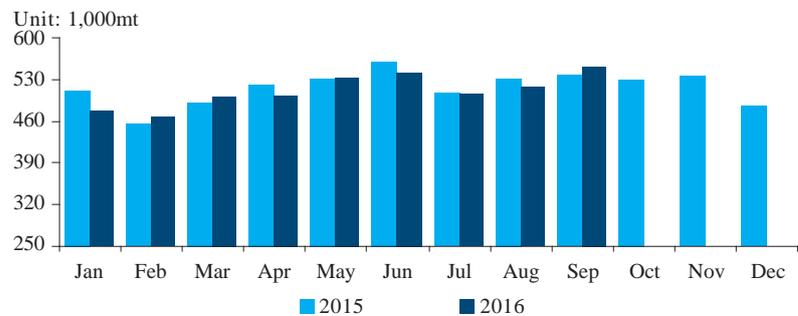


China Zinc Weekly

November 28 2016
Published by SMM



Monthly Output of Zinc in 2015 and 2016



Sources: China Customs, SMM

Zinc Market Data

	11/18/2016	11/25/2016	Up/Down
LME 3-month Price* (USD/mt)	2559	2880	321
Ratio**	8.2	8.32	0.12
SMM #0 Zinc Price (RMB/mt)	20600	22710	2110
SHFE 3-month Price (RMB/mt)	20890	23045	2155
Premium/Discount*** (RMB/mt)	-25	-75	-50
SMM Inventory**** (kt)	240.5	225.1	-15.4
TC***** (USD/mt)	55	55	0

Note: * refers to the closing price for LME 3-month zinc contract.

** refers to the ratio of SMM #0 zinc price to LME zinc cash price.

*** refers to the gap between spot price for #0 zinc in Shanghai and settlement price for SHFE spot-month zinc contract.

**** refers to total inventories in Shanghai, Guangdong, and Tianjin based on SMM statistics.

***** refers to the TC of imported zinc concentrate.

Highlights

• Macro

Base Metals to Carry on Rising Momentum

• Zinc Market

SHFE 1701 zinc rose by daily limit and was up 9% last week, and LME zinc touched USD 2,760/mt, the highest from March 2008.

• Forecast

Zinc Prices to Hover at Highs

• Focus

China Refined Zinc Output Rises in October

Contact us

Hotline:

+86-21-5155-0322

Mail:

service.en@smm.cn

Fax:

+86-21-5155-0345

Address:

8th FL in North Section, Building 9,
Lujiazui Software Park, No. 20, Lane
91, E'Shan Road, Pudong New Area,
Shanghai, 200127, China.

Macro Economy

Base Metals to Carry on Rising Momentum

Base metals drifted higher last week, with prices for some metals exceeding high levels posted three weeks ago. Chinese yuan's depreciation remained the major driver behind the rally. A strong US dollar caused yuan to depreciate sharply and US Fed's November meeting minutes further strengthened the US dollar. The negative impact on commodity market from a firm dollar was reflected mainly on precious metals rather than base metals, though.

As of 4 pm, November 24, Beijing time, offshore yuan was reported as low as 6.9650, down 4.37% from before the Chinese National Day holiday in early October. Yuan devalued 0.84% against the US dollar last week. Yuan kept crashing through key support levels, but the People's Bank of China (PBOC) has taken no action. This strengthened expectations for further devaluation of yuan. With growing inflationary pressure in China, prices of commodities priced in yuan rose sharply.

Sources from Chinese banks said many state-owned banks have received instructions to take yuan's selling orders when yuan's exchange rate reaches 6.9200 so as to prevent further fast fall in yuan. While it is difficult for the PBOC to prevent yuan from depreciating against the US dollar, the PBOC hopes to control the pace of yuan's devaluation.

Hawkish minutes of the US Fed's November meeting, released last Thursday, strengthened expectations for US rate hike in December. According to the US Mortgage Bankers Association (MBA), interest rate for 30-year mortgages shot up rapidly in recent two weeks to 4.16%. The high level was seen early this year shortly after the US Fed ended QE and announced the first interest rate hike in December 2015.

The US dollar index has been hovering at above 100 for many days, partly due to growing expectations for US rate hike and partly because of doubt over stability in the euro zone's political outlook. Despite positive manufacturing PMIs in main members of the euro zone in November, possibility is high for change of leadership in major euro zone countries next year since leaders failed to properly handle European debt crisis and refugee issue. Concerns are growing that there may be black swans in the euro zone's political situation following UK's decision to leave the EU and Trump's success in US presidential election.

This week, market will continue closely watching changes in Chinese yuan. Base metals will extend gains. But, investors should also be alert to potential risks for downward corrections.

Data Analysis – Refined Zinc Output



China Refined Zinc Output Rises in October

National Bureau of Statistics (NBS) data show China’s refined zinc output was 555,000 mt in October, up 0.7% MoM and 4.5% YoY. YTD output through October was 5.18 million mt, up 0.4% YoY.

