



Sector Report: Nonferrous Metals Sector

行业报告：有色金属行业

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6 June 2023

Bi-Weekly Update: Metal Prices Will Be Supported by Expectation of Supportive Domestic Policies

双周报：对国内支持政策预期将支撑金属价格

- **Support from the US dollar is weakening, but expectation of supportive domestic policies will support metal prices.** US debt ceiling negotiations between the Republican and Democratic parties ended successfully with an agreement reached. As a result, financial market uncertainties declined and investor risk preference climbed again.
- **Low inventory may support aluminum price; focus is on change of aluminum supply-demand balance.** Aluminum smelters in Yunnan Province will resume production gradually and primary aluminum output may increase in the 2nd quarter of 2023. Aluminum consumption demand remained weak in the off-season and capacity utilization rate of aluminum fabricating companies remained weak.
- **Pressure on copper price was relieved as the Republican and Democratic parties successfully reached an agreement regarding the debt ceiling.** Investor risk preference climbed again as financial market uncertainties declined.
- **We maintain "Outperform" investment rating for the nonferrous metals sector.** We recommend China Hongqiao (01378 HK), Xingfa Aluminium (00098 HK), and Zijin Mining (02899 HK).
- **美元支撑弱化，但对国内支持政策的预期将支撑金属价格。** 共和党与民主党关于美债上限的谈判成功结束并达成了协议。因此，金融市场的不确定性下降了，投资者的风险偏好再度上升。
- **低库存或将支撑铝价，焦点是铝供需平衡的变化。** 云南的铝冶炼厂将逐步恢复生产，原铝产量在 2023 年第二季度会增长。铝的消费需求在淡季依旧疲弱，铝加工企业的产能利用率保持弱势。
- **由于共和党与民主党关于债务上限成功达成协议，铜价的压力缓解。** 由于金融市场的不确定性下降，投资者的风险偏好再度上升。
- **我们维持有色金属行业“跑赢大市”的投资评级。** 我们推荐中国宏桥（01378 HK）、兴发铝业（00098 HK）和紫金矿业（02899 HK）。

Rating:

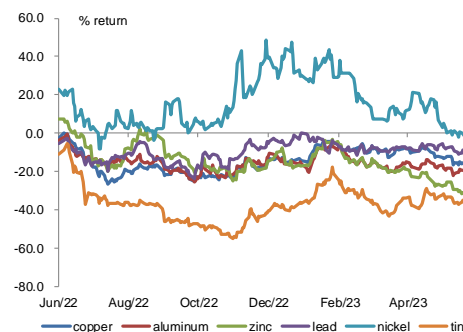
Outperform

Maintained

评级:

跑赢大市 (维持)

Nonferrous metals sector performance
有色金属行业表现



Source: Bloomberg.

Sector Update

Support from the US dollar is weakening, but expectation of supportive domestic policies will support metal prices. US debt ceiling negotiations between the Republican and Democratic parties ended successfully and an agreement had been reached. As a result, financial market uncertainties declined and investor risk preference rose again. On the other hand, the US Manufacturing PMI Index was only 46.9 in May, which indicated that the macro economy was still weak which lowers the possibility of another interest rate hike in June. China's Manufacturing PMI Index was down 0.4 ppts month-over-month to 48.8 in May, which reflected that economic momentum was still weak. We believe the US Federal Reserve's interest rate hike cycle is approaching the terminal point and China may release more stimulus policies. We believe expectations of supportive domestic policies will support metal prices.

Aluminum: Low inventory may support aluminum price; focus is on the change of aluminum supply-demand balance.

Supply side:

Primary aluminum smelters in Yunnan Province will resume production gradually and primary aluminum output may increase in the 2nd quarter of 2023. As hydropower supply is expected to increase in the near term, smelters which utilize hydropower in Yunnan Province all prepare to restart production. The supply of primary aluminum increased slightly as several aluminum smelters in Guizhou Province resumed production. Total production capacity increased 30,000 tons this week to 40.66 million tons.

Demand side:

Aluminum consumption demand remained weak in the off-season and capacity utilization rate of aluminum fabricating companies also remained weak. Production capacity utilization rate of leading aluminum fabricating companies was 64.1%, which remained flat. Capacity utilization rate of aluminum extrusion products was down 0.5 ppts to 66.5%, and capacity utilization rate of aluminum wires was up 1.0 ppts to 59.0%. Domestic aluminum inventory continually declined; The Shanghai Metals Market (SMM) commercial inventory of aluminum decreased 62,000 tons to 0.60 million tons, and aluminum bar decreased 6,200 tons to 0.14 million tons.

