Weekly Metal Macro Report

Issue 4 | June 27, 2018

('000 tonnes)	Inventory Type	As of June 26	Week-over-week(%)	Ytd(%)	YoY(%)
Aluminium	Social	1,884	198.03%	5.61%	50.36%
Copper	Bonded	494	1.23%	2.87%	-9.69%
Zinc	Bonded	185	2.21%	2.78%	68.18%
	Social	158	12.88%	10.89%	35.10%
Lead	Social	10	-3.79%	-25.25%	-71.45%
Nickel Ore	Port	5,050	9.54%	-3.44%	-6.65%
Steel	HRC	2,044	2.30%	12.61%	-19.19%
	Rebar	4,774	0.46%	32.42%	18.52%
Iron Ore	Port	142,180	-1.52%	0.67%	4.86%

Macro: the deprecation of yuan will continue

The People's Bank of China said over the weekend it will lower the reserve requirement ratio (RRR) for 13 banks by 50 basis points, effective July 5 and unleashing some 700 billion yuan of liquidity. This followed the 340 billion yuan in liquidity unlocked via open market operation last week. The moves were within market expectations amid weakening domestic demand and escalating trade tensions with the US.

Copper: TCs continue to rise

Imported copper concentrate treatment charges (TCs) extended their gains last week to $81-87/mt as of Friday June 22, according to SMM assessment. This was up $2/mt from a week ago and marked the fifth consecutive week of increase. We maintained our forecast of $85-87/mt for the third-quarter floor price of the China Smelters Purchase Team (CSPT).

Aluminium: Raw material prices extend decline

On fundamentals, support from costs weakened as raw material prices extended their declines. As of June 22, SMM assessed alumina and prebaked anode at 2,787 yuan/mt and 3,235 yuan/mt, down 0.89% and 0% week on week, respectively. Meanwhile, total costs for aluminium fell to 14,060 yuan/mt. We expect prices of raw materials to further decrease with total costs down to 13,800 yuan/mt.

Macro: the deprecation of yuan will continue

The People's Bank of China said over the weekend it will lower the reserve requirement ratio (RRR) for 13 banks by 50 basis points, effective July 5 and unleashing some 700 billion yuan of liquidity. This followed the 340 billion yuan in liquidity unlocked via open market operation last week. The moves were within market expectations amid weakening domestic demand and escalating trade tensions with the US. SMM expects the deprecation of yuan will continue against the backdrop of more interest rate hikes in the US, end of the quantitative easing policy in the eurozone by year-end, and potentially higher rates in Japan. While liquidity loosening and a weaker yuan is a first step towards boosting sentiment towards domestic demand, we do not believe it is enough in itself to reverse the current negative sentiment toward the demand outlook. Beijing continues to keep local government's debt levels in check. China Development Bank recently removed local approval authority over shanty town redevelopment, and the examination and approvals over new pledged supplementary lending (PSL) is getting stricter.

Chart 1: Open market operations

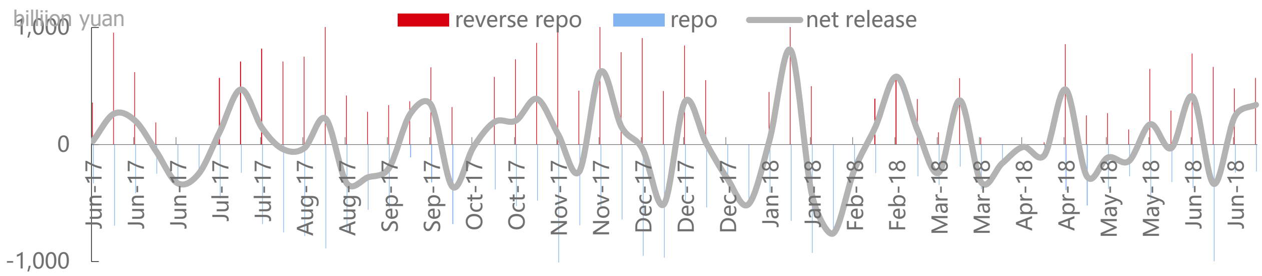

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Chart 2: TCs of spot copper concentrate

