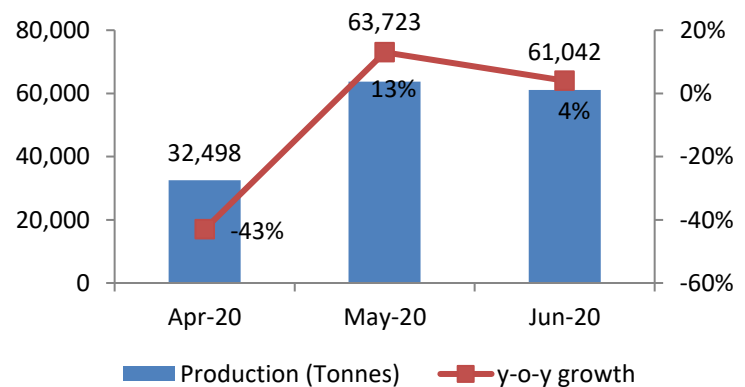


Zinc and Lead: Performance in Q1 FY21

Zinc:

Refined zinc production stood at 157.2KT tonnes during Q1FY21, down 8.4% as compared to Q1FY20 and 8.5% as compared to Q4FY20 due to lower production in the month of April 2020. Production in April was impacted by COVID-19 related lockdown which came into effect from 22nd March 2020 Onwards. As a result, mines only re-started operations from 17th April 2020 at 50% capacity, in line with government regulations. Consequently, production in April 2020 was lower by 43% on a y-o-y basis. However, production fully recovered in May and was up by 13% y-o-y. In June 2020, production grew by 4% y-o-y to 61 KT, but was down 4.2% sequentially.

Chart 1: Refined Zinc production in Q1FY21



Source: Ministry of Mines

Domestic producers are likely to have exported a much larger share of volumes due to slowdown in domestic demand. Zinc sales fell by 27% in line with fall in production in Q1 FY21 vs Q1 FY20.

Prices:

The already weak price environment was worsened by the COVID-19 pandemic in Q4 FY20 and zinc prices touched multi-year lows in March 2020. Prices recovered in May and trended above USD 2,050 per tonne in June and July, post easing of sanctions and restrictions globally.

With easing of restrictions there has been an improvement in global production of zinc. However these have found their way into the London Metal Exchange (LME) due to poor regional demand. Inventory of zinc at the LME touched 1.5-year high in July 2020. Since March 2020, inventory of zinc has climbed 155%, indicating weak demand outside of China. Inventory of zinc at the SHFE has been on a decline due to increased consumption by China, which has supported prices over the last two months.

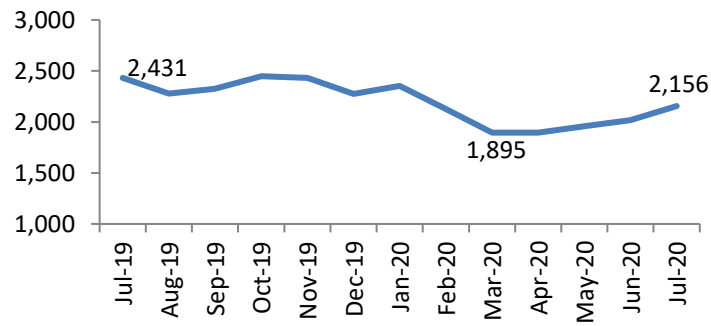
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Chart 2: Trend in international zinc prices (USD/tonne)