SMM statistics show China’s refined zinc output was 476,000 mt in October, up 3.0% MoM and 2.3% YoY. Output in the first ten months of the year was 4.41 million mt, down 3.7% YoY. Commissioning of Chihong Zn & Ge’s new capacity helped China’s refined zinc output rise in October. SMM survey reported the average operating rate at major domestic zinc smelters was 78.41% in October, up 0.83 percentage point from September.

Output at major domestic zinc smelters surveyed by SMM slid 3% YoY in the first ten months of the year. Output at those in Hunan fell by over 50%. Operating rates at local large, medium and small smelters all fell short of those in the same period of last year, restricted by raw material factor. SMM learned zinc concentrate output in Hunan’s Huayuan County is about 150,000 mt/yr (zinc content). Some mines without required license were forced to close due to stricter environmental protection inspections this year. Some local mines restarted in October, but output was still insufficient. Production at major zinc smelters in other regions was stable, with no reporting output cut.

SHFE zinc prices advanced from November and rose to RMB 22,000/mt. Smelters stepped up ore purchases for winter production, pushing down TCs of domestic zinc concentrate to as low as RMB 4,000/mt (zinc content). However, real TCs rose RMB 1,000/mt (zinc content) for zinc smelters. Smelters began negotiations on term TCs for Q1 2017, and will unlikely gain any advantage due to low raw material inventories. SMM expects smelters to maintain normal production in November, with average operating rate of 79.40%. Domestic zinc concentrate output will fall in the winter season, and will affect refined zinc production in early 2017.

Zinc Concentrate

Zinc Concentrate TCs

Processing Charges	Nov 2016	Dec 2016	Growth Rate
Domestic concentrate	4200-4400	3900-4200	-250
Imported concentrate	70-90	50-70	-20

UPDATE :

Imported concentrate (Zn 50%,USD/dmt)

Domestic concentrate (Zn 50%,RMB/mt, Zn content)

Source: SMM

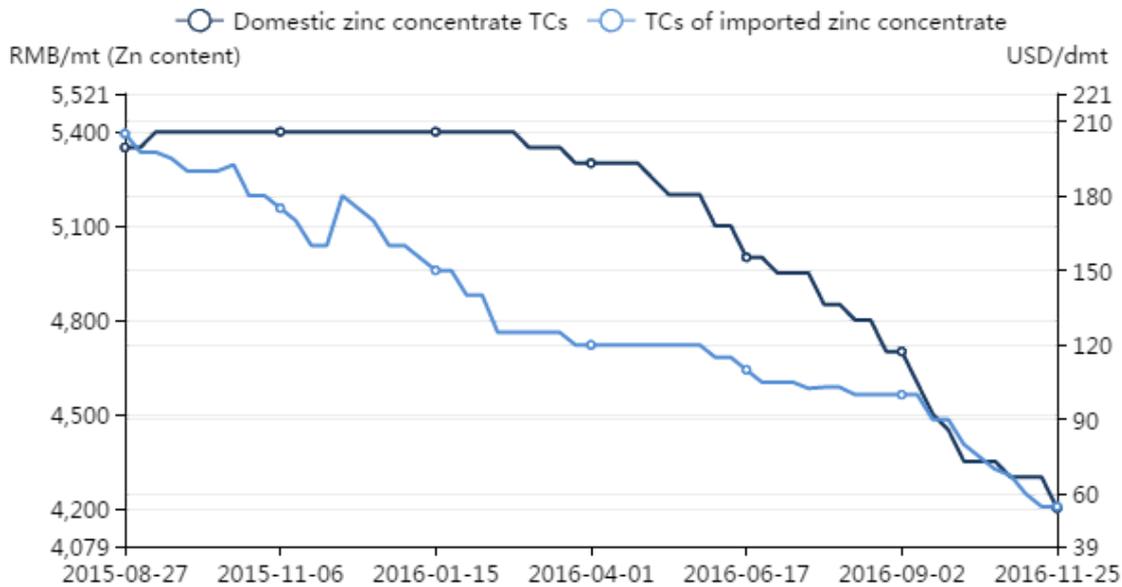
TC

TCs of domestic zinc concentrate (50%) were traded at RMB 3,900-4,400/mt (zinc content) last week, with trading below RMB 4,100/mt increasing. Quotes for imported zinc concentrate (50%) were USD 50-60/dmt, and trading at or below USD 30/dmt was reported for clean ore.

With low temperatures in Inner Mongolia's Hulunbuir and Chifeng, Rongda Mining, Black Bull Mining and Baiyinchagan Mine will suspend production in early December. Mines in Tibet will also cease operation in mid-December. Raw material inventories at some zinc smelters were less than 2 months of production. When combined with transportation capacity shortages and higher freight charges for railway and automobile transportation, domestic zinc concentrate TCs continued to slide. Mines in Yunnan's Jianshui County remained closed due to environmental protection issue. Lanping lead-zinc mine held back goods. Meanwhile, smelters from other regions snapped up goods, tightening local ore supply. TCs of domestic zinc concentrate in Yunnan slid from RMB 4,300-4,500/mt to RMB 4,100-4,400/mt (price to factory).

Losses from imported ore narrowed RMB 55/mt to around RMB 1,000/mt (zinc content) compared with domestic ore last week. Cargo holders hold prices firm as inventories at ports were still low. Smelters preferred domestic ore, leaving trading for imported ore quiet. Mainstream quotes for imported ore were largely unchanged on a weekly basis.

