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ZINC - MCX

CMP : 274

Zinc likely to get Support from Bullish fundamentals and Technical Setup

Zinc the fourth most consumed base metals globally after Steel, Aluminum and Copper is fall by almost 20% in last 1-month, but still lower than fall in other base metals in last 3-months or we can say that best performers among base metals in recent sell off. Thanks to bullish fundamentals from lower production at Europe as well western countries, Supply concern & constant demand outlook and most influencing factor is declining stock position at LME warehouses due to supply disturbance and lack of ready availability in physical market. Industrial metal prices have just seen their biggest quarter of falls in many years, with the market reflecting exposure to China's COVID lockdowns, inflation, rising interest rates and stalled growth.

In domestic future MCX zinc seen continue its southward journey since hit all time high above 380 in mid April and since then prices corrected to 275 odd level which attract end users & traders as fundamental still seen bullish, but due to across the board sell off in base metals after recession fear due to major central banks from world increasing interest rates which slows growth / demand added by top consumer China which adopt Zero Covid policy and implement lockdown recently, also hurt sentiment as well demand for metal. At LME zinc tumbled 24% and lead dropped 21% in the 2nd quarter, the largest quarterly losses since 2010 and 2011 respectively.

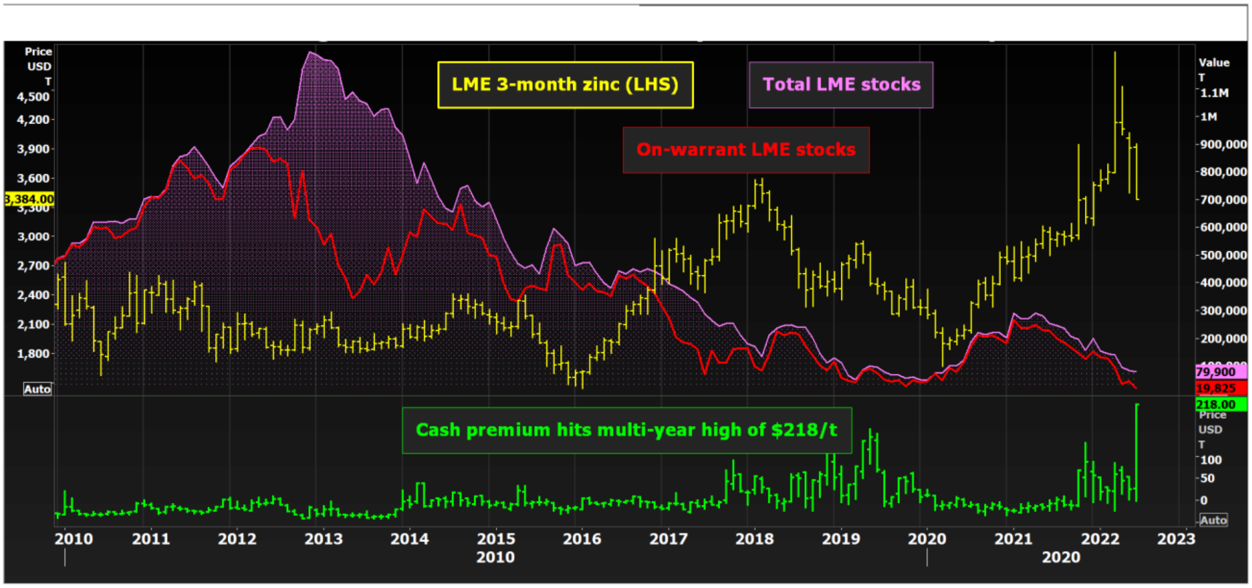
Manufacturing growth is slowing from Asia to Europe as China's COVID-19 curbs and Russia's invasion of Ukraine disrupt supply chains, while the growing risk of a recession in the United States poses a new threat to the global economy resulted in 10-30% fall seen in base metals prices over the last 2-months.

