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Zinc Short term Outlook: Bullish

Industrial Metals witnessed a sharp downward rally in last few months on the back of debt concerns in Europe and bleak outlook on major economies. Zinc prices have been corrected by almost 37%. Now our question is despite of the fact that Zinc supply is overflowing in the market and worries from major Metal consuming countries like China and US is not tamed yet, is there any scope for prices to move up from this level and demand for the commodities will escalate?

Does China still have the capacity to suck the over bowled Supply of Zinc?

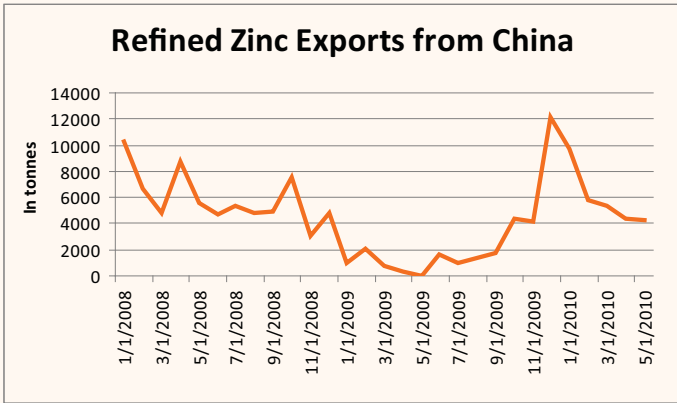
China is the third largest economy in the world. Since 2009 its economy is continuously growing even after the world recession. Fan Jianping, Head of economy has given a 2010 full year forecast for gross domestic product growth of 9.5 per cent which is estimated to be slow over previous year. Chinese economy is growing but pace has been slowed which is witnessed by slow GDP growth rate and slow Manufacturing growth data in comparison with previous year. This slow growth rate came in to picture as government took steps to cool the property market and curb bank lending combined with a faltering global recovery to dampen the investor's sentiment.



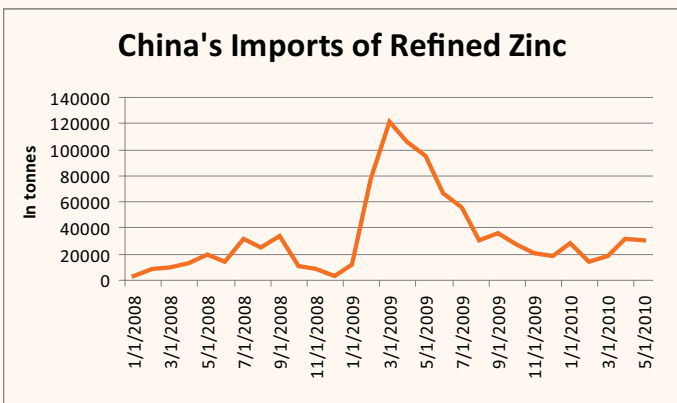
Source: Reuters and NB research

Though Government of China has taken substantial policy actions to discipline the economy worries including action towards making its exchange rate more flexible to curb the inflation and reduce the exports. China is the biggest consumer of Base Metals and it consumes more than 40% of the total world consumption of Zinc. Changing fundamentals of Zinc in the markets of China may lend some weight to the market sentiments and prices of Zinc will again shoot up:

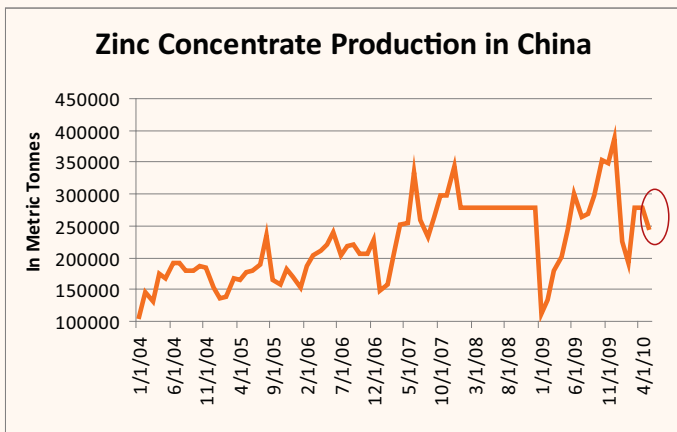
- 1. Sinking Imports of Zinc concentrates in China:** Decline in imports of Zinc concentrates from china indicates that China will be no more significant net refined Zinc exporter. Zinc concentrate market is becoming tight every day and that is holding down the increment of refined zinc inventories in the Country. After the first quarter in 2010, Imports and the domestic production for Zinc concentrates have been declining and so we expect Imports of refined Zinc to move up in times to come. China zinc concentrate imports in first 5 months 2010 were 1.3 million tons, down 3.6% on-year, that will turn the refined surplus trend line lower in coming quarter.



