Weekly Metal Macro Report

Issue 33 | January 29, 2019

('000 tonnes)	Inventory Type	As of Jan 29	Week-over-week(%)	Ytd(%)	YoY(%)
Aluminium	Social	1,303	3.09	1.32	-26.18
Copper	Bonded	431	-0.65	1.89	-7.51
Zinc	Bonded	76	-5.00	4.11	-63.81
	Social	113	5.61	29.84	-18.76
Lead	Social	28	-21.68	-2.45	-26.44
Nickel Ore	Port	10,180	-1.17	-4.95	75.52
Steel	HRC-social	1,948	0.22	6.37	-0.68
	Rebar-social	4,375	9.91	39.29	-2.46
Iron Ore	Port	129,880	-0.84	-0.46	-8.04

Copper: Downstream stockpiling ended and slower purchases by smelters stabilised spot TCs

Slower purchases by smelters stabilised spot TCs. Large smelters reported no plans to purchase until after CNY. The head of Codelco's labour union said that the Chuquicamata copper smelter is likely to defer its restart from February to March due to environmental equipment upgrading.

Aluminium: Weaker consumption grew inventories of aluminium ingots across China's eight major markets

Weaker consumption grew inventories of aluminium ingots across China's eight major markets by 39,000 mt from a week ago to 1.3 million mt as of January 25. Small and medium-sized downstream producers completed stockpiling around January 10 before they began to shut from January 15-20, for CNY.

Cobalt: Overseas prices stem decline

SMM expects China's production of ternary materials to decline month on month in January as market talk suggested that a sharp subsidy cut on new-energy vehicles around CNY will affect production schedules across battery plants, and their purchases of ternary materials.

Copper: Downstream stockpiling ended and slower purchases by smelters stabilised spot TCs

Spot copper is expected to be quoted with discounts of 180-20 yuan/mt this week as inventories accumulate. SHFE copper inventories last week increased 18,849 mt to 119,727 mt. Transactions are likely to weaken further this week as Chinese New Year (CNY) approaches. There will be few purchases as narrower discounts limit arbitrage opportunities. Discounts are likely to shrink at the end of the week.

Traders completed stock liquidation by the end of last week, while downstream stockpiling also ended. Spot discounts stood at 170-90 yuan/mt at the end of last week.

Slower purchases by smelters stabilised spot TCs. Large smelters reported no plans to purchase until after CNY. The head of Codelco's labour union said that the Chuquicamata copper smelter is likely to defer its restart from February to March due to environmental equipment upgrading. This is likely to increase inflows of copper concentrate to China and shore up spot TCs. The smelter will build an acid plant instead of repairing the existing facility.

Chart 1: Global visible inventory

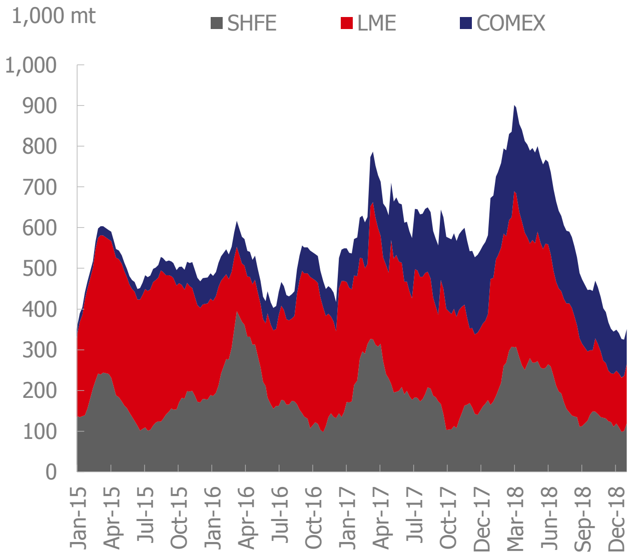
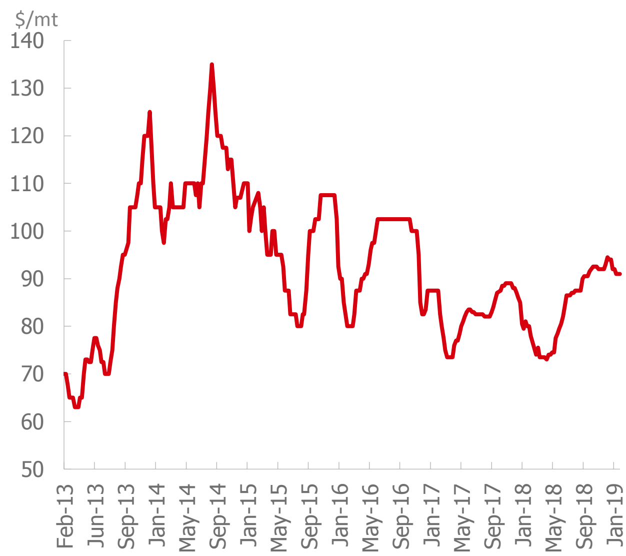