Comparison of TCs for Domestic and Imported Zinc Concentrate

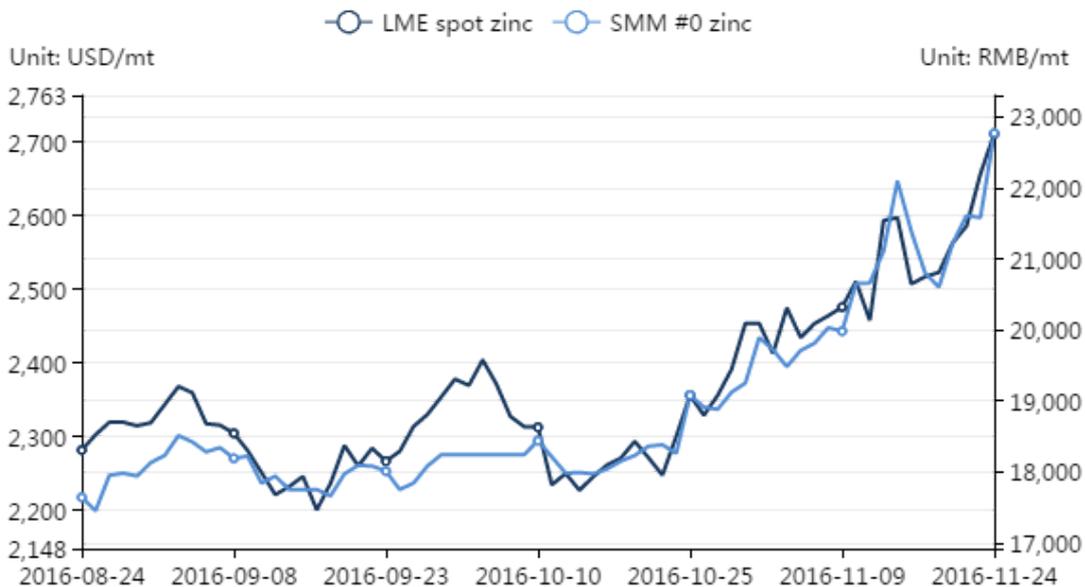


Source:SMM

Zinc Price Review

Spot Market

China and LME Spot Zinc Prices in 3 Months



Sources:SMM, LME

Review

LME zinc reported a 4-day winning streak and hit the highest in nearly 8 years last week. LME zinc dropped in the week ending November 18 and then rallied from USD 2,550/mt last week. According to Fed's November meeting minutes, many officials expect that a Fed interest rate hike is nearing, growing market expectations of a Fed rate hike in December. The US dollar index thus climbed to 102 at one point. But LME zinc breached USD 2,700/mt and touched USD 2,760/mt, the highest from

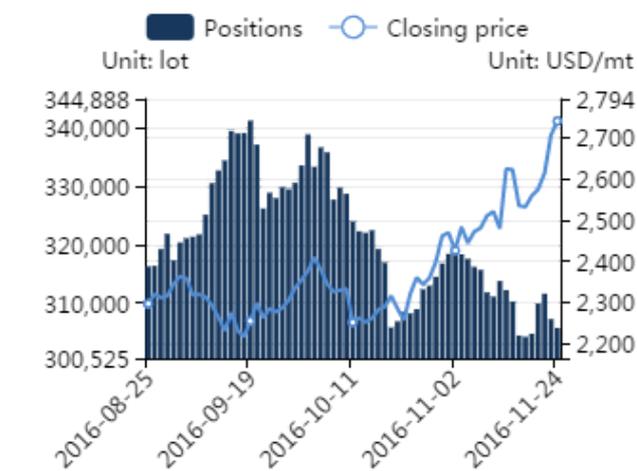
March 2008. As of Thursday, trading volumes decreased 16,000 to 46,000 lots, and positions added 900 to 306,000.

SHFE 1701 zinc rose by daily limit last week. Chinese yuan weakened to 6.92 as the People's Bank of China (PBOC) did not intervene, driving large amount of speculative capital into nonferrous metals, which rose over 9%. SHFE 1701 zinc rose from RMB 21,000/mt. Trading volumes broke through 1 million lots on November 21 and November 24, sending SHFE 1701 zinc to RMB 22,000/mt. The SHFE further hiked margin and enhanced restrictions on price change limit for many products, but did not dampen long momentum. SHFE zinc and copper rose by daily limit. As of Thursday, SHFE 1701 zinc pointed toward RMB 23,000/mt. Trading volumes on SHFE zinc decreased 900,000 to 3.80 million lots, and positions increased 29,000 to 470,000.

Spot premiums on #0 zinc prices in Shanghai narrowed RMB 60/mt to RMB 20-30/mt over SHFE 1701 zinc last week. Smelters sold normally, and inflows of imported zinc slowed. Some hedge traders remained on the sidelines, and downstream buying interest was also weak, muting overall trading.

