

Weekly Metal Macro Report

Issue 1 | June 5, 2018

Table 1: SMM Weekly Metal Inventory

('000 tonnes)	Inventory Type	As of June 1	Week-over-week(%)	Ytd(%)	YoY(%)
Aluminium	Social	1,992	-1.97%	12.29%	60.26%
Copper	Bonded	496	6.90%	3.29%	-19.22%
Zinc	Bonded	212	-5.78%	17.78%	63.08%
	Social	118	-1.74%	-16.87%	-9.42%
Lead	Social	11	10.78%	-13.08%	-76.60%
Nickel Ore	Port	4,310	-0.69%	-17.59%	-16.31%
Steel	HRC	5,154	-6.37%	42.95%	24.91%
	Rebar	1,987	-2.88%	9.48%	-29.05%
Iron Ore	Port	147,555	0.71%	6.07%	12.68%

Copper: TC rises as Vedanta's Indian plant is closed

The closure of Vedanta's India copper plant and the cancellation of the expansion plan, together with the unexpected production suspension of two Chinese copper smelters have driven up the spot TC/RC. SMM expects spot TC to continue to rise as domestic smelters have locked their supplies of concentrate for 3Q.

Nickel: Price likely to retreat after last week's jump

Nickel prices jumped last week due to soaring stainless steel prices. Declining supplies, the strong demand season and stockpiling by downstream users have pushed up the price of stainless steel. The risk for nickel prices to fall is accumulating due to the sharp jump, and prices are likely to retreat from last week's high.

Steel: Destocking pace quicker than expected

The destocking pace for China's steel inventory is quicker than expected. Inventory of rebar and HRC fell 6.4% and 2.9% from the previous week. Intensified environmental checks from late May have affected supply and demand in many regions. SMM expects to see a bigger impact on supply than demand in the short term.

Macro: Liquidity risk rises in emerging markets

With much risk in global markets this week, asset prices depressed as risk aversion grew. Main macroeconomic developments include slumps in Italy's stock and bond markets, and US-Sino trade conflicts. Last week, China's Central Bank provided 410 billion funds via open-market operations, to ease liquidity pressure at the month-end. In the short term, supplies across most base metals will weaken due to environmental inspections. Inventories will shrink on strong downstream demand. SMM expects demand to turn weak after the strong demand season. The pace and cycle of destocking should be closely watched amid the weak supply and demand.

Chart 1: Dollar Index & Offshore RMB

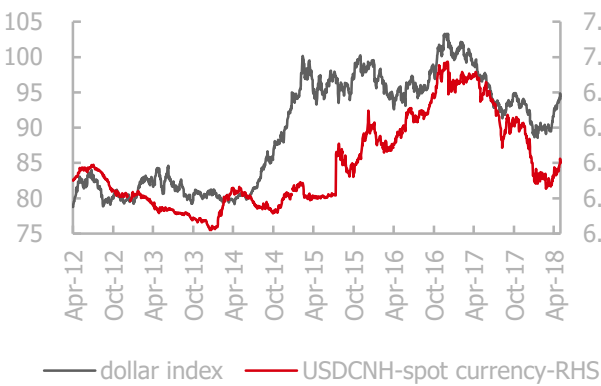
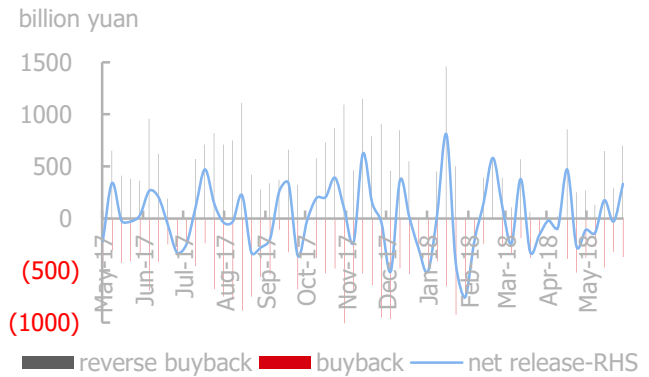


Chart 2: Central Bank Open Market Operations



Copper: TC rises as Vedanta's Indian plant is closed

The closure of Vedanta's India copper plant and the cancellation of the expansion plan, together with the unexpected production suspension of two Chinese copper smelters have driven up the spot TC/RC. China's spot TC was at 76-83 dollar/ton as of Jun 1, up by 1dollar/ton from the previous week. SMM expects spot TC to continue to increase as domestic smelters have locked their supplies of copper concentrate for 3Q. China's copper inventory in bonded warehouses was 505,000 tons as of Jun 1, up by 9,000 tons from the previous week, according to SMM surveys. Downstream demand is pressured due to the tight capital.

