Weekly Metal Macro Report

Issue 32 | January 22, 2019

('000 tonnes)	Inventory Type	As of Jan 22	Week-over-week(%)	Ytd(%)	YoY(%)
Aluminium	Social	1,264	-1.40	-2.92	-29.15
Copper	Bonded	439	1.43	3.78	-7.19
Zinc	Bonded	80	6.67	9.56	-60.00
	Social	107	2.37	23.20	-23.41
Lead	Social	12	-38.44	-36.18	-13.47
Nickel Ore	Port	10,300	0.58	-3.83	68.30
Steel	HRC-social	1,944	2.21	6.14	-0.34
	Rebar-social	3,981	8.93	26.74	-5.29
Iron Ore	Port	130,985	1.31	0.39	-8.28

Copper: Demand for copper scrap weakens as CNY approaches

With the approaching Chinese New Year, demand for copper scrap in China weakened last week as most copper rod producers who use copper scrap as feedstock would halt production this week. But some copper rod producers continued to stockpile copper scrap as they will resume operations earlier than copper scrap suppliers.

Aluminium: SMM remains bearish on alumina prices in medium term

Without substantial output cuts, alumina prices across Chinese markets are likely to extend declines as supply further exceeds demand. SMM expects the supply surplus to expand to 281,000 mt in January.

Cobalt: Thin trades lower prices

While some domestic long-term contracts for cobalt raw material purchases have not been settled, prices of cobalt showed weakness in the international market amid slow transactions. This reduced confidence across domestic producers and importers. Lower offers failed to improve trading last week. With a bearish outlook on post-CNY prices, downstream buyers continued to purchase cobalt salt as required, and sellers mostly offered small volumes for sale, SMM leaned.

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Most end-users requested deliveries after the holiday, and this hinted at increasingly weaker demand ahead of CNY.

For imported copper scrap, cif quotes for #1 copper scrap stood at a discount of 12 cents/lb against COMEX May copper last week, and those for #2 copper scrap stood at a discount of 23 cents/lb against COMEX May copper. Cif quotas for US brass occurred at $4,350-4,380/mt with those for German brass at $4,020-4,030/mt. (Note: Prices of copper scrap from the US are based on goods that were transported to other countries or regions before they were imported into mainland China.)

In the week ended January 18, prices of #1 bare bright copper averaged 42,990 yuan/mt, down 20 yuan/mt from the previous week; price spreads between copper cathode and copper scrap came in at 607 yuan/mt, up 125 yuan/mt week on week. The price gap, still at lows, grew slightly last week as SHFE copper prices strengthened.

To generate cash, copper scrap sellers offloaded cargoes last week. SMM learned that most dismantling plants would begin their CNY break on January 20, and this is set to shrink supplies of copper scrap in the two weeks before the holiday.

