates and showed little purchasing interest. Downstream consumers in the east and south have yet to see orders substantially improve. Stock accumulation is expected to extend to at least mid-March.

Chart 3: Social inventories of primary aluminium

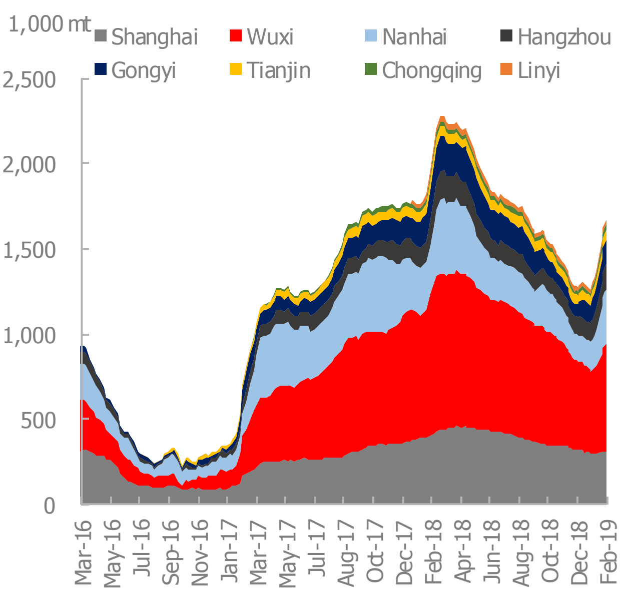
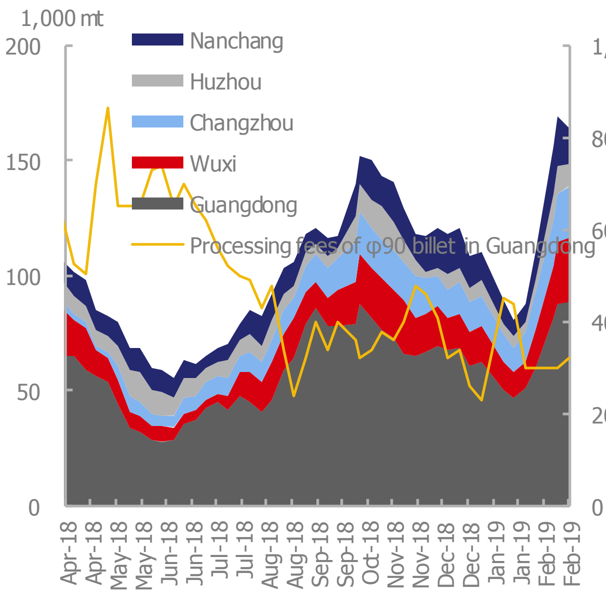


Chart 4: China's aluminium billet inventory and prices



Zinc: Recovering consumption to slow gains in zinc inventories

Further downstream recovery is expected to cap gains in social inventories of refined zinc in China this week. Social inventories of refined zinc across Shanghai, Tianjin and Guangdong stood at 208,200 mt as of Friday February 22, up 21,300 mt from Friday February 15 and 15,000 mt from Monday February 18, SMM data showed. Shanghai and Guangdong accounted for most of the growth. Arrivals at Shanghai warehouses exceeded deliveries last week, which grew zinc inventories in the region by about 10,000 mt. Inventories in Guangdong also grew significantly as some smelters in the south resumed from maintenance and as downstream producers had yet to return completely.

The import arbitrage window is expected to remain closed this week. As LME zinc further outperformed its SHFE counterpart, the ratio of SHFE/LME zinc prices declined and import losses expanded last week. Transactions of imported materials remained poor.

Despite the fading holiday impact, rapid inventory accumulation capped gains in SHFE zinc prices. LME zinc inventories dipped towards lows since 2007. That turned the contango structure into a backwardation structure on LME zinc, and bolstered LME zinc prices. Premiums of LME cash to the three-month contract stood at $20/mt.