Chart 3: Spot TC

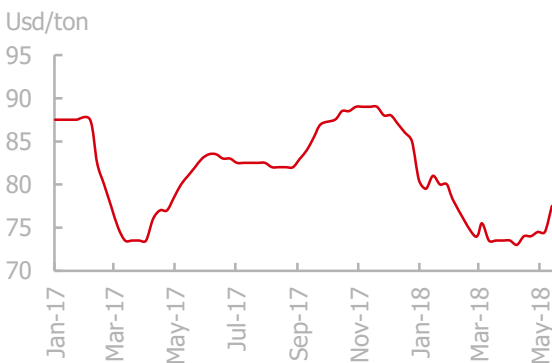
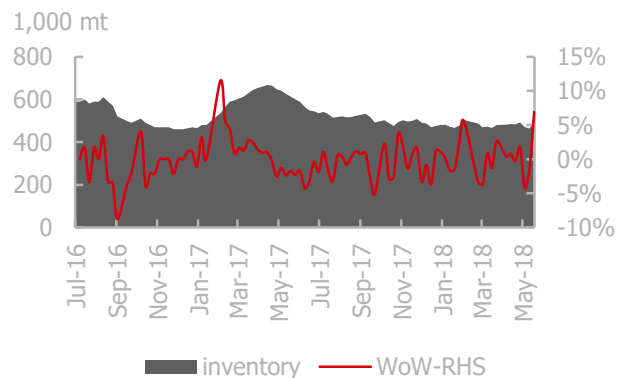


Chart 4: Refined Copper Bonded Inventory



Aluminium: Cost supports are fading

The alumina price has fallen as Norsk Hydro is in dialogue with Brazilian authorities to restart the 50% part at its Alunorte refinery. China's export of alumina is expected to fall, and the cost supports for aluminum are fading. The price of domestic alumina and Australia FOB was 2,998 yuan/ton and 472 dollar/ton as of Jun 1, down 2% and 1% from the previous week respectively. The average cost of domestic aluminum in the week of Jun 1 was 14,620 yuan/ton, down 1% from the previous week due to falling costs of alumina and pre-baked carbon anode. SMM expects 1 million tons of new capacity to be added in Q3, with output additions at 160,000 tons. The aluminum price will be pressured on rising supplies at the start of July.

Chart 5: Aluminium Gross Profit Per Ton

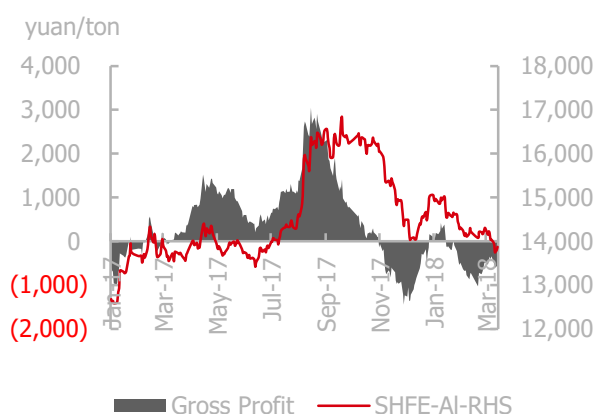
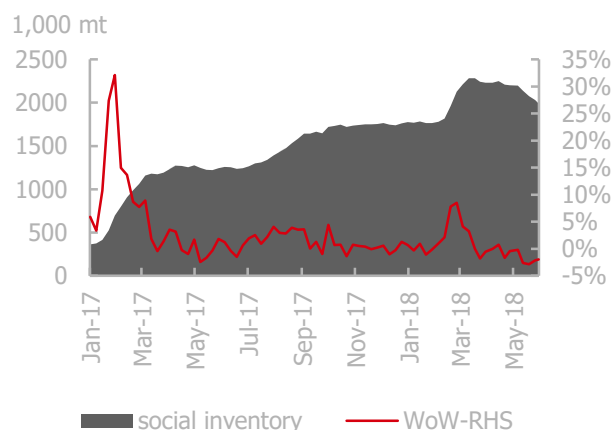