Chart 1: Price spreads between copper cathode and copper scrap

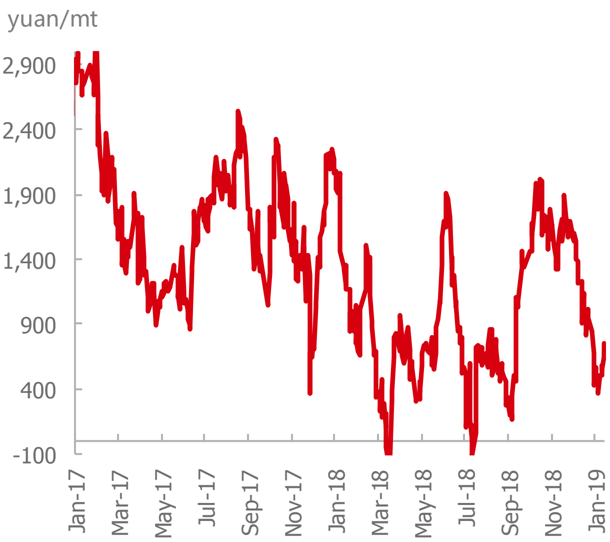
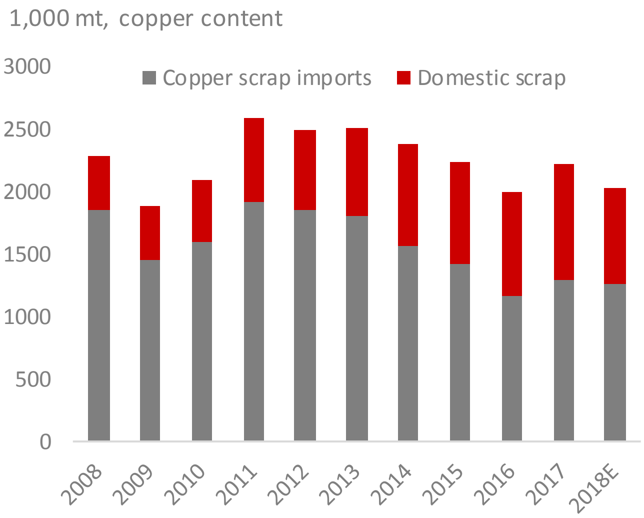


Chart 2: Copper scrap imports in 2018



Note: Total imports of copper scrap in 2018 are based

Aluminium: SMM remains bearish on alumina prices in medium term

Without substantial output cuts, alumina prices across Chinese markets are likely to extend declines as supply further exceeds demand. SMM expects the supply surplus to expand to 281,000 mt in January.

Completed maintenance in the south-west and operation recovery from environmental rectifications in Shanxi province will offset some output losses from environmental issues. Pre-CNY cash pressures prompted alumina producers to lower offers to offload cargoes and generate cash.

Capacity cuts of primary aluminium have exceeded 3.2 million mt since the start of 2018 while the release of new capacity remains slow. Alumina exports will continue to fall after they peaked in October 2018.

As of Friday January 18, alumina prices for four major regions stood at 2,854 yuan/mt, down 24 yuan/mt from a week ago. Trades remained muted. No large deals were heard in the south-west and east and most transactions occurred in Shanxi and Henan. The lowest price in Shanxi fell below 2,800 yuan/mt.

Two ships of Australian alumina were sold at $385/mt and $375/mt, on an FOB basis. India's National Aluminium Company (Nalco)'s latest bid price stood at $402/mt.

Chart 3: Social inventories of primary aluminium

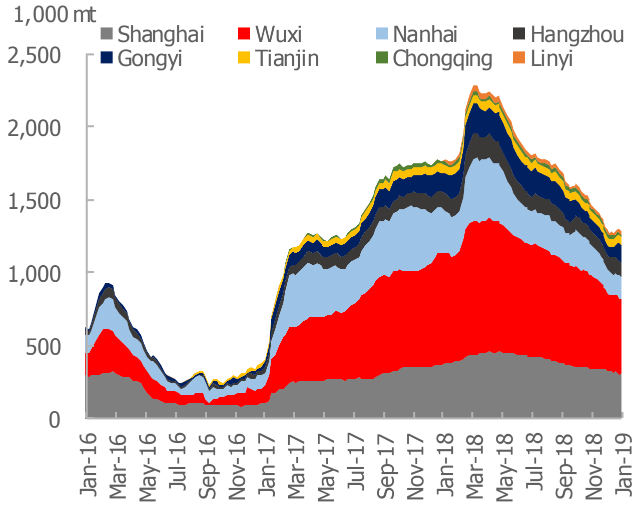
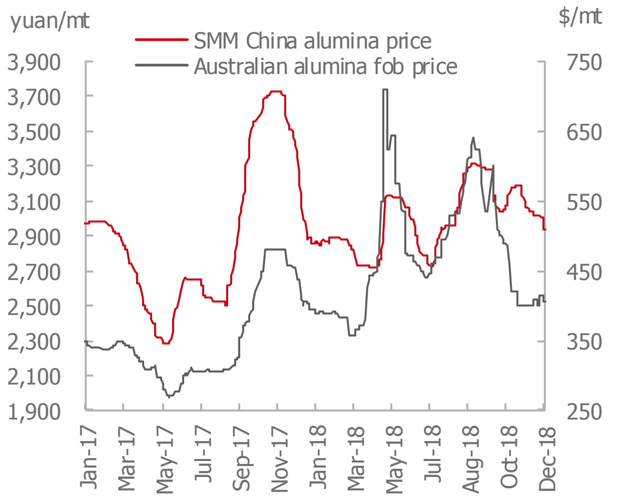


