
Major zinc market developments in February

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Reuters reported that the global zinc market surplus this year may be even bigger than earlier feared as demand growth is not as strong as anticipated, while output is rising.

Analyst said that this combination inevitably will bring downward pressure to bear on prices.

Mr Graham Deller of industry consultants CRU Group said that "Demand is more patchy than expected, the upturn has been delayed a bit and meanwhile all the mines are coming back on stream. The surplus is going to be even bigger than we previously thought -- around 1.5 million tonnes of metal."

Mr Angus MacMillan independent consultant said that production is rising in China and elsewhere. The market's heading for another hefty surplus this year.

Mr Max Layton analyst of Macquarie said that zinc prices, currently at 20% above the cost of production, had performed strongly given the build up in inventories and the fact that the market was in surplus. Once global economic growth momentum slows people will look around, see zinc is still in surplus and wonder why they're still holding it.

Mr Layton said that top consumer China would remain the main focus for metals markets. He added that zinc was more exposed to the construction sector than to the booming car industry. He saw Chinese construction growth moderating in the H2 of the year.

Below are some of the more significant recent developments in production and prices that may continue to influence the direction of the market in 2010.

Production

February 25 - Lundin Mining said that production at its Neves Corvo copper zinc mine in Portugal has been slowed by limited worker strikes that have sapped two hours of work from each of the three daily shifts.

February 19 - An Australian environment minister said that Xstrata may be forced to scale back production or shut down some of its Mount Isa operations after excessive lead levels were recorded by an air monitoring site. Queensland states environment minister said that Xstrata Mount Isa Mines had been given until February 22 to explain why one of its air sampling stations found levels of lead exceeded regulatory limits.

February 18 - Xstrata said that union workers at the Xstrata Brunswick lead zinc mine in Canada have voted in favour of a 3 year extension of a collective bargaining deal that will surpass the expected closure of the mine. The current agreement, which was set to expire in February 2011, will enable the firm to determine with certainty how much ore there is left to mine and what it will cost to extract it. This will also enable Xstrata to establish a more precise date for the closure.

February 17 - Teck Resources Ltd said that it may be forced to curtail operations at Alaska's Red Dog mine after environmental groups appealed against a permit issued by the US Environmental Protection Agency. Teck said that until the EPA issues the notice, it will not know whether and to what extent, access to Aqqaluk the next deposit to be mined at Red Dog will be affected. Red Dog's main reserves are expected to be depleted in 2011, at which point Aqqaluk should already be up and running. If permit delays extend beyond May, the transition plan will be affected and production at Red Dog will likely be curtailed in October.

February 17 - The International Lead and Zinc Study Group's latest monthly bulletin showed that the global zinc market showed its largest surplus in 16 years in 2009. Initial data compiled by ILZSG for 2009 show that global output of refined zinc metal exceeded usage by 445,000 tonnes. Global refined zinc use was 10.832 million tonnes down from 11.436 million per year earlier. World refined zinc output was 11.277 million tonnes down from 11.655 million a year earlier.

February 8 - The Canadian Auto Workers union is calling on the Canadian government to investigate Xstrata's plans to close its copper and zinc metallurgical plants at Timmins Kidd in northern Ontario. While a mine and concentrator at the site will continue to operate, the plan to shut down the metallurgical plants on May 1 will result in about 670 job cuts. Xstrata currently plans to shift production from Kidd to smelters and refineries in Quebec.

February 1 - Minmetals may restart zinc concentrate output at its Century mine on February 2 after a severe storm the previous week forced it to shut its export terminal and evacuate staff. Ore mining was not interrupted but concentrate output was halted from the world's second largest zinc mine due to the proximity of the storm to the port of Karumba.

Prices

Zinc prices made some headway in February, ending the month at USD 2,197 per tonne from USD 2,130 the previous month. The market continued January's weaker tone in the early part of the month with 3 months prices falling to USD 1,935 on February 5.

A firmer tone ensued, helped around mid month by a weaker dollar and expectations of further strong demand from China.

On February 17th 2010, 3 months reached USD 2,394. But prices failed to hold onto these gains after China returned from the New Year holiday in a downbeat mood and further monetary tightening there weighed on sentiment. Under copper's influence the market rose to USD 2,425 on March 10, but lingering worries over global economic health pared gains.

In January, the twice yearly Reuters base metals price poll put the median average for the LME cash zinc price at USD 2,293 per tonne in 2010.

(Sourced from Reuters)

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