

Zinc Industry - 10MFY21 update

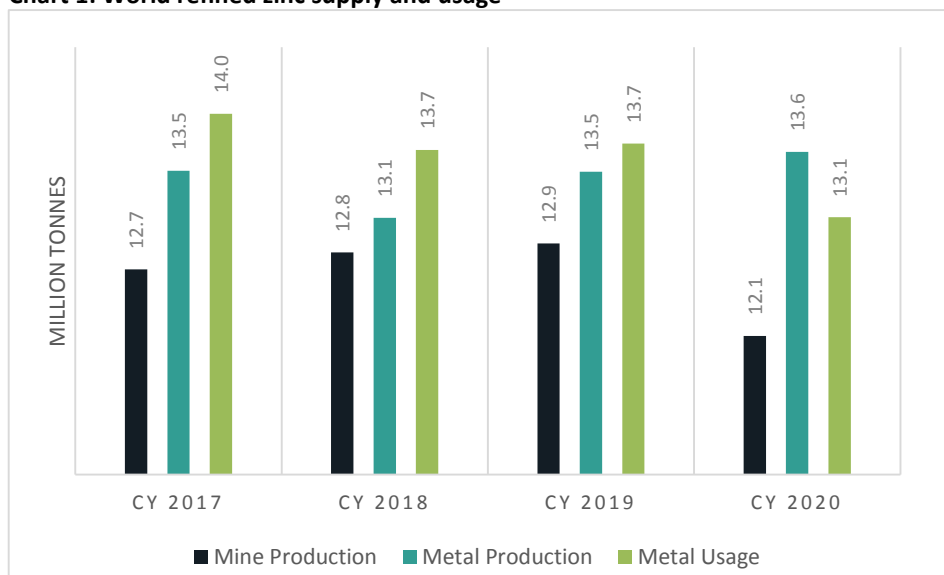
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Global zinc market in CY 2020:

World zinc concentrate production fell by a sharp 5.9% in Calendar Year (CY) 2020 as Covid-19 pandemic restricted mining operations in several countries. Miners were unable to ramp up output to pre-Covid levels even after operations restarted given the challenges to comply with Covid-19 regulations as well as marine logistical challenges. Lower supply of concentrate impacted production of refined zinc metal which increased by just 1.2%. The increased production was mainly a result of a 2.9% growth in Chinese output. China is the largest producer and consumer of refined zinc metal in the world. It alone accounts for 46% of total global production and consumes more than half of the global supply.

China was the only country to report increase in zinc consumption in 2020. However, despite an increase in China's refined zinc metal consumption by 1.3% overall consumption fell by 4.4% globally. This was mainly due to fall consumption in India (4% share in total consumption), USA (6%), Japan (3%) and the Republic of Korea (3%) and Europe (16%). Consumption in world ex-China fell by 9.7% in 2020.

Chart 1: World refined zinc supply and usage



Source: ILZSG

Prices:

The US-China trade war kept zinc prices under pressure in CY 2019. Prices fell from \$ 2,933 per tonne in April to \$ 2,273 in December 2019. Prices peaked in January 2020 to \$ 2,454 per tonne after the two countries entered into Phase-I trade deal. However, prices were once again pressured lowered by the outbreak of Coronavirus and prices fell to its lowest level in 3 years at \$1,773.50 per tonne at the end of March 2020. Domestic prices followed the trend in the international prices and fell by 13% in FY20. As demand from end-user industries fell due to lockdown and quarantine measures this lead to a sharp rise in inventories of zinc at the exchanges.

Zinc prices staged a strong recovery and not only returned to pre-Covid levels but also touched \$ 2,780 per tonne mark in December 2020, highest level in 1.5 years.

Though inventories in LME-registered warehouses rose sharply to 202 thousand tonnes in 2020 from 51 thousand tonnes in 2019, stocks in SHFE sheds increased by just five thousand tonnes which supported prices during the year.

Indian Scenario:

Table 1: Zinc Indian scenario

	10MFY20	10MFY21	YoY growth
Production	578.3	586.3	1.4%
Import	137.6	103.1	-25.1%
Export	157.6	248.7	57.9%
Avg LME price	2,518	2,365	-6.1%

Source: CARE Ratings, Ministry of Mines, Department of commerce

The demand for zinc in India depends largely on the growth of the steel market as it is mainly used to galvanise steel to protect it from corrosion. The galvanising Industry alone consumes about 57% of zinc, followed by coatings (16%), die-casting alloys (14%), oxides & chemicals (7%) and extruded products (6%). The domestic zinc industry is dominated by one primary producer viz. Hindustan Zinc thereby making the domestic zinc industry virtually monopolistic in nature. Demand from steel consuming sectors like automobiles, construction remained weak in Q1FY21 due to the imposition of lockdown towards end of March 2020. Zinc production fell by 8% during the first quarter of FY21 as compared to the corresponding quarter of the previous year due to the lockdown. Domestic manufacturers stepped up exports in absence of domestic demand which shot up 113% in Q1 and by 62% in Q2FY21 compared with the corresponding quarters of the previous year.

Fall in zinc consumption was in line with slowdown in domestic steel production as well as general slowdown in manufacturing activity. However, domestic demand for zinc made a strong recovery with the unlocking process beginning from June 2020 onwards. Higher domestic as well as international demand resulted in a sharp 8.6% yoy growth in zinc output in Q2 and 2.2% growth in Q3FY21. Exports moderated to 19% yoy growth in Q3FY21.

Outlook:

Excluding China, global steel production in CY 2020 remained significantly lower. While China's steel production has witnessed a 5.2% yoy growth, steel production in the rest of the world has declined by around 7.7%. This has impacted the global demand for zinc, however, on the supply side as well; there has been a reduction in the zinc mine production that has supported the global zinc prices to some extent. Having said that, global economies have been witnessing improving trend in the economic indicators on the back of various stimulus packages announced and the same has resulted into near V shape recovery into major developing economies like China and India. CARE expects global economies to move on their recovery paths from the advancement of vaccine availability against the covid-19 pandemic.

In the domestic market, with the opening up of the economy, steel demand from the infrastructure and the automobile sector has also witnessed a sharper recovery, resulting into improvement in zinc demand during H2FY21. Going ahead, CARE expects global steel demand is likely to show further recovery. Government initiatives such as modernization of railways and the construction of highways is expected to encourage the use of galvanized steel for durability and endurance.

Recovery in domestic steel demand and expectations of a higher steel production during FY22 is likely to result into higher demand for zinc.

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