

Base Metals Diverge on Rising Supply and Delayed Demand Pickup

Most base metal prices declined since the beginning of the year on risk-aversion macro sentiments, rising supply, delayed demand pickup and high inventories. Interest rate hike is expected by the market on the US non-farm payrolls data, and the brink of a US-China trade war triggers risk-aversion macro sentiments. China's GDP growth was 6.8% in 1Q and CPI for January-February was 2.9%. The growth of sales area of commodity housing and fixed asset investments in infrastructure slowed down.

Rising Supply to Pressure Copper and Zinc Prices

The supply of copper and zinc has increased on the market expectations of a demand rebound in Spring.

Copper: SMM expects China's refined copper output to be 730,000 tons in March, up 13% yoy. China imported 250,000 tons of refined copper, up 7% yoy, based on China Customs data. China's social inventory of refined copper stays high on rising domestic output and imports. SMM expects copper prices to be pressured on rising inventory and flat demand.

Zinc: China's output of refined zinc was 445,900 tons in March, up 3.7% yoy. Imports of refined zinc were 37,700 tons, up 151.3% yoy. SMM estimates inventory of refined zinc at bonded warehouses to be 250,000 tons, up 117.3% yoy. Inventory of galvanized sheets is about 1.03 million tons, according to CISA, almost doubled from 2017 average. SMM expects zinc price to stay weak due to high inventory at bonded warehouses and slow downstream demand pickup.

Chart 1.refined copper output and YoY (1,000 mt, %)

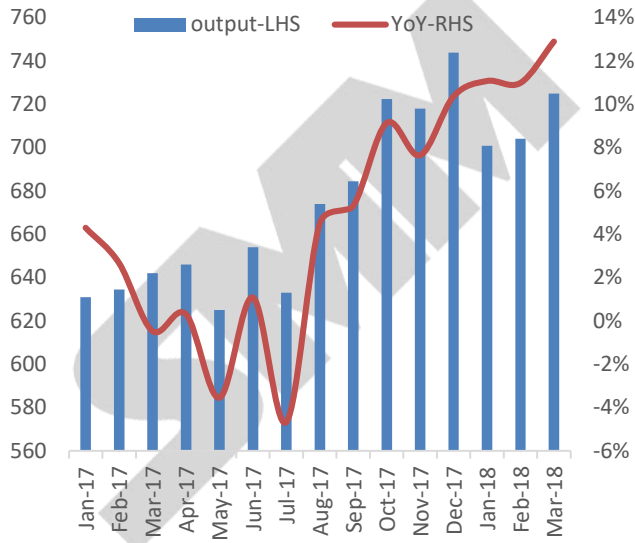
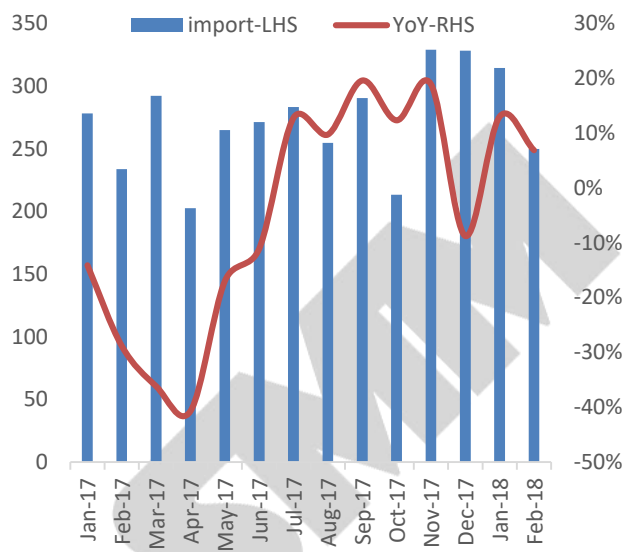
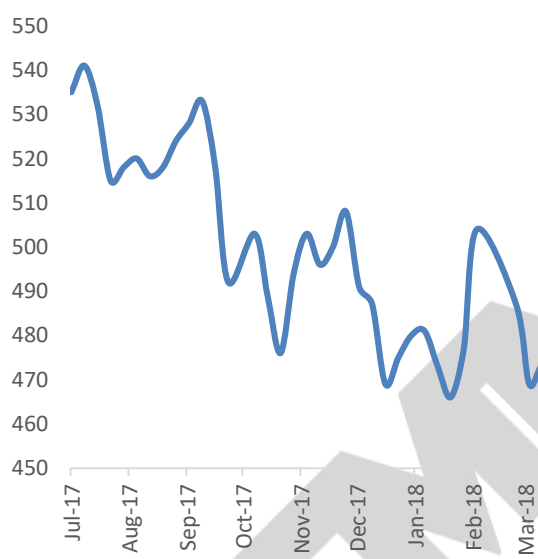
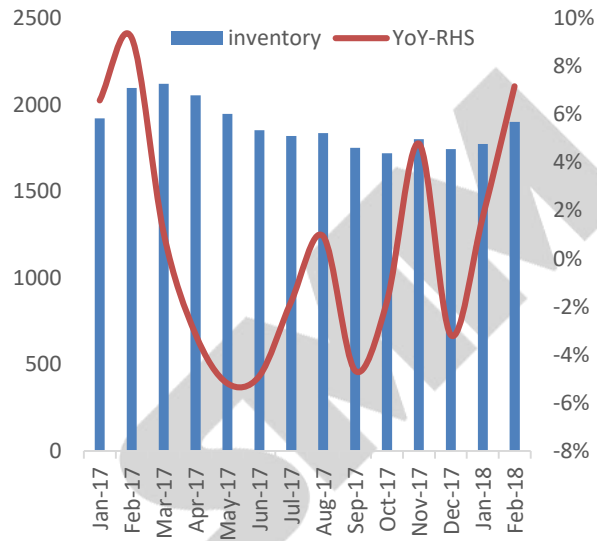


