

THIS COMMENTARY IS PUBLISHED BY FITCH SOLUTIONS COUNTRY RISK & INDUSTRY RESEARCH and is NOT a comment on Fitch Ratings' Credit Ratings. Any comments or data are solely derived from Fitch Solutions Country Risk & Industry Research and independent sources. Fitch Ratings analysts do not share data or information with Fitch Solutions Country Risk & Industry Research.

Zinc: Prices To Weaken In 2022, But Remain Elevated Compared To Pre-Covid Levels

07 Sep 2021

Global

Zinc

Teck Resources

ZINC PRICE FORECASTS (USD/TONNE)

	Current	2021 YTD	2020	2021	2022	2023	2024	2025
Fitch Solutions	2,997	2,885	2,279	2,900	2,550	2,500	2,400	2,250
Bloomberg Consensus	NA	NA	NA	2,800	2,694	2,618	2,529	2,571

Note: Zinc three-month LME contract. Accurate as of September 4 2021. Source: Bloomberg, Fitch Solutions

Key View:

- We have revised up our 2021 zinc price forecast from USD2,600/tonne to USD2,900/tonne as prices remain high over a longstanding mismatch between supply and demand.
- While global refined zinc production has ramped up over recent months compared to 2020, it has been outpaced by demand.
- Despite our near-term upwards revision to prices, we expect zinc prices to remain on a steady downtrend out to 2030 as global demand slows while supply improves.

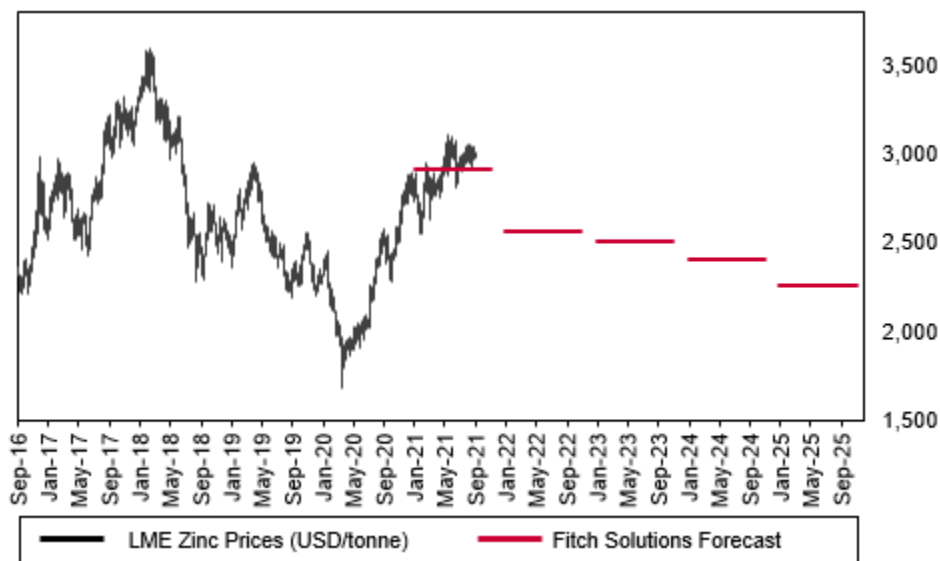
Short-Term Outlook (three-to-six months)

We have revised upwards our 2021 zinc price forecast from USD2,600/tonne to USD2,900/tonne, but maintain our forecast of USD2,550/tonne for 2022. Prices have averaged USD2,885/tonne in the year to date and are currently hovering around USD2,997/tonne. While this is a slight decrease from the high of USD3,082/tonne reached in June 2021, it is still higher than prices seen after 2018. Our 2021 and 2022 price forecasts imply that we expect prices to stabilise and weaken from here on in the coming months, despite remaining elevated compared to historical standards.

On the demand side, we expect strong consumption from the steel sector to continue boosting demand for zinc in the coming months, although demand growth should start to slow. According to the World Steel Association, global crude steel production grew by 11.3% y-o-y during January-July 2021 and this suggests a similarly robust recovery in galvanised steel production, which is the main source of demand for zinc. We expect the pace of global steel production growth to slow in the coming months, led by China, as steel producers in other major economies reach pre-Covid-19 operating rates.

