Weekly Metal Macro Report

Issue 36 | March 12, 2019

('000 tonnes)	Inventory Type	As of Mar 12	Week-over-week(%)	Ytd(%)	YoY(%)
Aluminium	Social	1,749	0.29	36.00	-20.97
Copper	Bonded	530	4.95	25.30	13.01
Zinc	Bonded	83	0.00	13.01	-62.16
	Social	223	3.86	156.35	-14.65
Lead	Social	37	1.81	26.59	-2.01
Nickel Ore	Port	10,380	0.58	-3.08	107.19
Steel	HRC-social	2,685	-1.98	46.59	-7.51
	Rebar-social	10,138	-0.67	222.78	-1.97
Iron Ore	Port	135,811	1.68	4.09	-7.92

Copper: Market eyes release of tax cut details

China's announcement of a tax cuts is likely to continue to affect the market this week, though detailed regulations and the timeline of implementation are unlikely to be released this week. At the National People's Congress on Tuesday March 5, Premier Li Keqiang announced that the value-added tax (VAT) for the manufacturing sector will be cut from 16% to 13%.

Lower prices of alumina to cap gains in aluminium prices

SMM expects the recovery of downstream demand to keep the most-traded SHFE 1904 aluminium contract at 13,450-13,700 yuan/mt this week, as falling prices of alumina limits any upward room. Aluminium stocks across eight consumption hubs grew just 5,000 mt last week, and this reflected improved demand.

Manganese: Anticipation of ample supply, lower tenders drag manganese prices on week

Major producers of manganese mostly resumed normal operations last week, which is expected to ensure sufficient supply in March. This, together with lower purchasing prices by steelmakers in a new round of tenders, granted more bargain power to downstream consumers and weighed on manganese prices last week. Prices of manganese stabilised after they dipped last week. As of Friday March 8, prices in major production areas averaged 13,100 yuan/mt, ex-works in cash, down some 100 yuan/mt on the week.

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SMM believes that any upward room for SHFE copper would be limited this week as downstream consumption remains sluggish. The most active SHFE 1905 copper contract is expected to trade between 48,400-49,300 yuan/mt this week.

Last week, some large copper processing factories reported significant pressure on inventories of finished-products. SHFE copper inventories grew 9,120 mt last week to 236,000 mt. Poor consumption also grew spot discounts. Risk appetite decreased, with bears increasing positions on SHFE copper last week.

China's CPI for February is likely to increase 1.5%, lower than January. Retail sales of consumer goods during January-February are estimated to rise 8.1%. The value-add across large industrials in January and February is expected to grow 5.5%.

Sellers and buyers gradually accepted lower spot treatment charges (TCs) of imported copper concentrate, as small and medium-sized non-China Smelters Purchase Team (CSPT) smelters restocked for delivery in the second and third quarters. Insufficient inventories across traders also weighed on TCs.

CSPT smelters with significant long-term contracts also accepted spot TCs below long-term contract TCs of $80.8/mt. SMM understood that some overseas mines continued to lower TCs in tenders for the second and third quarters. A deferred restart at Vedanta's Sterlite smelter failed to shore up spot TCs.

SMM believes that shrinking supplies from major overseas mines, as well as new and expanded smelting capacity in China, accounted for lower spot TCs. Guangxi Nanguo Copper and Chifeng Yuntong Nonferrous Metals plan to commission new projects with a total capacity of 350,000 mt/year in March and at the end of April.

