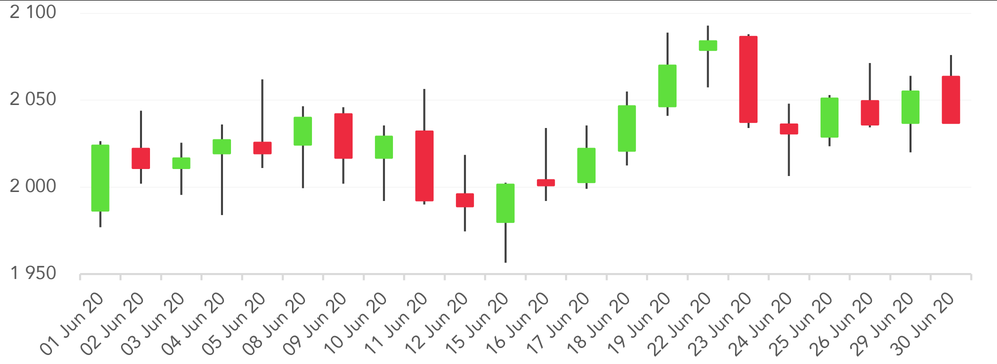
Monthly Outlook: Zinc and Lead

7 July 2020

Fortune favours the base

Technical analysis summary

Zinc LME 3m Select Daily



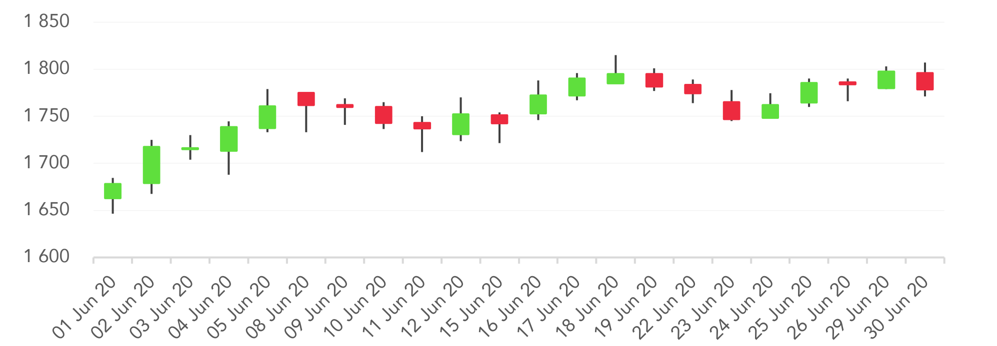
Price Trend

Short term (1-3M):	Medium term (3-6M):	Long term (12M):
Resistances:		
R1: ~~$2 031/t~~ (20 DMA)	R2: ~~$2 067/t~~ (26 Feb High)	R3: $2 167/t (200 DMA)
Support:		
S1: ~~$2 167~~ (200 DMA)	S2: $2 031 (20 DMA)	S3: $2 007 (Mar '20 Low)

Comments:

As a whole, our view of the zinc price for the rest of the year has not changed significantly from the beginning of the year, there of course has been some interesting moves over the past few months given the COVID-19 pandemic which is still nipping at our heels. The recent upward price movement should be continued to be met with strong resistance and head back towards the $1900 - $1950/t level. We see weak figures in the coming months on the consumption front yet fairly stable production flows which further points to negative price sentiment. The market was over supplied at the beginning of the year and this will persist for the remainder of the year weighing on prices.

Lead LME 3m Select Daily



Price Trend

Short term (1-3M):	Medium term (3-6M):	Long term (12M):
Resistances:		
R1: $~~1 655~~/t (20 DMA)	R2: $1~~-661~~/t (40 DMA)	R3: $1 754/t (31 Mar High)
Support:		
S1: $~~1 757~~/t (100 DMA)	S2: $~~1 773.5~~/t (13 May Low)	S3: $1 702/t (Mar '16 Low)

Comments:

Lead has continued to outperform our expectations despite the economic backdrop in which we currently find ourselves. Chinese smelters have had a healthy appetite for material throughout June, although our view is that there will be upward pressure on TCs as supply chains and mine operations begin to further normalize and ramp up. Supporting indicators such as car sales have provided a backbone to lead prices increase, where we have seen a third consecutive month of increases in China. We do see the lead market as slightly over supplied currently, but not to the same extent as zinc.

Source: LME, FastMarkets, MAN Corp S.A

Monthly performance

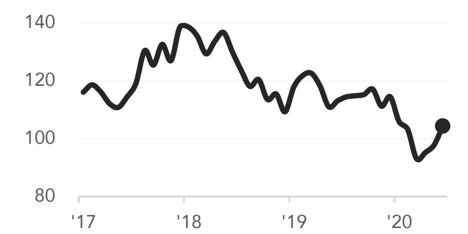
Base Metals*	Spot	m/m
Zinc		
cash settlement	2 056.5	4.3%
3-months	2 067.0	5.1%
Copper		
cash settlement	6 038.0	13.2%
3-months	6 043.5	12.8%
Nickel		
cash settlement	12 790.0	5.5%
3-months	12 837.0	5.3%
Aluminium		
cash settlement	1 602.0	5.7%
3-months	1 621.5	5.5%
Lead		
cash settlement	1 788.5	10.7%
3-months	1 801.5	10.2%
Tin		
cash settlement	16 847.0	8.0%
3-months	16 777.0	8.7%
Zinc TC MB Index	170.0	4.6%
Lead TC MB Index	140.0	-6.7%

China Macro	Latest	Prev.
Caixin PMI (Jun '20)	50.5	50.7
NBS PMI (Jun '20)	50.9	50.6

USDX Close	97.38	-0.9%

Source: Fast Markets | *LME mid-prices ($/tonne)
Zinc and Lead TC prices as of 26 Jun 2020
Lead TC relates to High Silver
All prices correct COB 30 Jun 2020

Bloomberg Industrial Metals SubIndex



Source: Bloomberg, MAN Corp S.A

Research provided by:

MAN Corp S.A

Rue du Cendrier 15,

1201 Geneva, Switzerland

For product purchase/sales inquiries or general information please contact

info@man-corp.com

China outlook: strictly imposing the v-shaped recovery

The month of June began with what some may consider elevated optimism as the world envied China's apparent v-shaped recovery in line with the stated objectives of *Two Sessions* meeting. The eastern sunrise was later eclipsed by the passing of the new securities law in Hong Kong, set to 'infringe' on civil liberties and shake-up the autonomy of China's Special Administrative Region. This new law effectively increases China's power over the territory and is greatly condemned by the western world. Briefly put, **we expect this law to increase protectionist measures against companies operating in Hong Kong, potentially compromise the independence of its Judiciary system, and challenge Hong Kong's special trade status privileges with the U.S and Europe.**

Naturally, this raises concerns as one could be arrested by simply transiting through Hong Kong for travel purposes. Furthermore, Hong Kong's police forces may intercept communications and carry covert surveillance on *suspected individuals* with the approval of Carrie Lam, the regions Chief Executive. **The law has been veiled as a move to increase national security, with pro-democracy protestors abandoning their posts immediately following the signing of the law by China's President Xi Jingping.** Positively, Beijing has stated that the law will not be applied retroactively.

We highlight some key implications resulting in the implementation of this law:

Criminalisation of secession, subversion, and collusion with foreign forces: what some believe will curtail protesting and freedom of speech.