Chart 4: China copper spot TCs



Aluminium: Weaker consumption grew inventories of aluminium ingots across China's eight major markets

Weaker consumption grew inventories of aluminium ingots across China's eight major markets by 39,000 mt from a week ago to 1.3 million mt as of January 25. Small and medium-sized downstream producers completed stockpiling around January 10 before they began to shut from January 15-20, for CNY. Some large processors also shut last week. This lowered shipments of aluminium ingots across public warehouses in five major regions, Foshan, Wuxi, Gongyi, Changzhou and Chongqing, by 16,300 mt on a weekly basis to 126,900 mt during January 14-20. Stocks are expected to grow further this week as shipments from warehouses continue to decrease.

In the east China spot market, downstream producers lost purchasing interest last week after they completed stockpiling two weeks ago, except for Tuesday when lower aluminium prices attracted them to purchase. A large trader cut purchases, while others were keen to sell and buy. Prices stood between 13,330-13,470 yuan/mt in Shanghai and Wuxi, Jiangsu province, with discounts of 80-40 yuan/mt against the SHFE February contract, compared with 13,330-13,460 yuan/mt in Hangzhou, Zhejiang province.

Chart 3: Social inventories of primary aluminium

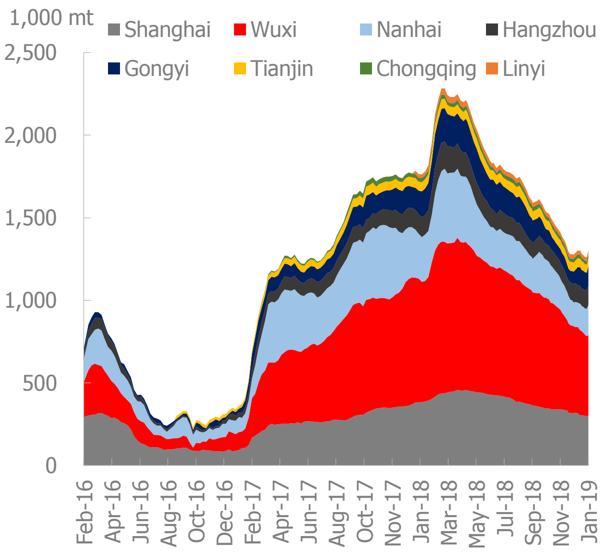
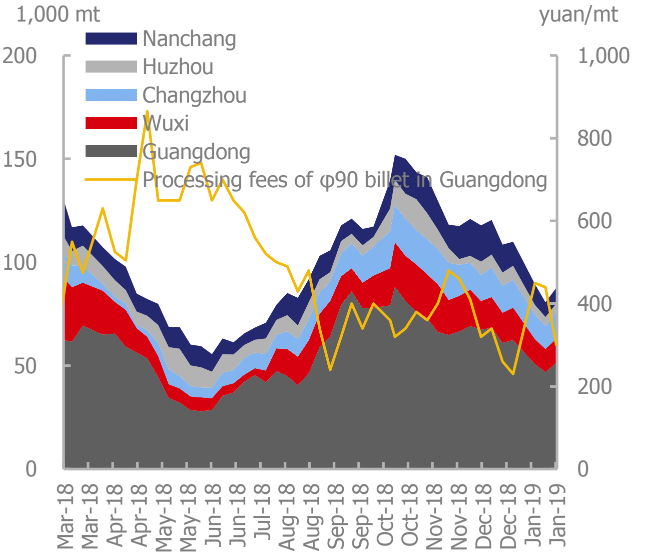


Chart 4: China's aluminium billet inventory and prices



Zinc: CNY factor grows domestic inventories of zinc

LME zinc is likely to stay at highs and trade between $2,580-2,680/mt this week with the SHFE March contract at 21,100-21,900 yuan/mt.

