Weekly Zinc Price Outlook and Strategy

Decision enabling cash market analysis & price outlook

Mar 23, 2015

Market Recap and Summary Outlook for 2 weeks

While extended weakness in Chinese house prices for a straight sixth month and a strong dollar at 101.30 levels pressure Zinc prices during early in the week, dovish remarks from Janet Yellen and expectations of another round of easing measures from PBOC in the near term have risk intact in Zinc market and arrested the downside in prices. A sharp downside in dollar index post the FOMC meet and rally in Copper prices also supported LME Zinc prices which have closed 2% up for the week.

Going ahead, weak physical demand in China amidst closure of galvanizers and unexpected hike in TCs would keep the prices pressured. However, increased imports from china and expectations of demand in the physical market during the seasonally strong April – May period in china will give underlying strength to the prices keep them in a positive tone for the coming weeks. Key factors driving prices in the coming weeks are:

- Higher TCs for 2015 and Increase in producer stocks
- Strong dollar and weak Chinese industrial activity
- Stimulus measures from China and expectations of further more in the medium term
- Possible decline in mine production

Report Summary		
LME / SHFE / MCX as on 20th Mar 2015	LME CASH: **USD 2015.0 (+0.72%)** LME 3M: **USD 2055.0 (+2.04%)** SHFE 3M: **CNY 15660 (-0.22%)** MCX Mar'15: **127.95 (+0.79%)**	
Price Outlook Summary	**Concisely, Zinc price is likely to hold the support of USD 1980 and trade higher towards USD 2150 in the coming 3-5 weeks.**	
Price Range for next 2-3 weeks	**Range**	**Price Bias**
	1980 – 2150	Mixed to Positive
Turnaround point	Sustained close below USD 1920 will turn medium term market sentiment weak towards USD 1750.	

Market Analytics

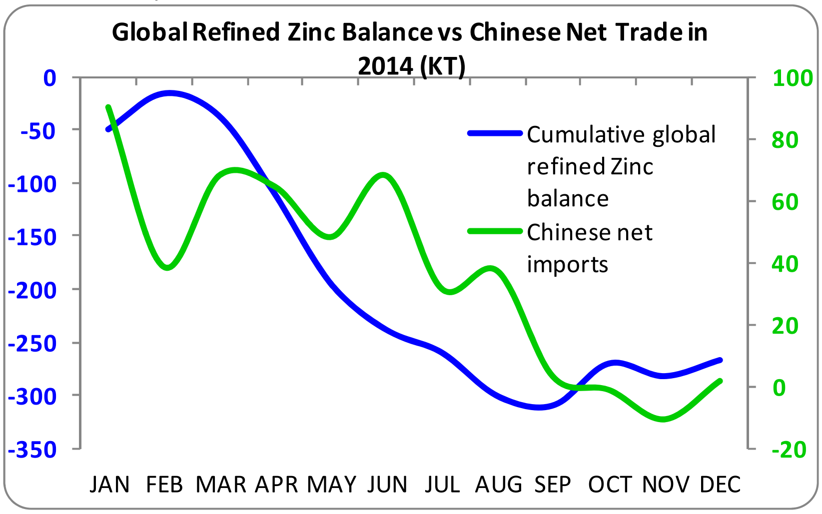
- In the economic front, February's industrial output in US grew 0.1%, although up from the prior months revised 0.3% negative growth lower than the 0.2% forecast. US manufacturing output in February declined 0.2% MoM, compared with a 0.1% growth expected. Inflation at the factory gate has registered a negative growth for the fourth consecutive month in Feb due to lower commodity prices. US housing starts have tumbled in the month February by 17% from the prior month to one year lows of seasonally adjusted annual pace of 897,000 units while building permits have increased by 3% to 1.092 million units. US housing sector remained at headwinds despite strong labor growth due to the marginal wage growth and keep the demand prospects for metals weak.
- Dollar index, however, continued to surge to refreshed 11 and half year highs of 101.3 levels due to the underlying weakness in Euro and Japanese Yen which in turn pressured dollar denominated commodities including base metals during early part of the week. Later in the week, remarks from FED chairwoman Janet Yellen post the FOMC meet indicating Fed is likely to

remain patient in increasing rates amidst the recent weakness in housing and manufacturing sectors, that led to downgrading the growth outlook slightly, although removed the word 'Patient' from their statement has resulted in sharp profit taking in dollar which traded sharply down giving strength to LME metal prices.