Carte blanche for Chinese state security agencies to operate in Hong Kong for the first time ever,

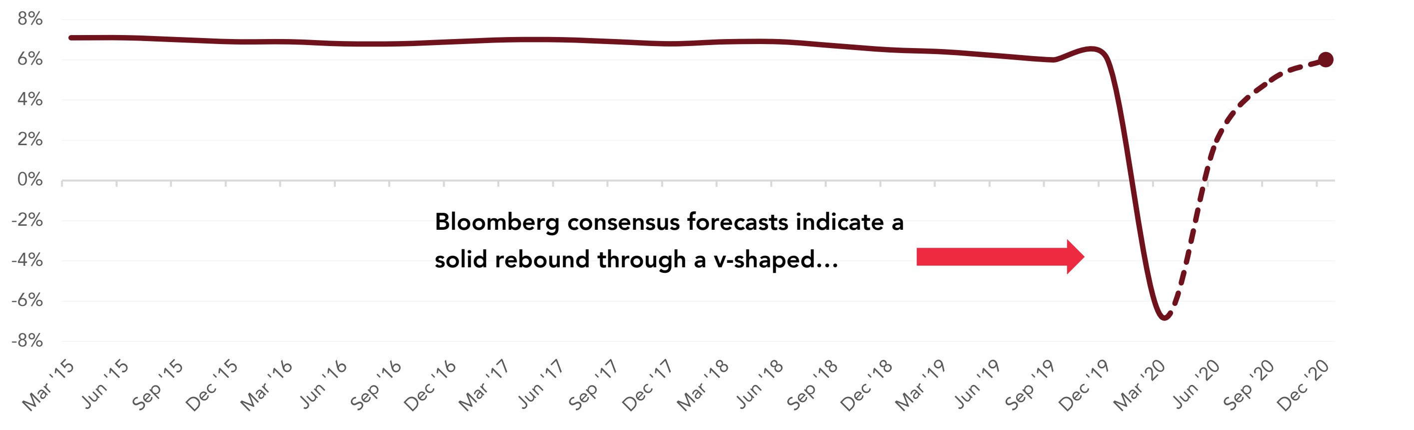
Laws applicable to individuals both in the territory and those not in the territory, implying that foreign nationals speaking out against China could be prosecuted upon entering Hong Kong or mainland China,

Increased abilities for Beijing to consider certain actions as 'terrorist acts' (ie. damaging public transport), and

Increased management of foreign non-governmental organisations and news agencies.

Focusing on the figures, the chart below highlights the Bloomberg consensus forecasts for China's quarterly GDP growth for the rest of the year. With China opting to leave out a GDP growth target at this year's *Two Sessions* meeting, **we believe that the sustainability of strong Chinese GDP growth is set to come into question following the likelihood of reduced global demand for Chinese exports.**

China quarterly GDP growth (%) Q1 '92 to Q1 '20



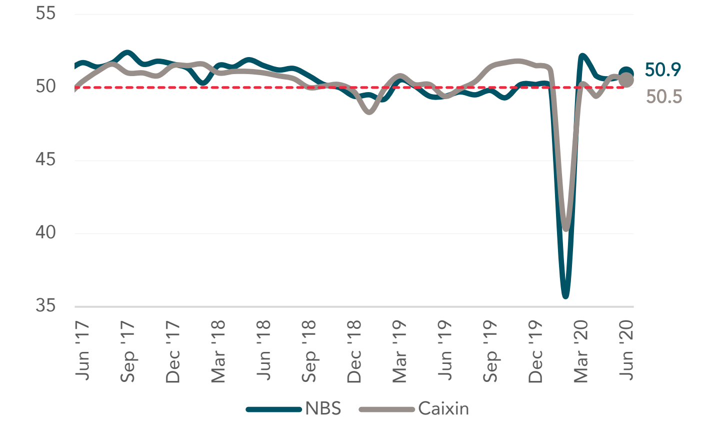
Source: Bloomberg, MAN Corp S.A

Recently released Chinese economic data continued on a positive trajectory, with China's NBS Manufacturing PMI for June rising slightly to 50.9 from 50.6 one month ago. This marks the fourth consecutive month of increases in factory activity. The sentiment is reinforced by the **Caixin PMI**, which rose to 51.2 in June from 50.7 in May. Unlike the NBS PMI, which focuses on State Owned Enterprises, the Caixin PMI is derived from a sample of 430 privately owned industrial companies. Considering both figures supports the general impression that the Chinese economy is still recovering.

Observing the breakdown of the NBS PMI indicates that both supply and demand continued to pick up, with the **Production index** and the **New orders index** increasing to 53.9 and 51.4, respectively. This was further supported by the increases of both the purchase price index and ex-factory price index of main raw materials.

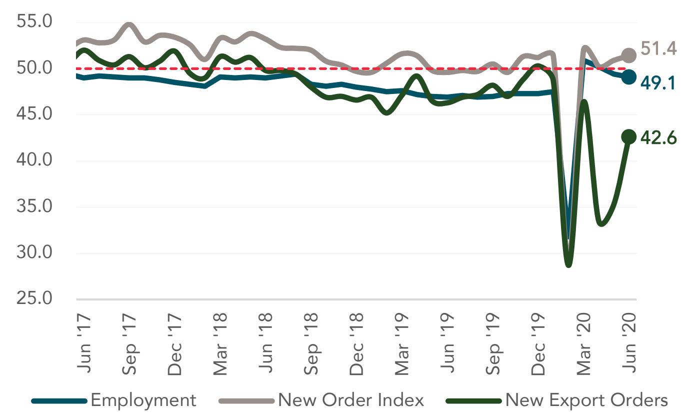
Despite all this positivity, we reiterate how last month the NBS cautioned that economic activity has not exactly returned to 'normal'. This was once again communicated with the statement that 'uncertainties still exist', reinforcing our view of China's export strategy as the elephant in the room. Accordingly, both **New export orders** and the **Import index** increased to 42.6 and 47.0 respectively, marking two consecutive months of growth. **However, both figures remain in contraction territory indicating a relatively pessimistic outlook for both the import and export markets.**

Caixin and NBS PMI



Source: NBS, MAN Corp S.A

NBS manufacturing sub-indices



Source: NBS, MAN Corp S.A

The NBS PMI sub-indices continue to indicate positive domestic demand and weak external demand, though the latter has increased significantly from its Feb '20 low of 28.7. We maintain our expectation of weakness in Chinese external demand (i.e. exports) throughout the rest of the year as the global economy comes to grips with the full effects of the Covid-19 pandemic.

Data from the most recent government survey indicates marginal improvement in urban unemployment, with the May unemployment figure declining to 5.9% from 6% in April. This speaks positively to the stated objectives mentioned in the Two Sessions meeting, specifically 'ensuring employment'. However, the **NBS Employed Person index** has declined for the second consecutive month to 49.1 in June from 50.9 in May. This implies that sentiment remains negative. The average value for the employment index in CY '19 was 47.2.

The **New Orders index**, based on the number of orders received by enterprises, rose to 51.4 in June from 50.9 in May. **We maintain our view that this reinforces domestic operations and stimulus as the driving force behind the current Chinese economic strength.**

The following table highlights the relative contribution towards China's Manufacturing PMI index from Sep '19 to Jun '20.

NBS Manufacturers PMI Index composition (%)

	Sep '19	Oct '19	Nov '19	Dec '19	Jan '20	Feb '20	Mar '20	Apr '20	May '20	Jun '20
New orders index (30%)	50.5	49.6	51.3	51.2	51.4	29.3	52.0	50.2	50.9	**51.4**
Production index (25%)	52.3	50.8	52.6	53.2	51.3	27.8	54.1	53.7	53.2	**53.9**
Employment index (20%)	47.0	47.3	47.3	47.3	47.5	31.8	50.9	50.2	49.4	**49.1**
Supplier delivery time index (15%)	50.5	50.1	50.5	51.1	49.9	32.1	48.2	50.1	50.5	**50.5**
Raw materials inventory index (10%)	47.6	47.4	47.8	47.2	47.1	33.9	49.0	48.2	47.3	**47.6**
Manufacturers PMI index (100%)	**49.8**	**49.3**	**50.2**	**50.2**	**50.0**	**35.7**	**52.0**	**50.8**	**50.6**	**50.9**