Output across smelters remained low and imports remained limited. Downstream restocking will end soon. Smelters will maintain normal production during the CNY holiday while downstream producers will shut. This will grow inventories but any growth will fall short of the same period of previous years. Cancelled warrants overseas further increased. With low inventories, LME zinc posted an eight-day winning streak and stood above all short-term moving averages.

Chart 5: TCs for domestic/imported zinc concentrate

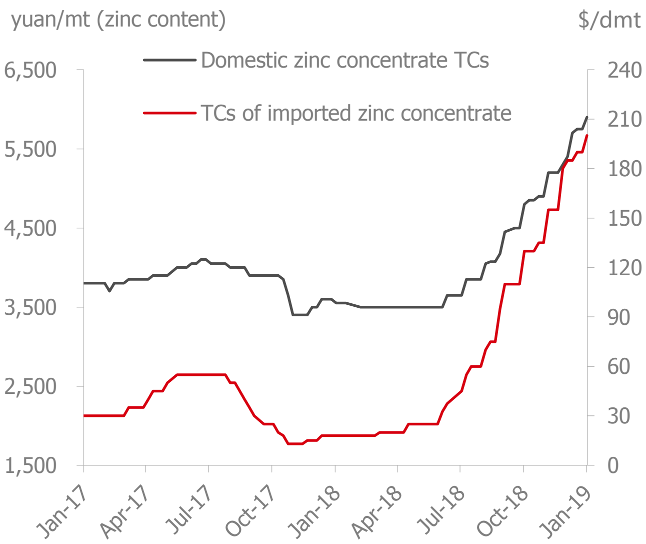
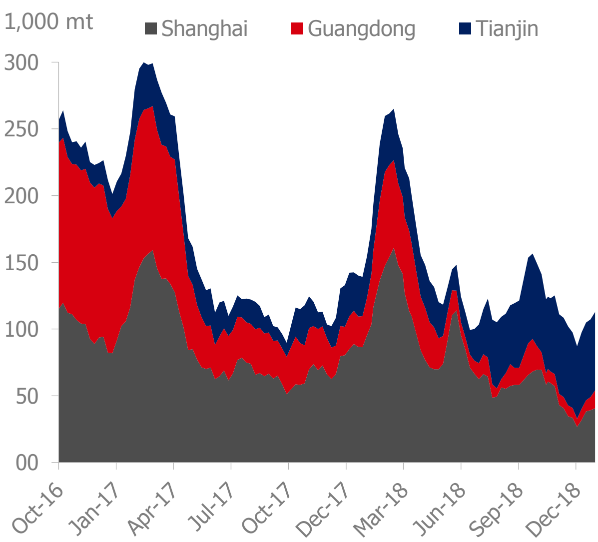


Chart 6: Social inventories of refined zinc



Lead: Social inventories to inch up in last week before CNY

Social inventories of primary lead across Shanghai and Guangdong fell by 4,600 mt from a week ago to 7,100 mt as of Friday January 25, and social inventories nationwide dropped to 26,000 mt, SMM data showed.

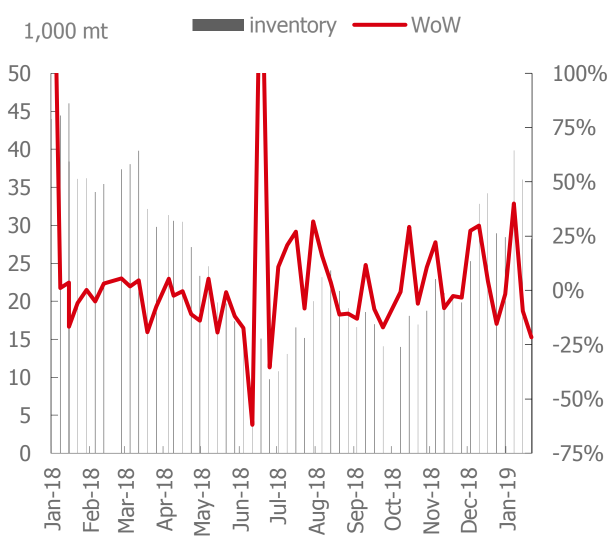
Downstream buyers favoured primary lead last week as prices of secondary lead stood higher. More secondary lead smelters began their CNY holiday last week.