Chart 1: LME copper inventory and cancelled warrants

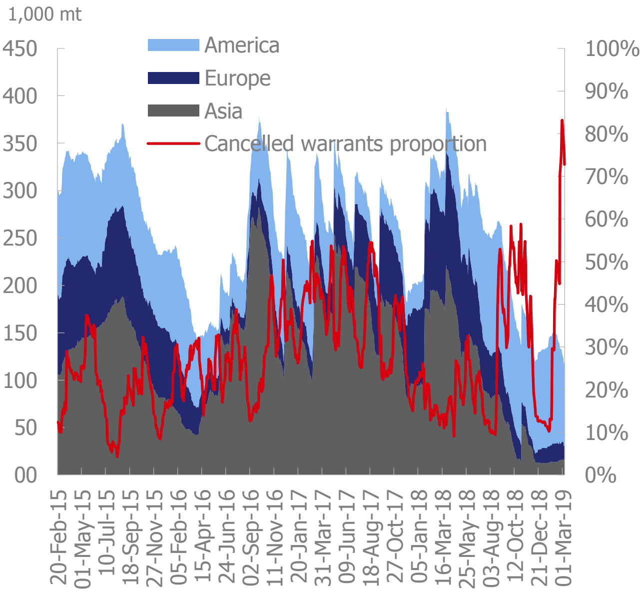
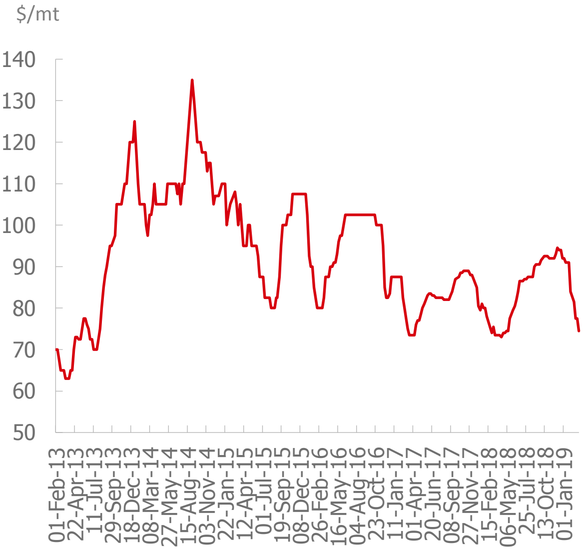


Chart 2: Spot TCs dip



Aluminium: Lower prices of alumina to cap gains in aluminium prices

SMM expects the recovery of downstream demand to keep the most-traded SHFE 1904 aluminium contract at 13,450-13,700 yuan/mt this week, as falling prices of alumina limits any upward room.

Aluminium stocks across eight consumption hubs grew just 5,000 mt last week, and this reflected improved demand.

Alumina prices continued to weaken last week, though at slower paces. Average prices of alumina lost 40 yuan/mt from a week ago to 2,735 yuan/mt on Friday March 8, SMM assessed.

Deals for alumina occurred mostly between 2,710-2,730 yuan/mt in Shanxi province. Shutdowns of local aluminium smelters lowered prices in Henan province to 2,730-2,750 yuan/mt. Trades were quiet in the south-west as buyers stood on the sidelines, and this grew inventory pressure across local producers.

This week, LME aluminium is expected to underperform its SHFE counterpart, in light of a strong US dollar and adequate supply overseas. SMM sees LME aluminium fluctuating between $1,840-1,900/mt this week.

Chart 3: Social inventories of primary aluminium

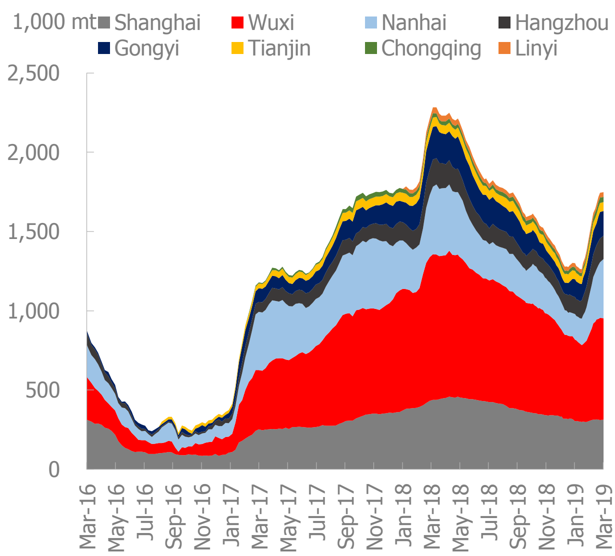
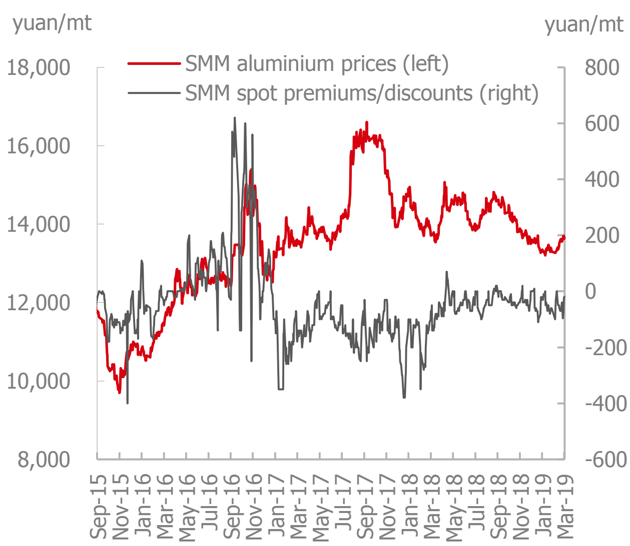


