

Weekly Metal Macro Report

Issue 2 | June 12, 2018

('000 tonnes)	Inventory Type	As of June 11	Week-over-week(%)	Ytd(%)	YoY(%)
Aluminium	Social	1,977	-1.97%	11.44%	59.05%
Copper	Bonded	495	-1.98%	3.08%	-16.10%
Zinc	Bonded	185	-12.74%	2.78%	48.00%
	Social	140	14.50%	-1.76%	15.35%
Lead	Social	11	-2.65%	-15.38%	-74.96%
Nickel Ore	Port	4,060	-5.80%	-22.37%	-22.81%
Steel	HRC	1,976	-0.56%	8.86%	-28.86%
	Rebar	4,952	-3.92%	37.34%	22.91%
Iron Ore	Port	146,530	-0.69%	3.70%	8.90%

Environmental checks limit the supply of base metals

Recent environmental inspections had a great impact on the supply of base metals. SMM expects that the output of base metals to fall in June in various degrees. Both supply and demand will fall in June. For details, please refer to our monthly output report and PMI report.

Copper: Spot TCs of copper concentrate rise further

Increased shipments on the back of unexpected closures at domestic and overseas smelters continued to drive spot TCs for copper concentrate last week. As of Jun 8, spot TC of imported copper concentrate was \$77-84/mt, according to SMM, up \$1/mt from the week prior and at the same level of the quarterly contract of TC.

Aluminium: Aluminium extrusion demand from PV sector to fall by 36.39% in 2018

SMM expects demand for aluminium extrusion from PV sector to fall 532,000 mt to 930,000 mt this year as output of PV modules is likely to tumble more than 29 GW from 2017. SMM expects primary aluminium operating capacity to grow further in June as smelters permission new capacity.

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Chart 1: Spot TCs rise further

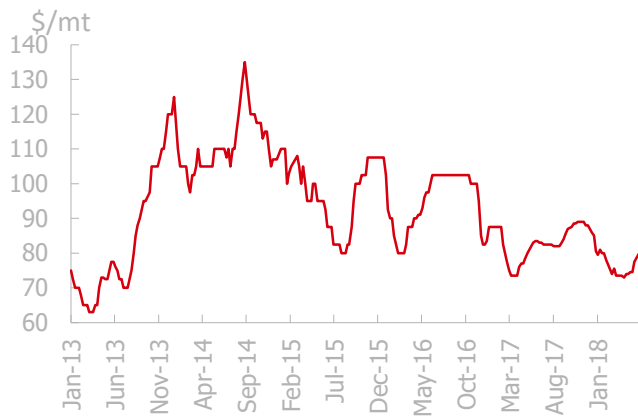
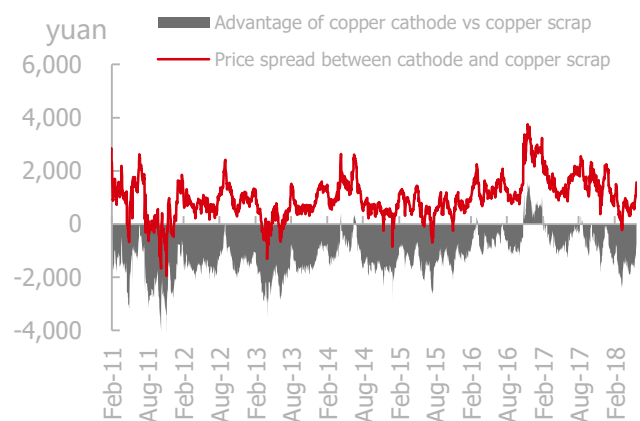


Chart 2: Price gap of refined/scrap copper



Aluminium: Aluminium extrusion demand from PV sector to fall by 36.39% in 2018

SMM expects demand for aluminium extrusion from PV sector to fall 532,000 mt to 930,000 mt this year as output of PV modules is likely to tumble more than 29 GW from 2017. SMM expects primary aluminium operating capacity to grow further in June as smelters put new capacity online. Orders across downstream producers dipped in June from May, and export orders fell sharply. As a result, destocking is likely to slow.