Futures

LME Zinc Price vs Positions



Source:LME

SHFE Zinc Price vs Positions



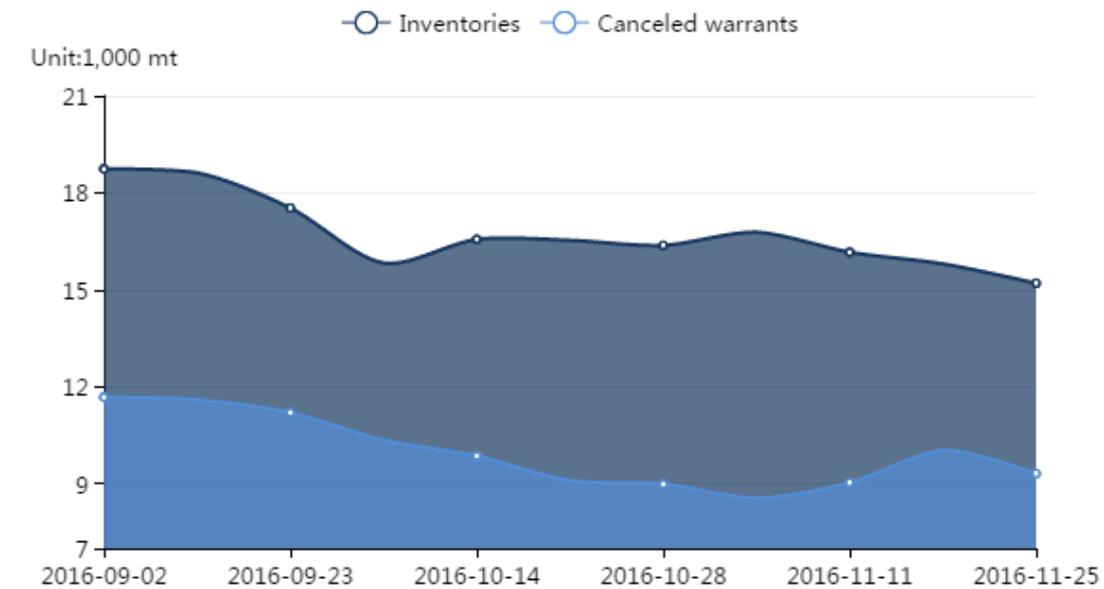
Source:SHFE

LME Zinc Inventories & Backwardation/Contango

Date	LME		LME Inventory Distribution		
	Total Inventories (mt)	Canceled Warrants (mt)	Asia	Europe	North America
2016-11-18	445,275	74,800	11,825	41,350	392,100
2016-11-21	445,075	74,600	11,825	41,175	392,075
2016-11-22	445,000	74,525	11,825	41,100	392,075
2016-11-23	444,550	75,725	11,825	40,825	391,900
2016-11-24	443,275	74,950	11,775	40,575	390,925
Change	888,875	150,075	23,600	82,175	783,100

UPDATE : 2016-11-24
Source:LME

SHFE Zinc Inventories & Canceled Warrants



Source:SHFE

SHFE Zinc Inventories & Warrants by Region

	SHFE	2016-11-25	2016-11-18	Change
Shanghai	Inventory	61,560	66,937	-5,377
	Warrant	13,009	15,232	-2,223
Guangdong	Inventory	85,640	66,937	-5,377
	Warrant	80,068	15,232	-2,223
Jiangsu	Inventory	437	437	437
	Warrant	0	0	0
Zhejiang	Inventory	4,316	4,316	-623
	Warrant	0	0	0

UPDATE : 2016-11-25

Unit: mt

Source:SHFE

Major Domestic Zinc Markets

Trading for #0 Zinc in China Major Markets

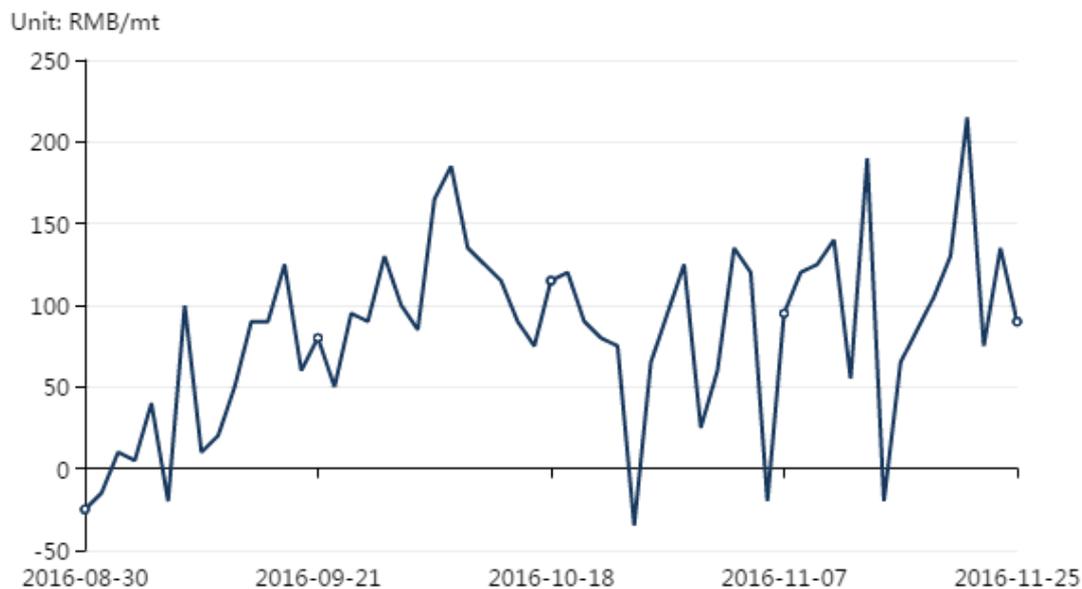
Region	2016-11-18	2016-11-25	Change
Shanghai	20,620	22,740	2,120
Guangdong	20,540	22,660	2,120
Tianjin	21,075	23,015	1,940