Chart 4: Prices of FOB/domestic alumina



Zinc: Low inventories, weak consumption to keep prices rangebound

Low inventories and weak consumption are likely to keep zinc prices rangebound in the near term, SMM believes.

Low inventories would continue to limit declines in zinc prices. Despite wide profit margins bolstered by higher treatment charges (TCs) for zinc concentrate, capacity constraints at smelters continued and limited the supply of refined zinc. This slowed the growth in inventory during a seasonal lull of consumption. It is widely expected that the inventory growth of refined zinc would almost halve from the same period last year. Social inventories of refined zinc across Shanghai, Guangdong and Tianjin stood at 106,800 mt as of Monday January 14, much lower than 140,000 mt a year earlier, SMM data showed.

Consumption weakened significantly in January. SMM learned that some manufacturers of die-casting zinc alloy began their CNY break from January 10. Most producers of die-casting zinc alloy and galvanising plants began their CNY break during January 15-20. Galvanising plants would suspend on January 25 at the latest and restart around February 14. Most producers of die-casting zinc alloy are expected to resume after February 19. The relatively long stagnation of consumption is set to accelerate gains in social inventories.

Chart 5: TCs for domestic/imported zinc concentrate

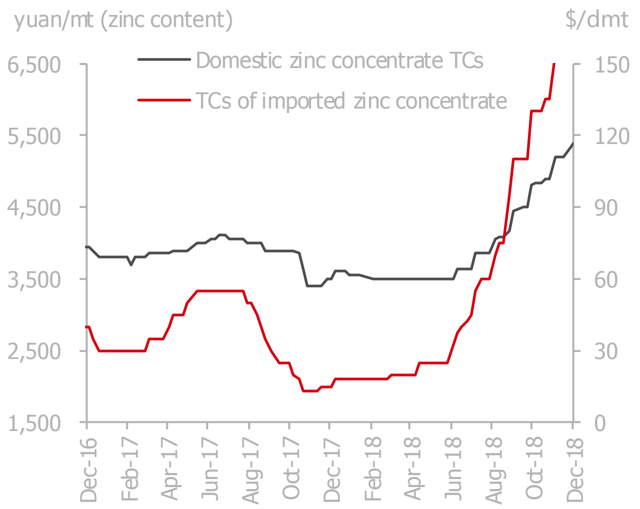
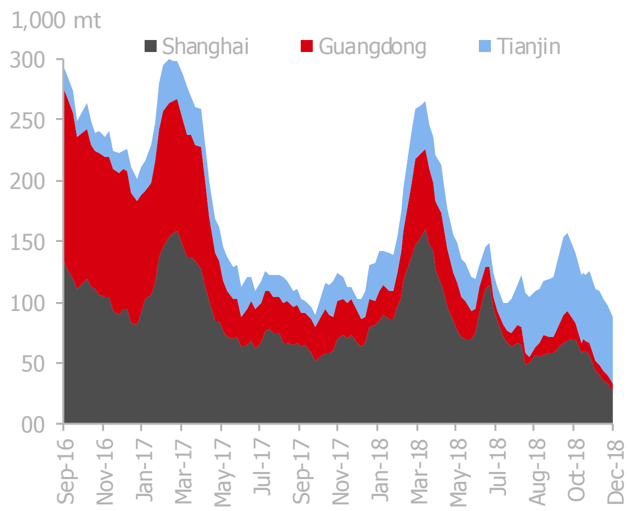