Chart 4: China's aluminium profit



Zinc: Inventory buildup on week depresses market confidence

The two political sessions and environmental issues prevented consumption from recovering considerably, and this slowed destocking. Output of refined zinc grew in March, but production bottlenecks lingered.

Total zinc inventories across the three major markets of Shanghai, Guangdong, and Tianjin increased some 8,000 mt last week, to 223,100 mt, and this lowered market confidence. Higher inventories and market talk of zinc selling by the State Reserve Bureau (SRB) dragged on zinc prices.

Prices may receive support after initial declines this week if downstream consumption picks up. Resumption of demand after the political sessions will determine prices in the weeks ahead.

SMM expects LME zinc prices to fall to $2,660-2,760/mt this week. The SHFE May contract is expected to trade at 21,100-21,700 yuan/mt and test support from the 40-day moving average. Spot zinc in Shanghai is expected to trade with discounts of 30 yuan/mt to premiums of up to 10 yuan/mt over the SHFE front-month contract.

Chart 5: SMM zinc price and spot premiums/discounts

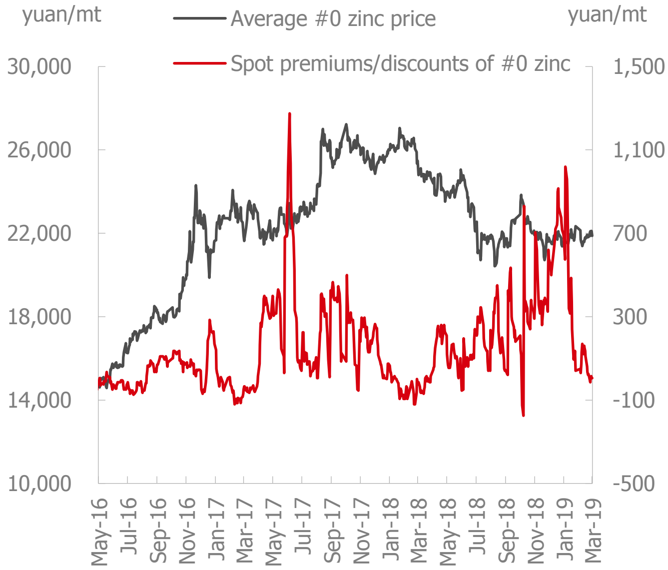
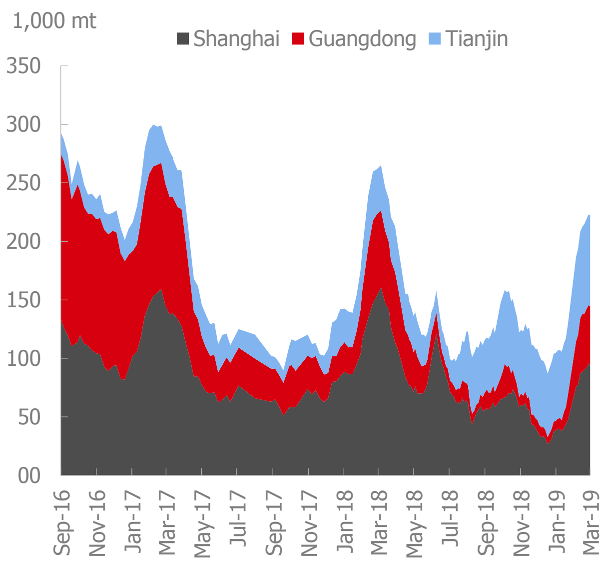