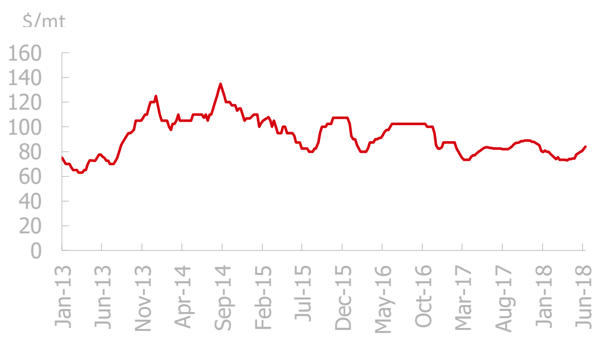
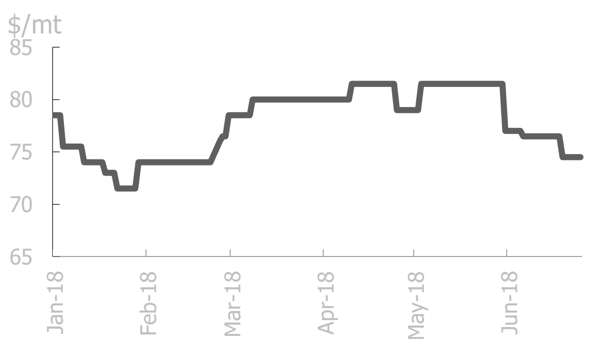


Chart 3: Yangshan copper premiums



Aluminium: Raw material prices extend decline

The US Department of Commerce decided to levy anti-dumping duties of 167.16% on Chinese common alloy aluminium sheet in its preliminary ruling last week. This is likely to cut exports by some 30,000 mt as the market has already priced in the move, SMM believes. On fundamentals, support from costs weakened as raw material prices extended their declines. As of June 22, SMM assessed alumina and prebaked anode at 2,787 yuan/mt and 3,235 yuan/mt, down 0.89% and 0% week on week, respectively. Meanwhile, total costs for aluminium fell to 14,060 yuan/mt. We expect prices of raw materials to further decrease with total costs down to 13,800 yuan/mt. As of June 21, social inventory of primary aluminium across China decrease 2.1% over the week to 1.88 million mt. Our forecast of inventory to fall till end-July remains unchanged.

Chart 4: Alumina domestic and FOB prices

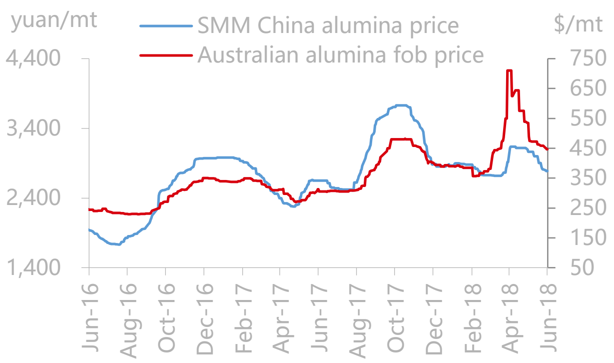
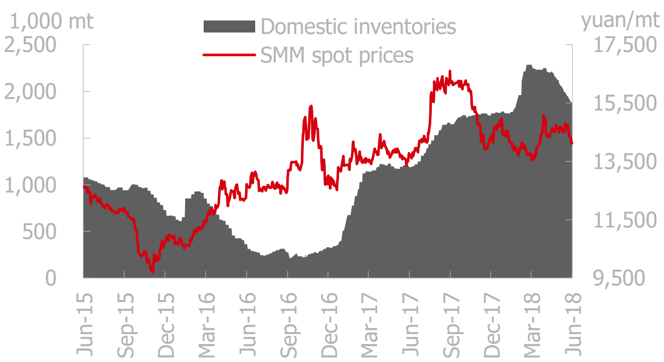


Chart 5: Social inventory and price of primary aluminium



Lead: Recovery of production misses expectations

Primary lead production limitations on environmental probes lingered last week and supply of lead has yet to recover. As of June 22, SMM assessed TCs for domestic lead concentrate (50% Pb) at 1,600-1,700 yuan/mt in metal content, up 100 yuan/mt from a month ago. TCs for imported lead concentrate at $15-25/dmt, flat from a month ago. As of Friday, social inventory of primary lead across China stood at 15,000 mt, slightly up XX% from a week ago. We expect the inventory to nudge up on imported lead arrivals and anticipation of secondary lead output recovery.