However, Fundamental looks bullish with Supply concern, depleting stocks and increase in demand will support Zinc sooner than expected once this recession fear rout sell off end and once we get hint to pause in rate increasing cycles. Also, technically, its near demand Zone and indicator shows likely bounce back in prices.

Zinc Stocks at LME Warehouses

Till end of the last month, headline Zinc stocks were already low at 79,425 tones and if someone add cancel in preparation for physical load-out than this was equal to few days of global consumption as against 14-million tone marketplaces. This time last year there were 258,000 tonnes sitting in LME-registered sheds and another 85,800 tonnes in off-warrant storage. Also to be noted that, all of that shadow tonnage was located at Asian locations and so too is registered inventory. There is a single lot (25 tonnes) of available zinc in Europe - at the Spanish port of Bilbao - and none at all at U.S. locations. This show how tight stock position at exchange warehouses and will support prices at lower level.

Other side, zinc inventories in Shanghai Futures Exchange warehouses has more than doubled this year to 159,672 tonnes.



Sources – Reuters Graphic, Bonanza Research

Production / mining disruption

Global mine production rose by 1% in the first 4-months of this year but refined production was 2% lower, according to the latest assessment from the International Lead and Zinc Study Group. It estimates refined zinc supply fell 13,000 tonnes short of supply in the period.

Production cuts by major players in Q1 and concerns over energy costs have led to stock issues and will create ready material shortages in the market.

Europe's energy crunch has already caused the curtailment of Glencore's 100,000-tonne-per-year Portovesme smelter in Italy with other operators flexing run-rates around peak energy periods. The region accounts for around 12% of global refined zinc output and the rolling disruption to supply has been reflected in record physical premiums of up to $500 per tonne over LME cash last month. Situation not so bad in US but yes physical buyers paying much higher premium over LME cash prices.

Hudbay Minerals Flin Flon smelter, one of three Canadian refined metal producers, is being fully retired this quarter as the "777" feeder mine closes after 18 years operation. The plant has been winding down for some time, last year's production falling to 90,000 tonnes from 112,000 in 2020. Second Canadian smelter Noranda Income Fund has also downgrades its production guidance for the year. South American smelter Nexa Resources reported Q1-2022 output of 48,700 tonnes at its two Brazilian smelters, down from 58,700 in the preceding quarter due to a lack of feed.

Smelting is turning out to be a major bottleneck in the zinc supply chain this year and will definitely support prices from sharp fall.

However, some support seen from China, as Zinc March's outbound shipments of 35,546 tonnes were the highest monthly tally since 2007. Cumulative exports of 53,500 tonnes over January-May have already exceeded combined volumes over 2020 and 2021. But flip side of China increasing supply is, it is limits to few countries only.

Demand and Supply Situation

Zinc consumption is forecast to rise at a sedate 1%-2% this year from 6%-7% in 2021 against zinc supplies are expected to stagnate, partly because of production cuts in Europe due to record high power prices.

Technical Outlook

Sources – Ticker plant, Bonanza Commodity Research

Zinc prices corrected from its all time exchange high around 382 on 19 April this year, which was up from below 125 seen in mid march 2020 when Covid fear sell off seen across the assets class. However, price corrected in last 3-months to below 270 level hit last week. It is to be expected that price likely to be bounce back soon due to more than one reason.

Firstly, on a weekly chart, price seen support from 50% retracement of rally from 123 to 382 which place at 245-250 belt (which also previous top and now act as long term Support). Secondly, in weekly chart price take exact support from 100-week Simple Moving Average which place around 267 and price tested same last week and turn higher now. Third RSI in daily chart seen oversold last week (25-mark), first time after March 2020 and make lower bottom since then indicates support to prices from recent sell off. However, many indicators like MACD, short term & long term SMA in daily chart still indicates downward pressure in prices.

So, now as long Support of 245-250 belt hold, bounce back cant ruled out towards next resistance zone of 300-305 to 320. While any Sustain fall below 245 will test 61.8% retracement level of 225-223 and if rally extend up to 210 level in weeks to come.

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