Chart 6: China zinc social inventory



Lead: Prices hover at lows after profits grow secondary lead production

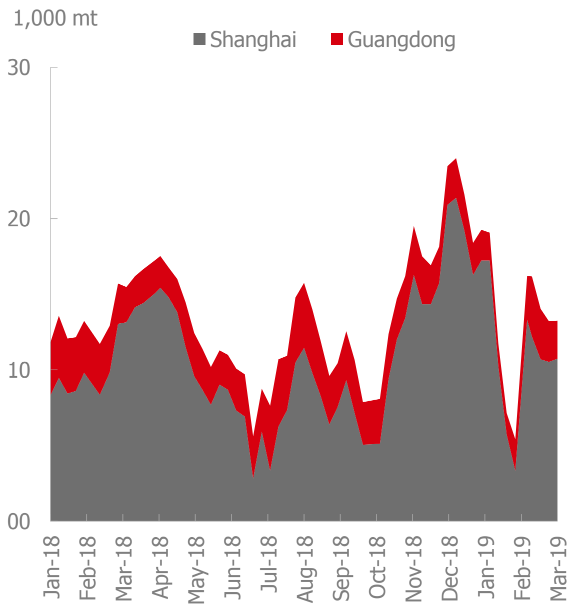
Lead prices weakened last week. This, together with a seasonal lull in March, grew caution across downstream lead-acid battery producers. They are expected to continue purchasing as required this week.

If lead prices continue to fall, primary smelters are likely to withhold from selling as their in-plant stocks have fallen to normal levels. Offers at primary smelters and traders may remain flat against the futures prices.

Higher profits will support production at secondary smelters, which is likely to keep offers of secondary refined lead at discounts against primary lead this week. The three-month LME lead is expected to trade at $2,065-2,125/mt this week with the SHFE 1904 contract at 17,250-17,650 yuan/mt. Spot prices are seen at 17,350-17,500 yuan/mt.

Chart 7: SMM, LME lead prices

Chart 8: Social inventories of primary lead



Nickel: NPI capacity additions, poor demand for stainless steel lower nickel prices

Last week, shorts weighed the most active SHFE nickel contract from a high since October 2018, to lows around 102,000 yuan/mt, after the US dollar rose and on reports of the start of nickel pig iron (NPI) capacity expansion in China.

Despite capacity additions, NPI supply remained tight and this kept materials in premiums against refined nickel last week.

Amid poor downstream consumption, prices of hot-rolled stainless steel fell with nickel, but profits kept production of #300 series at highs last week. SMM expects nickel to trade rangebound this week as the market awaits more clarity around changes in social inventories of stainless steel.

Fewer working days in February lowered production of high-grade NPI by 4.89% from January, to 37,200 mt in Ni content last month. Capacity expansion at a large NPI mill in Shandong province offset part of the decline.

SMM learned that the producer in Shandong commissioned its fourth furnace last week, which will generate output by 650 mt in metal content per month. Regular production is expected in at least a month.

Steel plants in the east and south restocked NPI actively last week, with a stainless steel producer in the south stockpiling raw materials for April and May. Most NPI plants had pre-sold their output for March, and were fully booked in April and May, indicating tight supplies in the market.