Copper: Pressure on copper price was relieved as the Republican and Democratic parties successfully reached an agreement regarding the debt ceiling. Investor risk preference climbed again as uncertainties declined. Additionally, officials from the US Federal Reserve are not that hawkish and lowered expectations of another interest rate hike in June. However, China's Manufacturing PMI Index weakened in April and May; investors expect more stimulus policies in the coming months. Supply and demand fundamentals of copper should also be monitored; focus is on overseas copper mine production resumption and China's copper demand during the off-season.

Investment suggestions

We maintain "Outperform" investment rating for the nonferrous metals sector. We recommend China Hongqiao (01378 HK), Xingfa Aluminium (00098 HK), and Zijin Mining (02899 HK).

Risks

1. Conflict between Russia and Ukraine may continue.
2. Downstream consumption demand may be lower than expectations.
3. US Federal Reserve interest rate hikes may be higher than expectations.
4. China's macroeconomic growth rate may be lower than market expectations.
5. Growth rate of new energy vehicles may be lower than market expectations.

Price and Inventory of Base Metals
Table-1: Change in metal price

SHFE (RMB/t)	2023/6/5	wow	mom	yoy
Copper	65,770	1.56%	-1.10%	-8.39%
Aluminum	18,190	1.82%	-0.44%	-10.92%
Lead	15,050	-1.15%	-1.70%	-0.13%
Zinc	19,075	-1.04%	-9.04%	-27.37%
Tin	209,770	3.22%	1.38%	-21.07%
Nickel	158,440	0.83%	-11.54%	-25.05%
LME (US\$/t)	2023/6/5	wow	mom	yoy
Copper	8,237	1.25%	-4.01%	-13.29%
Aluminum	2,264	1.16%	-2.37%	-16.97%
Lead	2,032	-2.26%	-4.06%	-6.34%
Zinc	2,307	-1.58%	-14.14%	-40.32%
Tin	25,651	3.24%	-1.58%	-26.56%
Nickel	21,211	0.23%	-13.53%	-24.57%

Source: Bloomberg, Guotai Junan International.

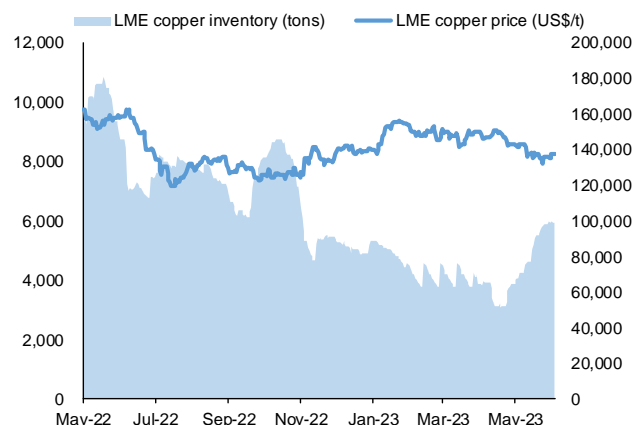
Table-2: Change in metal inventory

SHFE (tons)	2023/6/5	wow	mom	yoy
Copper	86,648	0.55%	-35.78%	99.89%
Aluminum	147,039	-5.02%	-35.48%	-47.32%
Lead	34,087	20.19%	39.20%	-58.11%
Zinc	47,011	-1.21%	-21.75%	-72.45%
Tin	9,037	1.37%	-3.38%	234.33%
Nickel	3,678	556.79%	229.87%	9.82%
LME (tons)	2023/6/5	wow	mom	yoy
Copper	98,675	0.97%	40.11%	-32.39%
Aluminum	579,025	-0.13%	3.04%	27.57%
Lead	36,450	2.75%	11.81%	-6.06%
Zinc	87,450	17.30%	68.17%	4.64%
Tin	1,970	2.34%	26.28%	-32.88%
Nickel	37,602	-2.84%	-6.25%	-47.39%

Source: Bloomberg, Guotai Junan International.