TCs for zinc concentrate are expected to remain high in the near term but gains will be limited. Mainstream quotes for zinc concentrate TCs last week stood at 5,700-6,300 yuan/mt in Zn content for domestic materials, and $220-240/mt for imported materials. As domestic smelters refrained from purchasing, concentrate transactions remained quiet and mostly occurred for domestic cargoes.

Domestic smelters remained keen to deplete existing inventories in the second week after the CNY break. With further expanded losses on seaborne cargoes, offers for imported zinc concentrate were high but deals were limited, even as available supplies were sufficient across the market.

Chart 5: TCs for domestic/imported zinc concentrate

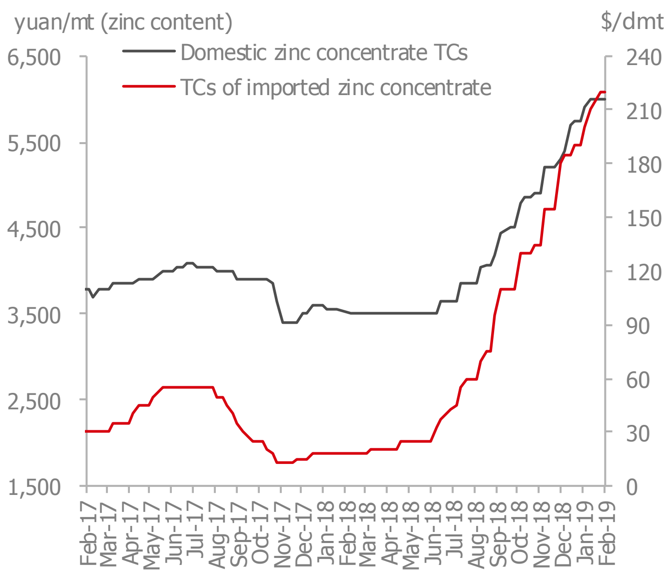
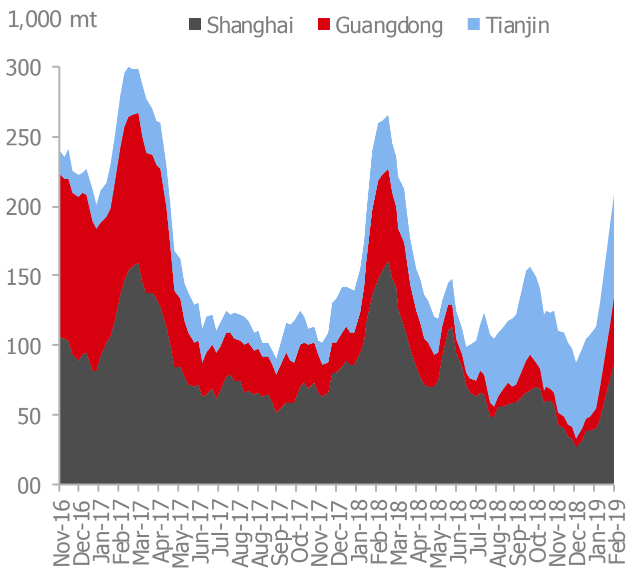


Chart 6: Social inventories of refined zinc



Lead: Primary lead inventories decline

Stocks across smelters and social stocks across the nation declined last week. Smelters remained keen to deplete inventories. Their spot offers fell to premiums of up to 50 yuan/mt over the average of SMM1# refined lead, from premiums of 50-100 yuan/mt at the start of the week. Offers by traders fell to discounts of 50-30 yuan/mt against the front-month SHFE lead contract after delivered cargoes entered the market. Offers were heard at premiums of up to 50 yuan/mt as of last Friday.

Few small and medium-sized smelters resumed production due to continued losses. With gradual supply recovery from some large smelters, secondary lead premiums over primary lead narrowed. Secondary lead was offered in premiums of 100-200 yuan/mt over the average of SMM 1# lead as of last Friday.

Most battery producers resumed operation and purchased lead. But they remained cautious about production given tepid restocking interest among distributors.