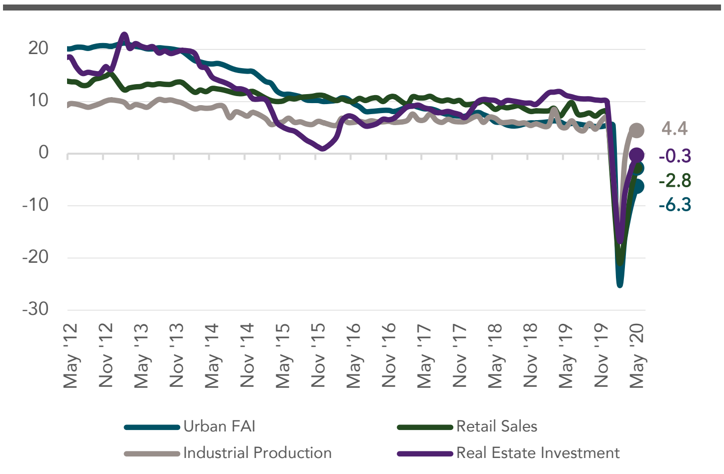
Source: NBS, MAN Corp S.A | Covid-19 peak effects

With the exception of the Employment index and the Raw materials inventory index, all constituents of the Manufacturers PMI index are positive, leading to an optimistic outlook. The definitions for the laggards are as follows:

Employment index: diffusion index calculating the changes of the number of production and operation staff in the enterprises.

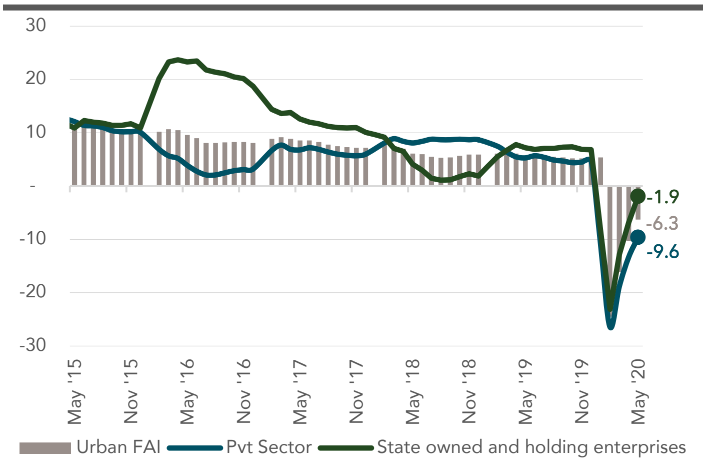
Raw materials inventory index: diffusion index based on the physical quantity of month-on-month change of the main raw materials that the enterprises have purchased and registered, but not yet used.

Chinese FAI, IP, retail sales and real estate investment (y/y %)



Source: NBS, MAN Corp S.A

Private vs public FAI (y/y %)



Source: NBS, MAN Corp S.A

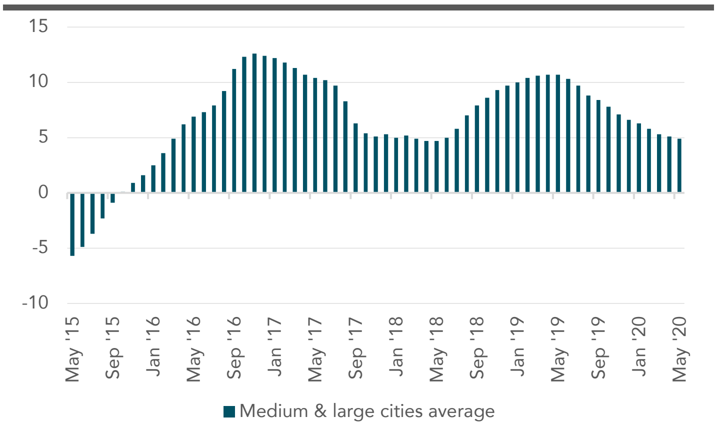
Considering the additional data released over the course of the month, China's Industrial production (IP) growth increased by 4.4% y/y in May compared to a 3.9% increase in the previous month. This marks the second consecutive increase since the contraction during the first quarter of the year. Real estate investment continued to improve to -2.8% in May from -7.5% in the previous month.

We believe these sectors will continue to benefit from growth in Total social financing (TSF) which increased to CNY 3.19trn in May from CNY 3.09trn in April. We maintain the view that economic stabilization is the most pressing issue that Chinese officials are faced with, which has essentially been confirmed by the stated goals of the Two Sessions meeting.

Fixed asset investment (FAI) for May ’20 declined by 6.3% compared to a 10.3% y/y decline in April.

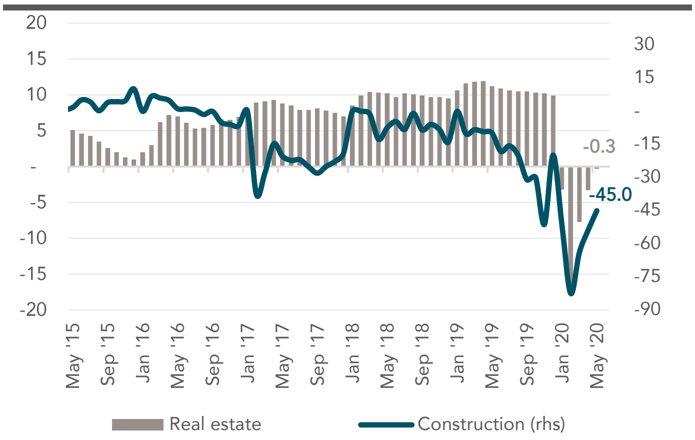
Retail sales growth also improved, declining by 2.8% y/y in May compared to a 7.5% y/y in the previous month.

China average house prices for newly built homes (y/y %)



Source: NBS, MAN Corp S.A

Construction and real estate investment (y/y %)



Source: NBS, MAN Corp S.A

Annual growth in house prices has trended downward for the past year. The average prices of new homes rose by 4.9% y/y in May ’20, compared to 5.1% growth from the previous month. This is likely attributable to the normalisation of house prices since China's apparent housing bubble gained traction among the investment community.

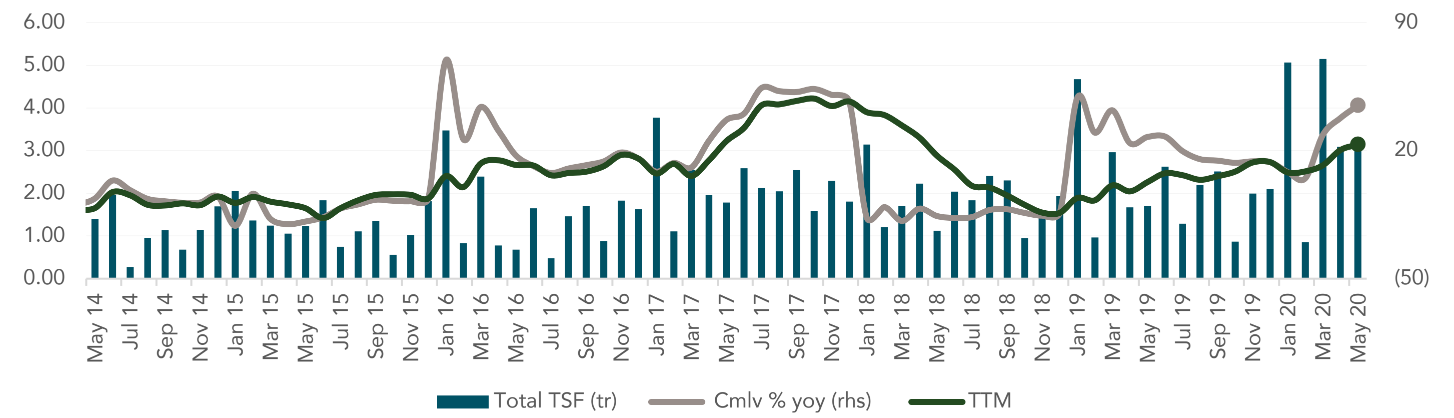
Elsewhere in the property market, there has been an increasing trend of Chinese property management companies listing on the Hong Kong stock exchange, with the average stock price of 27 property management companies gaining c.50% since the start of the year. **Reportedly, there has been a property buying 'frenzy' as smaller companies place larger bets on the continued uptick in home purchases.** This home purchasing first emerged in late March after coronavirus lockdowns were lifted across the country. According to Chinese data provider Wind, approximately $50.9bn worth of land was sold in 100 major mainland Chinese cities in May, representing an 8% y/y increase. **We believe this is risky when we consider that c.230 developers have already gone out of business this year with the risk of more business failures increasing throughout H2 '20.**

Furthermore, rating agency Moody's downgraded the outlook for China's property sector to negative in April, expecting a decline in nationwide sales by 5% to 10% this year. S&P Global Ratings also maintains a negative outlook on the Chinese property sector.