Chart 9: China's bonded inventories of refined nickel

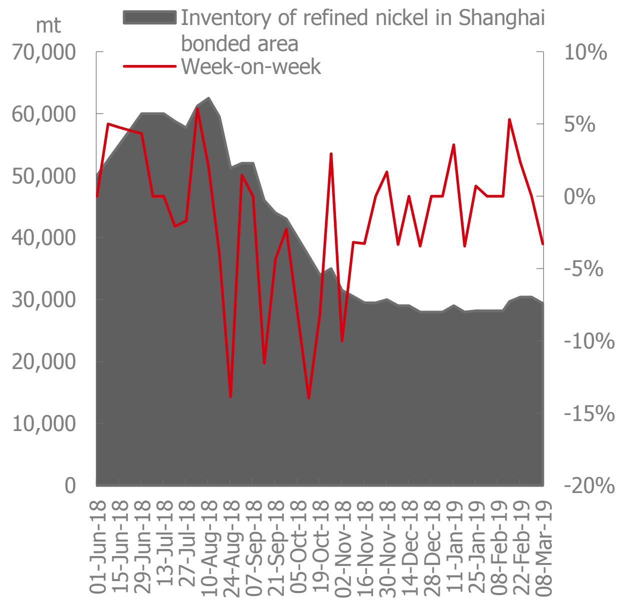
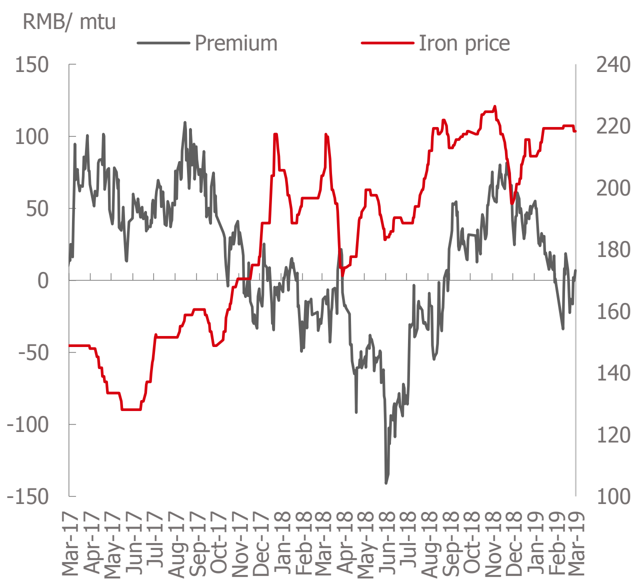


Chart 10: Premium/discount of high-grade NPI over refined nickel



Manganese: Anticipation of ample supply, lower tenders drag manganese prices on week

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At the start of last week, sellers lowered offers to 13,100-13,200 yuan/mt ex-works in cash, with further downward room in actual trades. Transacted prices for forward cargoes also stood below 13,000 yuan/mt ex-factory.

Buyers expected a supply glut to outweigh demand and took a bearish outlook on prices. Manganese producers tended to hold offers firm considering the slow recovery of domestic manganese carbonate ore mining, and higher-than-usual costs in the manganese industry.

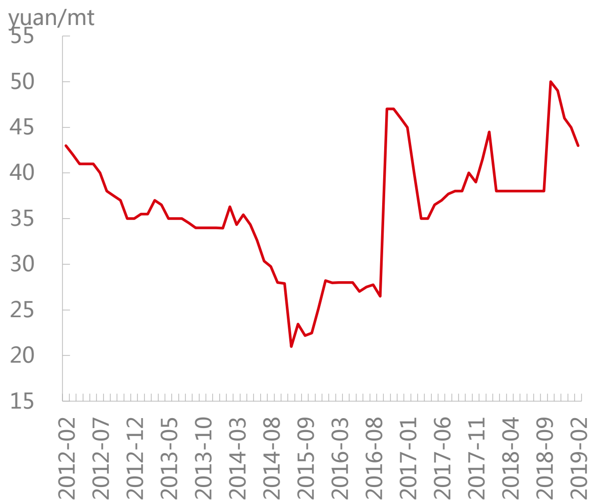
SMM expects spot manganese to trade rangebound at current levels this week. For March, prices will be determined by destocking across large manganese plants and whether stainless steel mills in the south move capacity to the #200 series.

Last week, robust silicon-manganese futures and confidence in downstream demand in light of current high operating rates of silicon-manganese producers prompted manganese ore traders to firm up offers. However, actual trades were limited as small silicon-manganese alloy plants demanded lower prices amid losses.

While a glut is seen in the fundamentals of silicon-manganese alloy, producers will evaluate the actual impact of an electricity supply cut on supplies in the weeks ahead, after they tentatively raised offers in the latter half of last week. This is likely to stabilise prices of manganese ore this week.