Chart 7: Shandong battery scrap, secondary lead prices

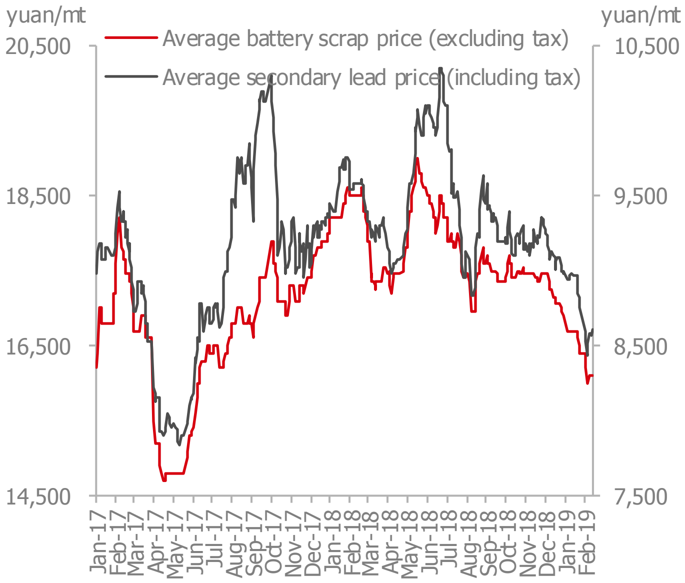


Chart 8: Social inventories of primary lead

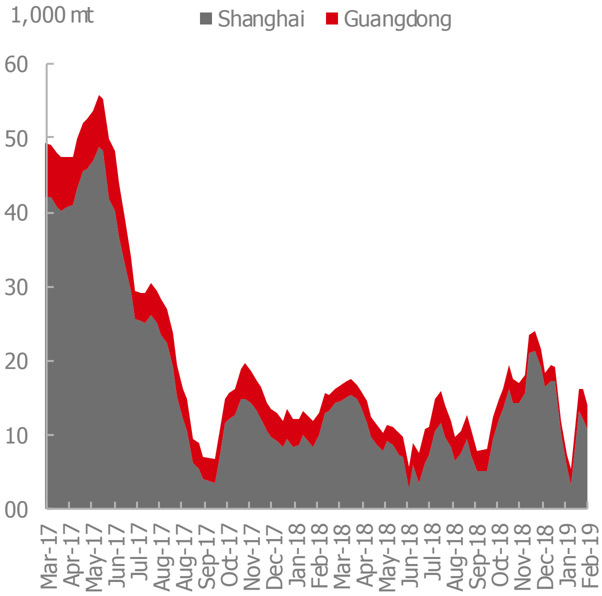


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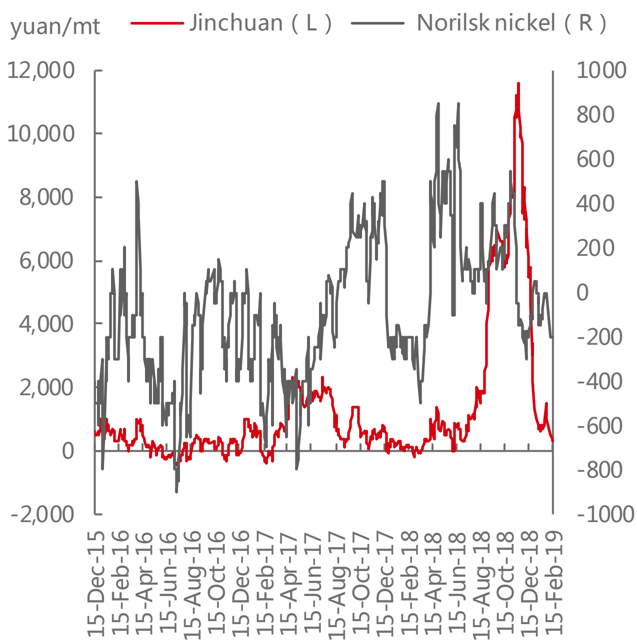
Chart 9: China Nickel Spot Prices

Chart 10: Premium/discount of Jinchuan, Norilsk nickel



However, continued production of new nickel pig iron (NPI) capacity at Shandong Xinhai, as well as wider discounts of NPI over refined nickel are likely to limit price gains this week. Domestic supply tightness of NPI is likely to ease as Shandong Xinhai' new capacity releases.