According to large property firm Nomura, the supply of new homes among major developers is expected to be c.36% higher in the second half of the year when compared to the first half. This reinforces our view of risks skewed to the downside as market oversupply can lead to the rapid decline in property prices.

Construction investment growth declined by 45% y/y in May compared to 53.9% in the previous month. We maintain our view that government support and creditor renegotiations will help to keep volatility in check over the coming months, but believe a shift in sentiment can cause immediate pressure for smaller developers who are more leverage and less liquid.

Total social financing (CNY trn), cumulative y/y % (rhs) and 12-month rolling y/y % (rhs)



Source: NBS, MAN Corp S.A

China's Total social financing for May '20 was CNY 3.19trn vs 3.09trn last month, this is an 86% y/y increase compared to Apr '19. TSF for the first five months of the year totalled CNY 17.35trn vs CNY 11.99trn for the same period last year, this resulted in a 45% y/y increase. Similar to the rest of the market, we maintain our stance that the Chinese government will continue to provide stimulus to support the economy.

In our view, the foremost important issue for the Chinese government is the continued recovery in order to ensure that the economy is productive, and employment levels are normalised. According to the IMF, revisions for CY '20 global growth indicate a contraction of 4.9% for the year compared to the 3% projection in April. Citing a larger than expected negative impact on activity in H1 '20 and more than previously forecasted gradual recovery. The IMF project 1% GDP growth in China for the year, while all other countries in advanced economies, emerging markets, and developing economies are expected to have negative growth. As previously stated, research group CRU expects Chinese GDP grow by 2 to 3% in 2020. **In our view, Chinese GDP for the first half of the year is likely to fall below 6% while we anticipate CY '20 growth slowing to the range of 2-3%.**

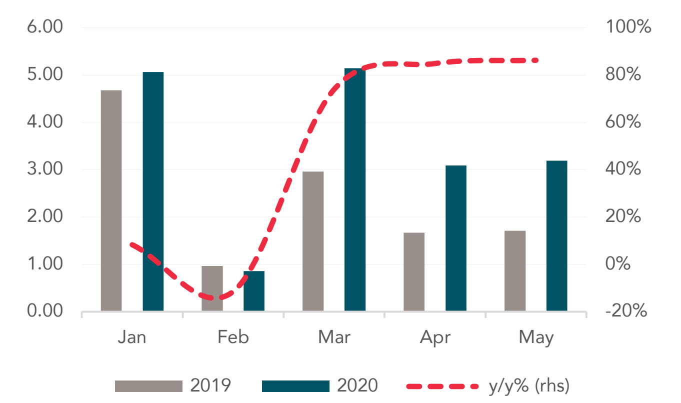
Total social financing (CNY tr)

Total TSF for the first five months is 45% higher from 2019, up from 38% for the first four months

	2019	2020	y/y % Δ
January	4.68	5.07	8%
February	0.97	0.86	-11%
March	2.96	5.51	74%
April	1.67	3.09	85%
May	1.71	3.19	86%
Total	**11.99**	**17.35**	45%

Source: NBS, MAN Corp S.A

Total social financing (CNY tr), y/y %



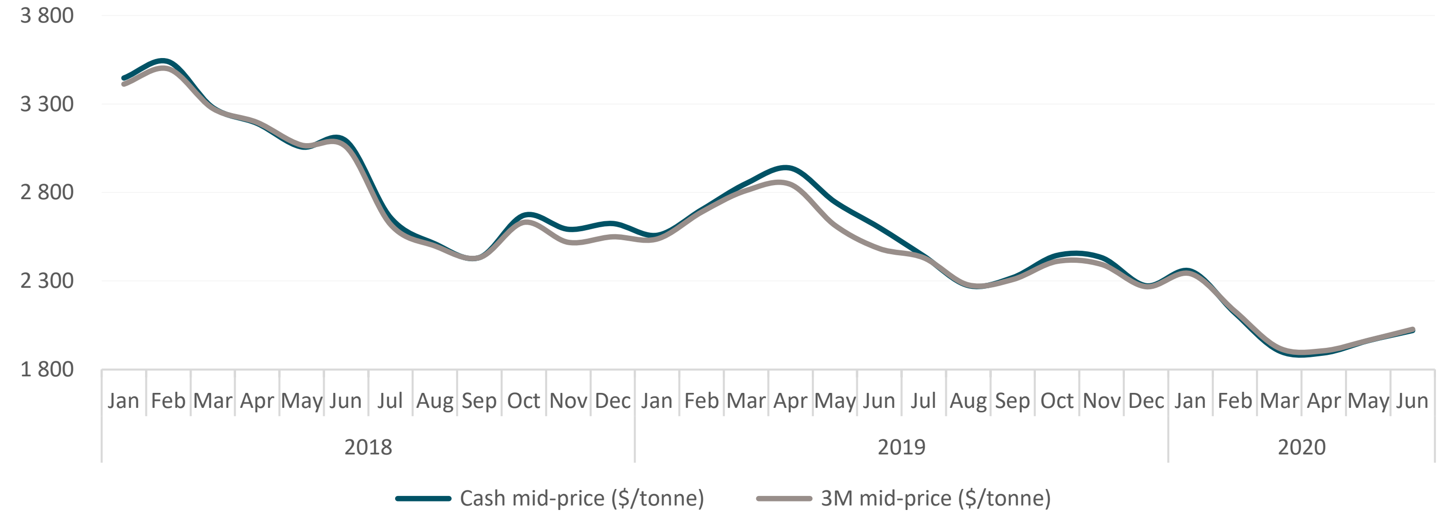
Source: NBS, MAN Corp S.A

Zinc: concentrates and metals trade places, from a surplus to a deficit

The month of June played out well for base metals, with the Zinc LME 3m mid-price increasing by 5.1% to $2 067/t since the previous month. Compared to its March low of $1 793/t, the futures contract has gained as much as 15% in line with global recovery efforts to curtail the effects of the coronavirus pandemic. Reportedly, the Trump administration is considering introducing an infrastructure bill valued at nearly $1trn, while other developed economies have introduced various infrastructure programs of their own.

Positively for smelters was the marginal increase in treatment charges as they rose from their 18-month low towards the end of the June. Data from Metal Bulletin indicates that the Zinc concentrate TC, CIF China price rose by c.5% to $160-$180/tonne over the course of the month. Smelters have recently been facing increasing pressure as TC's declined due to supply shocks in the concentrate market. This price support was driven by increasing supply of zinc concentrates, with major supplier Antamina returning to schedule with shipments starting to leave Peru in June. This positive sentiment helped outweigh the reported suspension of operations at Santander zinc in Peru after some workers tested positive for Covid-19. **However, our research indicates that the zinc concentrate market remains in a deficit from the small surplus experienced in Q4 '19.**

Zinc LME price trend: Cash settlement mid-price ($) vs 3M mid-price ($) Jan '18 to 30 June '20



Source: Fast Markets, MAN Corp S.A

We previously revised our view, at least in the near-term, *that downward pressure on global demand and modest supply disruptions could lead to a further surplus in the concentrate market*. This revision was based on the ramp-up in manufacturing activity in China drawing down on zinc stocks, and supporting prices in the short-term. **Reportedly, the concentrate zinc market has shifted to a deficit, while zinc metal has shifted into a surplus. In our view, this comes as a result of greater than expected mine disruptions, and high capacity utilisation rates at refineries in the face of weakening downstream demand.**

This refined zinc surplus should come as no surprise. According to China's National Bureau of Statistics, refined zinc production fell marginally to c.514kt in May from c.517kt in April while downstream demand was set to 'face the brunt of the coronavirus pandemic effects' as mentioned in our previous report. During the same period, China's imports of zinc concentrates were c.365kt, declining by 20.8% from their all-time high of c.461kt in April (vs. c.307kt in Mar '20).

