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China Turns Zinc Into Car Parts as Consumer Demand Surges

By Alex Davis and Luzi Ann Javier - Apr 22, 2014

Record spending by Chinese consumers on new refrigerators, cars and laptops is boosting zinc demand, creating the biggest production shortfall for the metal in eight years.

Demand for zinc used in everything from steel auto parts and brass plumbing fixtures to rubber and sunscreen will exceed output by 117,000 metric tons this year, almost double the 2013 deficit, the International Lead and Zinc Study Group estimates. Morgan Stanley predicts prices in [London](#) will rise more than any other industrial metal in 2015.

Chinese producers including Baiyin Nonferrous Metals Co. are restarting smelters they closed last year as stockpiles tracked by the London Metal Exchange shrink to a two-year low. While the economy is slowing in [China](#), the world's biggest user, growth is more than twice the rate of the U.S. as Premier [Li Keqiang](#) seeks to spur consumer spending and car sales increase by double-digits.

“The supply-and-demand picture has really improved,” said Sameer Samana, a St. Louis-based international strategist at Wells Fargo Advisors LLC, which oversees about \$1.4 trillion.

“Inventories have come down, and we're starting to see the very beginning of demand rebounding.”

Zinc for delivery in three months on the LME is up 1.6 percent this year at \$2,087 a ton, after slipping 1.2 percent in 2013. An LME [index](#) tracking zinc, copper, aluminum, nickel, lead and tin is down 2.5 percent. The Standard & Poor's [GSCI \(SPGSCI\)](#) Spot Index of 24 commodities rose 4.1 percent. The MSCI All-Country World Index of equities climbed 1 percent, and the Bloomberg Treasury Bond Index rose 2 percent.

Cash Prices

Annual average cash prices on the LME may climb 13 percent to \$2,331 in 2015 from \$2,066 in 2014, more than the other five industrial metals on the bourse, Morgan Stanley estimated in an April 8 report. Barclays Plc forecast a price of \$2,400 in a March 26 report. Zinc averaged \$2,025 this year.

Use of the metal will expand 4.5 percent to 13.6 million tons this year, while refinery output will increase 4.4 percent to 13.5 million tons, the [zinc study group](#) said in an April 2 report. Deutsche

Bank AG sees a gap of 400,000 tons, forecasting demand growth at 5.4 percent, up from 4 percent last year.

China will use 7 percent more zinc this year, according to Barclays. The nation now accounts for 44 percent of the [world total](#) compared with 16 percent in 2000, the study group estimates. Imports rose 21 percent last year, customs [data](#) show.

Chinese Consumer

Li wants Chinese shoppers to have a bigger role in the economy. The government will employ “a comprehensive set of policies to boost [consumer spending](#), raise people’s spending power, increase consumption of goods and services and reduce distribution costs so that consumption can provide greater support for economic development,” he [said](#) on April 10.

The shift will provide a bigger jolt to purchases of zinc than for copper and iron ore, said Samya Beidas-Strom, a senior economist at the Washington-based [International Monetary Fund](#).

“Metals move with per capita income,” Beidas-Strom said in a telephone interview. “As the Chinese people start buying more washing machines and fridges and cars, they will use more metals that go into durable goods,” including zinc, she said.

About half of the metal’s [use is for](#) consumer products, electrical appliances and transportation, the zinc study group estimates.

Household Spending

China’s per-capita urban [household spending](#) climbed 8.1 percent in 2013 to the highest since Bloomberg began collating the data in 2002. In terms of zinc demand, the nation is following the same track as [South Korea](#), [Asia](#)’s third-largest user, where consumption has surged in line with per-capita income, Beidas-Strom said.

By contrast, Chinese demand for copper will slow to 5.7 percent this year and 5.5 percent in 2015, from 7.3 percent last year, according to Morgan Stanley. Prices will slip to \$6,200 a ton over the next 12 months from \$6,615.75 today, Goldman Sachs Group Inc. said in an April 13 report.

Prospects for a slowing [economy](#) are still a concern, with 55 economists surveyed by Bloomberg forecasting 2014 growth at 7.4 percent, which would be the weakest since 1990. While China last month set an expansion target at 7.5 percent, the same as last year, that’s less than the 7.7 percent reached in 2013. There’s already speculation it will miss its goal. Growth eased to 7.4 percent in the first three months.

Outside Exchanges

Improving prospects for prices prompted [Teck Resources Ltd. \(TCK\)](#) to announce plans to restart the Pend Oreille zinc mine in Washington state. The mine is expected to produce 44,000 tons of concentrate annually for at least five years, the Vancouver-based company said today in a statement.

Chinese demand may also be “overstated” as unreported stock building is confused for consumption, Citigroup Inc. said in an April 14 report. Signs of declining inventory in exchange warehouses may be driven by traders seeking to take advantage of lower rental rates in non-exchange storage, the bank said.

The market “continues to struggle under what we believe is a considerable volume of reported and unreported zinc inventory,” according to the bank, which forecasts the metal will remain in a range of \$1,900 to \$2,100 a ton this year. It forecasts stronger prices in 2015, rising as high as \$2,400.

While [stockpiles](#) on the Shanghai Futures Exchange are 40 percent below the record high reached in 2011, they rose about 5 percent this year, according to bourse data.

About a quarter of zinc [goes into](#) transportation, mostly cars. Vehicle sales in the top market will grow 10 percent a year through 2020 and reach 40 million units annually after reaching 22 million last year, according to the China Association of Automobile Manufacturers.

Inventories

The ratio of global stockpiles to usage, a measure of how long inventories would last, will drop to 4.4 weeks by 2015, the lowest since 2008, Morgan Stanley forecasts. LME inventory is now 35 percent below an 18-year high in 2012, after slipping 14 percent to 798,400 tons this year.

Mine output will grow 5.9 percent in 2014, with gains slowing to 3.9 percent in 2015 and 0.5 percent in 2019, the bank estimates. New capacity arriving in a timely fashion and at reasonable cost could prove “a challenge,” Morgan Stanley says. The long-term incentive price needed to attract new developments is \$2,740 a ton on a nominal basis, it said.

Baiyin Nonferrous Metals, China’s sixth-biggest smelter, last month started one of two plants in [Gansu province](#) it shut in August as prices fell. The 100,000 ton-a-year plant resumed operations on March 26, with the other still idled, Zhang Jinlong, a company spokesman, said April 15.

‘Zinc Cycle’

“Commodities move in cycles, and the zinc cycle has been bad for some time now,” said [John Kinsey](#), a [fund manager](#) at Caldwell Securities Ltd. in Toronto, which oversees C\$1 billion (\$908 million). “When these things happen, the marginal mines close, and so that reduces supply. This is a better year for zinc because supply and demand is in better balance.”

For [Shenzhen Zhongjin Lingnan Nonfemet Co. \(000060\)](#), China's third-largest producer, improving demand means it can keep mining and smelting at full capacity. [Operating profit](#), which shrank 50 percent to 481.4 million [yuan](#) (\$77.4 million) in fiscal 2013, will rise 4.5 percent this year and 15 percent in 2015, the average of four estimates compiled by Bloomberg shows.

“We would hope operating profit will increase by 10 to 15 percent this year,” said Wu Xijun, the senior analyst at Shenzhen Zhongjin. “Zinc consumption will remain strong in the next ten years.”

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