
World zinc prices may be bottoming

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Mr William Adams analyst of Basemetals.com said that world zinc prices of 77 cents per pound this week are almost 40% lower than the 2008 peak of USD 1.28 reached in early March 2008 and are below marginal productions costs due to huge metal surplus and weak demand in major zinc consuming regions.

Mr Adams expects spot zinc to trade in the short to medium term from the low of 77 cents to a high of 88 cents. Independent nonferrous metals consultant Mr Angus MacMillan is even more bearish, telling clients to expect spot zinc prices to fluctuate in a range of 68 cents per pound and 82 cents.

The Merrill Lynch Global Metals Team this month reduced its 2008 price forecast to 93 cents. Through August 2008, spot zinc on the London Metal Exchange has averaged 98 cents per pound as compared with USD 1.17 for all of 2007. The Merrill Lynch forecast for 2009 is 90 cents per pound while the consensus outlook of 60 analysts is 86 cents.

Mr David Lipschitz analyst at Merrill Lynch points out that zinc is extremely sensitive to economic downturns since purchasing is 50% to construction, which has entered a phase of low activity, declining in the North America, Europe and non China Asia.

Mr Lipschitz notes that inventories are not at comfortable levels so top producer China's ability to absorb rising domestic output should be keenly watched. He forecasts that the zinc market will remain in surplus, rising to 304,000 tonnes in 2009 from just 45,000 tonnes in 2008.

The analysts say large zinc metal surpluses, lately around 160,000 tonnes and weakened demand across Europe and in non China Asian nations will be price depressants for some time to come.

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