

COMMODITIES CORNER

Shortages Galvanize Zinc

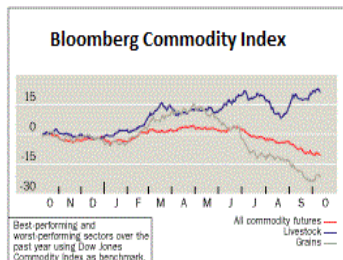
Surging demand and mine closures have set stage for big rally.

By TATYANA SHUMSKY Oct. 11, 2014 2:02 a.m. ET

[Bloomberg Commodity Index](#)

The rally in zinc is just getting started. A predicted shortfall in zinc supplies arrived sooner than expected, with aging mines running out of the metal faster than anticipated. The shortage has also been more severe than forecast, amid robust zinc demand thanks to gains in U.S. construction and record-breaking sales in global autos, in which the metal is used to protect steel parts from rust and corrosion.

As a result, while futures have pulled back from three-year highs, the price action has yet to run its course. Zinc for delivery in three months, which ended on Friday at \$2,314 a metric ton on the London Metal Exchange, is still up 13% for the year.



The first set of mine closures came in April 2013, when [Glencore](#) (ticker: GLEN.UK) shut its Brunswick and Perseverance mines in Canada. The two mines together produced 335,000 metric tons of zinc annually, and the shutdown was a factor in global production falling short of demand for the metal by 60,000 tons in 2013.

This year, the International Lead and Zinc Study Group (ILZSG) forecast a 117,000-ton shortfall. As of July, the latest data available, the supply of zinc trailed demand by more than double that, at 248,000 tons. "We've seen a very positive move in zinc this year, because the positive story is coming through faster than people expected," says George Cheveley, a commodities portfolio manager with Investec Asset Management, which has \$120 billion under management.

MORE LARGE MINES ARE PLANNING to shut down as once-rich ore deposits run out. [MMG](#) (1208.Hong Kong), which owns Century, the world's No. 3 zinc mine, surprised investors in December when it advanced plans to close the Australian mine

by a year, to late 2015. [Vedanta Resources](#) (VED.UK) plans to close its Lisheen zinc mine in Ireland in the 2015 third quarter.

"While there are mines to replace [those closing], there aren't that many, and they're not that big," says BNP Paribas metals strategist Stephen Briggs.

New zinc mines take years to develop. MMG has delayed the start date for its Dugald River mine in Australia to late 2016 after hitting technical difficulties.

Global stockpiles are also shrinking. Zinc stored in the LME's warehouses is down 22% since the start of the year, to 731,675 tons, equivalent to about 20 days of production. At the same time, demand for zinc is growing as global car sales near a record, with U.S. and China car makers leading the charge. Chinese car makers stepped up zinc purchases in recent months after "high-profile recalls with respect to corrosion" saw them lose ground to foreign rivals, Deutsche Bank analysts said in a report.

Demand for zinc was 7.6% higher during the first seven months of 2014 than the same period last year, according to ILZSG.

With stars aligned for higher zinc prices, why has the market pulled back? Blame the dollar. The dollar has surged in recent weeks, making zinc and other dollar-priced commodities more expensive to buyers who use other currencies to fund their purchases. A strong dollar remains a risk to zinc.

But the retreat is unlikely to last, because low prices discourage the construction of new zinc mines, and that would exacerbate the shortfall. Morgan Stanley analysts predict that zinc production will continue to fall short of global demand through 2018.

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