Social warehouses saw fewer arrivals last week. Some large primary lead smelters reduced sales to meet their own demand for alloy production after some workers left for CNY. Maintenance across smelters in Henan and Hunan also shrank supplies.

Most lead-acid battery producers will close for CNY this week. This, together with the expected suspension of shipping services, will further weaken spot trades. Social inventories are likely to inch up this week.

Chart 7: Shanghai spot lead prices

Chart 8: Social inventories of primary lead



NPI: Short supply to underpin offers before 2nd half of Feb

Even as spot trades cooled as CNY approached, SMM expects that nickel pig iron (NPI) plants will not lower offers until supply tightness eases in the second half of February.

Domestic NPI plants maintained stable operating rates last week. A large NPI plant in the east commissioned all four new production lines, after it began to dry 48,000 KVA submerged-arc furnaces under two production lines last week.

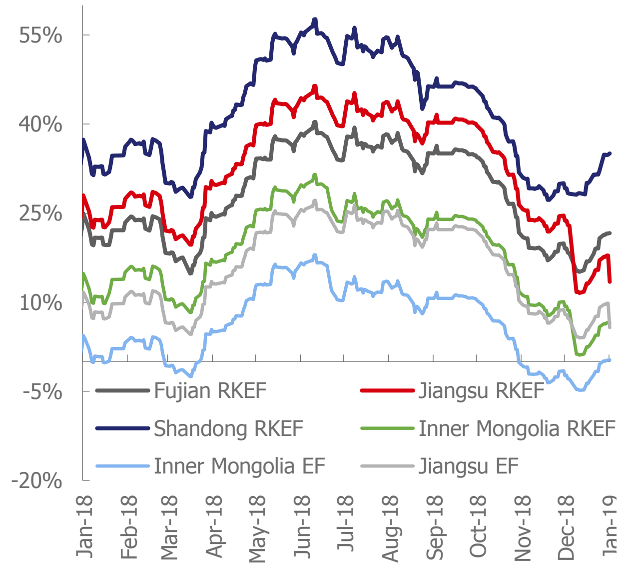
Each furnace has a capacity of 650 mt in nickel content per month. The commencement of production will buoy NPI supplies in the second half of February.

While tight supplies of NPI continued to drive producers to firm up offers last week, downstream steel mills barely raised purchasing prices as they have almost completed pre-CNY restocking. The slower purchases narrowed premiums of high-grade NPI over refined nickel last week.

During winter stockpiling, stainless steel producers preferred cost-effective high-grade NPI over stainless steel scrap as raw materials, and this resulted in short supplies of spot NPI.

Chart 9: Premium/discount of high-grade NPI over refined nickel

Chart 10: High-grade NPI profit by province



Cobalt: Overseas prices stem decline

Overseas prices of cobalt registered a bigger weekly decline, which narrowed their spread with domestic prices to a rational level. This stemmed the decline in overseas prices last Friday.

Transaction prices below 300,000 yuan/mt were heard in the domestic market amid pessimism across investors. This, coupled with weak fundamentals, extended SMM's bearish outlook on post-CNY prices.

Last week, sales pressure pushed major suppliers of cobalt in China to lower offers but this failed to improve trades as domestic downstream buyers reduced restocking and mostly consumed in-plant stocks.

SMM expects China's production of ternary materials to decline month on month in January as market talk suggested that a sharp subsidy cut on new-energy vehicles around CNY will affect production schedules across battery plants, and their purchases of ternary materials. Sluggish consumption from the digital market will also weigh on output.

China's output of ternary materials in December remained flat from November, at 14,300 mt, SMM data showed.

While sufficient orders received at major producers of cathode materials supported overall production in December, some producers in the north lowered output on concerns about slow payment from downstream battery plants ahead of CNY.