Price spread between high-grade NPI and refined nickel returns to discounts last week. Late resumption across downstream stainless steel plants eased the upward momentum in NPI prices, even though its supply remained tight in the market. SMM learned that cold-rolled stainless steel producers have yet to fully recover though producers of hot-rolled stainless steel mostly resumed as of Friday February 22.

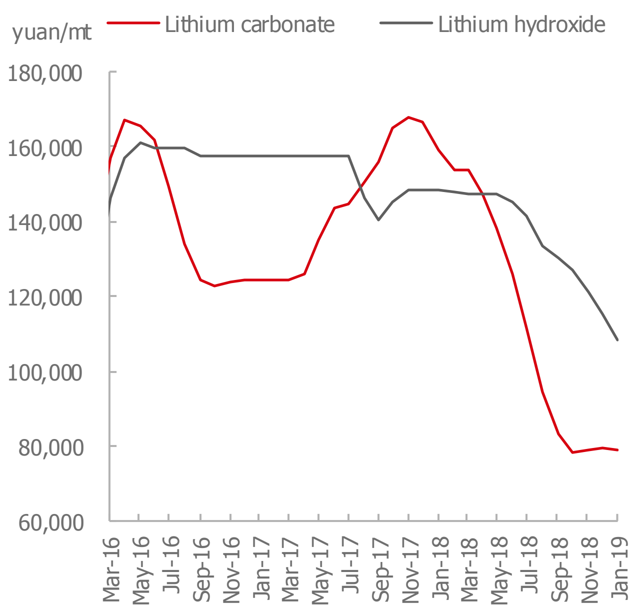
SMM believes that higher costs of raw materials will continue to weigh on purchases at stainless steel plants in the weeks ahead.

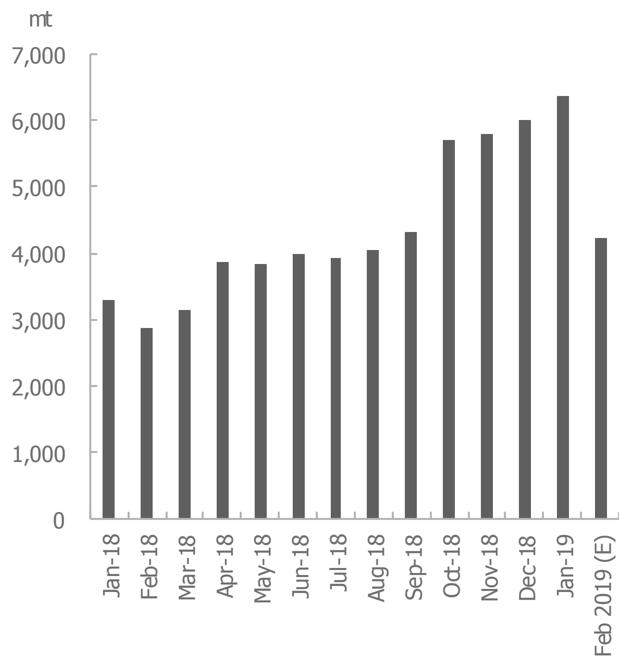
Lithium: Recovery of battery producers to lift lithium salts demand

This week, SMM expects spot trades and monthly orders of lithium salts to pick up as downstream buyers return. Major battery producers have restarted normal operation as of Friday February 22.