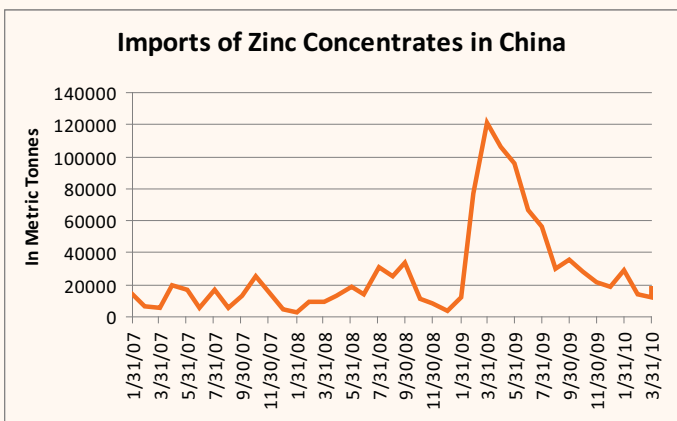
Source: Bloomberg and NB research



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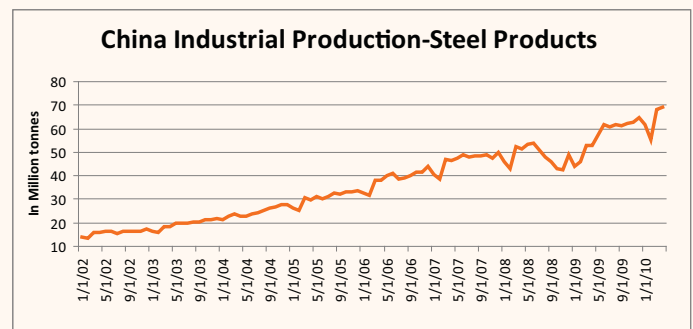


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2. Surging demand for Steel industry: Galvanized steel global output is rising which accounts for more than half of zinc demand. Demand for steel from industries like construction and infrastructure are continuously increasing. China's Industrial production includes steel products, which is likely to rebound by 6% in 2010, in comparison with the 5.2% decline last year. Global Zinc demand was up by more 20% in first quarter and expectations for the year are also high.



Source: Bloomberg and NB research

3. Tumbling TC charges: Treatment charges are those Charges which are paid to smelters by mines for producing Metals from Metals concentrates. Treatment charges for spot Zinc concentrate offered to china for the month of Jun was \$80-\$90 a tone versus \$160 in previous month and \$200 at the beginning of the year. Supply of imported zinc dross, a low-grade material for refined zinc production, have also fallen due to tighter customs checks for impurities, adding to the demand for concentrates. Chinese zinc miners had been reducing the sale of zinc concentrate in the domestic market in the past few weeks due to low refined zinc prices, increasing demand for imports.

Supply of Zinc is becoming a major concern in other areas of the world like United states and Europe. Due to shortage of supply in the market, premium on physical trades in Zinc are edging up. Recent flood in China is also adding to supply concerns.

Nutshell:

Despite huge global Zinc supply, demand from China is expected to increase and Prices may move up again in coming fortnight. Aggressive production cuts and Chinese buying may lend support to the Zinc prices and also expected to suck a lot of surplus from the market. In coming months, we may see some of Chinese provinces buying Zinc to add to their stockpiles. These sentiments in the market indicate that worse may be over for the global zinc market. Zinc price is expected to touch the levels of \$1910-1925/ton on LME and Rs.89-90/kg on MCX for medium term.

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