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Increasing supply in China and drop in demand to keep Lead prices lower

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**INCREASING SUPPLY IN CHINA AND DROP IN DEMAND TO KEEP LEAD PRICES LOWER**

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- ▲ Lead on London metal exchange is trading below \$2000 per tonne and has dropped 12% from October high of \$2263 per tonne in one month. Lead prices dropped as Chinese demand could drop further in 2020 and supply to improve from current levels.

### Demand

- ▲ According to International Lead and Zinc study group (ILZSG), global demand for the refined lead metal is forecast to fall by 0.5% to 11.81 million tonnes this year and to rise by 0.8% to 11.90 million tonnes in 2020. Meanwhile, demand in China could drop 1.1% in 2019 and 0.5 drop in 2020; mainly due to drop in automotive production and increasing use of lithium-ion batteries in the motorcycle, e-bike sector and UPS backup systems. The principal consumption of lead is for lead-acid batteries which are used in vehicles, and in emergency systems (e.g. hospitals) as well as in industrial batteries found in computers.
- ▲ China's car-market gloom continued for 16th consecutive month in October as the traditional post-holiday demand peak failed to materialize. Total car sales in the world's biggest market fell 4 per cent from the same month a year earlier. That followed declines of 5.2 per cent in September and 6.9 per cent in August.
- ▲ With the US-China trade war in its 17<sup>th</sup> month, business sentiments have dropped significantly. China's industrial output and retail sales grew considerably slower than expected in October, and PMI slowed for the sixth month. Industrial production rose to 4.7% on year on year basis against expectations of 5.4% growth. Retail sales rose 7.2% year on year in October against the expectation of 7.9%. China's official Purchasing Managers' Index (PMI) also showed a contraction for the sixth consecutive month in October. China is considering many corrective measures to secure growth after the US imposed the tariffs on Chinese goods, which led to a slowdown in the Chinese economy.
- ▲ Lead usage is also forecast to decrease by 0.7% both in Europe and the United States in 2019. In the US, battery shipments declined by more than 3% between January and August compared to the same period of 2018. However, according to the ILZSG estimates; refined lead usage will recover by 0.8% in Europe and 1.2% in the United States in 2020.

### Inventory

- ▲ Weakness in demand is resulting in inventory build-up. The Lead Inventory at SHFE warehouses has doubled in four weeks to 39,104mt from 18,319mt. Social stock in China has also increased significantly in the past week. Lead smelters continued their delivery to social warehouses in the absence of local demand. Inventory built-up stayed for the third week. According to SMM survey report, Social inventories of lead ingots in China rose to 40,000mt which is a 33% rise in one week. The LME warehouse inventories are marginally down to 66,850mt from 69,250mt in last four weeks.

## Production

- ▲ According to the ILZSG report, Lead metals production has increased in Aug'19 to 970,300 tonnes from 929,300 tonnes in May'19; meanwhile Mine production dropped in Aug'19 to 350,700 tonnes from 372,600 tonnes in May'19. Lead mine supply, meanwhile, is forecast to increase by 1.7% and 3.9% in 2019 and 2020, respectively.
- ▲ Production of secondary lead metals is increasing despite a drop in mine production as smelters are receiving higher treatment charges and sufficient supply of recycled lead-acid batteries which is increasing their profitability. China produced 3.41 million tonnes of refined lead in January-September 2019, of which 1.88 million tonnes was primary lead while secondary material accounted for 1.53 million tonnes. According to private research by Antaike, China could turn out to be a net exporter of lead in 2020 from an importer in 2019 and 2018 if demand is continued to drop and production continued to increase at this pace.
- ▲ The ILZG have forecast to rise in global supply in 2020 which will be driven mainly from Australia and India. The completion of expansions at Hindustan Zinc's mines in India and substantially higher Australian production will add more metal to the world. In Europe, mining output could increase by 2.2% in 2020, which was already higher by 2.3% in 2019. In China, production is also expected to increase by a modest 0.2% in 2020.

## Outlook

- ▲ Lead prices are lower as demand in China is very weak, and smelters increased output in October. Lead market demand is vulnerable in 2019 and is not expected to grow in 2020. In addition to it, higher production from India and Australia in 2020 will keep Lead prices lower in the medium term. Ongoing Trade talks between the US and China could provide further direction. Lead demand could improve from current levels in the case trade war between US and China settles on a positive note.

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