Lastly, we expect Chinese stimulus to *eventually* lift demand for zinc, as its main use in galvanized steel stands to benefit from the renewed global infrastructure push. **However, over the coming months we believe that consumption levels will remain relatively weak, and mine supply growth will outpace the growth in demand - reverting us back to our initial view of surpluses in both zinc concentrates and refined metals.** We believe this will cause downward pressure on zinc prices until miners cut production in line with increasing treatment charges and falling metal prices.

LME and SHFE inventories:

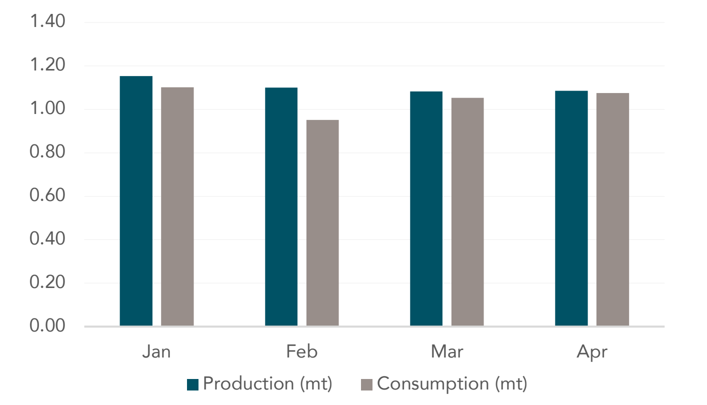
LME Zinc stocks totalled 122 575 tonnes on 30 June '20, compared with 101 350 tonnes on 29 May following an increase in outflows. As of 30 June, 4% of stock was booked for removal compared to 25% on 29 May, this is an indication of falling demand. Shanghai Futures Exchange Zinc stocks totalled 95 809 tonnes on 3 July, down from 107 445 on 29 May. According to FastMarkets, this is reflective of an increase in manufacturing activity.

Production and consumption outlook

According to the International Lead and Zinc Study Group (ILZSG), refined zinc metal production for the month of April was 1.09mt while consumption was 1.08mt. This left the refined metal market in small surplus of 10.8kt. Our research indicates that the surplus comes as a result of smelter closures in India and Latin America.

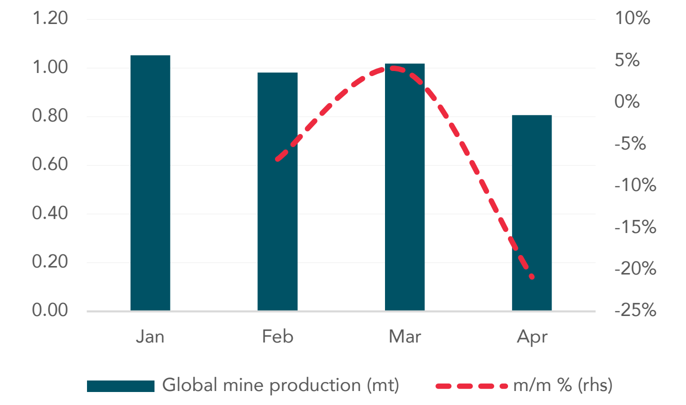
In our recent reports, we have pointed out that for the past four years, the refined zinc market has been in a deficit. This has quickly taken a sharp turn with weakening downstream demand due to the effects of the Covid-19 pandemic. Data from the ILZSG indicates that the market reached a significantly large surplus of 240kt across the first four months of the year. Accordingly, we maintain our expectation of a growing market surplus to the range of 400kt - 600kt for CY '20f.

Refined zinc production vs consumption (mt)



Source: CRU, MAN Corp S.A

Mine production output (mt)

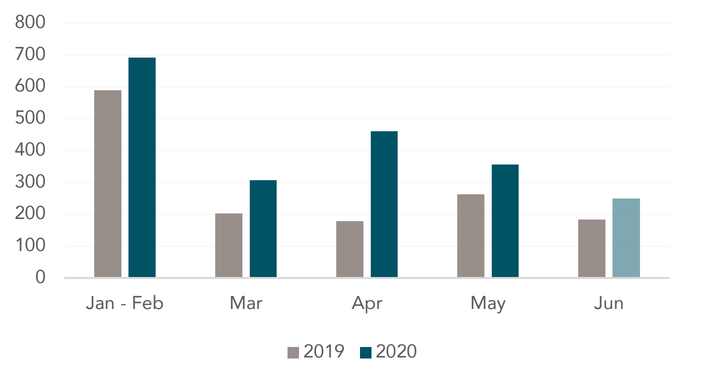


Source: CRU, MAN Corp S.A

Mine supply update

According to FastMarkets, mine supply is significantly ramping up following the coronavirus related lockdowns. As we previously mentioned, major Zinc supplier Antamina is well on its way towards 100% operating capacity**. ILZSG data indicates that global mine production was c.806kt in April, which is 21% lower from the previous month. Total YTD mine production is c.3.9mt, which is 5.7% lower compared to the same period last year.**

China zinc ores and concentrates imports (kt)



Source: China General Administration of Customs , MAN Corp S.A

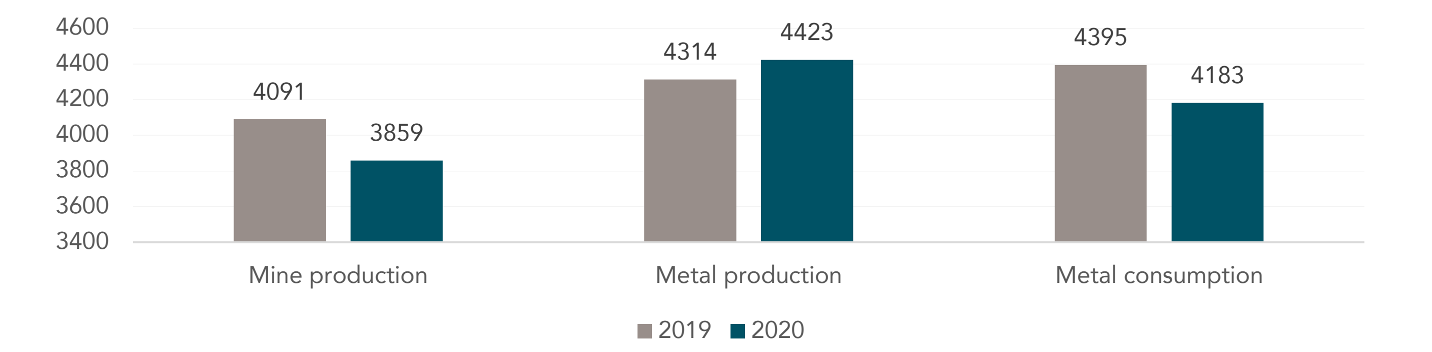
China Zinc Imports

According to the China General Administration of Customs, China imported c.357kt of zinc ores and concentrates for the month of May, representing a c.22.6% m/m decline. Imports of zinc ores and concentrates were c.36% lower than the same period last year.

We believe this declining trend is only temporary as China has shifted towards importing raw materials over refined zinc metal as it invests in more smelting capacity and captures a greater portion of the value chain.

Data indicates that Chinese zinc ores and concentrate imports for the first five months of the year totalled c.1.8mt, which is c.47.3% higher than the same period last year.

