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ZINC SPOTLIGHT

May 10, 2018. By Andy Farida

Summary

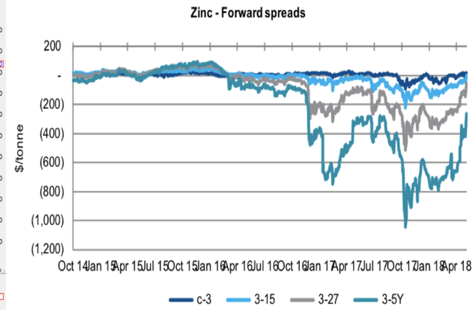
Zinc has a very different technical and fundamental setup this year. Following from the strong rally in 2017 to the 2018 high at $3,595 per tonne, there was enough incentive for key global mines to restart operations along with aggressive production ramp-ups from non-traditional sources. Another market deficit is in store this year and even though it looks bullish on paper, strong intermittent inflow of metals to LME and SHFE-approved warehouses has hurt overall bullish sentiment. As such, the price weakness towards $2,970 per tonne is justifiable.

Bullish

- The International Lead and Zinc Study Group (ILZSG) forecasts the global refined zinc market to stay in a deficit of 223,000 tonnes in 2018. Despite reports that more restarts from previously shuttered mines and the ramp-up in productions from the less traditional supply sources are under way, the LME zinc market will remain in a deficit this year. In January-February 2018, the ILZSG reported the global refined zinc market in a deficit of 11,000 tonnes, a contrast to the 57,000 tonnes of surplus over the same period last year.
- Furthermore, the global zinc concentrate market remains tight amid low availability of materials. Metal Bulletin reported that Nyrstar has set its annual benchmark for zinc treatment charges (TCs) at $147 per tonne, a 12-year low. Also, record low TCs have forced cash-strapped Chinese domestic smelters to bring forward their planned maintenance to avoid further squeeze to margins. Perhaps the reason the zinc complex is still attracting low TCs is because the previous build-up in aboveground inventory needs replenishing and that may have explained why the overall market remains in short supply of zinc concentrate.
- Even though total SHFE stocks are considerably higher in 2018, a consecutive weekly outflow of metals has been recorded since March 30. Such drawdowns suggest domestic demand for zinc remains high and the demand was satisfied through foreign imported refined zinc. According to China's National Bureau of Statistic (NBS), total refined zinc imports has tripled in the first quarter of 2018 to 139,600 tonnes from last year's 58,000 tonnes, which highlights continued strength of Chinese apparent demand.

Analyst view: "Much of the bearish catalysts have been largely priced into the LME zinc price. A great deal of the weakness seen in the first half of 2018 resembles 2017 price moves (see box 1). For zinc price to replicate a strong rally in the second half of 2018, global economic growth from both China and the US has to maintain a positive outlook. That may prove rather challenging given the uncertainty and deteriorating trade relations between the two countries. LME zinc prices will be sensitive to the next set of production reports from major key miners, TCs as well as ILZSG statistical data on the global refined zinc market. The metal now needs strong buying momentum to return or otherwise a significant break below the 2016 uptrend line could spell more downside."

Zinc price forecast		
Short term (1-3 months) →	Medium term (3-6 months) →	Long term (6-12 months) ↘



Bearish

- Global trade growth remains at risk of US-China tit-for-tat protectionist policies. China has slapped a one-month ban on non-ferrous scrap imports which put US scrap exporters in limbo. The first meeting in Beijing hit a major stumbling block but China's top economic advisor will go to Washington to further negotiate. Should the negotiation fail to conclude with a conciliatory outcome, which we find hard to envisage, it could potentially undermine synchronized global economic growth and jeopardize the bull market that the base metals complex has enjoyed since 2016.
- Following from the strong recovery of LME zinc price in 2017, previously shuttered mines have opted to restart production. It was estimated a total of 880,000 tonnes of additional zinc concentrate has been committed by zinc mines in 2018, according to ILZSG, including well-known mines such as Century mine in Australia, Glencore's Lady Loretta zinc-lead mine and MMG's Dugald River zinc mine, which recently reported that it had achieved commercial production on May 1. Its first shipment of approximately 10,500 wet metric tonnes (wmt) will be directed to China.
- Metal Bulletin Research envisages fresh zinc concentrate to make its presence felt in the second half of 2018. Based on first quarter production results, we estimate combined production increased by 4.1% year on year or 140,000 tonnes on an annualized basis. The newly available zinc concentrate is expected to eventually find its way to smelters.
- As such, Metal Bulletin Research forecasts a 3.7% increase in the production of refined zinc in 2018 to around 14.2 million tonnes. Following from the strong market deficit in 2017, we have toned down the market deficit at 290,000 tonnes in 2018 and forecast a smaller deficit of 36,000 tonnes in 2019. As such, we can conclude that the zinc bull market may have reached its peak and the rising mine output should translate to lower LME zinc price. Therefore, we forecast LME zinc price to average $3,243 per tonne in 2018, falling to $2,969 per tonne in 2019.

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