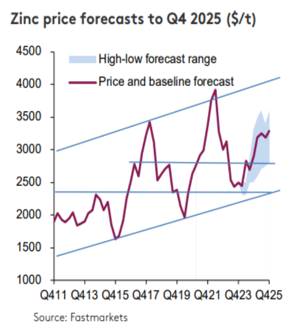
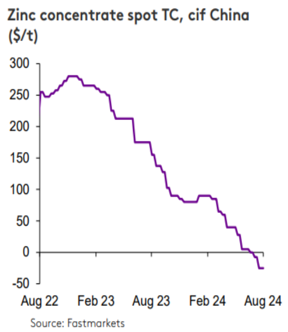
Fastmarkets MB

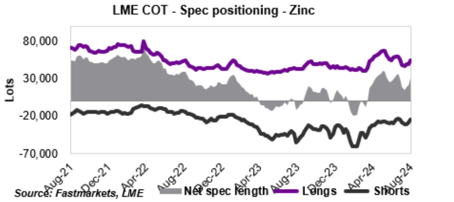
Zinc spotlight

Friday August 30. Andy Farida, analyst





Zinc (lots)	Longs	Shorts	Net spec length
Friday, August 23, 2024	54,669	24,481	**30,189**
Friday, August 16, 2024	48,620	27,998	**20,623**
1-week change	6,049	-3,517	9,566
4-week change	7,181	-4,097	11,278
Year-to-date change	11,994	4,194	7,801



Current trend direction

Short term (0-3 m)	→→	Medium term (3-6m)	→→	Long term (6m+)	→↗

Risk sentiment bolstered by imminent Fed rate cut

According to the latest CME Fedwatch tool, there is now a 65% probability of a 25-basis-point rate cut to 5.00-5.25% at the US Federal Reserve's September meeting. The current interest rate target is set at 5.25-5.50% but the publication of cooler-than-expected inflation data means that a rate cut is likely imminent.

Market participants are front running an interest rate cut by the US Federal Reserve, and most financial headlines are painting a bullish backdrop for the event. That being said, we are mindful that a great deal of the positive momentum from the expected rate cut has already been baked into prices.

China needs more zinc

Overseas refined zinc has been flowing into China's domestic market since the end of July, following an improvement in import arbitrage terms, sources have told Fastmarkets. Shanghai-bonded warehouses saw a dip in inventories, with traders importing units into the Chinese domestic market. Some traders have also moved zinc units out of London Metal Exchange warehouses in Singapore and shipped them to China, sources said.

Fastmarkets' zinc import arbitrage calculation averaged a loss of $71.23 per tonne in the week to August 9, narrowing from an average loss of $74.72 per tonne a week earlier and from the average loss of $79.06 per tonne two weeks earlier. There are expectations among market participants that China's demand for imported refined zinc will grow in the coming months, amid a reduction in domestic supply, following production cuts by Chinese smelters on low treatment charges.

China production outlook cut as concentrate tightness intensifies

Supplies from the ramp-up of the new Kipushi mine in the Democratic Republic of the Congo are expected to provide some relief to the concentrate market over the coming months, but the scale of the underlying tightness suggests smelter production cuts are inevitable. We believe they will occur over the 2024/25 winter. Given this view, we have cut our outlook for Chinese metal production between the fourth quarter of 2024 and second quarter of 2025 by around 190,000 tonnes.

We have held the view for some time that the tightness in the concentrates market will feed through into the refined metal market more meaningfully in the coming months. This view is gaining traction after the China Zinc Smelter Purchase Team (CZSPT) announced during its quarterly meeting in the Inner Mongolia autonomous region on August 22 a joint production cut that will reduce demand for zinc in concentrates by nearly 100,000 tonnes in 2024.

Funds positioning turns bullish

Zinc was the second strongest performer of the LME metals over the reporting period to August 23, with investors adding 6,049 lots of gross longs while reducing gross shorts by 3,517 lots. Gross shorts currently total 24,481 lots currently, the lowest level since July 12 and way down from the mid-February record of 60,492 lots.

Short positioning has been lower, however, and averaged 13,819 lots in the first quarter of 2022 before setting a record low of 5,798 lots in April 2022 when the three-month benchmark was trading above $4,000 per tonne, but the current price implies sentiment is nowhere near that bullish.

Zinc technical configuration continues to cast bullish bias

Recent price gains suggest the market is embracing the bullish narrative that tightness in the concentrates market is migrating into the refined market. Despite this, the demand outlook for refined zinc appears tepid, and we are still modelling a modest surplus in 2025 from a balanced 2024. As a result, we believe our price outlook allows ample room for prices to appreciate.

Assuming the August low is a higher low, the LME zinc is potentially set to replicate the bullish run seen in the early part of 2017, with the price working its way higher to the high seen in 2018.
To maintain the bullish price structure, the LME zinc price needs to refrain from producing a bearish monthly close below $2,500 per tonne. So far, there has been no monthly close below $2,500 per tonne.

In the bullish scenario, the LME zinc price is able to consolidate first, allowing the bulls to regroup and then resume higher. A strong monthly close above $3,000 per tonne will ensure that LME zinc can work its way to $3,500 per tonne, which is the next upside target.