- Chinese house prices have declined by 5.7% in February, biggest fall since the records began in 2011 and a sixth consecutive fall indicating the slump in real estate and housing sector and weighing on the demand prospects for metals. However, further weakness in housing is expected to be arrested going ahead amidst full blown measures from the regional governments and PBOC, the fresh being extension of 100 billion Yuan credit to Evergrande real estate group by the banks.
- Meanwhile, PBOC cut rate of 7-day reverse repos by 10 basis points during the week, raising hopes for RRR cuts and interest rate cuts going ahead. The central bank also rolled over RMB 350 billion Yuan of loans it extended to banks via its medium-term lending facility (MLF), which was earlier in the week soothing concerns over growth in the economy and will keep risk appetite intact in base metals. Chinese premiere's statement on last Sunday indicating that there is room for the policy makers to augment growth in the economy and the rate cut reverse repo purchase will boost the hopes for another round of easing measures from PBOC giving underlying strength to the prices.
- Going ahead, during the week, markets will eye economic releases from China (manufacturing PMI) and US GDP to assess the strength in the economy and possible timing of the much talked rate hike from FED with lower than expected numbers giving boost to hopes of delay in rate hike which could keep risk appetite intact in base metals.

Fundamental Overview

- Chinese Zinc production rose to 967,099 tons in January to February, up 16.8% year on year amid large increase in imports concentrates and domestic mine production during the final months of 2014. Although large increase is seen in refined production, imports of refined zinc have declined from China while turning into a net exporter during OND 2014 period. China imported (net trade) 7.5 thousand tons of refined Zinc in January, down by 82.6 thousand tons from that of the same period last year. The sharp decline in imports would offset the increase in production and keep the apparent consumption stable in the Chinese front and keep the global market in deficit. The sharp decline in refined imports from China has led to marginal narrowing in the global refined balance toward the year end in 2014.
- During Jan – Feb, however, china has resumed imports and remained a net importer of 14.5 thousand tons which would improve Chinese apparent consumption and increase the global deficit.



- LME Zinc prices have been in a declining trend since the last six months falling from their close to 4 year highs of USD 2400 levels as the expectations of large deficit in the global refined Zinc market have dissipated with the extension of operations at MMG's Century mine of 450 thousand ton per year capacity into the

TRANSGRAPH RESEARCH - CONSULTING - TECHNOLOGY commodity market mentors third quarter of this year. MMG has announced earlier that operations will be suspended at the mine in the second half of the year 2014.

- Global refined Zinc balance, however, remained in deficit of close to 300 thousand tons in 2014 and is expected to remain in deficit of 30 thousand tons for the first two months of 2015.
- Going ahead, however, tightness in the raw material front is expected to keep the refined production growth in check. Lead-Zinc mines in Chinese Guangdong province have been closed for ongoing safety inspections after a flooding accident happened one of the mine in early January. There are five mines in the specified region, albeit smaller in size, would affect production of Zinc concentrates to the tune of 25 thousand tons as the inspections are going to continue till the end of March and should keep the refined production tight in the coming months. Guangdong produced 69,000 tons of lead concentrate and 139,000 tons of zinc concentrates in 2014. China's Zinc concentrates production in Jan – Feb has declined by 3.8% to 516,613 tons when compared to the same period a year earlier.
- In the global front as well, MMG Limited's Century mine in Australia, which is due to be closed permanently this year, is expected to witness around 25% drop in output during 2015 from 465 thousand tons in 2014 to around 345 thousand tons. Canada's big Brunswick and Perseverance mines have already closed, eliminating a combined 335 thousand tons of zinc, while ageing mines in Europe and Africa are also close to depletion. The drop in supply from ageing mines and lack of mine development is estimated to continue the deficit in world zinc market in the coming three years, which shall support medium term price sentiments despite any near term weakness.
- Meanwhile, however, TCs for zinc concentrate of term shipment to Chinese buyers are expected to average between USD 180-220 per ton. 2015's term TCs for zinc concentrate have been set at USD 245 per ton for some miners. The hike in TCs for zinc concentrate is greater than the last two years suggesting large imports of ores into the mainland with dissipating dependency on refined imports.
- In the inventory front, stocks in LME warehouses have been in a declining trend, which should bode well with the global deficit scenario, while cancelled warrants continue to spike up time to time bringing down the on-warrant stocks below 400 thousand tons. Despite any increase in physical premiums, cancelled warrants have spiked by close to a thousand tons during the last three months and continued the declining trend since. During all three times the surge in cancelled warrants is seen in New Orleans warehouse where the delivery queue has increased to 48 days as metal was lining up for delivery.
- Despite the drawdown in on-warrant stocks, the cash to 3m spread has widened in contango to USD 20 indicating predominant physical movement of the material presumably coming out from financing deals. In the medium term, the overall decline in inventory should bode well with prices under deficit scenario in the global market. On the other hand, inventory at SHFE warehouses has increased close to 56 thousand tons this year to 139,196 tons due to the closure of galvanizers in china amidst environmental inspections in Jan – Mar period.