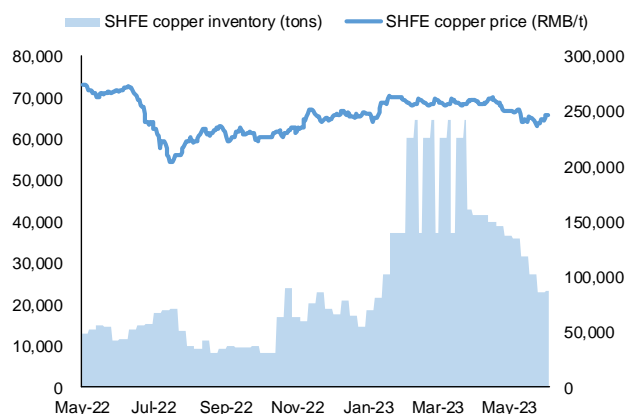
Copper Sector

Figure-1: LME copper price and inventory



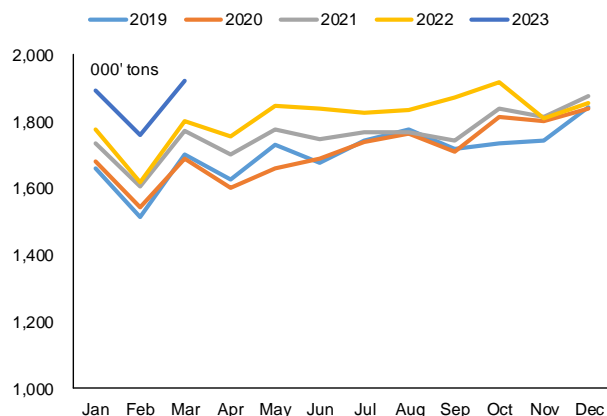
Source: Bloomberg, Guotai Junan International.

Figure-2: SHFE copper price and inventory



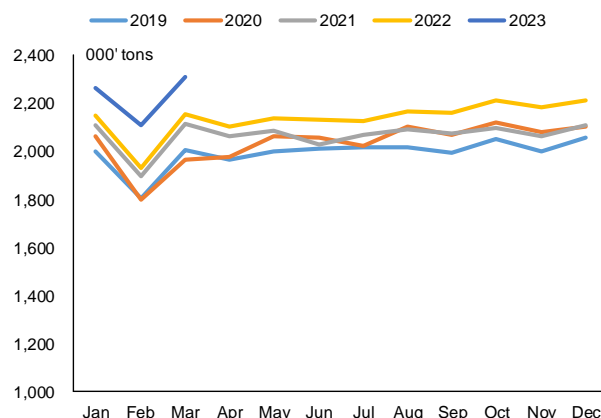
Source: Bloomberg, Guotai Junan International.

Figure-3: Global monthly output of prime copper



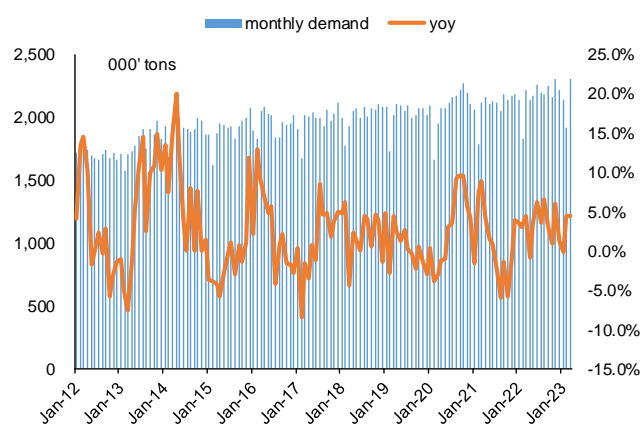
Source: International Copper Study Group, Guotai Junan International.

Figure-4: Global monthly output of refined copper



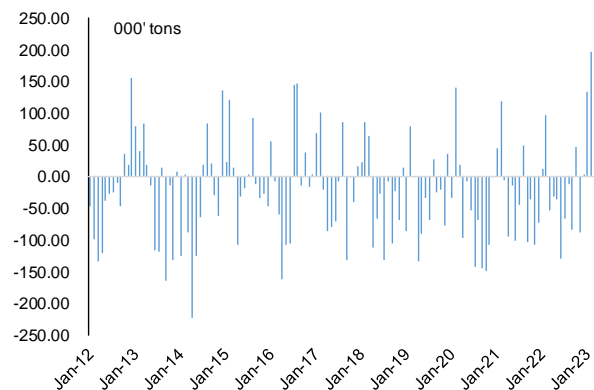
Source: International Copper Study Group, Guotai Junan International.