UPDATE : 2016-11-25

Unit: RMB/mt

Source:SMM

Price Spread on #0 Zinc between Tianjin and Shanghai in 3 Months

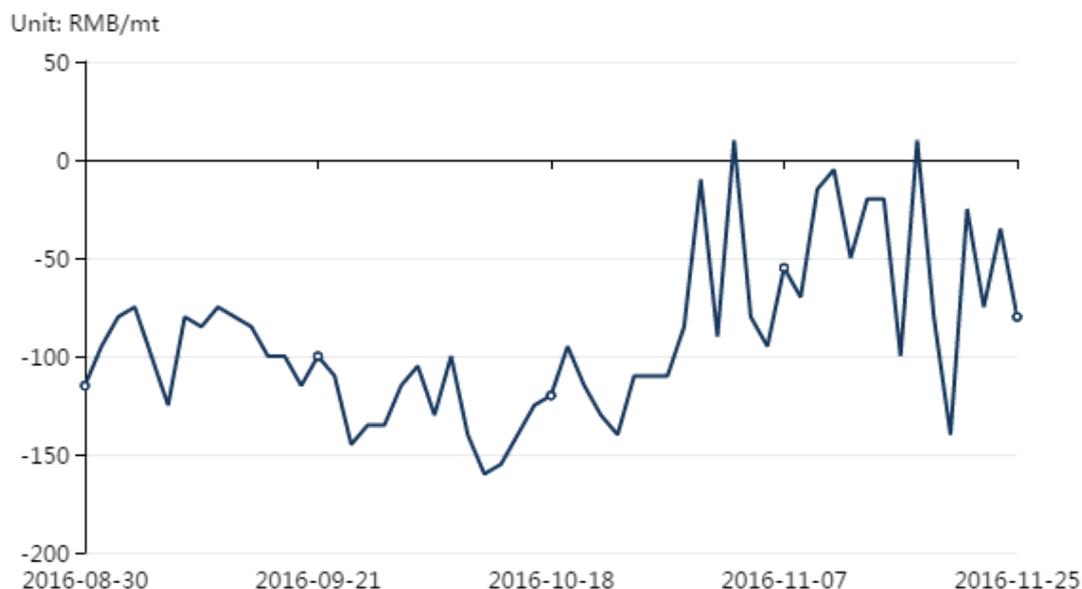


Source:SMM

Price Spread between Shanghai and Tianjin

Spot premiums on #0 zinc in Tianjin were RMB 80/mt against Shanghai prices last week. Arriving shipments of some brands were delayed due to heavy rains or snows in North China. Traders held prices firm, while downstream buyers purchased as-needed, with trading relatively brisk.

Price Spread on #0 Zinc between Guangdong and Shanghai in 3 Months



Source:SMM

Price Spread between Shanghai and Guangdong

Discounts on #0 zinc in Guangdong expanded RMB 50/mt to RMB 50-40/mt over SHFE 1701 zinc last week, and remained around RMB 70/mt against Shanghai prices. Smelters sold normally under term contracts. Spot goods and supplies under warrants were sufficient as traders sold actively. Downstream buyers purchased as needed, with trading stable.

Inventory

Change in Zinc Inventories in Three Regions

Inventories (Unit:1,000 mt)	2016-11-18	2016-11-25	Change
Shanghai	10.36	9.26	-1.10
Guangdong	11.65	11.73	0.08
Tianjin	2.04	1.53	-0.51
Total	24.05	22.52	-1.53

UPDATE : 2016-11-25

Source:SMM

Refined Zinc Supply

Combined zinc inventories in Shanghai, Tianjin and Guangdong fell 15,300 mt to 225,200 mt last week. Demand for automobile transportation strengthened recently due to rail transportation capacity shortages. When combined with heavy snow in Northwest China, freight charges increased, affecting shipments by smelters. This reduced arriving shipments in Shanghai and Tianjin. Meanwhile, outward shipments were steady due to stable downstream consumption, leading to a decline in zinc inventories in the two regions. Inventories in Guangdong were almost unchanged as both supply and demand were weak.

Total zinc inventories in the three regions will fall further this week. Rail transportation capacity shortage and higher automobile freight charges will continue to affect arriving shipments in the near term, which have been delayed or withheld at smelters recently.

