

THE AUSTRALIAN

Lowly zinc set to scale great heights as sentiment turns

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ZINC will average more than \$US3500 a tonne from 2016, according to a leading commodities analyst -- which is quite startling given the metal closed on Friday at \$US1955/tonne.

And there's 1.04 million tonnes of it lying around in London Metal Exchange warehouses.

Zinc has certainly been one of the least loved of the base metals of late (especially by those who lost their shirts in the 2001 Pasmenco collapse).

But talk about prescience. In this very space last week appeared the words "zinc could be in the process of turning from ugly duckling into a swan". Hardly was the ink dry on last Monday's newspaper than a report turned up from London quoting consultancy Wood Mackenzie making its \$US3500 price forecast.

Over the next four years, some 11 per cent of the world's production is going to be closed down. Two Canadian mines, Brunswick (200,000 tonnes a year) and Perseverance (120,000 tonnes), have closed this year and the Chinese-controlled Century in Australia (480,000 tonnes a year) has three more years left. Century's owner MMG, which is controlled by China Minmetals, has just flagged the news that its \$1.5 billion Dugald River development here will not meet its planned 2015 debut. The Lisheen mine in Ireland, when it closes, will take out another 167,000 tonnes a year.

Barron's in its Saturday edition was talking zinc at \$US2400/tonne by 2015. Citigroup still has to update its outlook, which has the metal at a subdued \$US1860 next year and \$US2050 by 2015, but it seems market sentiment is switching quite rapidly. In fact, New York commodity research outfit CPM Group now expects a zinc deficit within two years (against a surplus in 2012 of 265,000 tonnes).

Stephen Briggs at BNP Paribas notes the metal hit an eight-week high of \$US1996/tonne on Tuesday and points out inventories at the Shanghai Futures Exchange have fallen while premiums have risen worldwide this month; in other words, demand for physical delivery seems to be growing.

Ironbark Zinc (IBG) put out a presentation during the week pointing out it is "one of the few remaining zinc stocks on the ASX", yet it is capped at just over \$20 million. Broken Hill producer Perilya (PEM) is being taken out by Zhongjin Lingnan, which had the foresight to take a controlling interest at the depths of the GFC in February 2009.

IBG owns the Citronen zinc project in Greenland (about which country, more below) with 71 million tonnes at 5.7 per cent zinc and lead. The presentation shows how zinc prices have lagged: they're up 143 per cent over 10 years but overshadowed by iron ore (up 896 per cent), lead (366 per cent) and copper (322 per cent).

China is seen as the big growth market for the galvanising metal. At present Chinese steelmakers galvanise just 4 per cent of their output compared with an average of 18 per cent in the West.

Zinc is the fourth most consumed metal in the world, yet IBG points out the mid-tiers are not exploring for it; there have been limited discoveries over the past decade and the next-generation mines are located mostly in high-risk countries.

Other companies with zinc news in recent days were Blackthorn Resources (BTR), which made its maiden shipment from the Perkoa mine in Burkina Faso, while Energia Minerals (EMX) has reported a new high-grade zinc-lead zone in northern Italy. Its Gorno licence area contains more than 230km of old underground workings. Meanwhile, Rox Resources (RXL) continues drilling at its Teena project just 20km from the McArthur mine operated by Xstrata Zinc.

PDZ's coal hope

ANOTHER presentation of interest came from Prairie Downs Metals (PDZ), a company we have been meaning to mention for some time. During the week PDZ strengthened the Polish senior management team at its Lublin coal project near the border with Ukraine.

The project has a Polish inferred resource of 1.6 billion tonnes of thermal coal with nearby rail connections to European markets. Poland is by far the largest European Union thermal coal producer and, apart from the Czech Republic and Bulgaria, the country least reliant on coal imports. In 2012 Europe consumed 770 million tonnes of coal for power generation, but hard-coal production in the EU has declined by 65 per cent over the past 20 years -- not surprising since the traditional coal basins in Germany, Poland and the Czech Republic have been exploited for hundreds of years. Germany is expected to close all its hard-coal mines by 2018.

Europe is increasingly reliant on imports for its thermal coal, the main providers being Russia and Colombia, but EU utilities are apparently concerned about security of supply. Poland itself depends on coal for 90 per cent of its power supply. So all PDZ has to do now is prove up the coal and make the economics work. Incidentally, Wood Mackenzie also put out a report that coal will overtake oil as the dominant fuel later this decade, with global coal use to rise 25 per cent between 2010 and 2020. So much for carbon taxes.

Greenland bans go

GREENLAND'S parliament has voted to abolish the ban on mining of uranium and other radioactive elements, including rare earths. Greenland Energy & Minerals (GGG) says it will move into permitting mode and towards project development at its Kvanefjeld project. Its figures show Kvanefjeld to be the largest rare-earth deposit outside China and the fifth-largest uranium one globally.

No indication as to whether Ram Resources (RMR) will now review its zirconium/niobium/tantalum/rare earths project in Greenland, but it seems more focused on its exploration just 20km from the big Nova nickel-copper find in Western Australia.

Exploration down

A STATISTIC that should concern mining investors: according to Canada-based SNL Metals Economic Group, the estimated global budget in 2013 for non-ferrous metals exploration was down 29 per cent on 2012 to \$US15.2bn. But

when you examine the junior sector, global budgets were off 39 per cent. The top five big spenders (in terms of total exploration budgets) were Canada, Australia, the US, Mexico and Chile, in that order. The survey was based on more than 2100 companies spending more than \$US100,000 on exploration.

But at least the industry continues to cast its net widely: in 2013, mineral exploration was taking place in 127 countries.

The writer implies no investment recommendation. This report contains material speculative in nature. Investors should seek professional investment advice. The writer does not own shares in any company mentioned.

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