Chart 2.imported refined copper and YoY (1,000 mt,%)



Source: SMM

Chart 3.refined copper total inventory and MoM (1,000 mt, %) Chart 4.copper invisible inventory (1,000 mt,%)



Source: SMM

Chart 5.refined zinc output and YoY (1,000 mt, %)

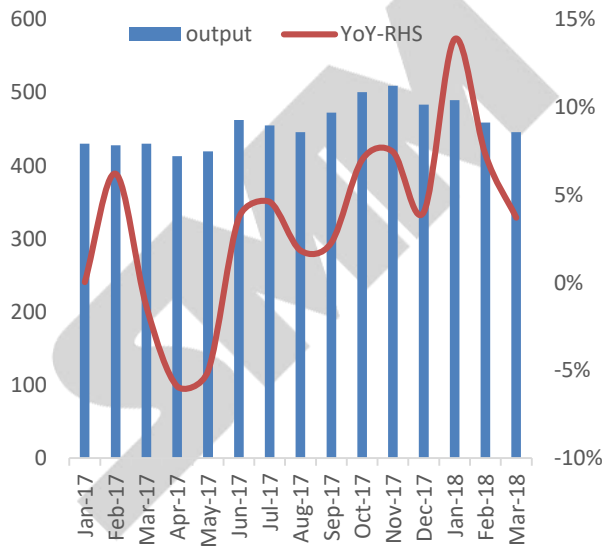
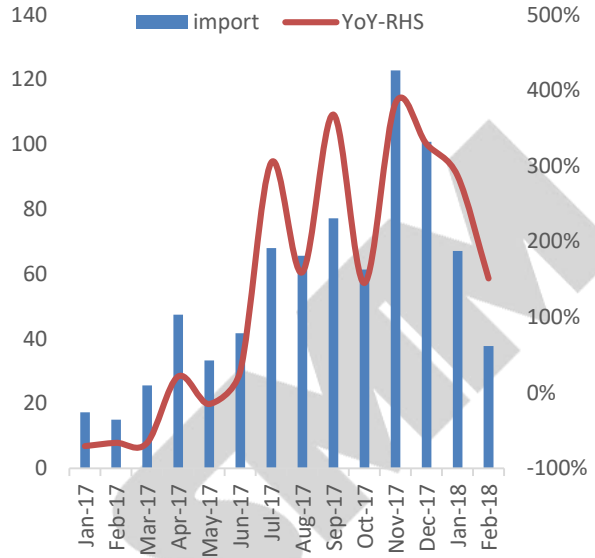
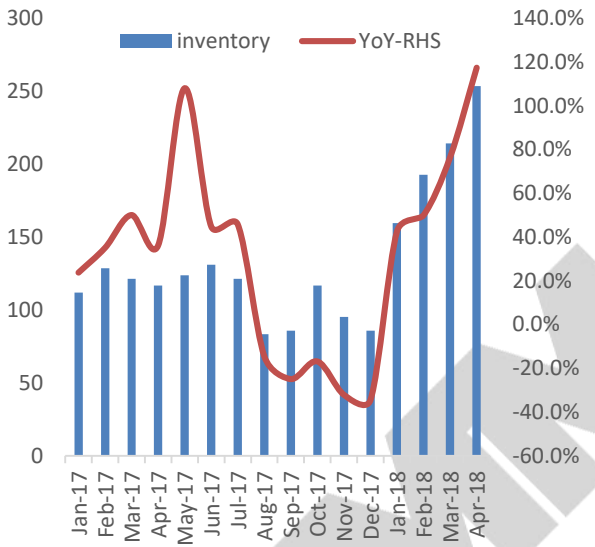
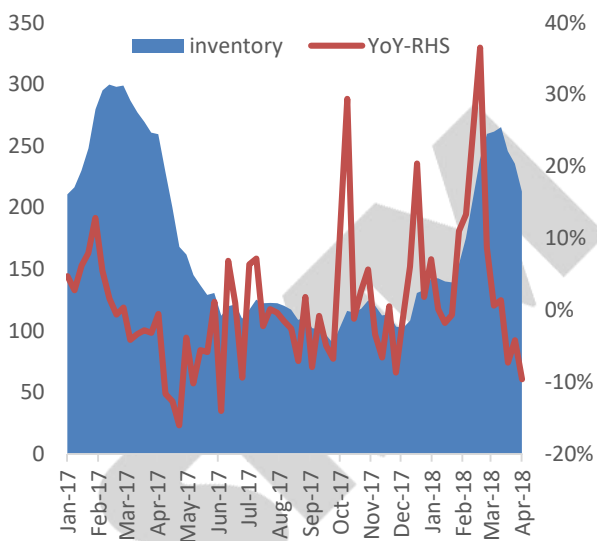