Zinc Spot Trading Inventories in Three Regions



Source:SMM

Major Chinese Zinc Smelters

Market Price for China Mainstream Zinc Brands

#0 Zinc Brand	2016-11-18	2016-11-25	Change	Notes
Huludao	21,500	23,250	1,750	Ex-works quotes
Shuangyan	20,650	22,750	2,100	Shanghai traded prices
Nanhua	21,500	23,600	2,100	Guangdong traded prices
Huoju	21,010	23,120	2,110	Shanghai traded prices
Chihong	20,650	22,750	2,100	Shanghai traded prices
Yuguang	20,650	22,800	2,150	Shanghai traded prices
Qilin	20,540	22,650	2,110	Guangdong traded prices
Dongling	20700	20300	2300	Shanghai traded prices
Hongye	20,750	22,800	2,050	Tianjin traded prices
Zijin	0	22,860	22,860	Tianjin traded prices

UPDATE : 2016-11-25

Unit: RMB/mt

Source:SMM

Production at Major Chinese Zinc Smelters

Region	Company Name	Status
Northeast China	Huludao Zinc Industry	Normal production
Northwest China	Hanzhong Zinc Industry	Normal production
South China	Zhongjin Lingnan Nonfermet	Normal Production
Central China	Zhuye Torch Metals	Normal production
Southwest China	Chihong Zn & Ge	Normal production
Central China	Yuguang Zinc Industry Company	Normal production
Southwest China	Guangxi Hechi Nanfang Nonferrous Metals	Normal production
Northwest China	Shaanxi Dongling Industry & Trade Group	Normal production
North China	Chifeng NFC Zinc Industry Company	Normal production
North China	Bayannur Zijin Nonferrous Metals	Normal production

UPDATE : 2016-11-25

Source:SMM

Zinc Oxide Market

Zinc Oxide

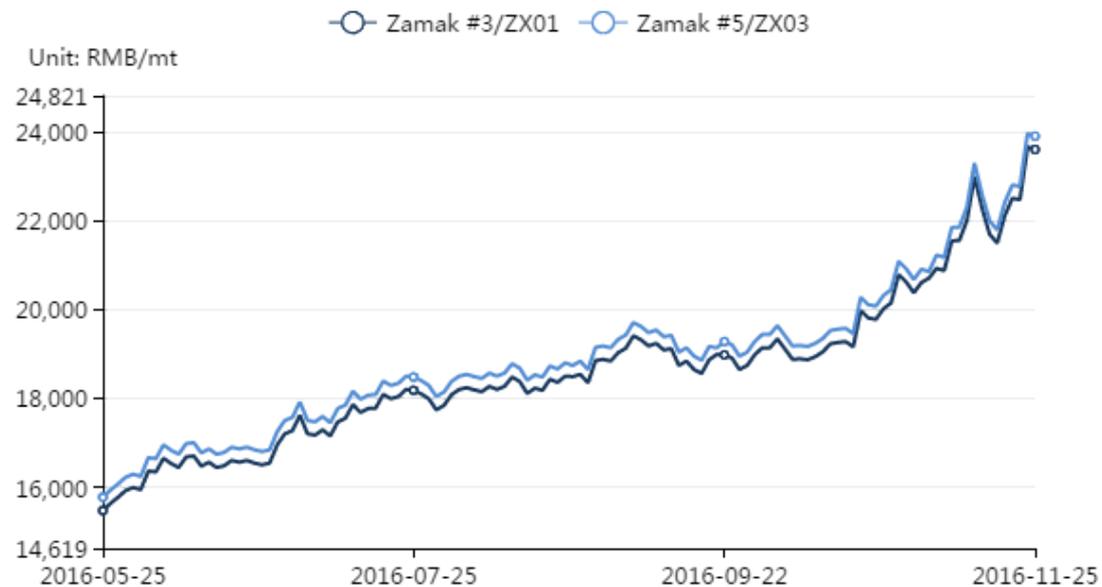
Quotes for zinc oxide were RMB 20,200-21,900/mt last week, up RMB 659/mt on a weekly basis. SHFE zinc prices posted a 5-day winning streak last week, jumping to an over 8-year high. Zinc oxide plants refrained from buying zinc ingot and zinc slag after zinc prices surged, further reducing inventories. Downstream producers also lacked buying interest, and pushed for lower raw material prices. Zinc oxide plants received orders cautiously due to low profit.

Die-Cast Zinc Alloy Market

Die-Cast Zinc Alloy

Prices for Zamark #3 and Zamark #5 rose RMB 778/mt to RMB 22,120-23,670/mt and RMB 22,420-23,970/mt, respectively, last week. Zinc prices continued rising, but price gains for finished products were only limited. Some end-users curtailed inventories, leaving trading sluggish and depressing production at die-cast zinc alloy plants. Big price volatility also allowed plants to purchase as needed to avoid risks. Trading will remain weak this week.

