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Zinc tipped for price revival as looming mine closures hit supplies

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The Century zinc mine in Karumba, Queensland. *Source:* Supplied

AFTER a year of carnage in commodity prices, there are signs of promise that zinc prices may go against the grain and improve this year.

Sometime in September next year, a truck will make the journey out of the huge Century zinc mine in Queensland carrying the mine's last ore.

The looming shutdown of Century, owned by the Hong Kong-listed MMG, is the largest in a series of upcoming mine closures that could knock out a large chunk of global zinc supply and provide the foundation for a revival in zinc prices.

The hints of promise returning to the zinc market helped drive a 25 per cent rise in prices between March and September, although that excitement — and the zinc price — has since eased.

Zinc is primarily used to galvanise steel and protect it from corrosion.

Australia's zinc sector has endured a torrid few years on the back of a becalmed zinc price, headlined by the collapse of Kagara Zinc in 2012. Other Australian zinc miners such as Perilya and CBH Resources have been swallowed up in takeovers.

Perth-based Ironbark Zinc, which owns the large but undeveloped Citronen zinc deposit in Greenland, is looking to position itself as the key pure-play investment for Australian investors looking for a zinc proxy.

It appears to have gained some traction, with Ironbark shares ending 2014 about 36 per cent higher for the year. That compares to the 18.8 per cent fall in the ASX 300 Resources index.

Ironbark managing director Jonathan Downes is convinced that, after years in the doldrums, the turnaround in the zinc market is within reach.

Zinc consumption, he says, is projected to grow at about 5 per cent a year in the coming years ahead of a "very strong contraction in actual supply".

"By 2016, there will be 11 per cent less zinc produced than today, even with all the possible and probable mines coming on," Mr Downes told *The Australian*. "Extreme tightness is about to enter."

Mr Downes said the macro theme in zinc helped drive up investor interest in the company's recent $2.5 million equity raising, which he said closed 10 times oversubscribed.

His expectation is that the zinc price rally — when it comes — will be sustained by the lack of zinc growth projects in the pipeline. Unlike commodities like iron ore, nickel and copper, where there are large-scale deposits that can be brought into production when prices are suitably high, new sources of zinc are thin on the ground.

"Even though it's the fourth most used metal in the world, it's been under-explored. There just isn't a lot of it waiting around to be developed," Mr Downes said.

Ironbark has spent $50m studying the development of Citronen and is hopeful of receiving all necessary government approvals early in the new year. The company expects the bulk of the project's estimated $450m capital cost to come in the shape of debt from China, with state-owned giant China Nonferrous having pledged to help Ironbark with the process.

Global zinc heavyweights Nyrstar and Glencore are Ironbark's two largest shareholders and represent a possible avenue for equity ahead of the start of construction.

Glencore chief executive Ivan Glasenberg has long been positive on the zinc outlook, and reiterated his stance at the company's mid-December investor day.

"We all know there's no new big production coming in the world. We know that there's going to be a shortfall. There's going to be shutdowns coming up. Demand is growing. The Chinese cannot feed the increased demand," Mr Glasenberg said. "We like zinc."

On top of the upcoming closure of Century, the Brunswick, Perseverance, Lisheen and Skorpion zinc mines have either already shut or are due to close in the next couple of years.

But the optimism from the likes of Ironbark and Glencore isn't universal. Citi commodities analysts are forecasting a rise in zinc prices next year, but not the sort of sharp surge the miners are expecting.

Citi predicts the zinc price, which has averaged about $US2170 a tonne this year, to climb to $US2315 in 2015 and hold around that level thereafter.

The analysts note that the mine closures have been an underlying issue in the market for the past five years, but Chinese mine production has consistently continued to grow above expectations to fill the gap.

“Chinese zinc mine production growth averaged 13 per cent per annum between 2009 and 2013, the very period when the global zinc industry was supposed to have been afflicted by mine depletion and constrained concentrate supply,” Citi said. “China is second only to Australia in terms of share of known global zinc reserves according to the US Geological Survey, so it does have large resources to develop.”

The analysis by Citi shows total zinc supply continuing to grow in the years ahead. “We believe the market focus on mine closures is actually misleading, with Glencore effectively offsetting Canadian closures with Australian and Burkina Faso expansions,” Citi said.

Ironbark, meanwhile, will be slogging away with Citronen regardless. The project stacks up even at current prices, Mr Downes said, and the company was determined to stay the course and get Citronen into production.

“All commodities invariably go for a run one day, and there’s just fantastic exposure here,” Mr Downes said.