

Zinc no longer the heavy metal

Exploration has run dry, putting a squeeze on supply

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RESOURCES

The world is running out of zinc.

The price of the metal is holding near its highest level in more than a decade, putting a rocket under the handful of local players who persevered with zinc through its darker days.

But the commodity's day in the sun is being tempered by memories of zinc booms in the past, in particular the historical tendency of producers to blindly crank up supply.

The spot price of zinc is up 28 per cent since June last year and while it is off February's highs, it is trading around its highest levels since 2007. The trajectory of the metal, which is a key ingredient in brass and batteries and also used for weather-proofing iron, has been inverse to the direction of London Metals Exchange zinc stockpiles, which have fallen 81 per cent from more than 1.2 million tonnes in 2012 to 231,450 tonnes.

The ranks of Australian listed zinc plays have thinned out during the lean times of the past decade, but the survivors are all making the most of the current conditions. New Century Zinc has quadrupled since it picked up the old Century Mine in Queensland for a song last year, while Red River Resources is up 70 per cent since May last year after bringing the Thalanga mine in Queensland back into production.

As the same time, New Century's backer, Tolga Kumova,

over the past month has been quietly building up his cornerstone holding in the miner, spending \$1.1 million, according to ASX disclosures.

Red River managing director Mel Palancian helped strike the deal that saw the company pick up Thalanga from the administrators of failed zinc miner Kagara for \$6.5 million, leading to the mine generating \$6.8m in cash in the last few months of 2017 following Thalanga's restart.

For Palancian, the current shortage in zinc stockpiles is the

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result of the near-total absence of zinc exploration since 1990, with most of the world's big miners having walked away from zinc exploration a long time ago.

It's been left to junior companies to pick up the slack, but equity markets have had little to no interest in funding zinc exploration programs.

"The juniors have all struggled to raise money for zinc exploration so they've all gone off to do copper or gold or lithium or cobalt and zinc has been unloved and forgotten," he told *The Australian*.

"It's been forgotten about in the past two or three decades from an exploration point of view because it's had poor returns on capital."

The lack of investor interest in the zinc space up until recently in part reflects the industry's own history of high-profile disasters.

Australian-listed Pasmaenco was one spectacular zinc failure, falling victim to a zinc supply glut that it helped create.

More recently, Kagara left many investors scarred after its collapse in 2012.

All commodities are cyclic but zinc in particular has a knack for being particularly volatile.

It's a history not lost on Terra Capital's chief investment officer Jeremy Bond, who, while doing well on his stake in Red River, has started trimming back his fund's exposure to zinc.

"Zinc is one of the commodities where sustained rallies in prices don't tend to last as long as some of the other commodities as it tends to be a bit easier to bring production on line," he said.

"There's still forecast to be a market deficit this year so prices should remain pretty high, but going forward if we look at 2019 and out, we would expect a supply

response. That's always been the case with zinc."

Today, the direction of the zinc price rests in no small part in the hands of international heavy-

weight Glencore, which controls a large portion of global supply.

Glencore chief Ivan Glasenberg — widely considered one of the mining world's sharpest thinkers — was bullish on the outlook for zinc when he briefed analysts at the company's earnings results earlier this year.

"Demand is increasing in the emerging markets and there has been an under-investment in new zinc mines," he said.

"The growth (in zinc supply) that we were expecting in China did not occur because of the environmental restrictions taking place at the zinc mines in China. So therefore the big growth that people are thinking would come in zinc is not coming and the demand grows."

Out of all the big global miners Glencore, which was built around its commodities trading arm, is considered one of the savvier players when it comes to manoeuvring in metals markets.

Wayne Taylor, the managing director of zinc developer Heron Resources, is among those who believe Glencore won't rush to bring shuttered supply back on line if it could hurt zinc prices.

"The fact of the matter is they're making more money out of two-thirds of their production than they were out of 100 per cent of it, so it stands to reason that they won't upset the market."

Heron is in some ways another example of why the zinc market is in its current predicament.

While zinc's attractive supply and demand dynamic has been apparent for some time, Heron long struggled to lock away the financing it needed to bring its

Woodlawn zinc project in NSW into production.

Mr Taylor believes the experience shows how hard it will be for other proposed zinc projects to get off the ground.

Most of the zinc plays on the market involve either the reopen-

ing of old mines such as Century, Thalanga and Woodlawn, or big undeveloped projects such as Metalicity's Admiral Bay and Ironbark Minerals's Citronen project in Greenland, which weren't able to find a path into production in the last zinc boom.

"There hasn't been a groundswell in support for new projects to get started. We're probably one of the few that is now funded and under construction," he said.

"A lot of the projects that are being presented to the market have been around for a long time and are still at the development stage because there are particular aspects that require special circumstances to proceed."

Regardless of the next direction for the zinc price, Red River's Palancian is just concentrating on making the most of the fact he is in production and is debt-free.

"All I know is the zinc price is healthy and I want to produce as much as I can," he said.



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