Zinc year-to-date snapshot: mine production (kt), metal production (kt), and metal consumption (kt) for January to April



Source: ILZSG, MAN Corp S.A

LME and SHFE warehouse trends

LME Zinc closing warehouse stocks (kt) to 30 Jun '20

Source: Fast Markets, MAN Corp S.A

SHFE Zinc warehouse stocks (kt) to 30 Jun '20

Source: Fast Markets, MAN Corp S.A

LME Data

30 Jun '20	Tonnes	% Change*
Closing stocks	122 575	
one week ago	*123 450*	*-0.7%*
one month ago	*101 350*	*+20.9%*
On Warrant	117 525	
one week ago	*118 100*	*-0.5%*
one month ago	*88 225*	*+45.4%*
Cancelled Warrant	5 050	-5.6%

Source: Fast Markets, MAN Corp S.A *w/w for Cancelled Warrant

SHFE Data

30 Jun '20	Tonnes	% Change
Deliverable stocks	97 705	
one week ago	*96 796*	*+0.9%*
one month ago	*107 445*	*-9.1%*
On Warrant	37 250	
one week ago	*39 246*	*-5.1%*
one month ago	*43 858*	*-15.1%*

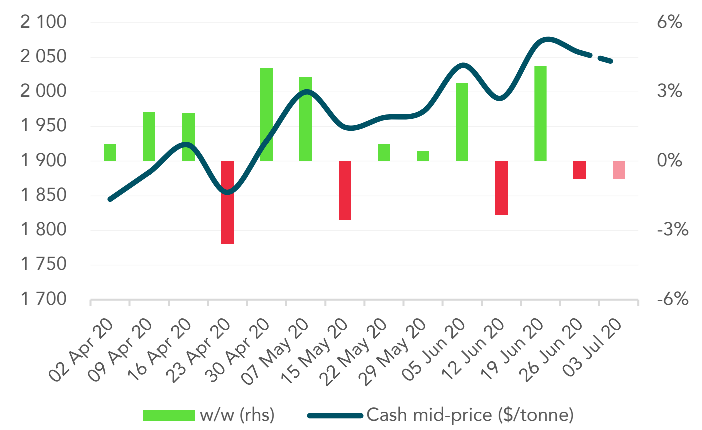
Source: Fast Markets, MAN Corp S.A

Zinc refined metal market outlook: the traders corner

Our view on zinc prices is based on technical analysis coupled with the short-term supply and demand balance.

Zinc LME cash ($/tonne) short-term price trend

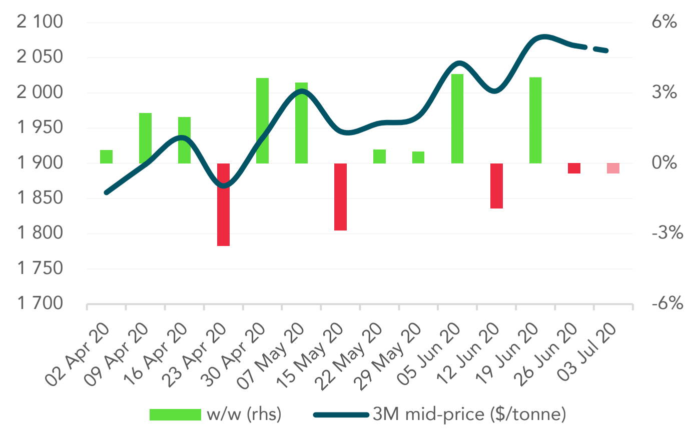
02 April '20 to 03 July '20f



Source: Fast Markets, MAN Corp S.A

Zinc LME 3M ($/tonne) short-term price trend

02 April '20 to 03 July '20f



Source: Fast Markets, MAN Corp S.A

While we anticipate an uptick in demand during H2 '20, we believe that the medium term outlook for zinc remains negative as the market is headed for a significant surplus. This comes despite the recent price gains and increased Chinese industrial activity. We maintain our view that the zinc market surplus will create downward pressure on prices and require considerable mine production cuts.

Furthermore, we acknowledge that while Chinese demand has picked up due to the recent effects of government stimulus, we believe that any price support will be short-term, leaving our longer term view unchanged.

Lead: confidence driven by the automotive sector

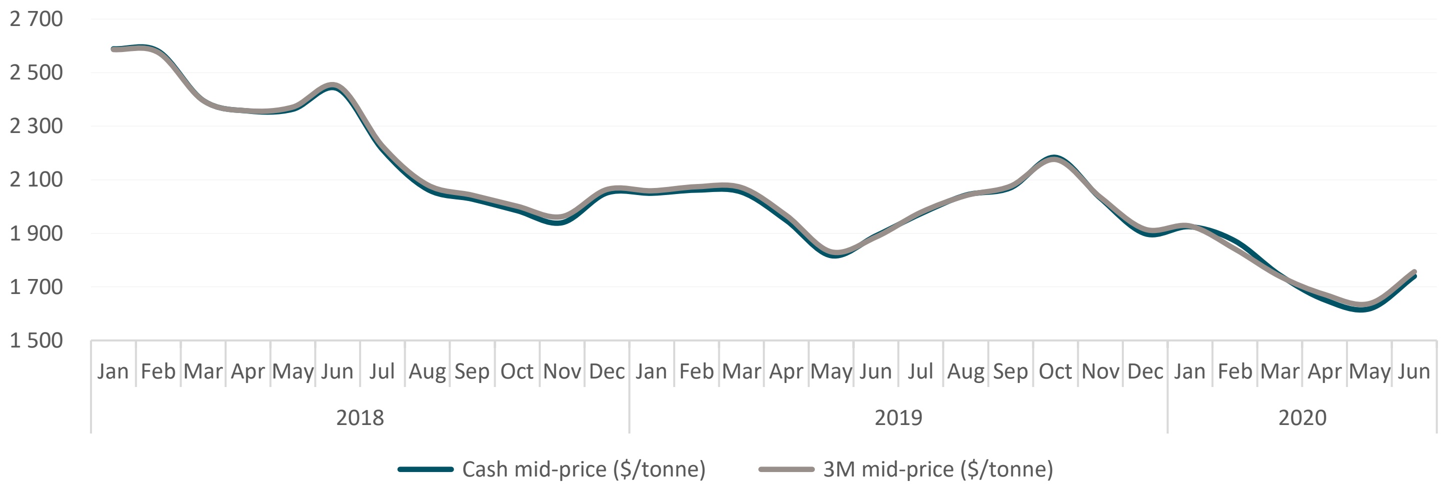
According to FastMarkets, technical indicators in both the short and medium term remain favourable for lead. The 3m LME Lead contract increased by 10.7% over the course of the month to $1 788.50/tonne, surpassing our previously mentioned March 31 high of around $1 754/tonne. While the LME lead price has lagged behind its peers (relative to their April lows, lead has increased by c.13%), **we believe it is poised to catch up and gain significant upside over the near-term due to healthy appetite from Chinese smelters, favourable car sales, and technical trading levels.**

Perhaps what we consider to be the most positive *short-term* indicator for lead is the recent trend in sales of commercial vehicles in China. For the second consecutive month, China's automotive sector has extended its recovery with a growth rate of 6% in sales and 4% in production for the month of May. Accordingly, the China Association of Automobile Manufactures (CAAM) showed that both auto sales and production rose to 2.19m units. Compared to the same period last year, May auto sales have increased by 18% while production has increased by 15%.

While the strength in the automotive sector creates positive sentiment, we highlight some of the associated risks as follows:

- Shrinking auto sales in Europe and the U.S, where record unemployment and potential insolvencies can prevent a quick recovery,
- Expected contraction of global light vehicle sales by more than 20% this year to c.71m vehicles (LMC Automotive research),
- Changing consumer behaviour regarding income uncertainty and the purchase of 'big ticket' items, and
- Sustainability of Chinese automotive recovery beyond initial purchasing.