Chart 6: TCs of domestic/imported lead concentrate

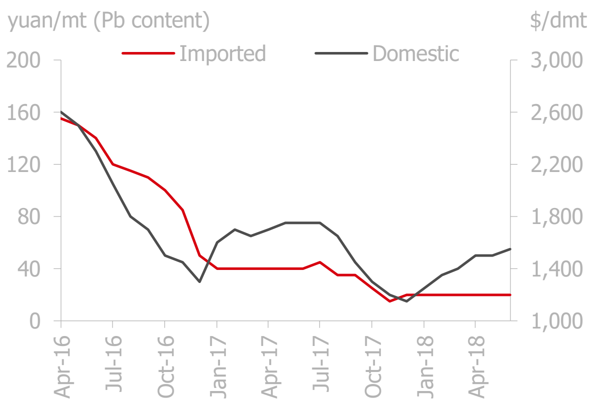
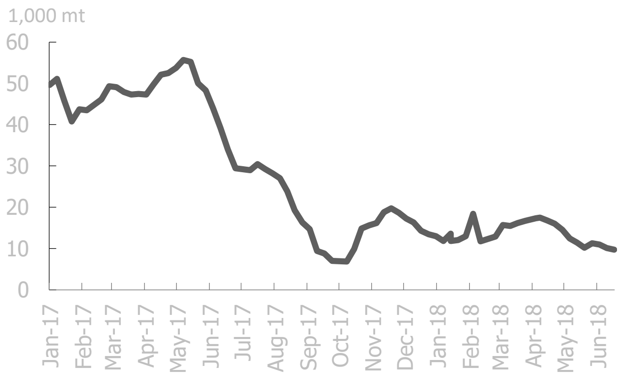


Chart 7: Social inventory of primary lead



Zinc: Inflows of imported materials decline

TCs of domestic zinc concentrate were reported at 3,250-3,850 yuan/mt last week, while imported concentrate TCs for the week stood at $20-30/mt, flat from a week ago. Social inventory of refined zinc amounted to 148,200 mt at the end of last week, up 25.3% from the start of June. Some 5.8% month-on-month increase in domestic supply and an open imported window from early June accounted for the inventory surge. Inflows of imported zinc are set to decline this week on stronger expectation of yuan depreciation. However, zinc prices are expected to be weak on weakened downstream consumption.

Chart 8: TCs of domestic/imported zinc concentrate

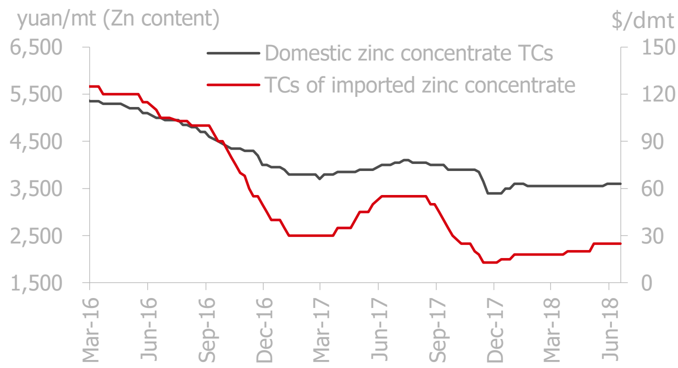
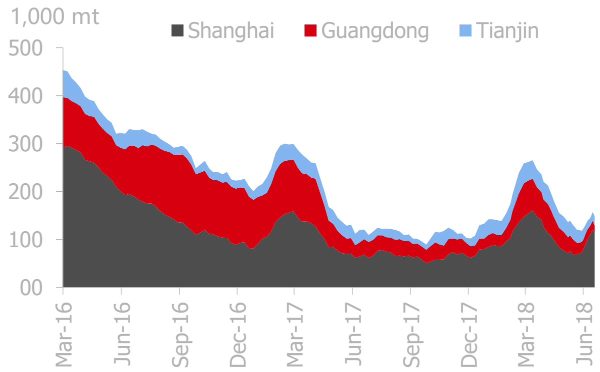