Chart 6.imported refined zinc and YoY(1,000 mt,%)



Source: SMM

Chart 7.refined zinc social inventory and WoW (1,000 mt, %) Chart 8. refined zinc invisible inventory and YoY (1,000 mt,%)



Source: SMM

Prices of Steel and Aluminum are supported in the Short-Term due to Destocking

Inventory of steel and aluminum has started to decline since the beginning of April. SMM views that the resumption of supply and demand are both delayed in Spring, so inventory could be used as an indicator to track real demand.

Steel: China's social inventory of steel jumped in 2017Q4 due to traders' stocking, as they expected supply to decline on production limits in the winter heating season and demand to rebound in Spring. However, demand was not able to recover after the Chinese New Year holiday, driving down prices. Destocking has started since April as delayed demand pickup finally comes. According to SMM's channel checks, social inventory of rebar was 8.4 million tons as of April 12, down 12.87% from last week. Rebar inventory at steel mills was 3.14 million tons, down 3.7%. Social inventory of HRC was 2.49 million tons as of April 12, down 4.5% from last week. HRC inventory at steel mills was 0.96 million tons, down 2.1%.

Aluminum: China's social inventory of primary aluminum built up quickly in 2017Q3 on the market expectations of the production cuts in the winter heating season and the implementation of capacity cut targets. However, the amount of production cuts in 2017Q4 was below the expectations, pressuring aluminum prices. Destocking has started since April. According to SMM's channel checks, China's social inventory of primary aluminum was 2.33 million tons as of April 12, about flat from last week.

The sanctions by the US and the suspensions of Rusal's aluminum from LME's list of approved brands have pushed aluminum prices high. SMM expects aluminum prices will be supported in the short-term due to positive news and falling inventory. **However, according to SMM's channel checks, China's domestic traders are willing to take Rusal's products, which is likely to drive LME prices stronger and SHFE prices weaker going forward.**

Chart 9. crude steel output and YoY (1,000 mt, %)

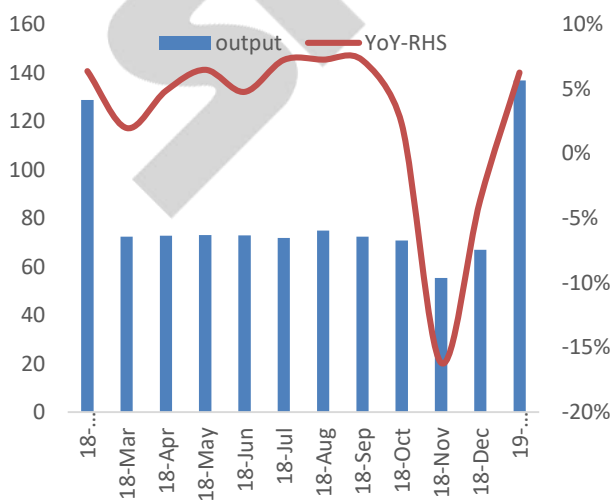


Chart 10. Aluminum output and YoY (1,000 mt, %)