Chart 11: Domestic prices of manganese

Chart 12: Price of imported manganese carbonate



Steel: Recovering demand to keep rebar prices at highs

SMM believes that prices of rebar will consolidate at highs this week as seasonal factors drive demand. Last week, frequent environmental curbs grew concerns over tighter supply and bolstered rebar prices. Improved weather also accelerated the recovery of construction demand.

Average prices of rebar increased 15.3 yuan/mt week on week to stand at 3,902.4 yuan/mt in the week to Friday March 8.

Operating rates of electrical arc furnaces (EAFs) rebounded to pre-CNY levels of 60% in March, an SMM survey found. This compared to 17% in February, affected by CNY closures.

While most plants that operate with EAFs had returned online as of March 8, majority of them suffered losses. SMM learned that this kept them resuming at slower paces after CNY. As a result, growth in their supplies had minimal impact on steel prices. In the weeks ahead, limited upward room is expected in their production given current losses.

As of Friday March 8, production costs for EAFs stood at 3,861 yuan/mt. SMM surveyed 30 domestic steel mills and assessed costs based on steel scrap prices of 2,400 yuan/mt. This led to a loss of 61 yuan/mt, down from a loss of 192 yuan/mt a month earlier.

Stable resumption of downstream demand started to lower rebar inventories in the week ended Thursday March 7, the fourth week after CNY, SMM data showed.

Overall inventories, including social and in-plant stocks, shrank to 13.25 million mt as of Thursday March 7, down 2.8% from a week ago and down 4.3% from a lunar year earlier. This compared with a week-on-week growth of 3.8% on Thursday February 28.

Chart 13: Rebar social inventories

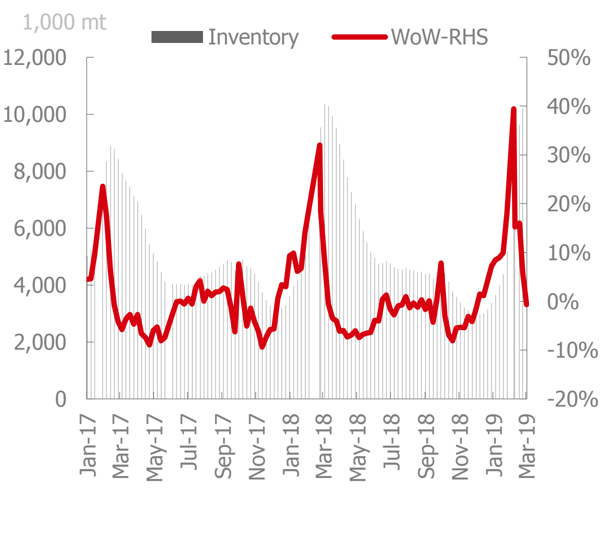
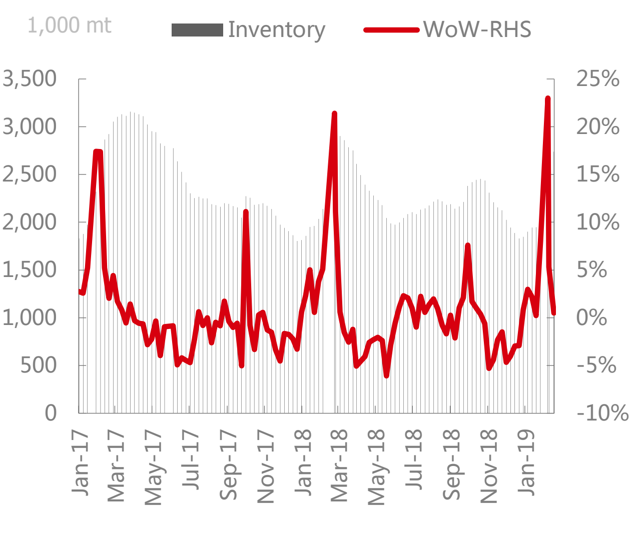


Chart 14: Hot-rolled coil social inventories



Iron ore: Environmental curbs depress demand, lower prices on week

In the week to Friday March 8, lower demand from steelmakers on air pollution alerts, together with stable seaborne arrivals continued to depress iron ore prices.