Figure-5: Global monthly demand of refined copper



Source: International Copper Study Group, Guotai Junan International.

Figure-6: Global copper supply-demand balance



Source: International Copper Study Group, Guotai Junan International.

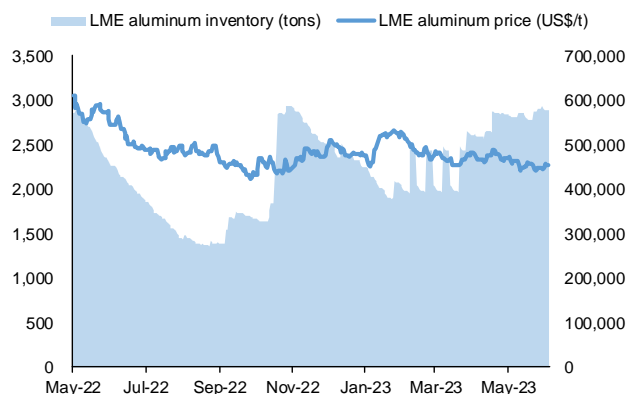
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Sector Report

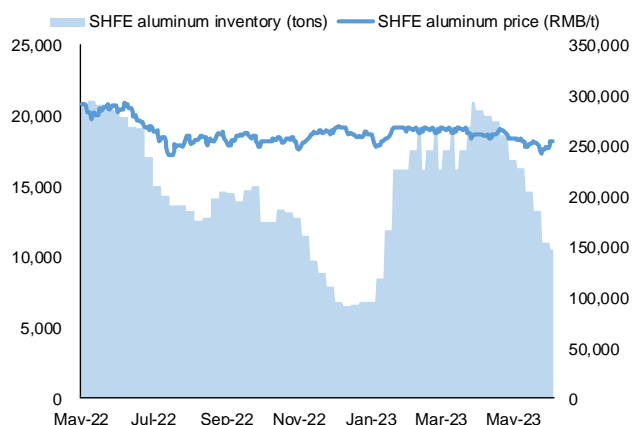
Aluminum Sector

Figure-7: LME aluminum price and inventory



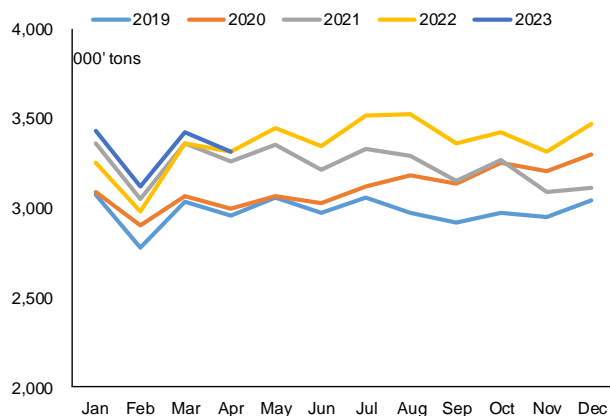
Source: Bloomberg, Guotai Junan International.

Figure-8: SHFE aluminum price and inventory



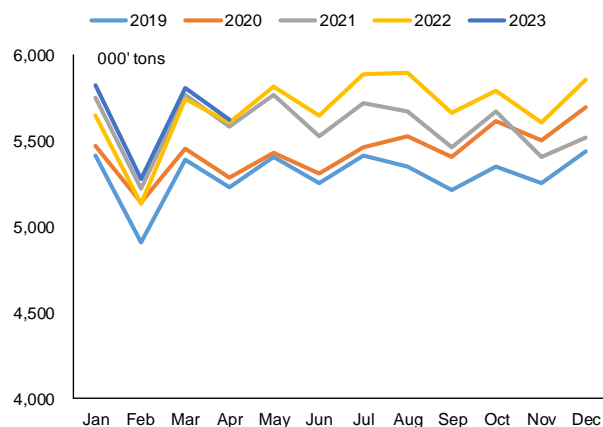
Source: Bloomberg, Guotai Junan International.

