Rising mine production to thaw zinc rally

Sell LME 3-month Zinc at $2824; MCX Zinc March at Rs 197.70 and Hedge the currency risk by buying 14 lots of USDINR at Rs 69.15 (spot) Target $2550. Time Frame 6/9 months.

Key Points:

• Refined Zinc market in deficit,
• LME stocks at lowest level since 2007,
• China’s clean environment drive
• China reduced iron ore production by 120 million tons
• Shanghai Zinc prices rose to 10 years high on shortage of ores in China.
• Mine production to rise along with global slowdown to dent the metal demand

We recommended selling one lot of zinc at LME 3-month price of $2824 (MCX March Zinc at Rs 197.70) for a LME target of $2500. We also advised hedging the currency risk by buying 14 lots of USDINR at Rs 69.15(spot).The time frame of the call is six to nine months; hence a roll over is required. This call has been generated on 20th March 2019.

Zinc market to stabilize in 2H 2019

1. Zinc market has continued to remain in deficit for the last 3 years starting 2016, but with additional mine supply that is brought online, we expect market to balance out in the second half of 2019.
2. Mine supplies are expected to rise by 2-3% from Australia India and other regions, while demand should grows at around 1%, amid a slowdown in China, which already has lowered its GDP forecast for 2019.
3. Zinc market to hold small surplus. After remaining in deficit of 384000 tons for whole of 2018, we see the zinc market thawing slightly and generating surpluses as increased mine supply keeps TC/RCs elevated, providing incentives for refined-metal producers to keep churning out tons.
4. New supplies : Mined-zinc supply growth in the next two years will come from a diverse geographic base, led by Australia, India, South Africa and China. Australian expansion will be driven by Dugald River (170,000 metric tons a year), which finished 2018 with 145,000 tons of production; the ramp-up of Century Tailings to 265,000 tons a year, and about 50,000 tons from Glencore’s Lady Loretta mine. Gamsberg (250,000L tons annually) in South Africa is on track to continue ramping up, while Rampura Agucha (200,000) will finally hit the market.
5. Stocks soar in China: Zinc stocks in the Shanghai ware house has more than doubled since China resumed from their Lunar holidays, reflecting a lack of interest from the largest consuming nation.
6. VAT cut: The Chinese government has cut the VAT in manufacturing to 13% from 16%, and for transportation and construction sectors to 9% from 10%. Manufacturing accounts for roughly 29% of Chinese GDP, and around 30% of the country’s steel consumption. Reduction in duties could led to higher Zinc production
7. Rise in TC/RC: TC/RCs are the fees miners pay smelters to process zinc concentrates into refined metal. The 2018 benchmark TC/RC reportedly settled at $147/mt, down from $172/mt in 2017, amid still tight concentrates supply. We have seen a jump in imports of zinc concentrates and recent rally in zinc prices will restart some of the idle mines.
8. LME Stocks: Stocks monitored by London Metals Exchange have dropped down to lowest level since 2007, which has created a short term tightness into the physical market leading to a jump in premiums.

Conclusion:

We expect zinc prices to be under pressure despite the fact that the market is in a deficit. China’s property sector slowdown is a cause of concern for base metals, especially for metals such as zinc, which are extensively used in infrastructure. Besides, resolution on the The trade war slugfest between US-China does not seem likely in the near future. does not. The sign of a slowdown from central bankers is eminent from their decision to keep the monetary policy as ease.