Chart 6: Social inventories of refined zinc

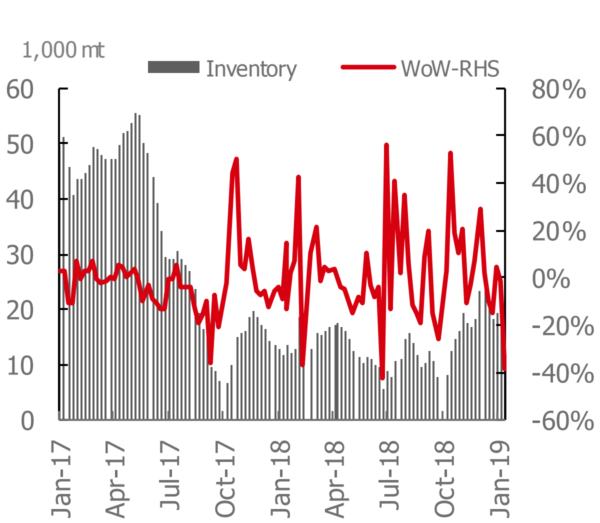


Lead: Inventories likely to grow as downstream consumers begin holiday

Lead social inventories in China are likely to climb as supply across primary smelters holds stable and as lead-acid battery producers begin their CNY break this week. Social inventories of primary lead across Shanghai and Guangdong declined 7,300 mt in the week ended January 18 to stand at 11,700 mt, while overall social inventories grew to 37,000 mt, SMM data showed.

Chart 7: Shanghai spot lead prices

Chart 8: Social inventories of primary lead



Lead prices tumbled earlier last week, and reduced the discounts of secondary lead against SMM 1# primary lead to zero. The gap turned into premiums in some offers. This lowered the appeal of secondary lead and drove buyers towards primary lead, resulting in smaller in stocks across Shanghai and Guangdong.

Overall social inventories, however, extended gains last week as lead-acid battery producers preferred to purchase directly from smelters. Stocks in Changxing, close to Shanghai, expanded last week as rectification at Shanghai warehouses drove deliveries to settle in Changxing.

Nickel: Purchases from large NPI plant buoy ore prices

A large nickel pig iron (NPI) plant in eastern China restocked last week and raised prices of nickel ore on the week. This followed after it barely purchased raw materials and mostly depleted in-plant stocks, given weak prices in the market.

The expiration of export quotas at major mining companies in Indonesia may affect supplies of nickel ore this month. Some 2.08 million wmt of nickel ore export quotas at Harita will expire in January. With monthly delivery of 280,000 wmt, the company is currently loading unfulfilled cargoes.

At Fajar Bhakti Lintas Nusantara, export quotas for some 4.02 million wmt of nickel ore will expire by the end of January, and approval for new export quotas has not been released. The company ships 280,000 wmt of nickel ore each month.

Previously, it took up to two months to renew export quotas at Jinchuan WP and PT Sambas.

