
Zinc market forecast to move into deficit through 2011

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Agmetalmminer.com reported that according to an HSBC report, some may wonder why the zinc price is as strong as it is when the market has been in surplus for the H1 of this year and with the exception of China restocking, demand has been comparatively weak. Smelter utilization has dropped from 83% in 2008 to 77.2% in 2009 as refined metal supply is estimated to have dropped by 600,000 tonnes. Mines have been closed and refining capacity idled in a desperate attempt to bring supply and demand back into some form of balance. Well it looks as if all that pain has not been in vain. HSBC predicts the market will go into deficit later 2009 and recent ILZSG figures suggest the market may already be consuming more than it is producing as the following chart illustrates. Metal usage has been getting progressively closer to metal production and even on reduced summer month consumption figures and production has tipped into deficit.

HSBC's prediction is largely based on resurgence in demand from western economies later 2009 and into 2010. China has remained in YoY growth averaged over the months and Latin America has only dipped to single digit retrenchment. The big drop in demand was North America at 20%, Europe at 16% and the CIS at 10%, all of which are predicted to swing into growth by next year. Mills are already starting to respond to the higher prices, as Reuters reported last week.

Belgium's Nyrstar said that it would restart operations at its Balen plant in Belgium this month after a 9 month suspension due to weak demand. Nyrstar had already resumed production in July at its previously idled Dutch and US plants.

The only mitigating restraint on additional price increases is rising stock levels. Mines are profitable at current levels so although they will take time to reopen facilities that were closed as the markets collapsed, they have every incentive to produce metal and deliver it onto the LME. The LME however is already holding over 436,000 tonnes and this is in addition to some 400,000 tonnes to 500,000 tonnes estimated by CRU to be held in China. Like aluminum, it is this stock overhang that is the break on the upside for prices, much of the China stock is believed to be held as collateral against loans but if prices were to come off it could be liquidated in which case it would come out of China and depress world prices.

In a well argued report HSBC summarizes by saying that they expect gradually rising western demand to push the market into deficit and as a result support prices. They are looking at an average of USD 1841 per tonne for 2010 rising strongly in 2011 to over USD 2,500 per tonne as the supply deficit bites. CRU on the other hand are keeping their options open due to the over stock situation they say prices could collapse to USD 1,200 per tonne to USD 1,300 per tonne in 12 months to 18 months time but they could rise to USD 2,500 per tonne to USD 3,000 per tonne in the meantime well that seems to about cover it.

(Sourced from Agmetalmminer.com)

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