

Zinc: downward price pressure ahead

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While zinc prices managed to record some gains at the start of 2018, they started falling back in early March, ending the quarter almost 2% down. This downward trend then continued, with varying degrees of volatility. Towards the end of May, however, prices began picking up. This was largely in response to weakness in the dollar and better than expected macro figures from China, which prompted positive momentum among investors. However, some grounds for caution remain.

Figure: LME inventories of zinc increased strongly since March

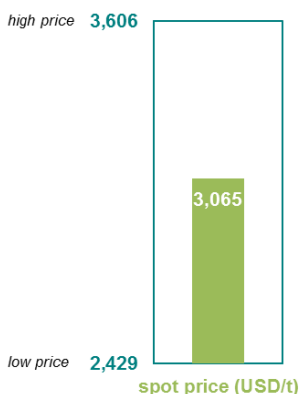


Source: Thomson Reuters Datastream

While zinc prices have risen since the end of May, we should not be over-optimistic about the prevailing market conditions. Production of refined zinc in the second quarter of 2018 is admittedly still lagging behind, with the shortfall amounting to 4.3% of total consumption in the second quarter. But while this constrained the downward pressure on prices earlier in the year, the gap between supply and demand will narrow considerably during the remainder of 2018 and is likely to amount to only 0.4% of consumption in the fourth quarter. This expectation is being fuelled by the prospect of new supplies of zinc concentrates entering the market towards the year-end, thus further increasing refined zinc production.

Why is mine output increasing so sharply? In 2015 and 2016, when zinc prices were relatively low, some mining projects were forced to suspend activities as profitability was simply too low. The low prices also prompted Glencore to close a large zinc mine with relatively high production costs. In 2017, however, zinc prices started rising again in response to the fall in concentrate supplies and resultant shortages of refined zinc. These higher prices prompted many mining companies to restart mothballed projects or invest

52 week price comparison:



Trend in zinc price:

	Spot price (13/06)	One week price trend (in %)	One month price trend (in %)	Three month price trend (in %)	One month price volatility	Price volatility 2018	Price volatility since 2000
Zinc	USD 3.065/t	+0,1%	+3,2%	+14,5%	5,3%	7,1%	10,1%

Volatility is the difference in the highest price and the lowest price over the period mentioned

in greenfield projects. With the prospect of rapidly increasing supplies of zinc concentrates towards the end of the year (2018?), the downward pressure on zinc prices increased. This is because greater availability of concentrates means higher production of refined zinc as most smelters want to benefit while prices are still relatively high.

The fall in zinc prices seen between March and May 2018 was also due to the increase in zinc availability. Inventories in LME warehouses are high and rose sharply in early April. Indeed, a total of 35,000 tons have been added to LME warehouses worldwide over the past three months, representing an increase of 16.7%. Higher volumes were offered to the LME warehouses in New Orleans in early March, and in Antwerp at the end of April. These sharp peaks in LME stock levels relate to warranting during the period, with cancelled warrants and re-warranting resulting in higher inflows into LME warehouses and, therefore, in greater availability of zinc. These higher stock levels, in turn, translated into lower zinc prices.

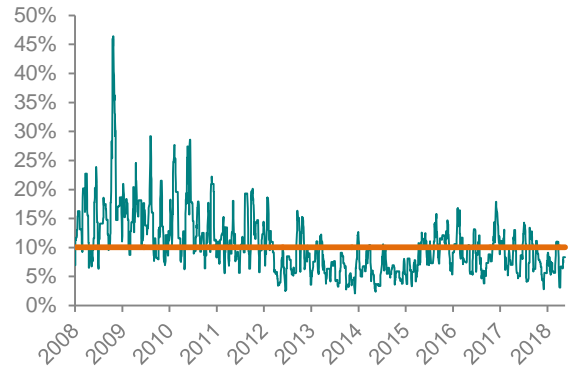
However, the extra supply of zinc concentrates from the mining sector has not yet resulted in a sharp increase in the availability of refined zinc. We expect the latter to increase during the second half of this year and into 2019, although net demand for zinc will still outpace supply during 2018. Given, however, that zinc availability will remain good for the rest of the year, we do not expect any significant price gains. Supplies of zinc concentrates will continue rising in 2019. As a result, we expect zinc prices to fall next year, although only slowly.

Graphical Insights

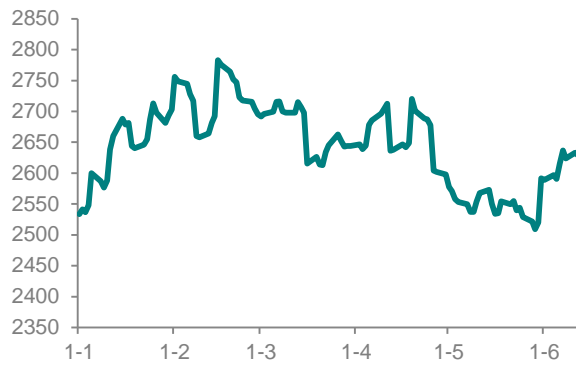
Zinc price (USD/t)



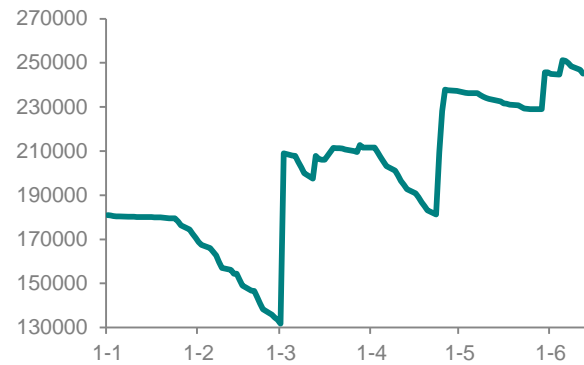
Volatility zinc price (in %)



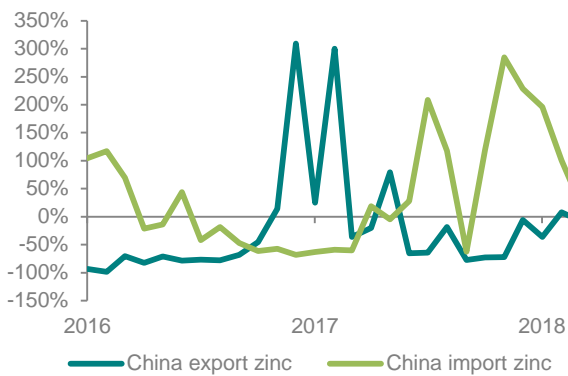
Scrap price zinc Europe (USD/t)



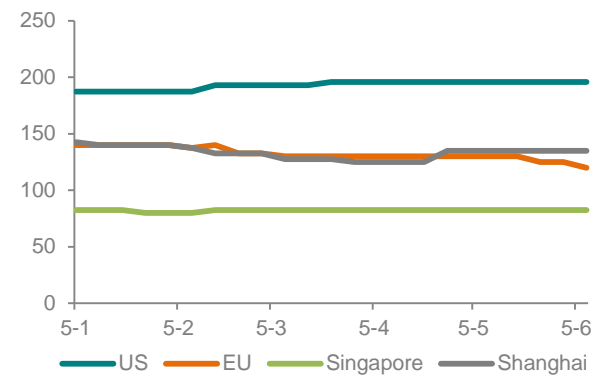
LME zinc inventories (in Mt)



Chinese export and import zinc (in Mt)



Premiums for direct delivery (USD/t)



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