Chart 6: Primary Aluminium Inventory



Nickel: Price likely to retreat after last week's jump

The nickel price jumped in the week of Jun 1, with SHFE and LME up by 6% and 4% from the previous week respectively, mainly due to the soaring stainless steel prices. Declining supplies, the strong demand season and stockpiling by the downstream users have pushed up the price of stainless steel. We expect the price of stainless steel to continue its upward trend till mid-to-late June. The risk for nickel prices to decline is accumulating due to the sharp jump, and prices are likely to retreat from last week's high.

Chart 7: Nickel Invisible Inventory

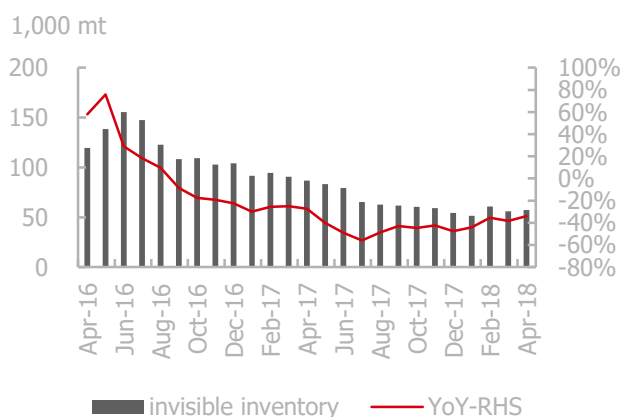
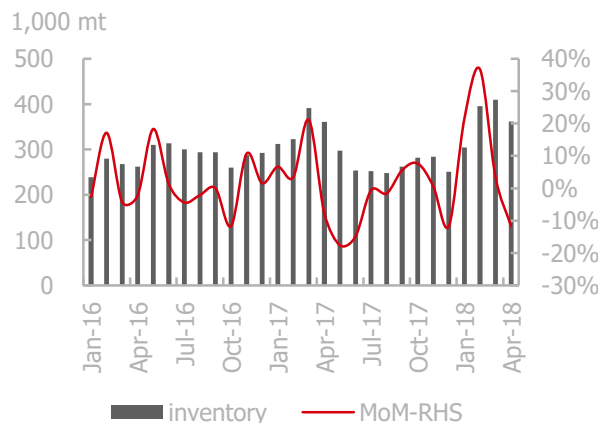


Chart 8: Total Inventory of Stainless Steel



Zinc: Import window still not fully open yet

The zinc ingot inventory at bonded warehouses has not been shipped to the domestic market due to high costs, according to SMM channel checks. There was 118,300 tons of zinc ingots in the invisible warehouses as of Jun 1, down slightly by 1.74% from the previous week. Zinc TCs increased due to the environmental checks and maintenance conducted at smelters. TC for domestic zinc concentrate was up by 50 yuan/ton from the previous week, and TC for imported concentrate stayed flat at 20-30 dollar/ton.