Figure-9: Monthly aluminum output of China



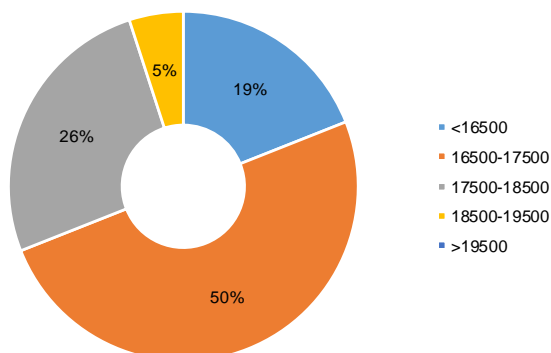
Source: International Aluminum Institute, Guotai Junan International.

Figure-10: Monthly aluminum output, global



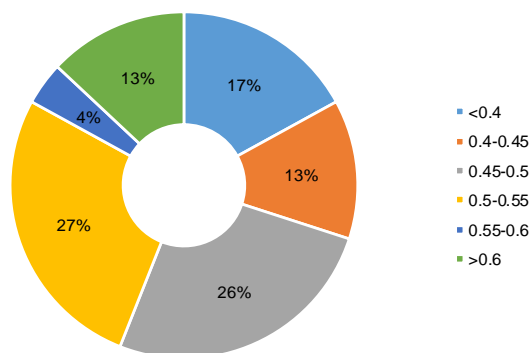
Source: International Aluminum Institute, Guotai Junan International.

Figure-11: Production costs distribution of China's smelters



Source: Baichuan Info, Guotai Junan International.

Figure-12: Electricity costs distribution of smelters



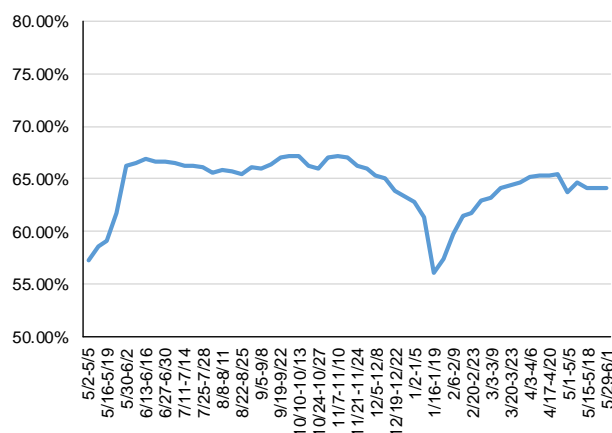
Source: Baichuan Info, Guotai Junan International.

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Nonferrous Metals Sector 有色金属行业

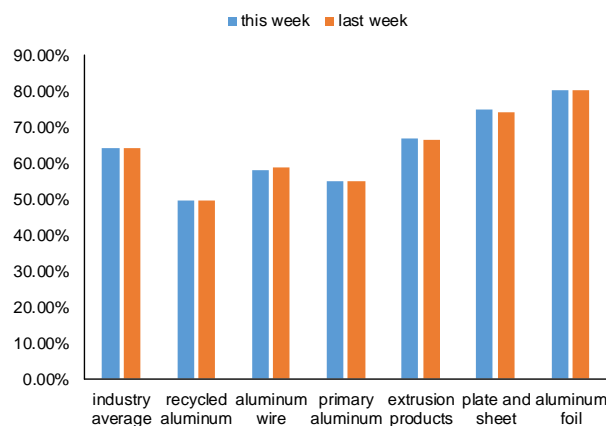
Sector Report

Figure-13: SMM aluminum fabrication industry utilization rate survey



Source: SMM, Guotai Junan International.

Figure-14: SMM aluminum fabrication industry utilization rate survey



Source: SMM, Guotai Junan International.