Chart 9: Cif prices of nickel laterite imports

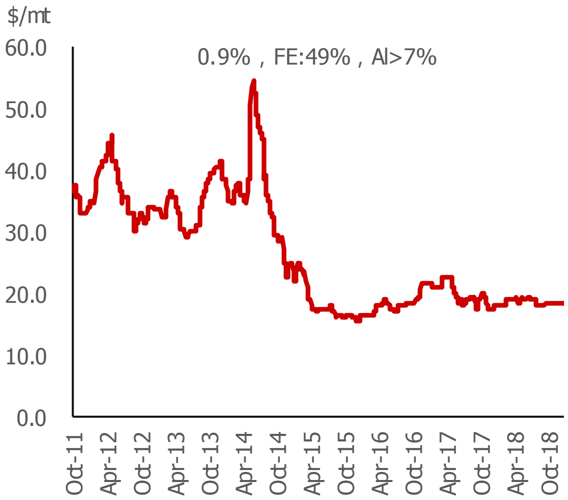
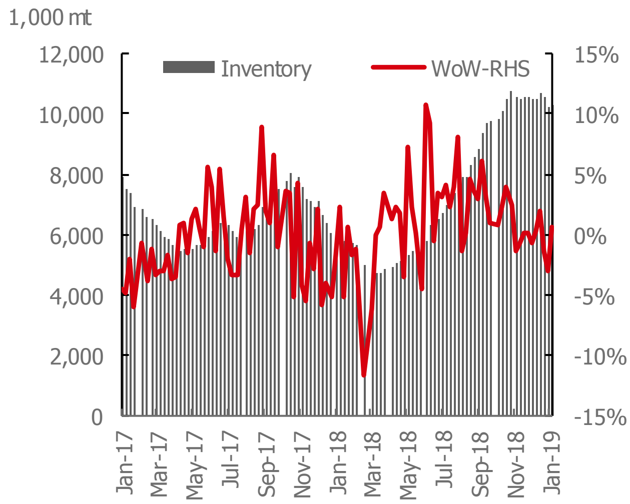


Chart 10: Nickel ore stocks at seven major ports in China



Cobalt: Thin trades lower prices

While some domestic long-term contracts for cobalt raw material purchases have not been settled, prices of cobalt showed weakness in the international market amid slow transactions. This reduced confidence across domestic producers and importers.

Lower offers failed to improve trading last week. With a bearish outlook on post-CNY prices, downstream buyers continued to purchase cobalt salt as required, and sellers mostly offered small volumes for sale, SMM leaned.

We assessed prices of cobalt at 333,000-345,000 yuan/mt as of Friday January 18, down an average 10,000 yuan/mt from a week ago. Prices of cobalt salt mostly remained flat on the week, with cobalt sulphate at 67,000-69,000 yuan/mt, cobalt chloride at 73,000-76,000 yuan/mt, nickel sulphate at 23,500-25500 yuan/mt as of last Friday.

Chart 11: Domestic prices of cobalt

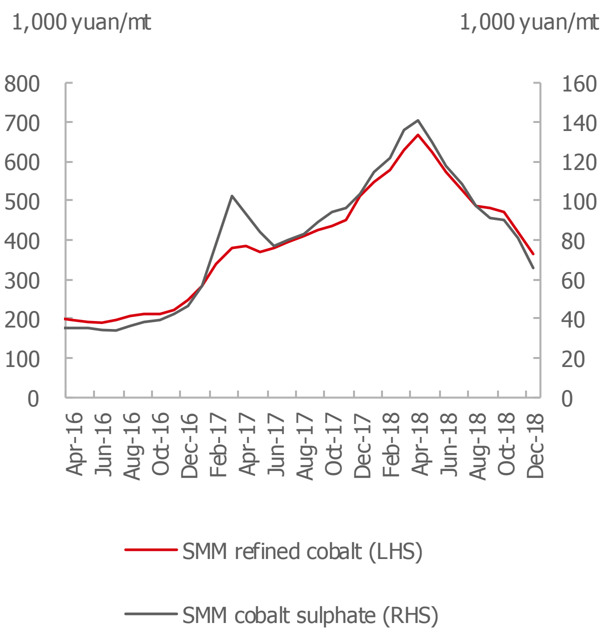
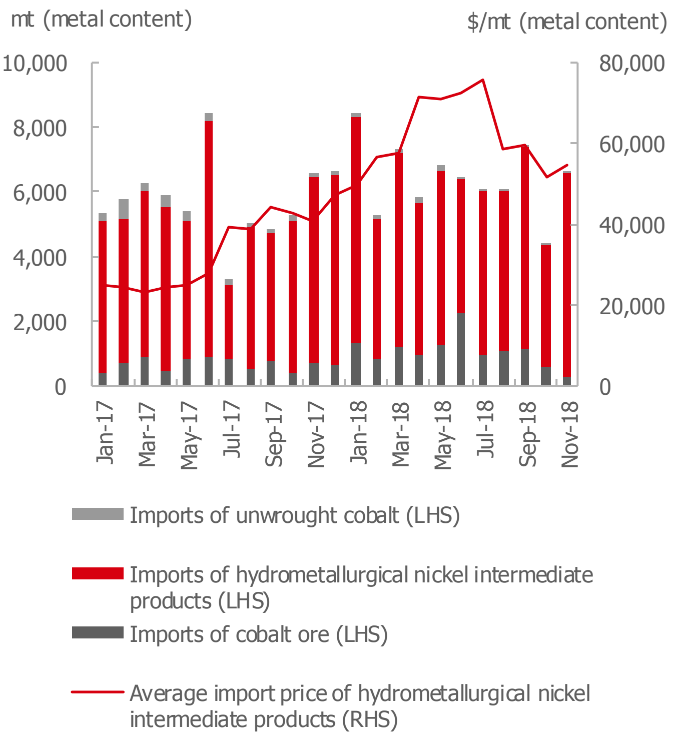