Chart 9: Spot TC of Zinc Concentrate

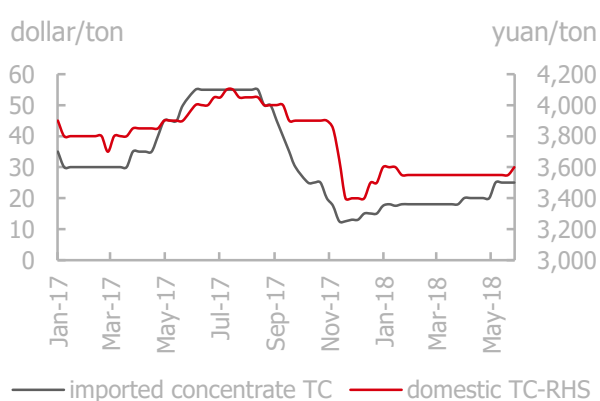
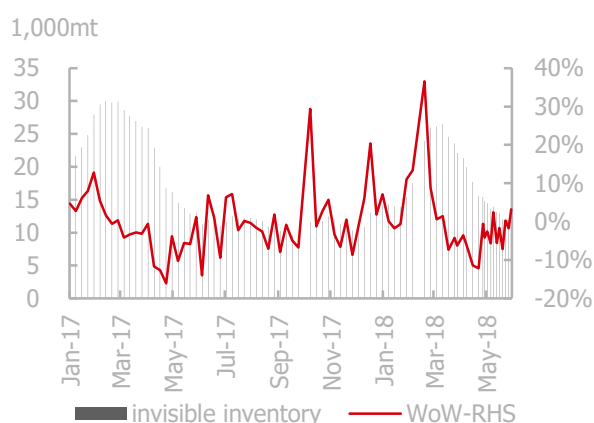


Chart 10: Invisible Inventory of Refined Zinc



Lead: Environment push hurts secondary lead supply

The supply of secondary lead was hurt by the environmental push. Producers in Jiangxi and Hebei province will still need to limit production, while producers in Anhui province are expected to return to normal operation next week. SMM expects the supply of primary lead to continue to increase. Demand from downstream battery producers is pressured due to the environmental regulations, such as producers in Jiangxi province are reducing or suspending production, and producers in Shandong province have to limit production due to the SCO summit.

Chart 11: Primary Lead Output

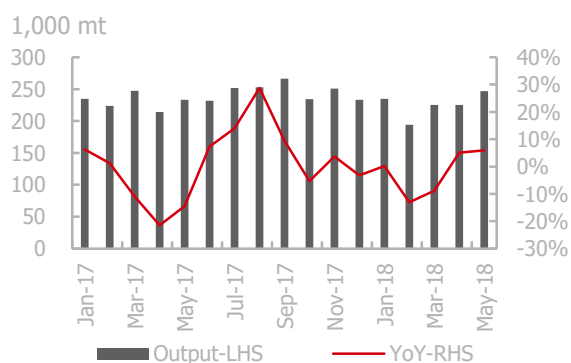
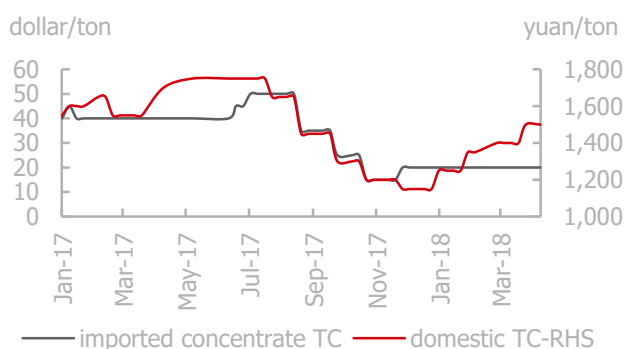


Chart 12: Spot TC of Lead Concentrate



Steel: Destocking pace quicker than expected

The destocking pace for China's steel inventory is quicker than expected. Inventory of rebar and HRC was 5.15 and 1.98 million tons as of Jun 1, down 6.4% and 2.9% from the previous week. Intensified environmental checks from late May have affected supply and demand in many regions. SMM expects to see a bigger impact on steel supply than demand in the short term. From the second half of June, steel supplies will grow as production resumes at steel plants, while demand is likely to wane due to high temperatures and the rainy season, weigh on steel prices.