Chart 11: Domestic prices of cobalt

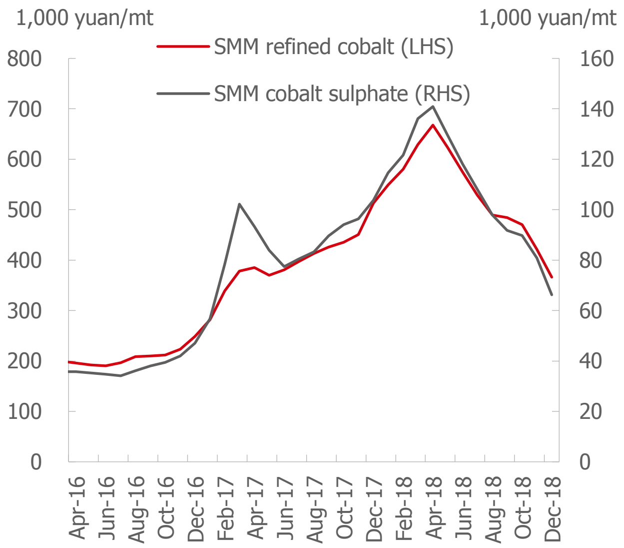
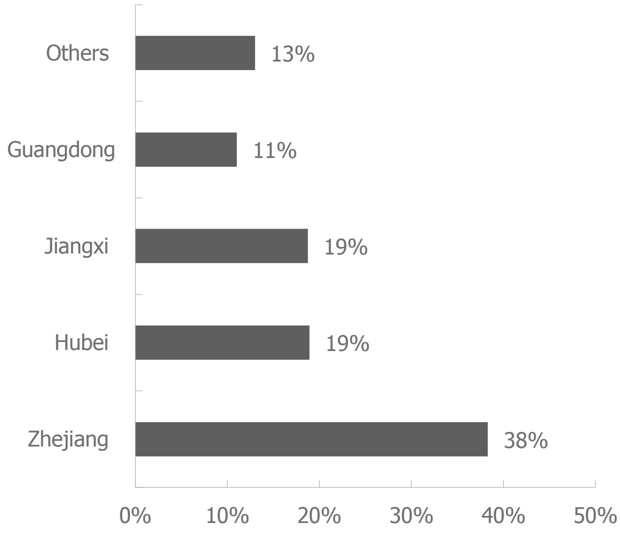


Chart 12: China cobalt production by province in Dec. 2018



Steel: Winter stockpiling at traders stands lower YoY

Spot prices of rebar in China's major markets were mostly stable last week. Prices in cities of Hangzhou, Changsha, and Chengdu fell some 10 yuan/mt, while other markets saw spot increases of up to 30 yuan/mt.

Overall trading activities cooled on the week, with some continued speculative demand. However, current low inventories of spot products and storage costs underpinned offers at sellers.

Prices of steel billet in Tangshan were locked in at 3,400 yuan/mt ex-works with tax included until post-CNY February 10, as more downstream producers started CNY breaks.

As winter stockpiling drew to a close for this year, the restocking volume fell short of that a year ago, an SMM survey found. With high costs of holding liquidity and growing uncertainties in the market, an eastern trader held only 2,000 mt of rebar for this winter, around 30% of the volume in the previous winter.

A trader in the south told SMM that its stockpiled rebar for January this year accounted of half of the volume a year ago, at 20,000 mt. It planned to deliver 70-80% of the stockpile within a month after CNY. In the south-west, a trader restocked some 20,000 mt of rebar, accounting for 60% of the volume a year earlier.

