

COMMODITIES

# Zinc Deficiency Gives Investors a Jolt

## Prices for the Metal Have Soared to 3-Year Highs

By TATYANA SHUMSKY < CONNECT

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The world is running low on zinc, sending some investors scurrying to buy mining-company shares and forcing the U.S. Mint to redouble cost-cutting efforts in search of a cheaper penny. WSJ's Tatyana Shumsky explains on MoneyBeat.

The world is running low on zinc, sending some investors scurrying to buy mining-company shares and forcing the U.S. Mint to redouble cost-cutting efforts in search of a cheaper penny.

Prices for the metal have soared to three-year highs. Investors are betting prices will continue to climb as some of the world's largest zinc mines run dry just as demand is ramping up.



Enlarge Image

A worker carries limestone, used to extract zinc from ore, at a smelter in Jakarta, Indonesia. Some of the largest zinc mines are running dry. Darren Whiteside/Reuters

Zinc is used in everything from steel coatings to car tires to sunscreen, and the metal has few substitutes. The U.S. Mint reduced manufacturing costs to offset higher prices for zinc, which makes up 97.5% of every penny. However, steelmakers, which buy about half the world's zinc, are in a tougher bind. Zinc is one of several rust-resistant metals vital to the steelmaking process where costs have soared this year.

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Zinc production is expected to fall short of demand this year for the first time since 2007, according to Goldman Sachs. Several large, aging mines are scheduled to close next year, and miners

need higher prices to justify the cost of finding and developing new sources of metal. Miners may not produce enough zinc to meet the needs of steel companies and coin makers until 2018, analysts say. Meantime, a rebound in the U.S. property market and soaring global auto sales are creating new demand for galvanized steel.

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Zinc for delivery in three months ended down slightly at \$2,390 a metric ton on the London Metal Exchange, just below a

three-year high. Futures are up 15% this year. BNP Paribas sees prices averaging \$2,550 next year.

"There are a relatively small number of large zinc mines that are happening to be reaching the end of their useful lives," said Stephen Briggs, a metals strategist at the bank. "While there are mines to replace them, they're not that many and they're not that big...we're reaching the tipping point."

Next year, metal companies are expected to close two mines equal to 7% of global production. Replacing that supply won't be easy. One of the facilities expected to shut down, an Australian mine called Century, produces 500,000 tons of zinc a year, equal to about five new mines, Mr. Briggs said.

Zinc users are drawing on stockpiles of the metal to make up for production shortfalls. Supplies of the metal in LME-licensed warehouses fell to a 3.5-year low in July, and are down 21% this year. The warehouses contain enough zinc to meet 19 days of demand, down from 24 days at the start of the year.

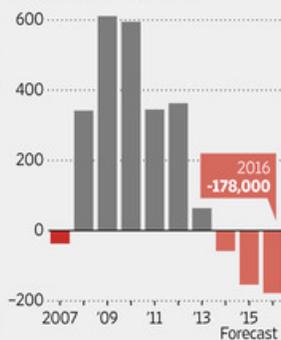
"The recent zinc rally has really been driven by the fact that inventories have been falling much faster than people have been expecting," said Catherine Raw, a commodities portfolio manager for BlackRock Inc.

## Galvanized | Zinc prices are soaring as supplies grow tight.

London Metal Exchange zinc prices, year-to-date



Global zinc surplus or deficit in thousands of metric tons



Production cost of a penny, which is 97.5% zinc



\*estimate. †WSJ calculation

Sources: WSJ Market Data Group (price); Goldman Sachs (surplus or deficit); U.S. Mint (penny cost); WSJ (zinc value)

The Wall Street Journal

Earlier this year, Ms. Raw purchased zinc futures for delivery in January 2015, and she has been buying stocks of zinc producers such as Swedish mining company Boliden AB and Canadian zinc producer Trevali Mining Corp. in recent months.

George Cheveley, a commodities portfolio manager with Investec Asset Management, said he is buying shares in [Glencore](#) (GLNCY -0.55%) PLC, the third-largest zinc producer, to take advantage of a long period of high prices. Glencore, which closed

two zinc mines last year, said in an earnings presentation on Aug. 20 that "the market deficit will only widen further."

"The zinc market already looks like it's moved into deficit...and the new projects are very few and they all require higher prices," Mr. Cheveley said. Investec manages \$120 billion.

Investors are more bullish about the \$750 million zinc market than they are for any other metal traded on the LME, according to exchange data.

The U.S. Mint lost \$55 million producing pennies in 2013, when the coin cost 1.83 cents to manufacture. This year a penny is expected to cost only 1.6 cents because of savings elsewhere in the process, a spokesman said.

The value of the metal contained in a penny is climbing. At today's prices, the zinc in each penny costs 0.58 cents, from 0.47 cents last year and 0.26 cents a decade ago.

"No alternative metal compound would lower the cost of the penny [to less than one cent], we just don't think it can be done," said Tom Jurkowsky, a spokesman for U.S. Mint, adding that the Mint had studied cheaper materials like steel but encountered problems with higher manufacturing costs.

Globally, zinc demand is up 7.7% in the first six months of this year to 6.8 million metric tons, according to the International Lead and Zinc Study Group, an industry association.

Investors betting on higher prices think miners will need at least two years to raise production to meet rising demand. New mines are often subject to spiraling construction costs and delays. MMG Ltd., which owns Century, had planned to open a new mine in Australia next year, but had to push the start date back to late 2016 due to technical issues.

To be sure, some investors say zinc has peaked. Chinese zinc smelters, which refine ore into metal, have large inventories of unrefined ore that they can tap. China accounts for about 44% of zinc consumption.

"There's a lot of unrefined metal around China and if you increase refined capacity, you could balance out the market," said Manne Rasmussen, analyst with the \$594 million Vontobel Belvista Commodity Fund in Zurich. The fund holds bearish bets on zinc futures, after wagering prices would rise for much of 2014.

But other investors believe China's domestic demand for zinc will be stronger than the market expects.

"While people expect Chinese zinc supply to grow, it won't make up for its own demand growth plus mine closures in the West," said Investec's Mr. Cheveley.

### **Corrections & Amplifications**

The U.S. Mint's spokesman is Tom Jurkowsky. In an earlier version of this article, his name was misspelled as Jurkowski.

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