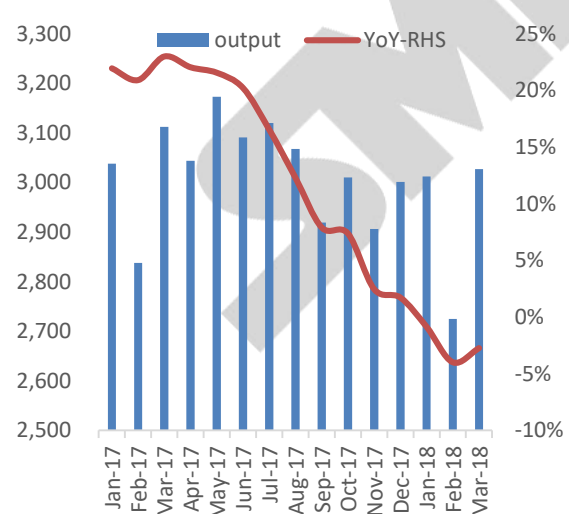


Chart 11. rebar social inventory and WoW (1,000 mt, %)

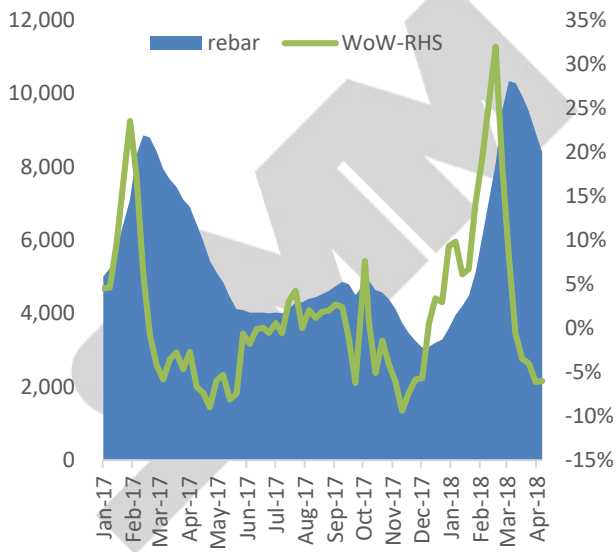
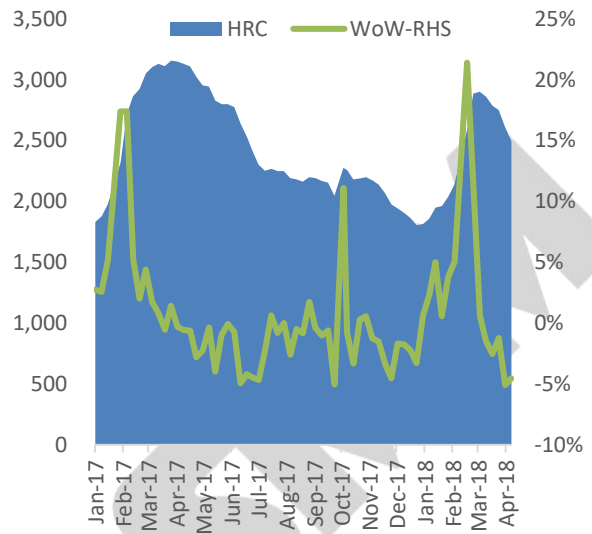


Chart 12. HRC social inventory and WoW (1,000 mt,%)



Source: SMM

Chart 13. rebar factory inventory and WoW (1,000 mt, %)