Source: LME

➔ Outlook for FY21

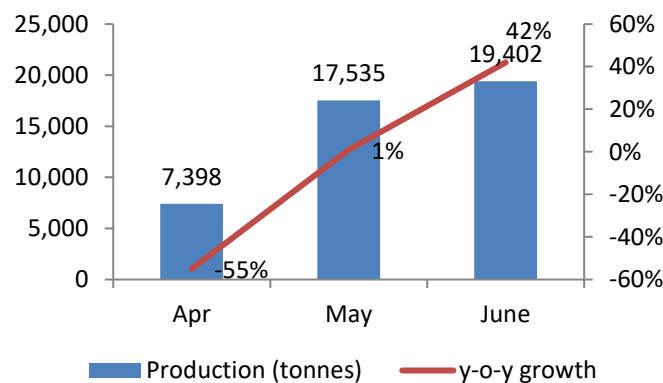
Zinc prices likely bottomed in March and are expected to remain in the current range in FY21. This is because global zinc market is expected to post a surplus of 71 KT in Calendar Year 2020, compared with a deficit of 189 KT in 2019. According to preliminary data recently compiled by the ILZSG, the global market for refined zinc metal was in surplus by 239kt over the first three months of 2020 with total reported inventories increasing by 156kt.

Surplus would reduce as economy starts opening up. Demand for zinc is expected to remain subdued in the H1 FY21 due to lower demand from the steel sector. Consumption of zinc is likely to contract in FY21 year-on-year, largely in line with the decline in steel demand.

Lead:

Domestic Refined Lead production was 44.3KT for Q1FY21, down 6.7% as compared to Q1FY20 and 10.7% as compared to Q4FY20 due to Coronavirus led fall in demand. A sharp 55% y-o-y fall in production in April 2020 pulled down demand for the quarter. Production improved in the subsequent months with easing of lockdown restrictions.

Chart 3: Refined Lead production in Q1FY21

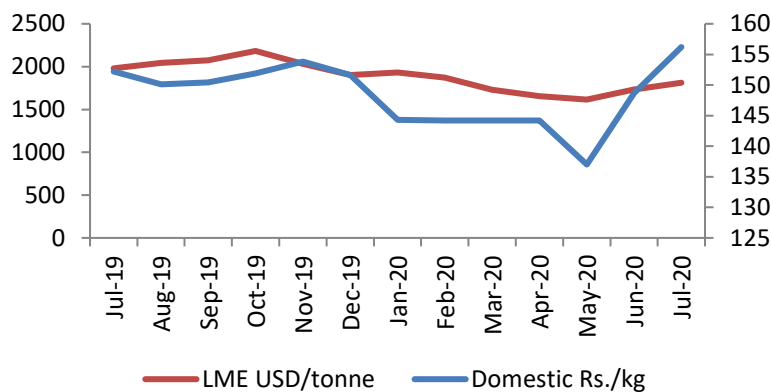


Source: Ministry of Mines

Inventory of Lead has started piling up at the LME with increase in production as demand is yet to return to pre-Covid 19 levels. Inventory of Lead at LME shot up by 77% in July 2020 compared to June. However, inventory at SHFE has been declining which is lending support to the prices.

Lead prices which were already sluggish in 2020 fell m-o-m during January 2020 to May 2020. The outbreak of Coronavirus forced several automobile companies to shut down their factories to stem the spread of virus in March and April 2020. The demand from power back up sector like UPS/invertor was impacted due to shutdown of manufacturing facilities and overall slowdown in manufacturing activities. Like all other commodity prices, Lead metal prices too improved m-o-m in June and July 2020 over optimism of a quick global economic turnaround as China reporter better industrial data.

Chart 4: Trend in Lead prices



Source: LME, CMIE

Outlook for FY21

Though China has increased production post lockdown there has been a rise in inventory at the LME due to muted regional demand. Inventory of Lead at LME shot up to 117.6KT at the end of July 2020 compared to 66.5Kt in June 2020.

Global industrial activities may remain subdued in the near-term due to the negative impact of the pandemic. If the looming tension between US and China intensifies it may weigh on the base metal demand from China. Going forward, though demand from automobiles sector is expected to remain weak, replacement demand for batteries (accounting for around 50-60% of demand from auto sector) is likely to support fall in demand for lead acid batteries. It may take a while for automobile OEM demand to return to normal levels as the segment globally is struggling.

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