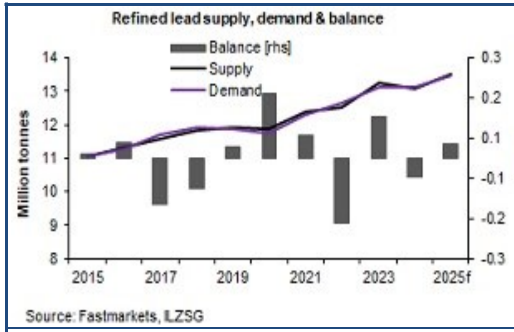
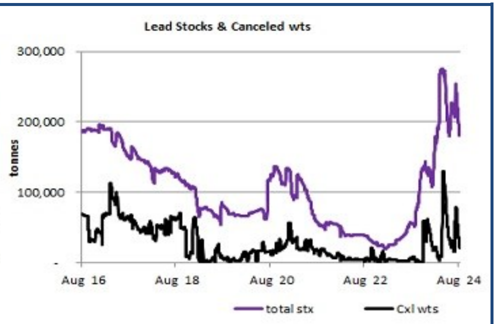
Fastmarkets MB

Lead Spotlight

August 30, 2024. James Moore, research analyst





Current trend direction					
Short term (0-3 m)	→↗	Medium term (3-6m)	→↘	Long term (6m+)	→↗

Bullish:

- Further monetary policy easing by major central banks is expected in the coming months. US Federal Reserve chairman Jerome Powell signaled that “the time has come" to lower interest rates while speaking at the Jackson Hole symposium on Saturday August 24. Markets are now expecting both the European Central Bank and the Bank of Canada to lower base interest rates by a further 25 basis points next month. While officials are likely to still be cautious, a gradual reduction in borrowing costs will help support spending on big-ticket items such as new cars.
- While rising borrowing costs pose a significant headwind for vehicle sales, demand for lead has proved to be resilient to periods of slow economic activity and record average fleet ages in Europe and the US will continue to support demand for replacement batteries.
- In China, meanwhile, plug-in hybrid electric vehicle (PHEV) sales are growing at a faster pace that battery-only EVs (BEVs). And PHEVs use a larger lead-acid battery for starting, lights and ignition (SLI) than the auxiliary battery used in most BEVs.
- Chinese smelters have struggled due to tight raw materials feeds so far this year, with refined metal production down by 2.1% in January-July compared with the same period in 2023, according to China’s National Bureau of Statistics. This has greatly tightened availability in China, which recorded a 68,800-tonne deficit across the first half of this year, based on data from the International Lead & Zinc Study Group (ILZSG), and became a net importer of refined lead in July for the first time since June 2021.
- The global refined lead market was essentially balanced in the first half of 2024, recording a nominal 15,000-tonne surplus, according to provisional estimates from the LZSG.
- Lead inventories in Shanghai Futures Exchange-registered warehouses recorded a 36.938-tonne week-on-week drop to total 23,679 tonnes on August 23. In addition, trade statistics show lead-concentrate imports down by 9% on January-July 2023, suggesting that Chinese smelters are still struggling with tight raw material availability. This, coupled with improving seasonal demand ahead of the traditional battery-kill season over the winter months in the northern hemisphere, will support a gradual tightening of lead fundamentals in the coming months.
- As a result, we believe LME warehouse stocks could face further pressure. They total 180,900 tonnes currently, compared with a peak of 275,925 tonne on April 2.

Analyst comment:

“LME lead risks rolling lower after failing to generate a break above resistance from the 200 DMA and DTL from the May 29/July 8 highs. That said, we maintain a buy-the-dip outlook given that we expect a gradual tightening of the underlying fundamentals, while the potential inverse head-and-shoulder pattern that appears to be forming suggests a move back toward $2,300 per tonne.”

Bearish:

- Geopolitical tensions remain high. Fears the Israel-Hamas conflict or Israeli action against the Iran-backed Lebanese political organization Hezbollah could escalate into full -blown conflict remain high. And Russia launched a wave of deadly air strikes on targets in Ukraine after Ukrainian troops advanced into Russia's Kursk region.
- September is historically a poor month for risk appetite, as well as for lead price seasonality.
- August flash purchasing managers index (PMI) readings show manufacturing activity in the US slowed sharply while deteriorating forward-looking metrics suggest recessionary risks remain. Activity in the eurozone remained in contraction territory, with major industries, particularly vehicle assembly, contracting compared with year-earlier levels.
- Data from the ILZSG shows steep year-on-year declines for lead demand in Europe (down 11.2%) and the US (down 9.2%) across the first half of this year, suggesting a deep destocking cycle is under way.
- Currently, about 12% of LME stock is booked for removal, compared with around 30% at the end of July. This suggest the market has only limited appetite for additional LME units currently, mainly due to the sluggish activity in the automotive sector.
- Battery scrap prices in China have eased from their high point in mid-July amid improving availability. This will allow Chinese smelters to increase production in the short term.

Physical market:

Lead premiums globally remain little changed so far in August.

Speculative positions:

Commitment of Traders data shows Investors trading LME lead have maintained an net short fund position (NSFP) despite adding 2,444 lots of new longs. Positioning remains polarized, however - which, combined with Chinese smelters still struggling to significantly lift production, suggests there is potential for a short-covering squeeze in the run-up to the “battery kill” season in the winter months.