Chart 9: Refined zinc inventory



Nickel: Global demand to increase 3-4% on new Tsingshan capacity

Nickel pig iron (NPI) prices were firm last week as continuous environmental restrictions weighed on the supply. A total of 6,294 mt of NPI in metal content is estimated to be affected as producers in Jiangsu province and Inner Mongolia remained suspended. This accounted for 15.5% of China's NPI output in April. We expect to see 80,000 mt/year of nickel demand as Indonesia Tsingshan's phase III stainless steel project was commissioned last week, earlier than market expectation. This takes up 3-4% of global demand. The project has an annual capacity of 1 million mt of series 300 stainless steel. Nickel prices are set to continue their recent outperformance while environmental inspections continue to restrict NPI output in China. However nickel ore inflows will continue to rise in the peak shipping period, keeping nickel ore prices under pressure.

Chart 10: Prices of NPI and nickel plate

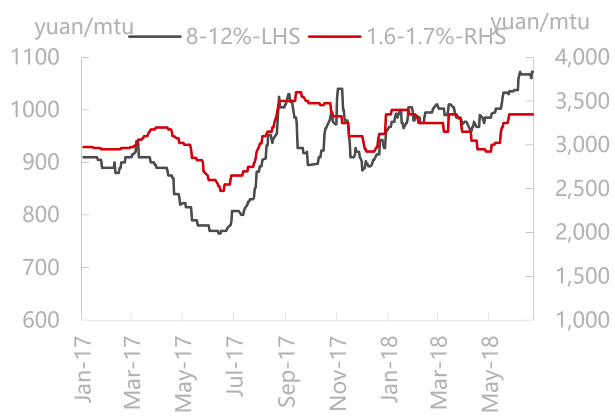
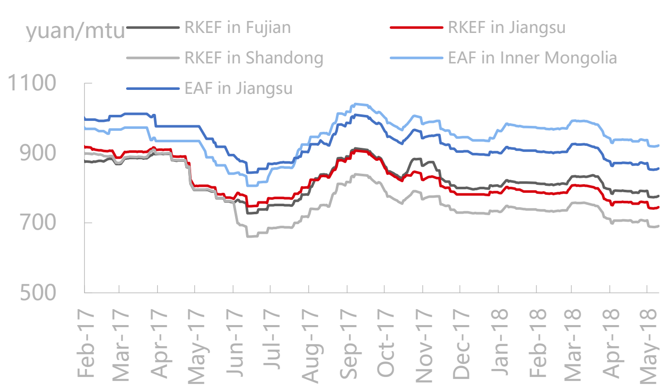


Chart 11: Profits of high-grade NPI increase



Steel: Prices to remain under pressure

Last week, social inventories of rebar and hot-rolled coil stood at 4.77 and 2.04 mllion tons, up 0.5% and 2.3% on the week, respectively. Total inventory, which includes social and in-plant inventory, registered 6.8 and 3.04 mt, up 1.43 % and 3.3% week on week. The rebound in inventory was in line with SMM's expectation as supply increased and demand dipped. The current high demand for steel products are expected to have limited upward room, SMM believes. Prices are likely to be under pressure from the supply side in mid-July when environmental checks come to an end.