Chart 13: Rebar social inventories

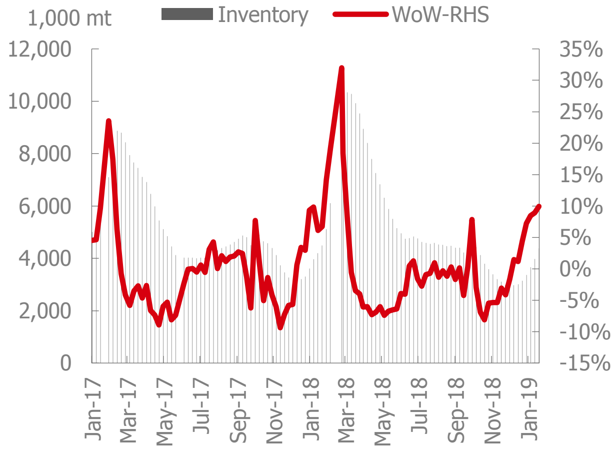
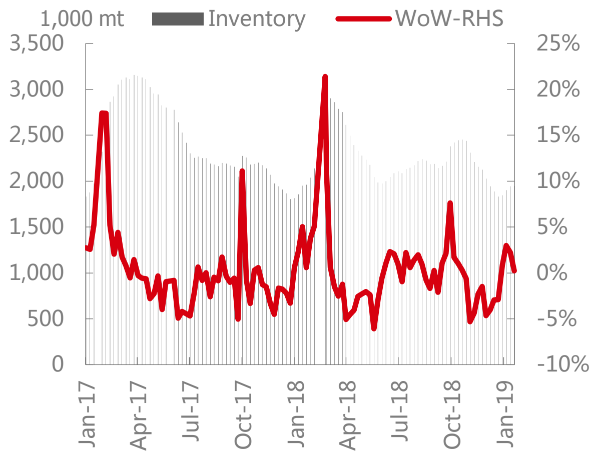


Chart 14: Hot-rolled coil social inventories



Iron ore: End of pre-CNY restocking to grow iron ore port stocks this week

While CNY restocking across steel mills continued to erode iron ore port inventories last week, greater seaborne arrivals and the end of downstream purchases will accumulate stocks from this week, SMM expects.

Stocks across 35 major Chinese ports decreased by 1.11 million mt from a week ago to stand at 129.88 million mt as of Friday January 25, SMM data showed. Compared with a week prior to CNY in 2018, the port stocks stood 12.11 million mt lower as of last Friday. Except for Rizhao port in the northern province of Shandong, inventories at major ports in the east and north shrank.

Last week, average daily deliveries of iron ore departing the 35 ports grew 27,000 mt, to stand at 2.73 million mt as of January 25, the second highest on a weekly basis since 2018.

Most downstream steel mills are expected to end their CNY restocking by the end of this week, SMM learned. While spot offers of imported iron ore remained firm last week, imported materials are expected to trade rangebound this week.

Chart 15: Daily throughput of iron ore

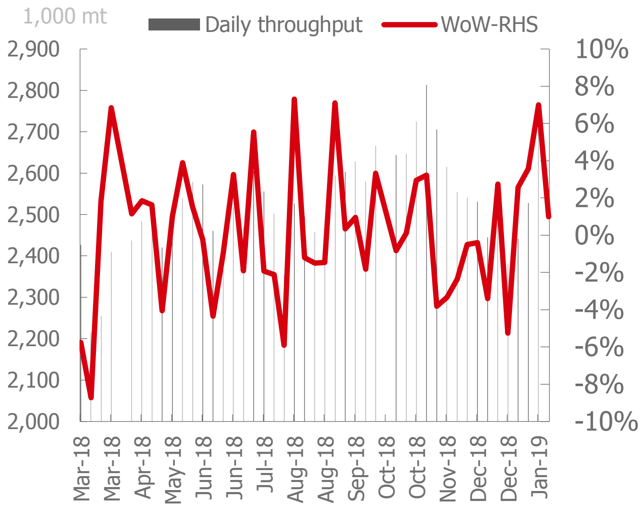
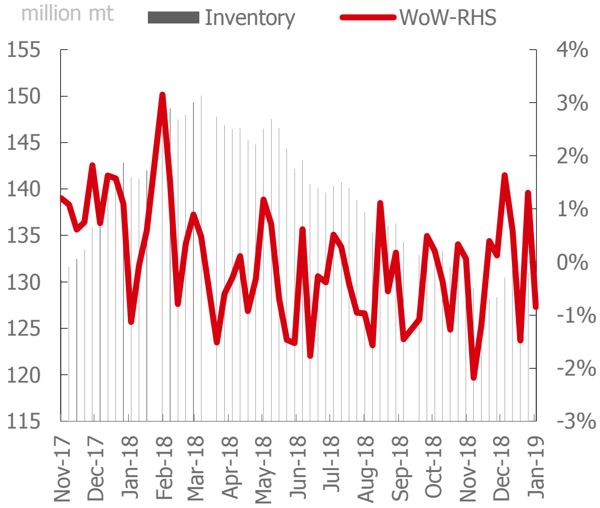


Chart 16: Iron ore port inventories



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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