Chart 3: Domestic alumina prices fall faster

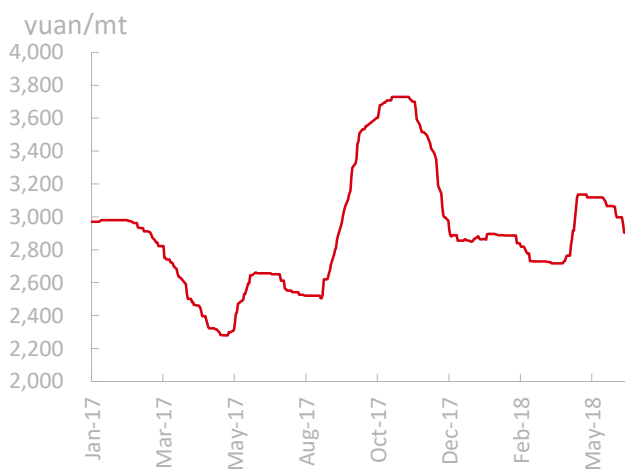
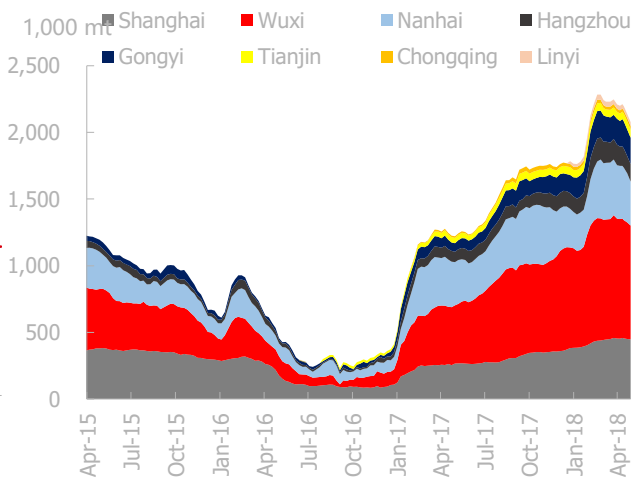


Chart 4: Aluminium destocking decelerates



Nickel: Environmental checks drive prices of high-grade NPI

Last week, prices of high-grade NPI extended its gains, driven by the environmental checks. Output of high-grade NPI fell significantly after environmental push started in Inner Mongolia, Jiangsu and Guangdong, major producing regions of NPI. China’s NPI output in May declined 8.3% from April to 37,300 mt in nickel content, according to SMM. China’s total port inventories of nickel ore fell by 347,000 wmt to 7.79 million wmt last week. SMM expects NPI output to drop further by 10.7% in June from May.

Chart 5: NPI output

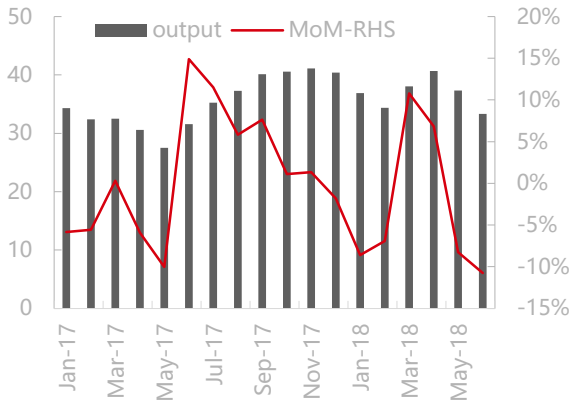


Chart 6: Lateritic stock at China major ports



Zinc: Import window is open

SMM expects China’s output of refined zinc in June to grow 17,100 mt to 440,300 mt as some smelters complete maintenance, up 3.86% from May. As the import window is open, bonded warehouse inventory decline 12.74% from last week. Total inventories in China’s major three markets were 131,300 mt as of last Friday, up 14.50% from a week earlier. Some smelters will continue their maintenance checks. Weak consumption and rising imported zinc will weigh on prices.

Chart 7: Refined zinc inventory

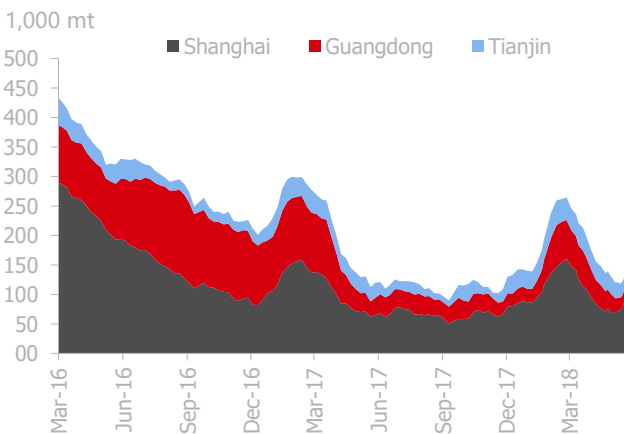
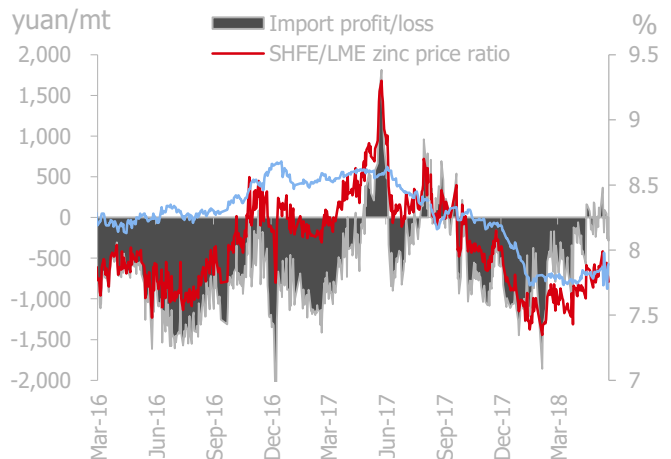