Lead LME price trend: Cash settlement mid-price ($) vs 3M mid-price ($) Jan '18 to 30 June ' 20



Source: Metal Bulletin, MAN Corp S.A

The surplus experienced last month due to pandemic related disruptions has increased by c.56%, according to the International Lead & Zinc Study Group (ILZSG). The Group previously stated that China's apparent demand dropped by 20.7% y/y in February although this was negated by a 22.5% decline in refined metal production caused by disruption to the lead-acid battery recycling supply chain, we believe the effects of this are slowly reversing as economic activity picks up in China. **Recently, data has pegged the refined lead market in a modest 29.6kt for the month of May, vs 19kt surplus for Q1 '20 .**

According to the group, the uptick in downstream demand will be outpaced by the recovery in metal production leaving us to maintain the view of a market surplus in 2020. This appears to somewhat be playing out as Antamina mine has resumed operations and is on track to deliver 1mt on zinc concentrates this year. The mine was reportedly running at 80% capacity, with an expected ramp-up to 100% in Q3 '20.

LME and SHFE inventories:

LME Lead stocks totalled 67 425 tonnes on 30 June '20, compared with 76 150 tonnes on 29 May following an increase in outflows. As of 30 June, 47% of stock was booked for removal compared to 29% on 29 May, this is an indication of rebounding demand. Shanghai Futures Exchange lead stocks totalled 27 362 tonnes on 3 July, up from a multi-month low of 6 444 tonnes on 8 May. According to FastMarkets, this is reflective of the impact of rising utilization rates among secondary smelters.

We maintain our expectation of recovering stocks to due to improving scrap supplies and mine restarts in Latin America, as well as our view that over the course of CY '20, refined lead demand will contract between c.1-3% causing a surplus for CY '20. We believe this will move the lead market towards a surplus for both refined metals and concentrates.

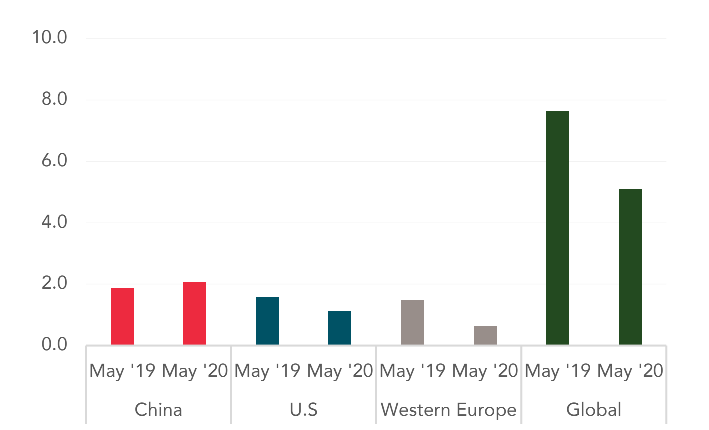
Lead demand outlook: automotive sector focus

Contrary to our previous expectation of increased downside risk, lead prices surprised to the upside along with the rest of the base metal complex. In the face of rising prices, it is often difficult for one to maintain a bearish outlook. While prices continue to increase, **we maintain our longer term view that lead prices are set to some under pressure following a switch into a market surplus.**

Recent data from LMC Automotive research group indicates that global light vehicle sales for May were c.5m units, representing a 28% m/m increase. Compared to last year, global light vehicle sales were 33% lower for the month, while total year-to-date sales (from January to May) were c.26mt or 30% lower than the same period last year.

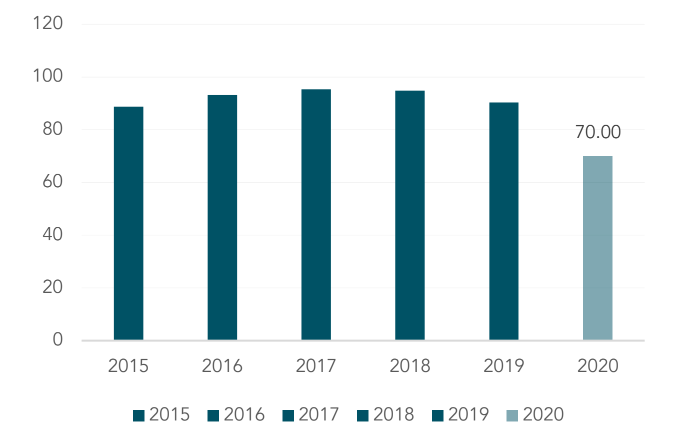
As mentioned in our previous report: LMC Automotive forecasting global light vehicle sales to contract by c.20% to c.70m vehicles.

March light vehicle sales comparison (million units)



Source: LMC Automotive, MAN Corp S.A

Global light vehicle sales (million units)



Source: LMC Automotive, S&P Forecast, MAN Corp S.A

According to LMC Automotive, the largest contributor to global light vehicle sales was China, with 2.1m units or 41% of total sales, while the U.S and Western Europe contributed 22% and 12%, respectively.

- The monthly selling rate has increased to c.61m in May compared to c.49m units/year in April, with the average year-to-date selling rate declining 28.8% y/y.
- Global light vehicle sales for the first four months of the year totalled c.26.2m units compared to c.37.3m for the same period last year, this represents a 30% y/y decline.
- China light vehicle sales for May '20 were c.2.1m units, increasing by 11% compared to c.1.9m units in April ’20. Total Chinese sales for the first four months of the year were c.7.6mt compared to c.5.5m in the previous month.
- United States and Western Europe light vehicle sales for May '20 were c.1.1m units (-29% y/y) and c.623k (-58% y/y), respectively. Combined, these two regions contributed 34% of global sales.

As previously mentioned, the China Association of Automobile Manufacturers (CAAM) reported that 2.19m cars were produced in May (vs c.2.10m in April. We maintain our expectation of continued pressure on U.S and European manufacturers as they battle with the economic implications of the coronavirus.

Production and consumption outlook

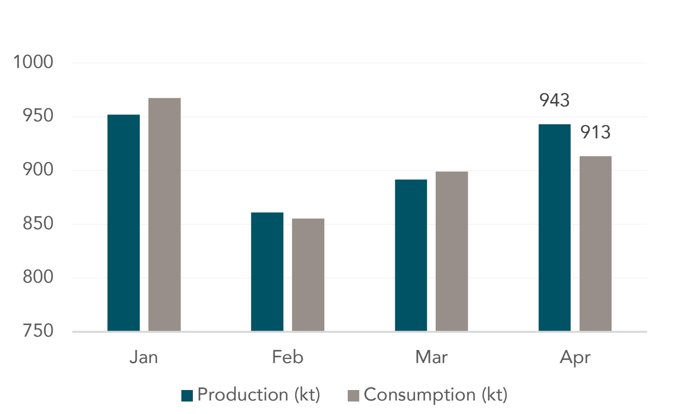
According to latest figures from the International Lead & Zinc Study Group (ILZSG), global mine production totalled 336kt in April, this is c.10% lower from the previous month and c.13% lower than CY '19 monthly average of 386kt. Similar to Zinc, this reduction is also attributable to the impact of mine closures in India and Latin America.

We highlight the following points regarding the market balance:

- During April, ILZSG has pegged the refined lead market in a modest 29.6kt surplus
- The refined lead market recorded an estimated surplus of 11.5kt across the first four months of the year.

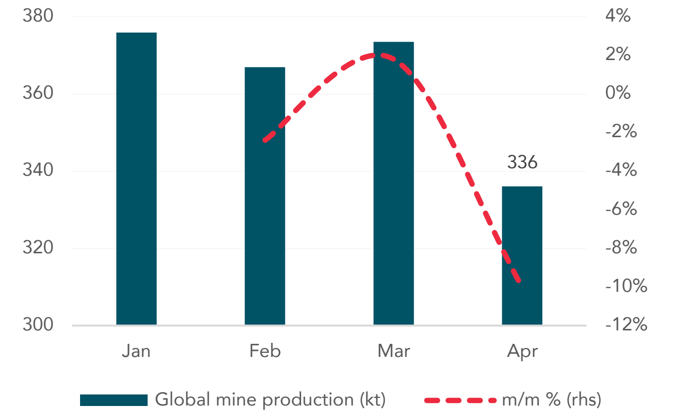
We maintain our view of a contraction in lead demand within the range of c.1-3% for CY '20 and expect a market surplus in the range of 150 - 200kt at the end of the year.