Prices To Continue Stabilising In 2022

Zinc Prices (3mo daily prices on the LME exchange) & Forecasts

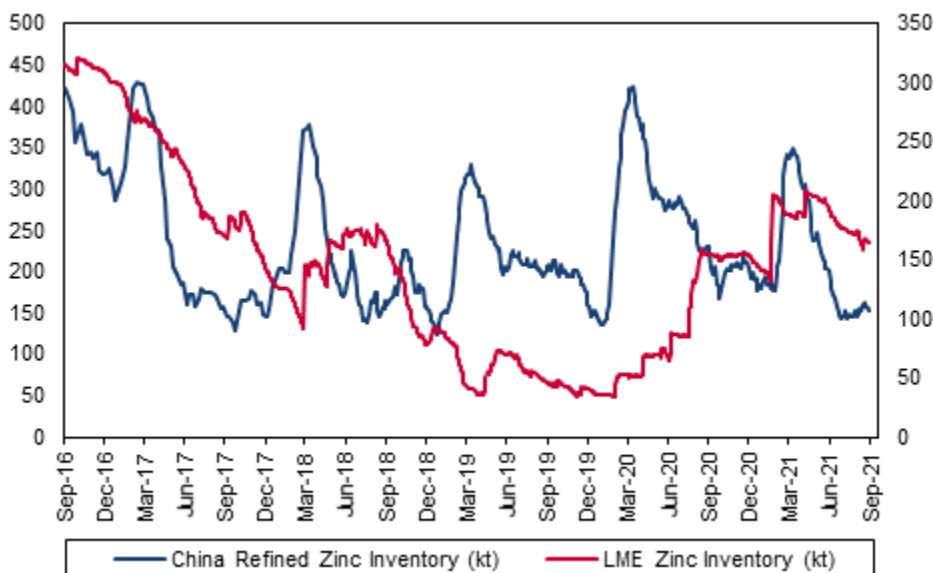


Source: Bloomberg, Fitch Solutions

Turning to production, refined zinc output in China has started to improve after being hampered by government-enforced power-rationing in Yunnan Province in May-June. Low rainfall during the first half of 2021 resulted in a shortage of hydroelectric power in the province. Yunnan typically accounts for around 12.5% of China's refined annual zinc production. However, we expect the market should be better supplied in the coming months and this will cap prices. Additionally, strong growth in zinc mine supply will result from expansions and restarts in key producers including Peru, Australia and Canada, which in turn will boost downstream refined zinc production. Indeed, this has already started to play out with an increase in zinc treatment and refining charges in China, as a result of better ore availability. Meanwhile in China, Yunnan's wet season commenced in June and higher rainfall enabled the government to reverse production cuts. **Adding impetus to an already loosening market, China's National Food and Strategic Reserves Administration will sell 50kt of zinc stocks along with other metals in the first week of September, in line with plans by the government to increase domestic supplies and cool what it sees as overheated market prices.**

Global Inventories To Improve

LME & China - Zinc Inventories



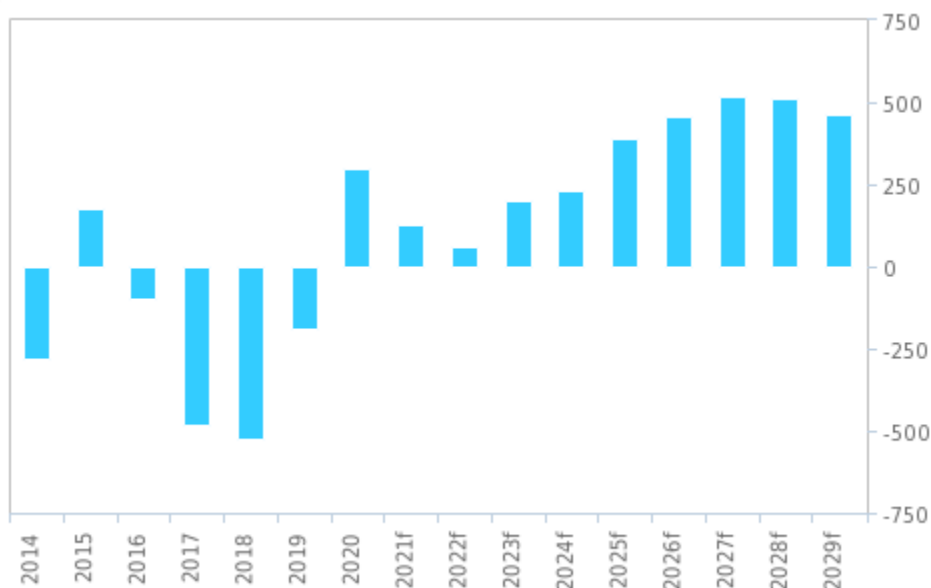
Note: Chinese inventories are a total of Shanghai, Guangdong and Tianjin Stocks. Source: Bloomberg, Fitch Solutions