Table-3: SMM aluminum fabrication industry utilization rate survey

Date	industry average	recycled aluminum	aluminum wire	primary aluminum	extrusion products	plate & sheet	aluminum foil
9/12-9/15	66.40%	49.10%	59.00%	62.00%	65.40%	80.00%	82.70%
9/19-9/22	67.10%	51.00%	60.00%	62.00%	66.70%	80.00%	82.70%
9/26-9/29	67.20%	51.00%	58.00%	64.00%	67.00%	80.00%	83.30%
10/10-10/13	67.20%	51.60%	57.00%	64.00%	67.50%	80.00%	83.30%
10/17-10/20	66.20%	51.60%	56.20%	64.00%	67.50%	74.60%	83.30%
10/24-10/27	66.00%	51.60%	56.20%	64.00%	68.00%	73.40%	82.60%
10/31-11/3	67.10%	51.60%	58.20%	64.00%	67.50%	74.60%	83.30%
11/7-11/10	67.20%	51.00%	58.20%	64.00%	67.80%	79.60%	82.60%
11/14-11/17	67.10%	51.00%	58.20%	64.00%	67.80%	79.60%	81.90%
11/21-11/24	66.30%	51.00%	58.20%	62.00%	65.80%	79.60%	81.10%
11/28-12/1	66.00%	51.00%	58.20%	62.00%	64.30%	79.60%	81.10%
12/5-12/8	65.30%	51.00%	58.20%	59.00%	64.30%	78.00%	81.10%
12/11-12/15	65.00%	51.00%	58.00%	59.00%	64.30%	77.00%	80.60%
12/19-12/22	63.90%	50.00%	58.00%	59.00%	62.30%	74.40%	79.90%
12/26-12/29	63.40%	49.40%	57.60%	57.00%	62.30%	74.40%	79.90%
1/2-1/5	62.80%	49.00%	57.60%	57.00%	59.30%	74.40%	79.40%
1/9-1/12	61.40%	49.00%	57.20%	55.00%	54.50%	73.00%	79.40%
1/16-1/19	56.10%	33.80%	46.00%	55.00%	49.50%	73.00%	79.40%
1/30-2/2	57.40%	39.40%	42.00%	55.00%	55.50%	73.00%	79.40%
2/6-2/9	59.80%	44.40%	47.00%	55.00%	57.50%	75.40%	79.40%
2/13-2/16	61.50%	47.50%	50.00%	56.20%	58.00%	77.00%	80.40%
2/20-2/23	61.80%	47.50%	50.00%	56.20%	58.00%	77.80%	81.10%
2/27-3/2	63.00%	49.40%	53.00%	56.20%	60.00%	78.20%	81.10%
3/3-3/9	63.20%	50.40%	53.00%	56.20%	60.50%	78.20%	81.10%
3/13-3/16	64.20%	50.40%	55.00%	56.20%	63.50%	78.80%	81.10%
3/20-3/23	64.40%	50.40%	56.00%	56.20%	64.00%	78.80%	81.10%
3/27-3/30	64.70%	50.40%	56.00%	56.20%	65.00%	79.40%	81.40%
4/3-4/6	65.20%	50.10%	58.00%	56.20%	66.00%	79.40%	81.40%
4/10-4/13	65.30%	50.10%	58.40%	56.20%	66.00%	79.40%	81.40%
4/17-4/20	65.30%	50.10%	58.40%	56.20%	66.00%	79.40%	81.40%
4/24-4/27	65.50%	49.80%	58.40%	56.20%	68.00%	79.40%	81.40%
5/1-5/5	63.80%	44.00%	56.40%	55.00%	66.70%	79.40%	81.40%
5/8-5/11	64.70%	49.60%	58.00%	55.00%	66.70%	78.00%	81.00%
5/15-5/18	64.20%	49.60%	58.00%	55.00%	67.50%	75.80%	80.30%
5/22-5/25	64.10%	49.60%	58.00%	55.00%	67.00%	74.80%	80.30%
5/29-6/1	64.10%	49.60%	59.00%	55.00%	66.50%	74.40%	80.30%

Source: SMM, Guotai Junan International.

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Nonferrous Metals Sector 有色金属行业

Sector Report

Company Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating		Definition
Buy	买入	Relative Performance >15%; or the fundamental outlook of the company or sector is favorable.
Accumulate	收集	Relative Performance is 5% to 15%; or the fundamental outlook of the company or sector is favorable.
Neutral	中性	Relative Performance is -5% to 5%; or the fundamental outlook of the company or sector is neutral.
Reduce	减持	Relative Performance is -5% to -15%; or the fundamental outlook of the company or sector is unfavorable.
Sell	卖出	Relative Performance <-15%; or the fundamental outlook of the company or sector is unfavorable.

Sector Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating		Definition
Outperform	跑赢大市	Relative Performance >5%; or the fundamental outlook of the sector is favorable.
Neutral	中性	Relative Performance is -5% to 5%; or the fundamental outlook of the sector is neutral.
Underperform	跑输大市	Relative Performance <-5%; or the fundamental outlook of the sector is unfavorable.

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