Prices of iron ore are expected to receive a boost in April as demand from steel mills recovers after environmental restrictions and political meetings, and as Vale dam accident affects Brazilian ore supplies.

Greater arrivals grew iron ore stocks at major Chinese ports last week. SMM learned that more deliveries departed Australian ports at the end of February, and the ports maintained high levels of weekly shipment above 15 million mt as of March 8. Though cargoes leaving Brazilian ports dipped at the end of last month, weekly shipments from ports stood at regular levels.

As of Friday March 8, iron ore stocks across 35 Chinese ports grew 2.24 million mt from a week ago to 135.81 million mt, SMM data showed.

Daily average deliveries from ports decreased 271,000 mt week on week to 2.42 million mt last week as cities of Tangshan and Wuan in Hebei province extended controls on steel production to improve air quality. Restrictions were scheduled on March 1-31.

Jiangsu province issued a smog alert for heavy air pollution on Wednesday March 6. Qinhuangdao of Hebei also launched the most-severe red alert for smog on Friday March 8, which required local steel plants to cut capacity of sintering machines, shaft furnaces, and blast furnaces by 30%.

Profits will drive steel mills to step up operation, and this will grow demand for iron ore in the short term. As of Friday March 8, profits of rebar exceeded 570 yuan/mt, and profits of hot-rolled coil stood higher than 500 yuan/mt, SMM assessed based on seaborne iron ore prices of $84/mt.

Weak prices of iron ore lowered production costs for blast furnaces, compared with EAFs. This will also prompt steelmakers to raise the proportion of iron ore as raw materials.

At some small mills that produce with blast furnaces, costs of rebar were assessed at 3,135 yuan/mt including tax. This compared with costs of 3,861 yuan/mt for EAFs, based on steel scrap prices of 2,400 yuan/mt with tax.

Chart 15: Daily throughput of iron ore

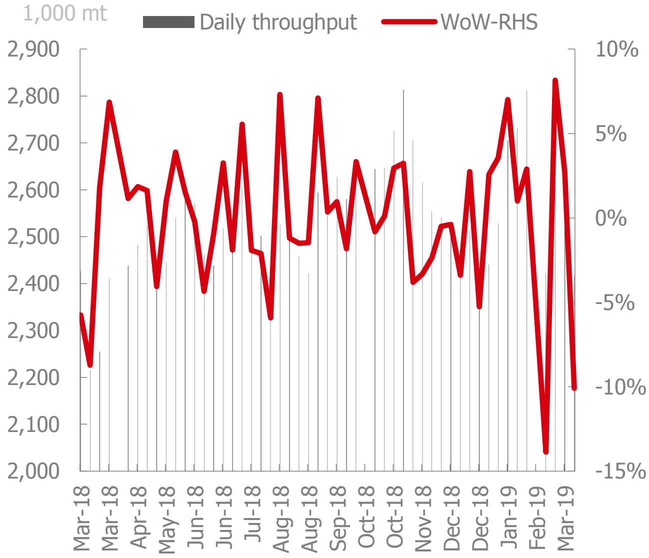
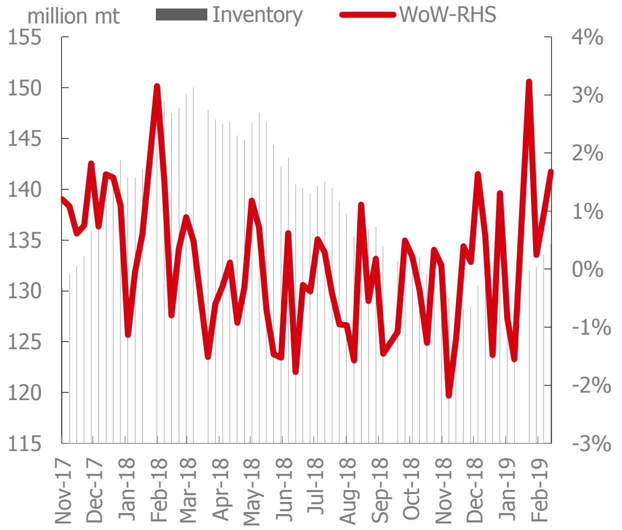


Chart 16: Iron ore port inventories



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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