Chart 12: China Imported cobalt salt volume



Steel: Costs to cap growth in speculative demand

Last week, losses suspended some steel mills that produced with electric furnaces, and this lowered overall production of rebar. This, coupled with speculative demand at traders, eased inventory pressure at steel mills and buoyed steel offers.

Steel mills stepped up pre-CNY purchases of raw materials, and this bolstered speculative demand at traders, SMM learned.

However, expanded suspension across downstream construction sites and high costs of steel products will limit the upward room in demand.

Frigid temperatures and heavier smog suspended more construction sites in the north last week. Construction in the east also began to stop from January 14, and those in the south and south-west suspended gradually from January 20. Sites are likely to fully suspend by January 25.

Chart 13: Rebar social inventories

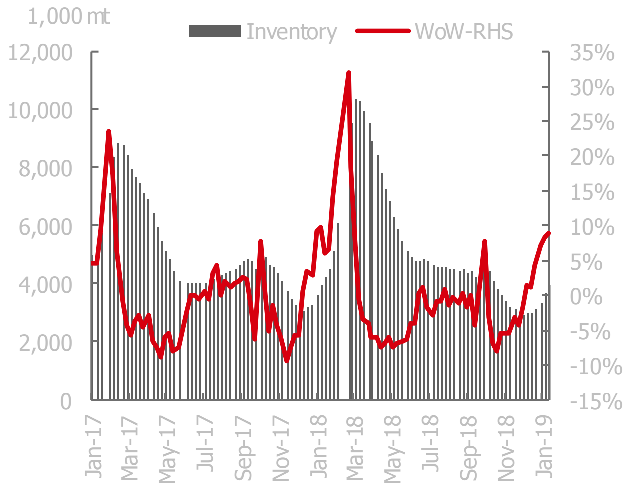
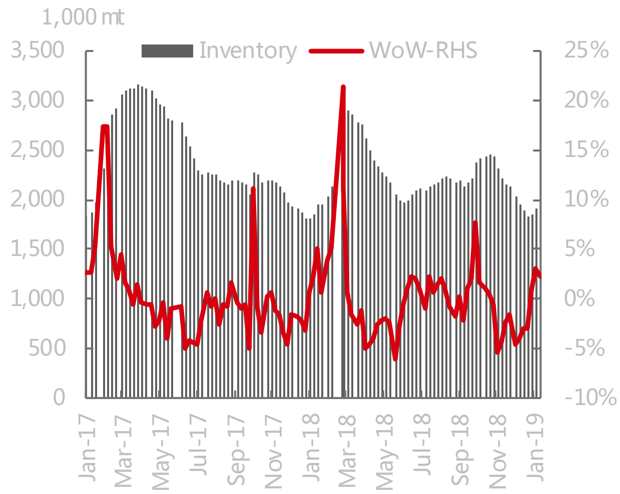