Chart 8: Refined zinc import profit and loss



Lead: Supply and demand both weak, downstream purchasing whenever needed

As environmental checks intensified, production resumption at small and medium-sized mines in Yunnan and Hunan are likely to be delayed. Large mines are unlikely to be affected. The checks also affected primary lead production, with a cut of 30-50% at Henan Yuguang Gold & Lead and Henan Jinli Gold & Lead in Henan Province, lowering demand for lead concentrate. Supplies for lead concentrate are slightly higher, driving up TCs in some regions. SMM expects social inventories of refined lead are likely to continue its decline this week due to the production cuts of primary lead smelters and the tight supply of secondary lead.

Chart 9: TCs of lead concentrate

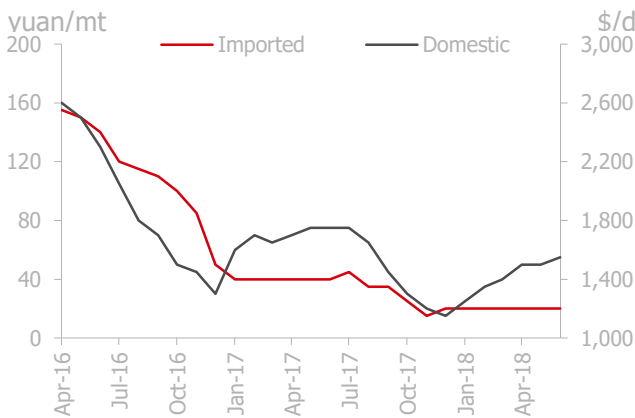
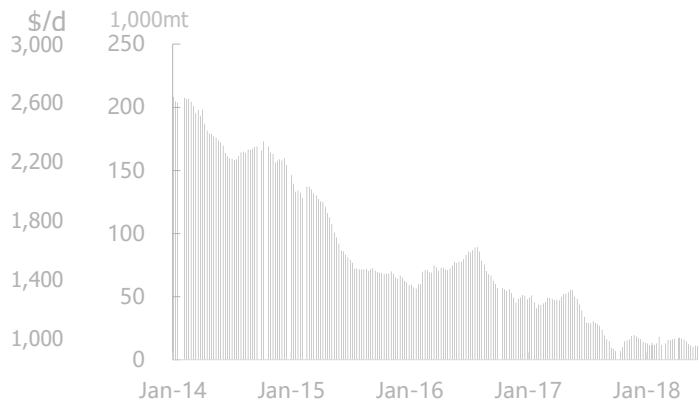


Chart 10: Refined lead invisible inventory



Tin: Imported tin concentrate increased

China produced 14,629 mt of refined tin in May, up 3% from April. Imports of tin concentrate increased, which eased the tight supply in the domestic market. Output of refined tin in June, however, is likely to fall to 14,200 mt given intensive environmental checks, low TCs as well as maintenance works at some smelters. As of the start of June, inventory at smelters across China stood at 7,180 mt, down 4.6% from a month ago and 8.3% from a year ago, according to SMM survey. The surge in tin prices in late May accounted for the month-on-month decline in inventory as rising prices fuelled selling interest.

Chart 11: Refined tin output

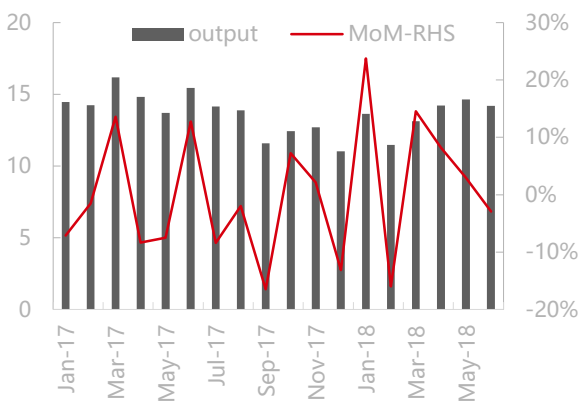
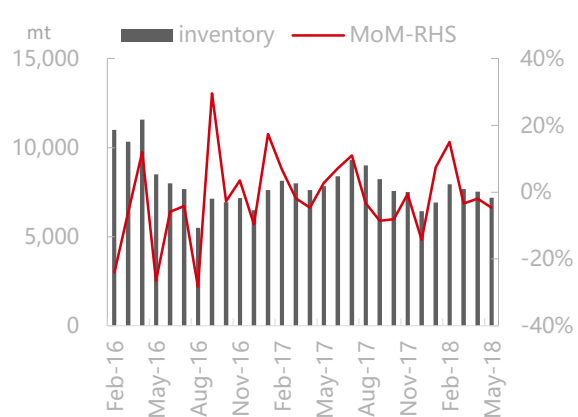