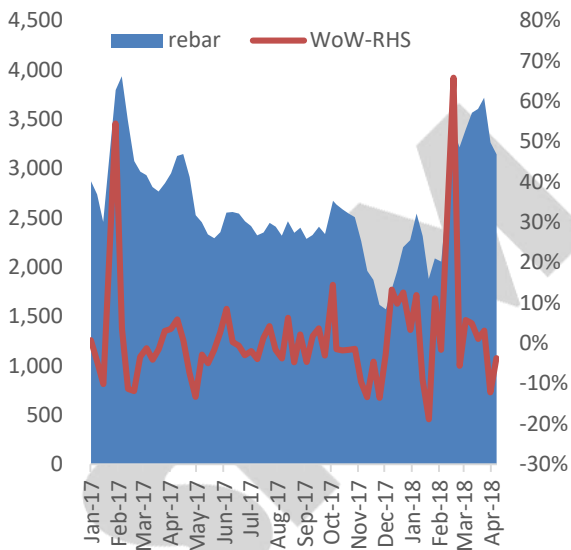
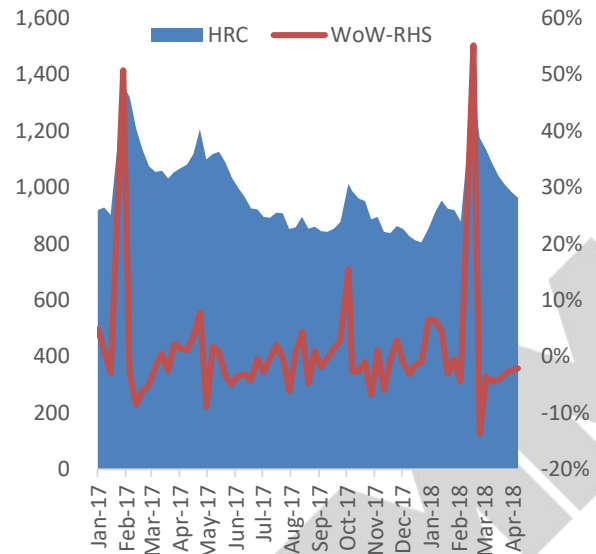


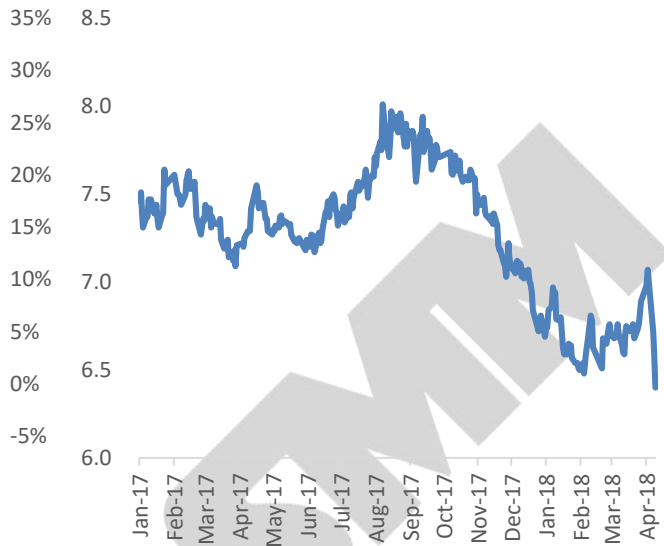
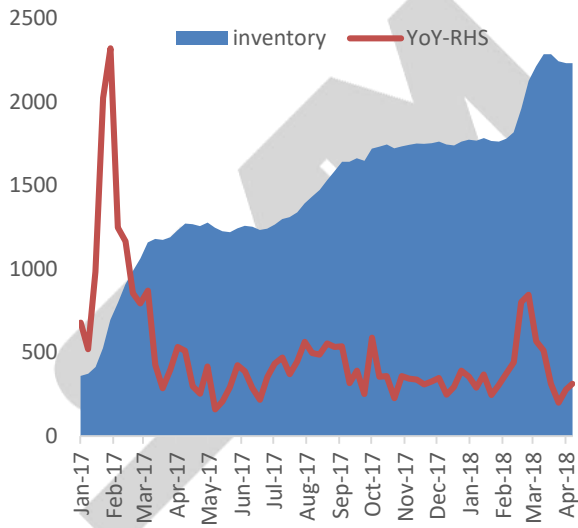
Chart 14. HRC factory inventory and WoW (1,000 mt,%)



Source: SMM

Chart 15. aluminum social inventory and WoW (1,000 mt, %)

Chart 16. Aluminum SHFE/LME ratio



Source: SMM

SMM has a comprehensive **China Cost Database** for nonferrous and ferrous metals, by conducting regular field trips and interviews with a majority of Chinese metal producers, from large-scaled to small-scaled, from SOEs to private-owned. We collect their detailed cost breakdown for individual plants/mines and for the whole production process, and update the database regularly as well as keep close track of any updates/changes.

We also have the **Cost Database** for Steel, Iron Ore, Aluminum, Copper, Copper Mine, Nickel, Nickel-Pig-Iron (NPI), Tin, Manganese, Lead and Lead Ore, etc.

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