Chart 12: Social inventories of rebar

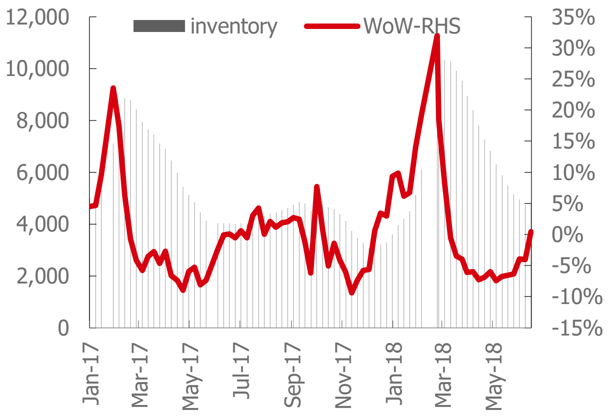
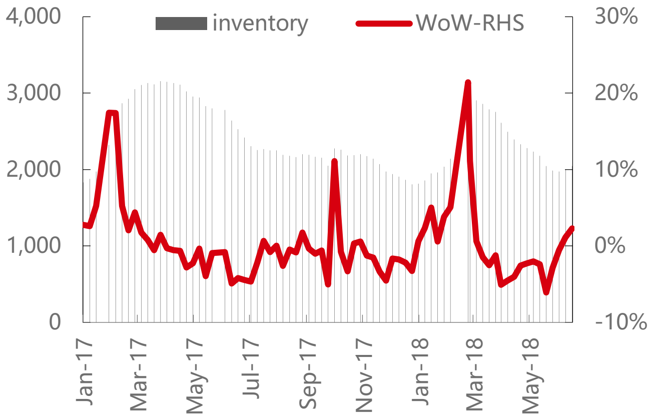


Chart 13: Social inventories of hot-rolled



Iron ore: Prices firm in the short run

While steel prices face pressure as rebar and hot-rolled coil inventory rebounded last week, iron ore saw its supply pressure eased as port inventory declined for three consecutive weeks. Weekly iron ore inventory across 35 Chinese ports stood at 146 million mt, 144 million mt, and 142 million mt since the start of June, SMM data showed. Daily average deliveries leaving those ports rose on the week as Shanghai Cooperation Organisation (SCO) summit ended two weeks ago and steel mills in Xuzhou are expected to resume operations in late June. The deliveries for the week ended June 8 stood at 2.46 million mt, 2.44 mt for the week ended June 15, and 2.52 million mt at June 22. Steel mills are expected to maintain normal operations on high profits. Iron ore is likely to outperform steel in the short run on improved fundamentals.

Chart 14: Port inventory of iron ore

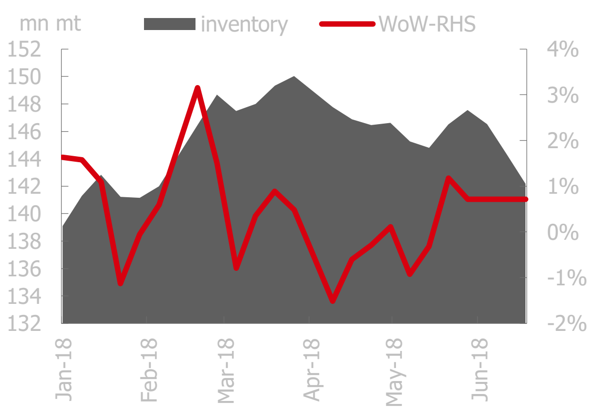
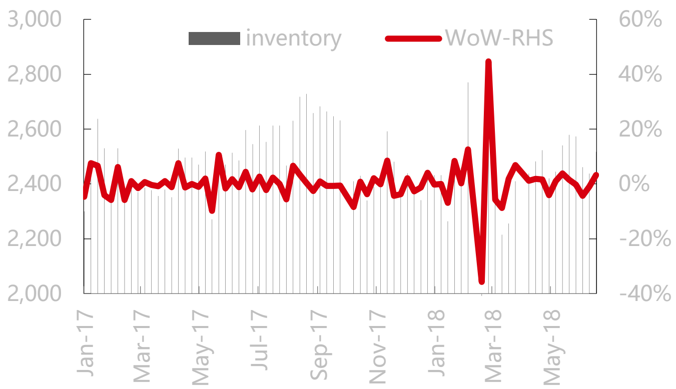


Chart 15: Daily throughout of iron ore



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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