As auto sector slows, lead prices may rule lower

Metal's output down 3% in H1 as soaring energy costs, high-interest pose problems

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Prices of lead will likely continue to rule lower for the rest of the year and next year as the automobile sector, the main consumer of the metal, is facing constraints in production that are set to continue over the next few months.

According to the International Lead and Zinc Study Group (ILZSG), an arm of the UN, the metal's production dropped nearly three per cent in the first half of this year to 5.96 million tonnes (mt) compared with 6.15 mt a year ago.

Supply-side disruption

Its usage or consumption declined by about 1.5 per cent to 5.98 mt from 6.06 mt a year ago. However, there was a 22,000 tonnes deficit in refined lead metal in the first half with the inventories slipping by 32,000 tonnes, the ILZSG said in a statement.

"The global demand outlook for lead has steadily deteriorated since Russia's invasion of Ukraine in February and we continue to forecast lower prices by the end of the year and in 2023," said research agency Fitch Solutions Country Risk and Industry Research, an arm of the Fitch Group.

Supply-side disruption at automobile units will contribute to weaker production and thus demand for refined lead will be low, it said.

Pointing to the problems in the automobile sector, it said sales of lead — a soft, malleable, and bluish-white metal extracted from galena and found in ore with zinc, silver and copper — will likely weaken due to a combination of soaring energy prices and rising interest rates, which will undermine global economic growth.

Swinging output, usage

	2018	2019	2020	2021	2022*
Mine output	4.57	4.68	4.46	4.56	2.17
Metal output	12.24	12.27	11.89	12.28	5.97
Usage	12.29	12.24	11.73	12.21	5.98

Source: IZLSG Figures in million tonnes *January-June

Down 19% y-o-y

"We reduced our 2022 global growth forecast from 2.9 per cent in July to 2.8 per cent in August, and we remain slightly below Bloomberg consensus (2.9 per cent).

This slower pace of growth for the global economy is primarily the result of a sharp downward revision to our US growth forecast from 2.4 per cent to 1.8 per cent in 2022," Fitch Solutions said.

"(Lead) Supply is likely to come under further pressure for the remainder of the year after more European smelter cuts were recently announced," said Warren Patterson, Head, Commodities Strategy at ING Think, the economic and financial analysis wing of Dutch multinational financial services firm ING.

Currently, prices of lead on the London Metal Exchange are ruling at $1,9979 a tonne for the three-month contract, while spot prices are quoted at $1,997. The metal's prices have declined by over 19 per cent year-on-year and 4.6 per cen in the past week. Since the beginning of this month, it is down a little over 15 per cent.

Of late, lead prices have come under pressure after IZLSG released its statement on supply and usage data of the metal, primarily used in manufacturing batteries.

Price forecast

"We have left our lead price forecasts unchanged and expect an average of $2,150/tonne in 2022 and $2,100 in 2023. In subsequent years, we expect refined lead prices to remain fairly stable as the market remains well supplied," Fitch Solutions said.

IZLSG said refined lead metal usage fell in a number of countries, most notably Brazil, India, Japan, South Korea, Mexico, Taiwan, Thailand and Turkey. "In Europe and the US, however, usage rose by 2.6 per cent and 2.9 per cent respectively," it said.

In China, spot prices are being offered at a discount from this week after commanding a premium last week after the Xi Jinping administration eased power rationing. According to China-based SMM News, the easing of power curbs has resulted in the supply of second refined lead increasing. Fitch Solutions said supply side disruption at automobile units would lead to a drop in production and result in demand being low for refined lead. This will be primarily due to power costs for manufacturing companies rising continuously in Europe and semiconductor shortage will drag on well into 2023. "Overall, we forecast global vehicle production to drop by 1.5 per cent y-o-y," the research agency said.

It said lead consumption will likely contract by 2.2 per cent in 2022. "Although we forecast lead consumption to grow by 2.4 per cent in 2023, this pace of expansion would only be sufficient to take demand back up to the 2021 level," Fitch Solutions said.

In the long-term, the use of refined lead in the global automobile industry will continue to grow, despite tightening environmental regulations and increasing use of lithium batteries in electric vehicles.