Tepid purchases lowered the traded prices of some lithium products last week. While prices of battery-grade lithium carbonate held firm week on week at 76,000-81,000 yuan/mt, prices of industrial-grade lithium carbonate edged down to 64,000-67,000 yuan/mt as of Friday February 22, SMM assessed. Prices of battery-grade lithium hydroxide stabilised at 99,000-112,000 yuan/mt.

Chart 11: Domestic prices of Lithium carbonate and Lithium hydroxide **Chart 12: China Lithium hydroxide production**





Prices of ternary materials are expected to face downward pressure in the near term. Last week, producers of lithium manganese oxide (LMO) as ternary cathode materials were forced to lower offers, by 500-1,500 yuan/mt on a weekly basis, pressured by market competition and downstream battery cell plants.

Despite robust demand for lithium iron phosphate (LFP), expectations of smaller national subsidies on new energy vehicles lowered LFP offers, by some 2,500 yuan/mt week on week, to 52,000-58,000 yuan/mt as of Monday February 25.

SMM learned that high downstream demand for LFP kept large producers of the materials operating at full capacity as of February 25.

Steel: Stronger demand, lower supply to buoy rebar prices in weeks ahead

While higher stocks continued to pressure on fundamentals last week, the anticipation of a seasonal pick-up in demand will bolster rebar prices in the weeks ahead.

Thinner profits or losses post-CNY lowered operating rates across steel rolling plants and mills that produce with electric furnaces. This reduced the supply of steel products last week, which will also underpin rebar prices when consumption recovers.

Last week, China's rebar inventories continued to accumulate at a high rate as poor weather deterred downstream construction demand from recovering. Overall inventories, including social and in-plant stocks, increased to 13.14 million mt as of Thursday February 21, up 12% from a week ago and up 3% from a lunar year earlier, showed SMM data.

As of Friday February 22, an SMM survey found that electric furnaces at steel mills operated at an average rate of 17% in February, down 47 percentage points from January. Average operating rate at steel rolling mills also dipped 9 percentage points from January, and stood at 49% for February. Operating rate of blast furnaces averaged 83% in the first half of February, compared with 81% in the second half of January, SMM assessed.

Chart 13: Rebar social inventories

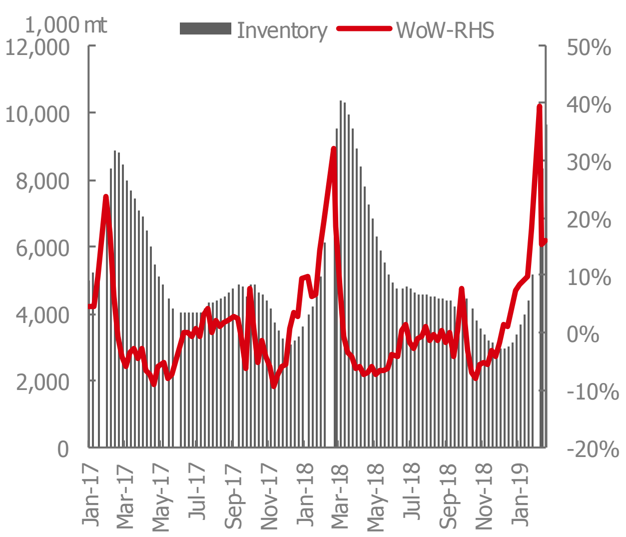
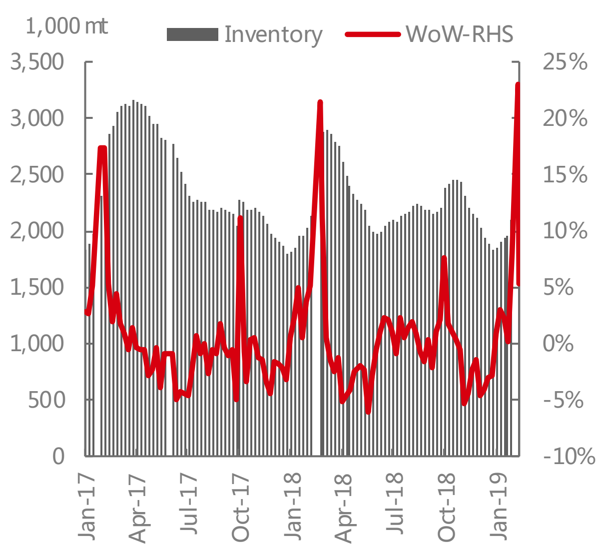


