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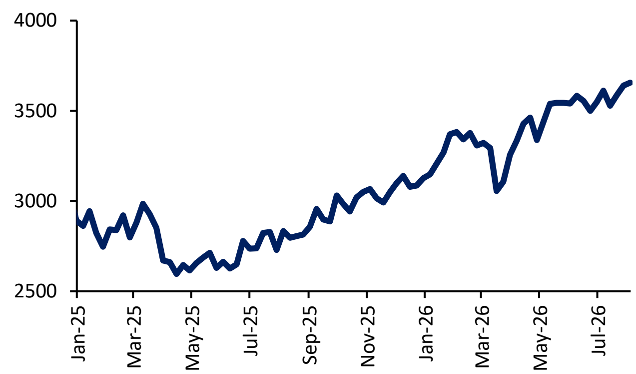
Zinc: A Measured Climb Amid Tight Fundamentals

Zinc has been one of the best-performing base metals in 2026, defying early-year expectations of a sizeable global surplus. Prices have gained more than 30% year-on-year, supported by persistent supply disruptions, low exchange inventories, resilient galvanizing demand and an improving macroeconomic backdrop. Although global mine production has begun recovering, physical metal availability remains tighter than expected, preventing the forecast surplus from materializing.

LME Zinc



Source: Reuters

Supply Recovery Underway, but Disruptions Persist

The zinc market entered 2026 expecting a significant increase in mine supply after several years of concentrate shortages. Major projects, including Huoshaoyun in China, Bunker Hill in the United States and McIlvenna Bay in Canada, are gradually adding new production capacity. These projects are expected to improve concentrate availability over the medium term and support higher refined zinc output.

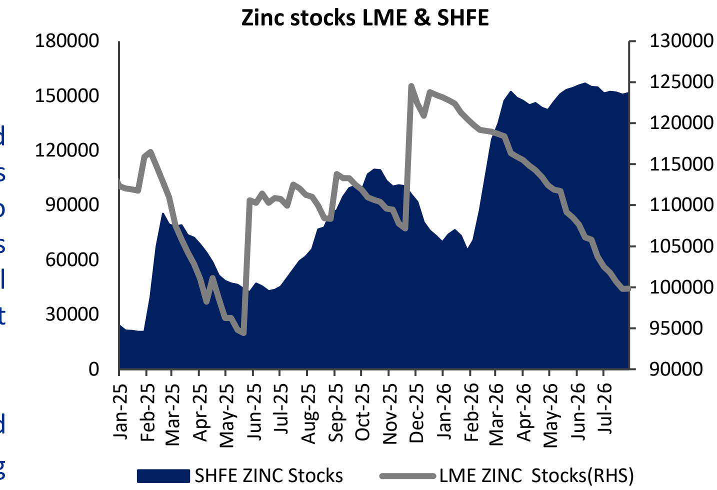
However, the recovery has been slower than anticipated. Several mines have faced commissioning delays, lower ore grades and operational challenges, while periodic maintenance has restricted concentrate production. At the same time, Chinese smelters have continued to experience uneven raw material availability despite a gradual improvement in treatment charges. Spot concentrate markets remain relatively tight, limiting the pace of refined metal production growth.

Recent disruptions have further reinforced the market's tightness. During the third quarter, scheduled maintenance at several Chinese smelters temporarily reduced refined zinc output. Operational issues at some domestic mines also slowed concentrate production, while lower-than-expected mine performance in other producing regions has delayed the anticipated supply recovery. As a result, the expected increase in refined zinc availability has yet to fully materialize.

Large producers have also reported weaker output. Glencore's own-sourced zinc production remained below last year's levels due to lower grades and operational adjustments, while several global miners continue to prioritize profitability over aggressive production growth. Collectively, these factors have kept the physical market considerably tighter than headline production forecasts suggest.

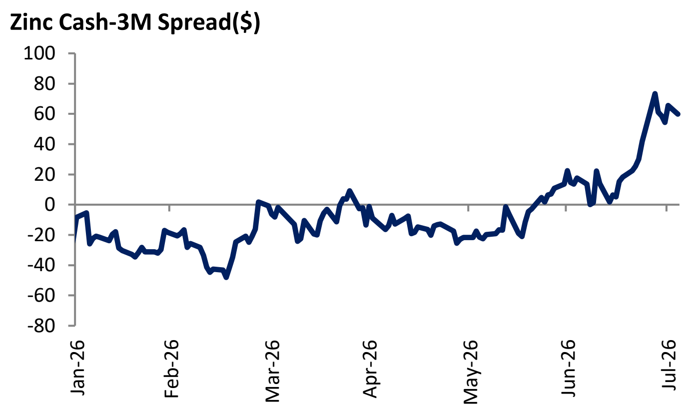
Exchange Inventories Remain Historically Low

LME warehouse inventories currently stand at around 100,000 tonnes, having declined by nearly 24,000 tonnes since late June, while SHFE inventories remain close to 120,000 tonnes. Visible inventories across both exchanges represent only a small fraction of annual global consumption, leaving the market vulnerable to even modest supply disruptions.