Chart 12: Refined tin inventory of smelters



Steel: Prices to remain at highs

Environmental revises by the central environmental protection team further bolstered market sentiment last week. Recent supplies will be affected after major steel plants in East China announced to lower output for the first half of June. Steel prices are likely to remain high this week. Restrictive factors limit production at steel plants, and after these factors ease, steel mills will run at higher operating rates driven by healthy profit margins. This, together with arrival of the low season, will put steel market under downward risks in mid-to-late June.

Chart 13: Rebar and HRC spot prices

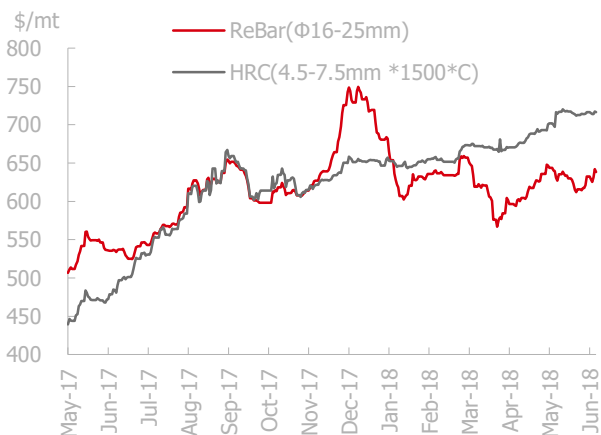
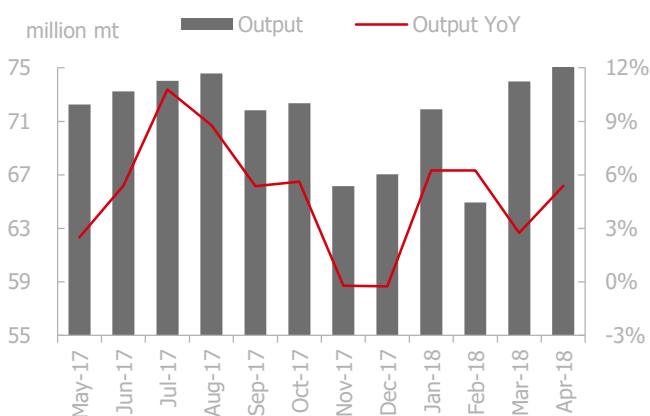


Chart 14: Crude steel output



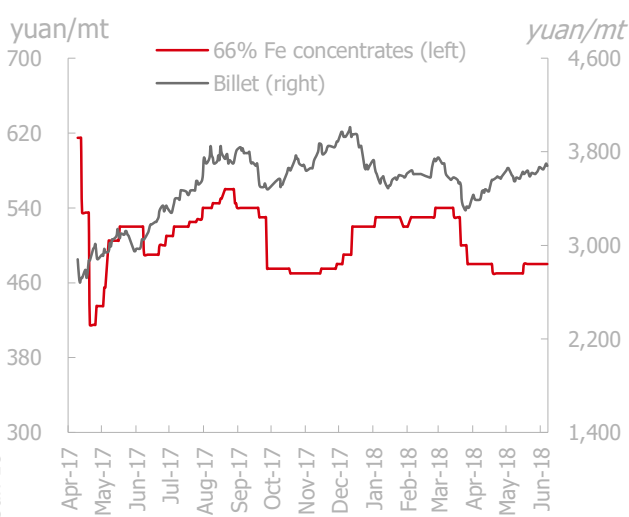
Iron Ore: Imported iron ore prices is under pressure, domestic iron ore facing tight supply

Prices of domestic iron ore were mostly stable last week due to rising prices of steel billets and tight domestic iron ore supply. Prices of imported iron ore are likely to stay high this week as Shanghai Cooperation Organisation (SCO) summit ends and steel mills stockpile for Dragon Boat Festival.

Chart 15: Price gap of domestic and imported ores



Chart 16: 66% Fe concentrate price vs. billet price



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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