Refined lead production vs consumption (kt) CY '20



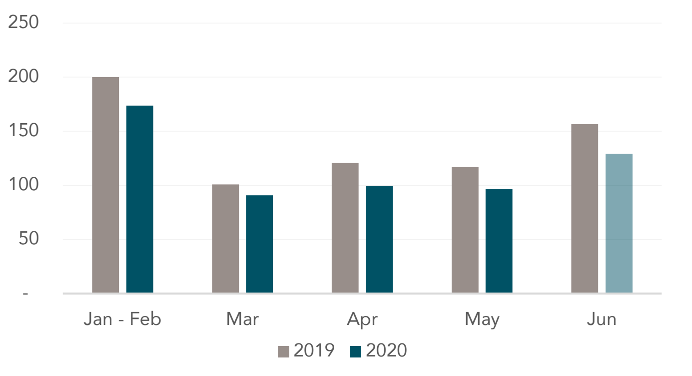
Source: ILZSG, MAN Corp S.A

Mine production output (kt) CY '20



Source: ILZSG, MAN Corp S.A

China lead ores and concentrates imports (kt)



Source: China General Administration of Customs , MAN Corp S.A

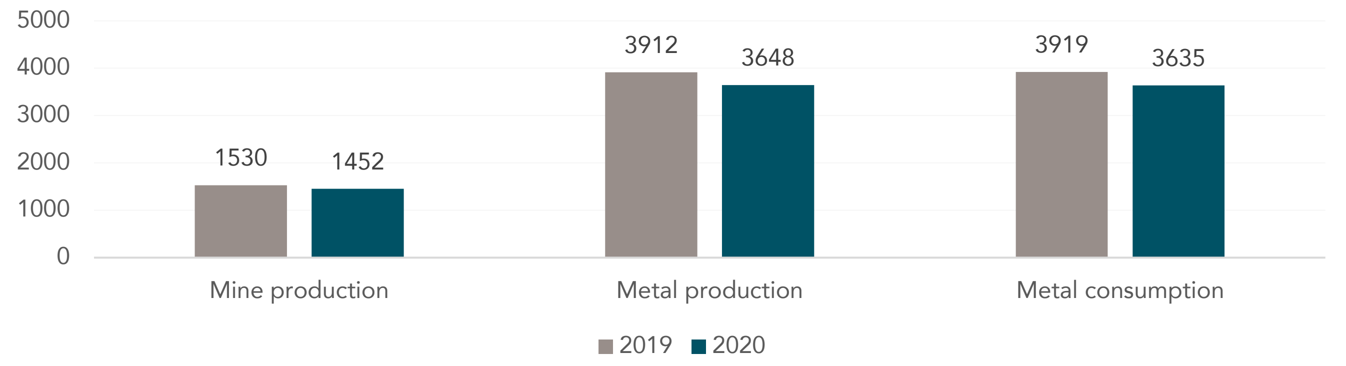
China Lead Imports

According to the China General Administration of Customs, China imported c.97kt of lead ores and concentrates for the month of May, representing a c.2.8% m/m decline. Imports of lead ores and concentrates were c.17% lower than the same period last year.

We believe this declining trend is only temporary as China has shifted towards importing raw materials over refined lead metal as it invests in more smelting capacity and captures a greater portion of the value chain.

Data indicates that Chinese lead ores and concentrate imports for the first five months of the year totalled c.460kt, which is c.14.5% lower than the same period last year.

Lead year-to-date snapshot: mine production (kt), metal production (kt), and metal consumption (kt) for January to April



Source: ILZSG, MAN Corp S.A

LME and SHFE warehouse trends

LME Lead closing warehouse stocks (kt) to 30 Jun '20

Source: Fast Markets, MAN Corp S.A

SHFE Lead warehouse stocks (kt) to 30 Jun '20

Source: Fast Markets, MAN Corp S.A

LME Data

30 Jun '20	Tonnes	% Change*
Closing stocks	67 425	
one week ago	*74 575*	*-9.6%*
one month ago	*76 150*	*-11.5%*
On Warrant	45 975	
one week ago	*45 450*	*+1.2%*
one month ago	*59 150*	*-22.3%*
Cancelled Warrant	17 000	*-26.4%*

Source: Fast Markets, MAN Corp S.A *w/w for Cancelled Warrant

SHFE Data

30 Jun '20	Tonnes	% Change
Deliverable stocks	23 333	
one week ago	*22 995*	*+1.5%*
one month ago	*8 622*	*+170.6%*
On Warrant	16 709	
one week ago	*16 832*	*-0.7%*
one month ago	*5 747*	*+190.7%*

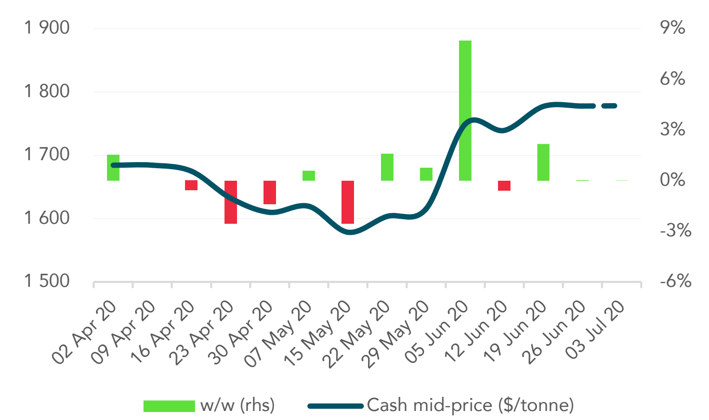
Source: Fast Markets, MAN Corp S.A

Lead market outlook: the traders corner

Our view on lead prices is based on our outlook of the Chinese auto sector and short-term momentum related to the concentrate deficit.

Lead LME cash ($/tonne) short-term price trend

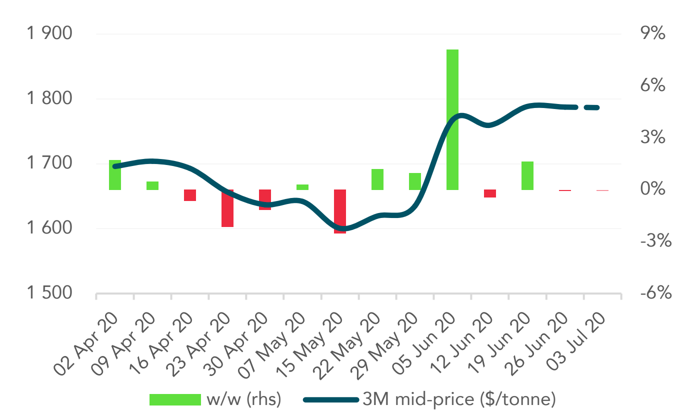
02 April '20 to 03 July '20f



Source: Metal Bulletin, MAN Corp S.A

Lead LME 3M ($/tonne) short-term price trend

02 April '20 to 03 July '20f



Source: Metal Bulletin, MAN Corp S.A

We previously highlighted our anticipation of an uptick in demand during H2 '20 as China comes out of the coronavirus pandemic effects. While this should provide support for Lead prices as it is supportive of the automotive sector and manufacturing of industrial products, we maintain our belief that the expected market surplus of concentrate and refined lead (barring the short-term supply glut) will limit major price gains. Accordingly, this should result in more downside risk with lead prices trading sideways or trending towards their long term support around $1 500/t over the medium term.

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