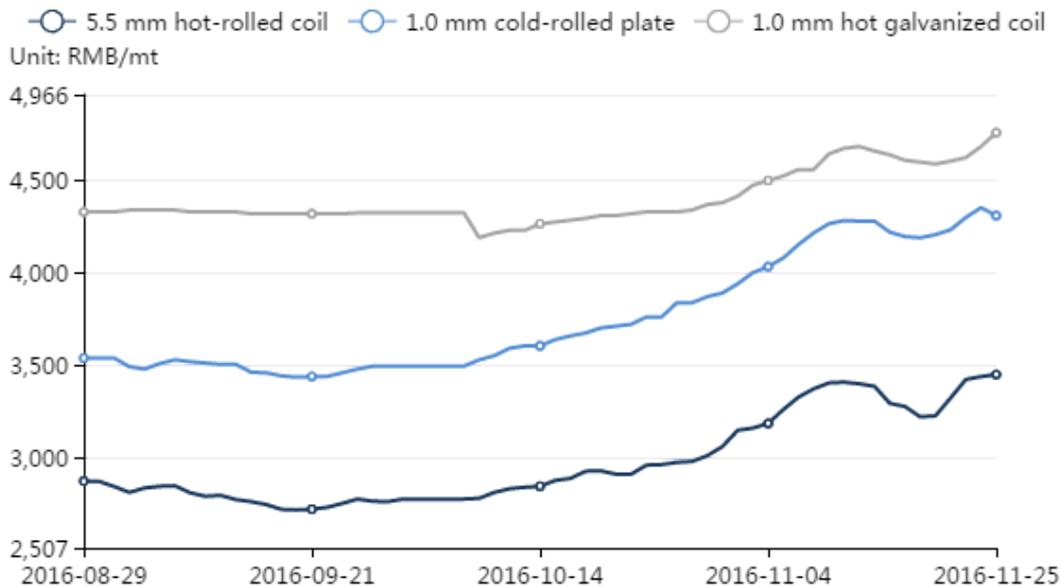
Die-Cast Zinc Alloy Prices



Source:SMM

Galvanizing Market

China Average Price for Galvanized Plate/Coil, and Cold- and Hot-Rolled Coil



Source:SMM

Galvanized Plate/Coil

Prices for galvanized plate/coil prices weakened slightly last week. Hot- and cold-rolled steel prices continued to rise, helped by steel prices. But trading for galvanized products were lackluster due to weakening demand in North China, leaving limited price gains.

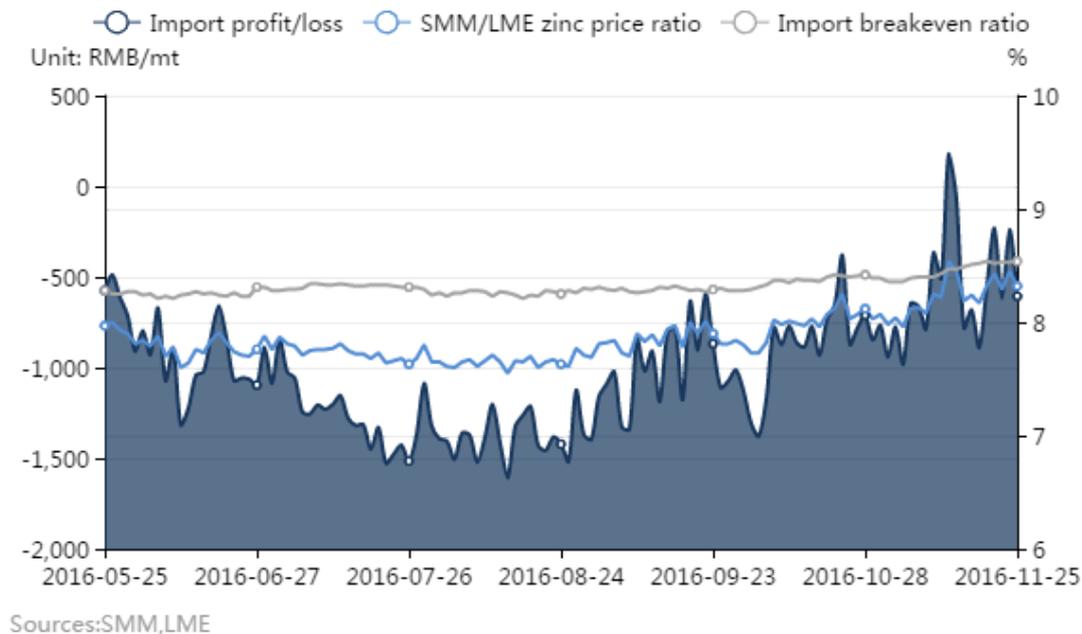
The price spread between galvanizing and hot galvanized coil and that between galvanizing and cold-rolled steel narrowed RMB 30-40/mt to RMB 1,280/mt and RMB 370/mt, respectively. Some producers were pushed to losses. But none of them were heard to cut output.

Galvanized Structural Parts

The galvanized structural parts market stabilized last week. Demand for construction tube/pipe from North China weakened, restricting production at galvanized tube/pipe plants. Besides, producers mainly depleted inventories at the year's end. Nonetheless, demand in South China was relatively strong, with stable demand from PV and steel tower sector. Production was steady. Trading for galvanized structural parts will remain steady next month.

Imported Zinc Market

SMM/LME Zinc Price Ratio & Import Profit/Loss



Imports and Exports of Refined Zinc

The SMM/LME zinc price ratio rose from 8.32 to 8.37 last week, narrowing import losses by RMB 50/mt to RMB 200-600/mt. Import premiums were mainly traded between RMB 100-120/mt, almost unchanged on a weekly basis.