To summarize, although brewing economic concerns in China and sluggish housing sector in China and US are likely to keep prices on a weak tone in the coming weeks, sharp decline in on-warrant stocks at LME warehouses and accommodative policy measures from China are likely to lend support to the prices in the coming weeks. Over the medium term, with the global deficit unlikely to be eased, any weakness in prices in the coming weeks is likely to remain temporary and prices are likely to resume upward trajectory over the coming months.

Chartist view on LME Zinc 3-M Forward, USD/Ton

- LME Zinc 3 Month forward prices have penetrated the momentum low and made a low of USD 1980 while closing at SUD 2055 in the last session.

- Price has penetrated the momentum low and recovered to close with positive momentum which indicating short term gains towards upper boundary of the channel around USD 2100.
- After topped out at USD 2416, Price gradually decreasing in falling channel and correcting 61.8 of the rising zigzag leg USD 1718-2416 (Oct'11-Aug'14) clustering with bottom line of the channel around USD 2000-1950 region.
- Price has witnessed positive break out form the major Symmetrical Triangle formation on June'14 (Jan'10-June'14) and after gains towards USD 2416, price correcting in zigzag channel which approaching the Apex of the Triangle where price expecting to resume the positive momentum in the long term.
- On the weekly technical set up RSI(9), is oscillating in oversold region with slow momentum in zigzag formation which signifying the bottom is near.
- On the down side, USD 1950 could act as strong support.
- On the higher side, USD 2100-2150 region could act as resistance.

Concisely, Zinc price is likely to hold the support of USD 1980 and trade higher towards USD 2150 in the coming 3-5 weeks.

Facts and Figures digest				
Market and details	**20-Mar-15**	**13-Mar-15**	**Change**	**%Change**
LME Zinc Cash (USD/Ton)	2015.00	2000.50	14.50	0.72
LME Zinc 3M-Forward (USD/Ton)	2055.00	2014.00	41.00	2.04
LME Zinc 15M-Forward (USD/Ton)	2096.00	2043.50	52.50	2.57
LME Zinc 27M-Forward (USD/Ton)	2102.50	2052.50	50.00	2.44
Changjiang Spot Prices (CNY /Ton)	15640	15710	-70.00	-0.45
SHFE 3M Futures (CNY/Ton)	15660	15695	-35.00	-0.22
LME Stocks (Ton) *	524075	537775	-13700	-2.55
SHFE Stocks (Ton)	139196	138364	832	0.60
MCX Mar'15 Futures (INR/Kg)	127.95	126.95	1.00	0.79
MCX Apr'15 Futures (INR/Kg)	128.75	127.75	1.00	0.78

LME Zinc Futures Open Interest *	282105	280994	1111	0.40
LME Zinc Call Option Open Interest *	45694	45591	103	0.23
LME Zinc Put Option Open Interest *	52641	52420	221	0.42
***LME releases stocks data for the prior day a day later by 09:00 hrs (London Time)**				

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