

Zinc harder to find as China's MMG calls time on Century mine

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Tucked away in the remote limestone plateaus of northern Australia, the owner of a massive zinc mine has begun preparing its transition back to cattle-grazing land.

For the miner, China's MMG, that hurts because replacing the tapped-out mine, which is responsible for 4 per cent of the world's zinc output, with a fresh source of the metal has proven elusive. For commodity investors who have grown accustomed to the emergence of supply gluts sparking sales in everything from copper to wheat, it's a boon.

Zinc, unlike those other raw materials, is rebounding, having posted an 8.6 per cent gain over the past three weeks that has stemmed an eight-month slide.

That's largely because the fate of MMG's mine highlights a growing trend in the zinc market. From Africa to Ireland, mines that have produced the metal for decades are tapped out.

Morgan Stanley expects that by 2017, more than 1.2 million tonnes of annual mined supply will be taken out of production. That's more than the US uses in a year.

"It's all about supply," Clive Burstow, a London-based investment manager at Baring Asset Management, which oversees \$US44 billion (\$57 billion), said. "It's simply that the big mines are coming off stream this year, and there's no big supply to replace it. So, we're naturally moving into an increasing deficit market."

Tighter supplies are prompting banks including BNP Paribas and Goldman Sachs to forecast higher prices for the metal that's used in steel car parts, brass plumbing fixtures and sunscreen.

Demand exceeded output by the most in nine years in 2014 and the deficit will almost double next year, International Lead and Zinc Study Group and Bloomberg Intelligence data shows.

The recent rally in zinc left prices up 6.5 per cent over the past 12 months on the London Metal Exchange to \$US2159 a tonne.

That's the only gain among the six main metals traded on the LME.

The Bloomberg Industrial Metals Subindex slumped 15 per cent in nine months through March, and fell 9 per cent in the past year as the Bloomberg Commodity Index of 22 raw materials tumbled 27 per cent.

Prices will rise as high as \$US2397 by year end, the average estimate in a Bloomberg survey of nine traders and analysts shows.

Goldman forecast \$US2500 in 12 months and BNP Paribas predicted an average of \$US2850 in 2016.

The world's refined zinc supply fell short of demand by 310,000 tonnes last year, the most since 2005, International Lead and Zinc Study Group data shows.

The gap could expand to 1.98 million tonnes by 2017, Bloomberg Intelligence analysts Kenneth Hoffman and Sean Gilmartin said in March.

The supply lag comes after a decade-long boom for metals demand in China, the world's top consumer, spurred miners to dig ore out of the ground as quickly as possible. At the same time, rising costs and a lack of untapped big deposits meant that producers had a hard time bringing on replacement supplies as consumption increased.

MMG, the Hong Kong-listed unit of China's biggest state-owned metals trader, plans to close the Century mine in Australia by the middle of the year and has failed to identify a replacement.

"We can't find any more zinc of significance, which tells us even more that it's going to be tight," MMG chief executive officer Andrew Michelmore said in March. "We're very bullish on zinc."

It's so hard to find new mines that producers are being driven to increasingly remote locations. Ironbark Zinc, an Australian explorer backed by Glencore and Nyrstar, is exploring a deposit near an inlet in northern Greenland that may contain 5.9 million tonnes of lead and zinc.

Even as mines shut, slowing growth in China threatened demand and a stronger US dollar curbed the appeal of commodities as alternative investments, said Bart Melek, the head of commodity strategy at TD Securities.

More than half of global supplies are used to galvanise steel, Morgan Stanley estimates.

China accounted for 51 per cent of the world's crude steel production in February, World Steel Association data shows.

China steel producers estimate their output would contract this year after consumption peaked and more mills were shut.

"We have some concerns about demand, and we've seen a lot less restocking than we'd normally get this time of year," Mr Melek said. "There's concern that China's steel output will be lower because of a glut of steel, and that means you're going to use less galvanised product, which means less zinc."

China's economy is still growing.

The country would use about 6.9 million tonnes in 2015, Morgan Stanley analysts Tom Price and Joel Crane said in March.

That's the most since at least 2007.

Even with the rally in prices over the past year, zinc is more than 50 per cent below its record in 2006, which has discouraged spending on new mines.

"Current prices don't allow us to develop the projects that we have," said David Gleit, head of investor relations for Lima-based Volcan Minera, the biggest Latin American producer.

Stockpiles monitored by the LME tumbled 26 per cent in the first quarter, the biggest loss since 2007.

In addition to the Century closing, Vedanta Resources plans to shut its Lisheen mine in Ireland, cutting supply by 175,000 tonnes, Bloomberg Intelligence estimates.

"The amount of new mines coming on stream to replace these mines ending their life — the number and amount produced — is relatively limited," Stephen Briggs, a senior strategist at BNP Paribas, said.

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