Chart 14: Hot-rolled coil social inventories



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

Chinese ports are expected to see more iron ore leave for steel mills this week amid restocking demand. Futures prices of iron ore on the Dalian Commodity Exchange moderated last week as growing seaborne arrivals expanded port stocks. This came after concern towards the impact of the Vale dam accident in Brazil waned.

Iron ore deliveries leaving 35 major Chinese ports averaged 2.62 million mt per day in the week ended Friday February 22, up 197,000 mt from the previous week, reflecting recovering demand, SMM data showed.

For the same week, stocks of iron ore across those ports gained 320,000 mt to stand at 132.32 million mt as Caofeidian, Rizhao ports and major ports along the Yangtze River saw more seaborne arrivals.

As steel mills in Tangshan began to purchase, the average daily iron ore deliveries departing Jingtang port rose substantially last week, to 340,000 mt.

Chart 15: Daily throughput of iron ore

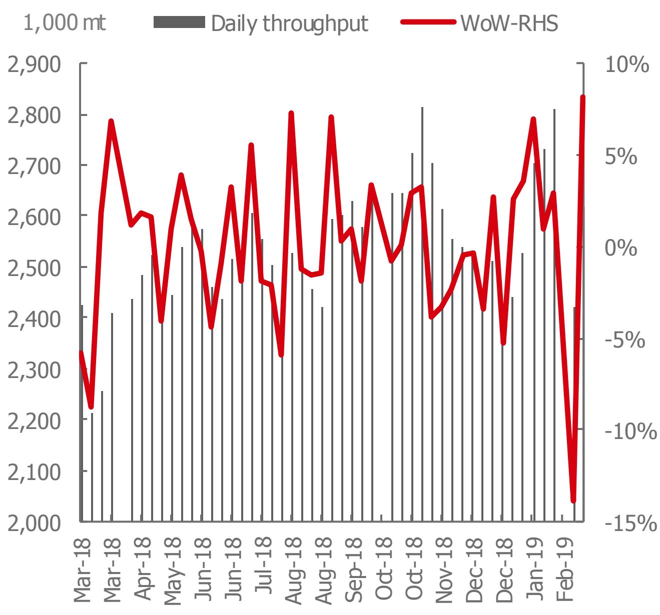
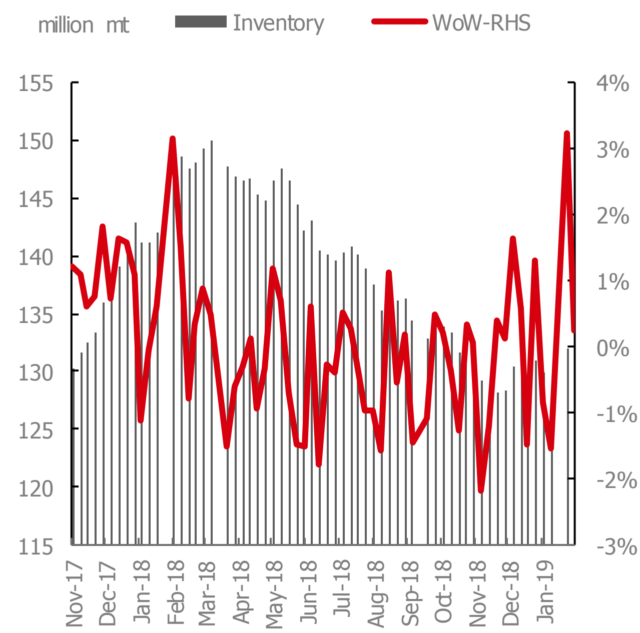


Chart 16: Iron ore port inventories



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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