Source: Reuters

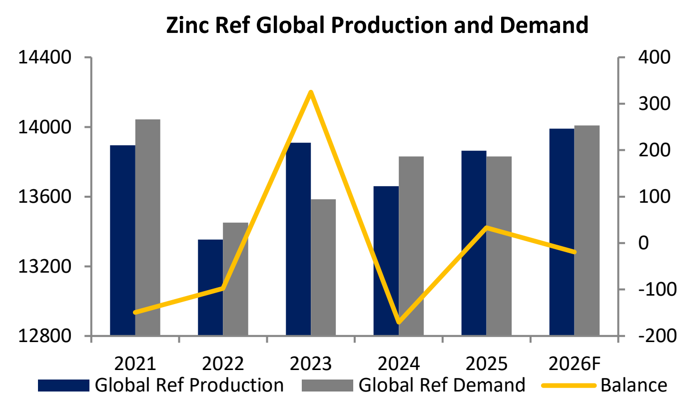
The recent drawdown in LME inventories has also narrowed the price gap between the LME and SHFE, encouraging arbitrage-driven movement of zinc into China, where domestic prices have been trading at a premium. These flows have further tightened metal availability in the LME system. At the same time, the LME cash contract has moved back into backwardation over the three-month contract, reflecting buyers' willingness to pay a premium for immediate delivery and signalling continued tightness in the spot market. Together, the inventory decline, arbitrage flows and backwardated forward curve reinforce the view that physical zinc availability remains constrained despite improving mine supply.



Source: Reuters

Demand Continues to Surprise on the Upside

Approximately 60% of global zinc demand comes from galvanizing steel used in construction, infrastructure, automobiles and industrial equipment. While China's property sector remains under pressure, infrastructure investment has continued to offset part of the weakness. Government stimulus has supported spending on power transmission, railways, renewable energy and public infrastructure, sustaining demand for galvanized steel. Manufacturing activity has also stabilized, while automobile production remains resilient, particularly in electric vehicles. Outside China, India continues to be one of the fastest-growing zinc consumers, supported by strong infrastructure spending, urbanization and industrial expansion. United States has maintained relatively stable demand through infrastructure investment, while European consumption remains subdued amid weak manufacturing activity. Overall, global refined zinc demand is expected to grow by around 1% in 2026, with infrastructure and manufacturing investment helping offset weakness in China's residential property sector.



Source: ILZSG

Market Balance

At the start of 2025, ILZSG expected the zinc market to move into an 85,000-tonne surplus as mine supply recovered. However, operational disruptions at smelters, slower-than-expected supply growth and resilient demand prevented the surplus from emerging. Preliminary data later showed the market actually recorded a 33,000-tonne deficit in 2025, setting the stage for continued tightness and stronger zinc prices in 2026. According to the latest ILZSG forecast, the global refined zinc market is expected to record a small deficit of around 19,000 tonnes in 2026, compared with earlier expectations of a surplus. The revision reflects slower-than-expected mine supply growth, operational disruptions and constrained refined metal production. At the same time, demand from the galvanizing sector has remained resilient, supported by infrastructure investment and manufacturing activity.

The direction of zinc prices during the remainder of 2026 will largely depend on:

The pace of mine production growth from new projects.

Chinese treatment charge trends and concentrate availability.

LME and SHFE inventory movements.

Smelter operating rates following maintenance shutdowns.

Infrastructure-driven galvanized steel demand in China and India.

US dollar movements and global monetary policy.

Outlook

Although mine supply is gradually improving, supply disruptions and low exchange inventories continue to keep the market tight. Demand is also expected to remain supported by infrastructure spending, particularly in China and India. While prices may witness short-term corrections due to macroeconomic uncertainty or a stronger US dollar, the overall fundamentals remain supportive. As long as inventories stay low and refined metal supply remains tight, zinc prices are likely to remain well supported above $3,500/tonne on LME and ₹ 360 on MCX , with potential to test **$4,000/tonne on LME and ₹ 410 on MCX** over the coming months. Overall, the physical market remains tighter than the projected global surplus suggests, which should continue to support prices and limit any major downside.

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