Chart 13: Rebar Total Inventory

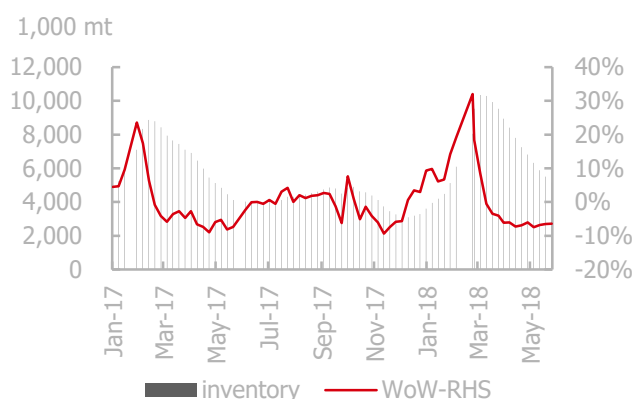
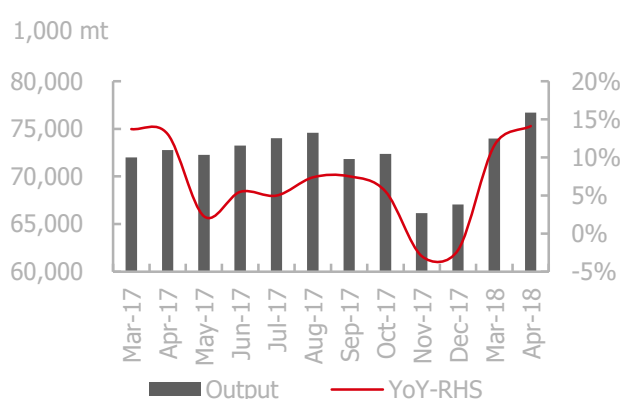


Chart 14: China's Crude Steel Output



Iron Ore: Prices of domestic and imported to rise

Prices of domestic iron ore are likely to inch up this week as rising steel prices grow profits across steel mills and boost demand for high-grad and low-alumina ores. Prices across most regions held steady last week. SMM expect prices of imported iron ore to rise along with steel this week but the upside room may be limited due to growing supplies and production controls at steel mills. SMM estimates that output cuts by steel mills in Lianyungang will reduce demand for iron ore by 200,000 tons.

Chart 15: Port Inventory of Iron Ore

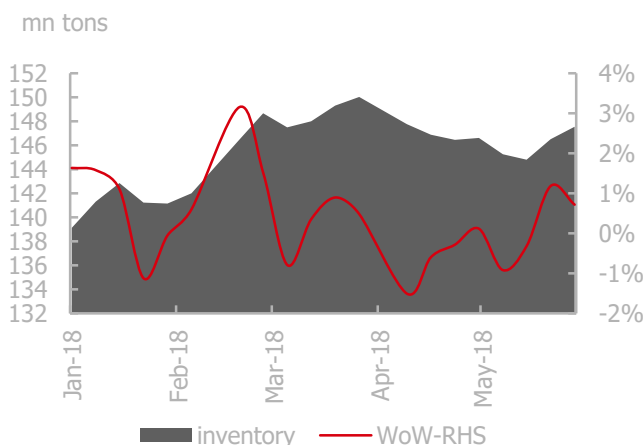
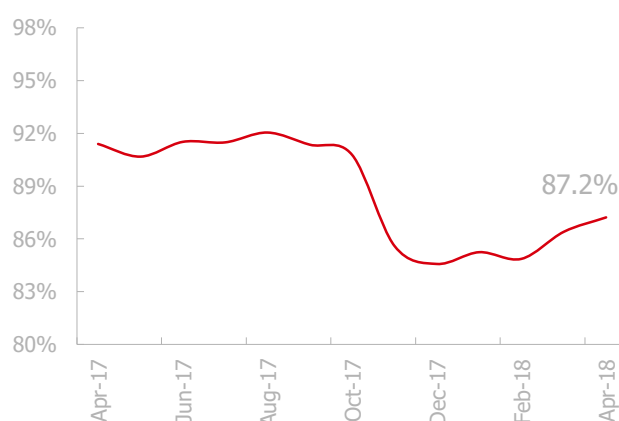


Chart 16: Blast Furnace Operational Rate



Related Research

1. SMM Metals Strategy Monthly 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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Contact us at +86-21 5166 6843 or wangjingyan@smm.cn

SMM Information & Technology Co.,Ltd.

Hotline: +86-21 3133 0333 Fax: +86-21 5127 5007 Website: www.metal.com