

Basic Materials - China

Post-CNY ground checks on coal, aluminum, copper, steel & lithium

Industry Overview

Coal - CNY destocking was better than previous years, NT price supported: CCTD data shows China spot thermal benchmark QHD5,500 was at RMB928/ton as of 19 Feb, vs. RMB910/ton pre-CNY. CCTD suggests barely any inventory accumulation in major ports during the holiday. Production, especially in privately owned mines, is unlikely to fully rebound before the Lantern Festival (24 Feb), while demand is likely to see a marginal increase; besides, another nation-wide cold wave expected in the coming weeks, which could lift consumption. Yet, traders have limited motivation to restock as the peak season is about to close. Overall, spot price is likely supported near term.

Steel - quiet but less bearish sentiment: Mysteel suggests the market remains in low production, low demand, low inventory, and high cost. Specifically, most BF maintained production while EAF plants halted for maintenance. Molten iron production was more stable, while finished steel production declined. Demand was -14%yoy (long steel -29%, flat steel -10%) and -38%yoy at 5.51mnt as construction and trader procurement were suspended during the holiday. The market appears positive on the marginal demand improvement post-holiday. Inventory was +18%yoy/-12%yoy at 21.03mnt. Steel mills usually hike prices after the holiday based on past trends. Mysteel reported steel billet price was +RMB80/t on 18 Feb. Price should be supported by cost near term.

Aluminum - low inventory support price: smelter operated steadily during CNY. Yunnan is in drought season but renewable and thermal power supplies increased yoy. Local smelters are waiting for more precise guidance on power supply before deciding to resume production. The no changes to capacity in other regions so far. On the demand side, processing plants have seen a decline in run-rate, while the majority have plans to resume over 1/3 of capacity in run-rate, while majority plan to resume between 1/3 - 1/2. Overall demand is likely to improve post-holiday with positive macro policies, which should support price. Inventory has been building up, but lower yoy. According to SMM, aluminum ingot inventory was -32%yoy at 0.64mnt and total aluminum ingot & bar inventory was -18%yoy at 0.9mnt, the lowest post-CNY level in six years.

Copper - orderbooks weak: According to SMM, downstream consumption before the holiday did not show a significant decline, and pre-holiday restocking of refined copper rod enterprises increased by nearly 20%. Social inventory was also at a low level compared with previous years. However, according to Antaike, orderbooks post-holiday look weak and downstream operating rate could decline in Feb. A survey with a few copper cable companies showed that no one is buying copper for the moment and they expect more demand recovery later this week or after the Lantern Festival.

Lithium - still bearish: As the lithium companies that rely on imported spodumene are loss-making, SMM expects China lithium carbonate production in Feb to decrease by 23% MoM. Most lithium factories undergoing maintenance will gradually resume production around the Lantern Festival. Yet, majority of the smaller companies that have suspended production due to loss may not resume production until margin turns around, due to loss may not resume production until margin turning around.

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NT: near term

CNY: Chinese New Year

BF: Blast Furnace

EAF: Electric Arc Furnace

Mnt: million ton

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