Chart 14: Hot-rolled coil social inventories



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Iron ore: CNY stockpiling rallies prices

CNY restocking at steel mills continued to grow daily average deliveries departing Chinese ports this week. High demand ahead of CNY is likely to keep daily average deliveries from ports at highs this week. Prices of lower-quality iron ore received the greatest boost from pre-holiday stockpiling last week. Offers of low-grade super special fine (SSF) increased 35 yuan/mt on the week and stood at 400 yuan/mt as of last Friday, while offers of Pilbara Blend (PB) fines in Tangshan city and Shandong province jumped 10 yuan/mt on the week.

More seaborne arrivals, especially at ports in Shandong and along the Yangtze River, expanded iron ore inventories across Chinese ports. Stocks across 35 major Chinese ports accumulated by 1.69 million mt from a week ago to stand at 130.99 million mt as of Friday January 18, SMM data showed.

For the same period, average daily deliveries of iron ore departing those ports grew 178,000 mt, to stand at 2.71 million mt. As steel mills in Tangshan restocked for CNY, iron ore deliveries departing Jingtang and Caofeidian ports of the city increased significantly.

Chart 15: Daily throughput of iron ore

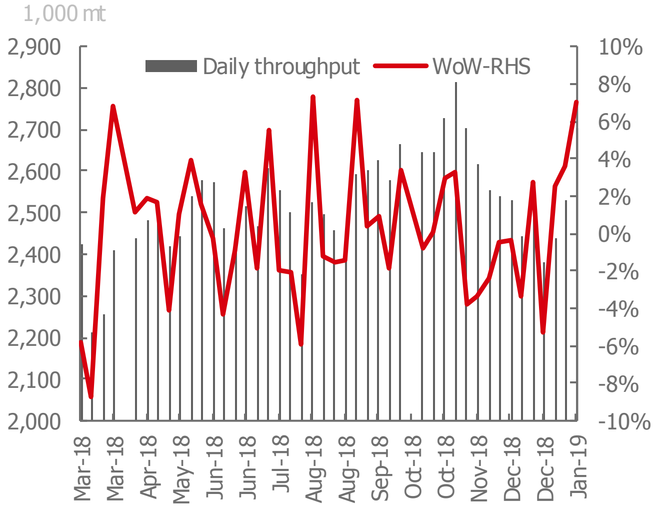
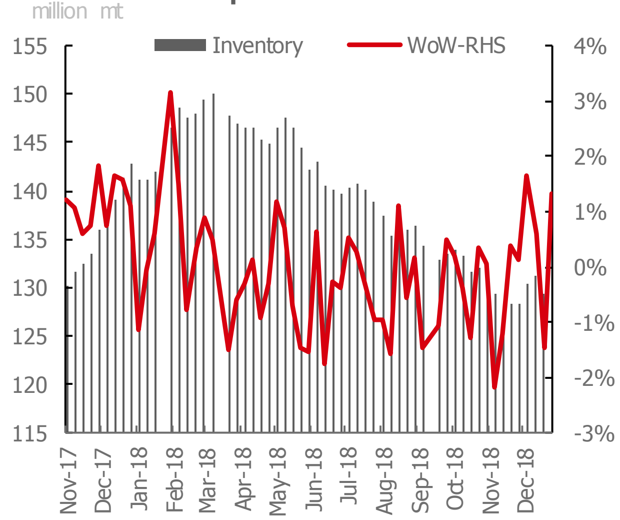


Chart 16: Iron ore port inventories



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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