Refined zinc imports increased slightly because of higher price ratio. With yuan's continuous devaluation, importers were unwilling to place orders. Discounts of AZ and Peruvian #0 zinc against the average SMM #0 zinc price expanded RMB 20/mt to RMB 80-10/mt last week.

Inflows of imported zinc were limited over the past two weeks, and will remain low this week. This will support spot premiums of domestic zinc.

Zinc Price Forecast

Forecast

China's official and Caixin manufacturing PMI for November due for release this week are expected to improve further. Manufacturing PMIs in eurozone countries and ISM's November manufacturing index for the US slated for release this week may rise. Stabilizing manufacturing, improving demand and higher inflation in China, US and Europe may explain recent drop in gold prices and gains in commodity and stock markets. US November non-farm employment report scheduled for release this week is expected to be upbeat. Besides, the Fed's November meeting minutes showed most Fed officials expect an interest rate hike in December. This will continue to drive up the US dollar index. Yuan's significant depreciation and rising Shanghai Interbank Offered Rate (Shibor) fueled long momentum in commodity market recently. Base metals thus surged despite stronger US dollar index. Commodity futures are still bullish this week unless the PBOC intervenes. But investors should be wary of possible price fallback.

Zinc led price gains of nonferrous metals due to macroeconomic, capital and fundamental factors. Smelters commenced negotiations on 2017 term TCs for zinc concentrate. Raw material inventories at zinc smelters were low at present and only half of the same period of last year. They scrambled for domestic ore, pushing down its TCs. Ore supply tightness may force smelters to cut output in the foreseeable future. LME zinc is expected to move between USD 2,900-3,000/mt this week.

The SHFE raised margin and increased limit for price gains and declines in order to cool down the futures market. But this did not weaken long momentum. SHFE 1701 zinc will rebound to RMB 24,000-25,000/mt this week. In China's spot markets, smelters will sell normally. Any arbitrage room for traders is limited as the price spread between SHFE 1611 and SHFE 1612 zinc is almost zero. Downstream buyers will purchase on an as-needed basis, with spot premiums of RMB 10-50/mt against SHFE 1701 zinc.

News

Industry News

Inventory Value at Yunnan Yuntong Zinc Misses Target for Five Months

Inventory value at Yunnan Yuntong Zinc was lower than target value for five months in a row since June, when the level was RMB 900,000 lower than target value. And this was affected by inventory control project.

Kazakhstan Zinc Output Rises Jan.-Oct.

Kazakhstan's refined zinc production in the first ten months of the year was 270,594 mt, up 0.4% YoY, according to the Committee on Statistics under the Ministry of national economy of the Republic of Kazakhstan. Refined zinc production in the country was 26,473 mt in October, a drop of 4.6% YoY.

MCC Huludao's Refined Zinc Production Hit All-Time High in October

MCC Huludao Nonferrous Metals Group Co.'s 99.997% refined zinc production hit a record high in October. Its production of the products increased nearly 14 percentage points in October from September's level.

Xinjiang Makes Progress in New Mineral Resources Development Base

Xinjiang has made substantial progress in mineral resources exploration and has achieved its goal set in 2008. According to the goal, Xinjiang set to make big achievements in 8 years, build energy resources bases to continue development, construct 10 large resource development bases, and set up a new resource distribution pattern, which pays equal emphasis to south and north parts of the region, having set a good example for other provinces in China.

At present, Xinjiang has newly added 28.67 million tonnes of lead and zinc reserves, moving up to 3rd place in China and newly discovered 689.59 tonnes of gold reserves, moving up to 3rd place from 21st in China.

SMM Also Issues

Non-ferrous Metal Annual Reports:

- China Copper Industry Chain Annual Report, 2016-2019
- China Aluminum Industry Chain Annual Report, 2016-2020
- China Nickel Industry Chain Annual Report, 2016-2019
- China Lead Industry Chain Annual Report, 2016-2018
- China Zinc Industry Chain Annual Report, 2016-2019
- China Rare Earth Industry Chain Annual Report, 2016-2019
- China EMM Industry Chain Annual Report, 2016-2019

Non-ferrous Metal Regular Reports:

- China Base Metal Briefing (weekly)
- China Copper Weekly
- China Aluminum Industry Chain Weekly Report
- China Zinc Weekly
- China Lead Weekly
- China Copper Monthly
- China Aluminum Monthly
- China Nickel Monthly
- China Manganese Monthly
- China Silicon Metal Market Monthly
- China Rare Earth Quarterly

Steel Regular Reports

- China Steel Briefing
- China Iron Ore Weekly Monitor
- China Iron Ore Monthly Monitor
- China PMI Monthly
- China Iron & Steel Industry Quarterly

Contact us

SMM Research Team
8th FL, North Section, Building 9, Lujiazui Software Park, No.20, Lane 91, E'Shan Road, Pudong New Area, Shanghai, 200127, China
Tel: +86-21-5155-0306
Fax: +86-21-5155-0345
Email: service.en@smm.cn
<http://www.metal.com>