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ZINC SPOTLIGHT

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Bullish:

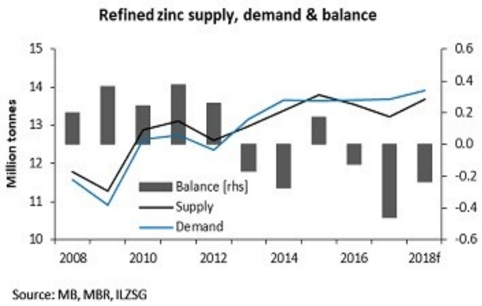
- Zinc's underlying fundamentals appear supportive, with the latest International Lead & Zinc Study Group (ILZSG) report pegging the market in a 52,200-tonne deficit in April, narrowing the January-April surplus to 18,400 tonnes.
- Various downstream demand metrics remain strong; global light vehicle sales are up by 3.3% in January-May 2018, according to LMC Automotive.
- There is strong demand in industries requiring zinc. In China, steel production hit a record 81.13 million tonnes in May, despite efforts to cut pollution and overcapacity. Construction activity remains strong, property sales by floor area accelerated in May to the fastest pace since June 2017. Production of vehicles and white goods (washing machines and refrigerators) accelerated in the second quarter after a weak first quarter following fiscal and environmental reforms.
- Authorities in China will continue to support economic growth and continue to expand its Belt and Road Initiative.
- Despite the scale of mine capacity under development, global mine production was down 0.1% in January-April 2018, according to the ILZSG. Tight environmental policies are creating significant headwinds for Chinese miners; domestic treatment charges (TCs) have dropped 10.3% so far this year.
- In the international market spot zinc TCs recovered to around $40-50 per tonne basis cif Asia Pacific ports at the end of June, up from $20-35 per tonne at the end of May. This reflects reduced demand from Chinese smelters, who have cut utilization rates and brought forward maintenance programs as falling prices squeeze already tight margins. Production could slow further over the short term; Metal Bulletin reported some major zinc smelters have called for nationwide production cuts, similar to those seen last year, to lift prices and TCs.

Speculative position:

- The current correction has been led by long liquidation by speculative investors, according to available LME CoT data. With net length in low ground from a historical perspective, the sell-off may have run its course unless bearish funds are willing to become more forceful.

Physical market:

- The deep backwardation in the LME forward curve continues to weigh on premiums in Europe and Asia, closing the London-Shanghai import arbitrage. Rates in the United States remains supported and could rise in the coming weeks due to trucking and financing costs edging higher.



Current trend direction

Short term (0-3 m)	→↗	Medium term (3-6m)	→↗	Long term (6m+)	→↘

Bearish:

- LME flows continued to buck the bullish fundamental backdrop; the ILZSG forecasts the market to record a deficit of 263,000 tonnes in 2018, revised from the 223,000-tonne deficit forecast in October.
- A total of 195,000 tonnes of zinc has been delivered into the LME network so far in 2018. Nearby spreads remain tight, which risks further inflows in the short term; the cash/three-month spread was most recently in a backwardation of $45 per tonne.
- Zinc-concentrate availability should improve in the second half of 2018 as supplies from various large-scale mine projects feed through. MMG's Dugald River started commercial production in May and is expected to produce 120,000-140,000 tonnes of contained zinc in 2018. Vedanta Resources 250,000-tpy Gamsberg mine in South Africa is due to begin production imminently. Current guidance from Glencore has a slightly higher weighting in the second half of 2018. In addition, the huge Century zinc mine in Australia is set to resume production in August.
- This will alleviate tightness in the concentrate market and allow smelters to lift their utilization rates. Korea Zinc, Nyrstar and Noranda Income Fund are targeting higher production in 2018, according to their production guidances.

Analyst comment:

"The sell-off has run its course for the moment having dropped by 12.5% over the past fortnight. The threat of co-ordinated production cuts by Chinese smelters could lend some upside momentum in the short term. But the market will need clear evidence of renewed tightness before it is willing to chase prices higher, and will likely view gains as a selling opportunity for the moment with mine production set to gather pace in the coming months and the likelihood of more stocks returning on warrant."

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