Long-Term Outlook

We expect the surge in zinc prices that has taken place over 2020-2021 to gradually unwind over the coming years. The global production surplus that emerged in 2020 should persist into the medium term and the resulting increase of zinc inventories should gradually drag prices lower. We forecast zinc to average USD2,360/tonne over 2022-2026, maintaining a steady downtrend out to 2030. Price weakness should be particularly pronounced starting around mid-decade, as we forecast a significant widening of the global production surplus around this time. We forecast an average annual production surplus of 476,000 tonnes over 2026-2030, compared to 203,000 tonnes over 2021-2025.

Ultimately, zinc prices will be dragged lower as long-term production growth outstrips subdued consumption growth. The most significant drag on global zinc demand growth will come from China, which accounts for around half of annual refined zinc consumption. We forecast steel production growth in China to slow from an annual average of 7.2% over 2018-2022 to just 1.3% over the subsequent five years. As a result, we expect China to flip from being a significant net importer of refined zinc, as has consistently been the case over the past decade, to become a major net exporter. We forecast China's annual refined zinc production balance to average an 196,000 surplus over 2026-2030 compared to a deficit of 292,000 tonnes over 2016-2020, which will make the country a key driver of global zinc oversupply.

Surpluses To Expand In The Long Term
Global - Refined Zinc Production Balance ('000 Tonnes)



e/f = Fitch Solutions estimate/forecast. Source: USGS, ITC, Fitch Solutions

Risks To Core View

The outlook for China's steel sector is the main source of risk to our zinc price forecasts. More resilient steel production growth than we currently expect could delay the slowdown in China's zinc demand growth and result in higher zinc prices than we currently forecast. For instance, should there be a resurgence of Covid-19 cases of particularly stronger variants, then China's steel production could be supported by an extension of government fiscal stimulus for the infrastructure sector beyond 2021, in contrast to our expectation for a wind-down of stimulus by the end of the year. We also anticipate a steady tightening of environmental restrictions in China to raise costs for steel mills in the country. A laxer approach by authorities to environmental protection would protect the profitability of steel mills and improve the outlook for steel production in China over the long term.

Global Zinc Supply, Demand And Price Forecasts

Indicator	2020	2021f	2022f	2023f	2024f	2025f	2026f	2027f	2028f	2029f	2030f
Zinc Price, USD/tonne, ave	2,279	2,900	2,550	2,500	2,400	2,250	2,100	1,900	1,900	1,900	1,900
Zinc Production, thousand tonnes	14,181	14,366	14,614	14,945	15,107	15,412	15,589	15,749	15,849	15,923	15,945
Zinc Consumption, thousand tonnes	13,883	14,237	14,554	14,741	14,877	15,018	15,129	15,228	15,339	15,456	15,523
Zinc Production Balance, thousand tonnes	297	128	60	203	230	393	460	521	510	466	421

e/f = Fitch Solutions estimate/forecast. Source: Bloomberg, USGS, Fitch Solutions

This report from Fitch Solutions Country Risk & Industry Research is a product of Fitch Solutions Group Ltd, UK Company registration number 08789939 ('FSG'). FSG is an affiliate of Fitch Ratings Inc. ('Fitch Ratings'). FSG is solely responsible for the content of this report, without any input from Fitch Ratings. Copyright © 2020 Fitch Solutions Group Limited. © Fitch Solutions Group Limited All rights reserved.