

India

**Neutral** (no change)

# Non-Ferrous

## Zinc: Short-term pain but bright in long run

- While there is a near-term oversupply as bunched-up capacities come online, lack of sufficient mining investments will lead to zinc deficit in the long run.
- At US\$2,600/t-odd level, at least 20-30% of mining capacities are becoming unviable as mining costs have risen significantly and face closure risk.
- We don't see a big downside to zinc prices. As the temporary oversupply position subsides, one can expect them to start moving towards US\$3,000+/t.

### Investments in mining are declining significantly in Australia

Australia has the world's biggest zinc reserves. Almost 30% of the known zinc reserves are located there. However, the country has seen anaemic investments in mining assets. This is not only true for zinc but for most minerals, be it coking coal or thermal coal. In the next three-to-five years (as per the Office of the Chief Economist of Australia), only 50-70 kt new zinc capacities are coming online, and Australian mining production has fallen from its peak of 1.6mt to a low of 1.1mt in CY23. Mining capacities are expanding in other countries like Canada, China, Peru, Mexico and Africa. However, the most worrisome part is lack of mining investments in Australia

### At current prices, more than 20-30% of mining capacity is unviable

Rising energy prices and declining ore grade are raising the overall mining cost at all the mines. At the same time, ESG concerns are hitting mining projects in two different ways: 1) It is making new project financing difficult. 2) It raises the environmental cost of production, which adds to overall costs. At current zinc prices, at least 20% of the global mining capacity is unviable and may stay idle going ahead.

### Zinc prices should revive to US\$3,000+/t in coming quarters

While our demand-supply model assumes an ideal scenario where all the mines keep operating, irrespective of prices (as we don't have the costing of each mine), but normally when the prices go below cash cost of production for a sustained time span (three-to-six months), the mines are usually idled. Calculating the exact closure date and which capacity will be closed is almost impossible to model. However, the supply response at such low prices is inevitable. At the same time, new mines are a few and far between. This means prices will slowly creep towards the US\$3,000+/t mark going ahead.

### Hindustan Zinc (UNRATED) should benefit

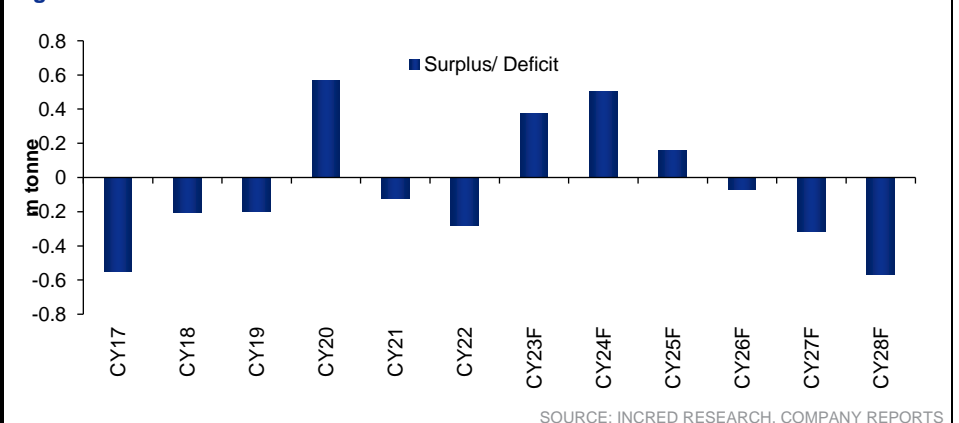
We don't cover Hindustan Zinc or HZL, but it's a direct play on zinc prices. The company still has one of the best zinc mines in the world and the cost of production is one of the lowest globally. Hence, in our view, rising zinc prices will benefit HZL.

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Figure 1: Zinc will come into deficit mode from mid-CY25F



## Zinc oversupply looms in the near term

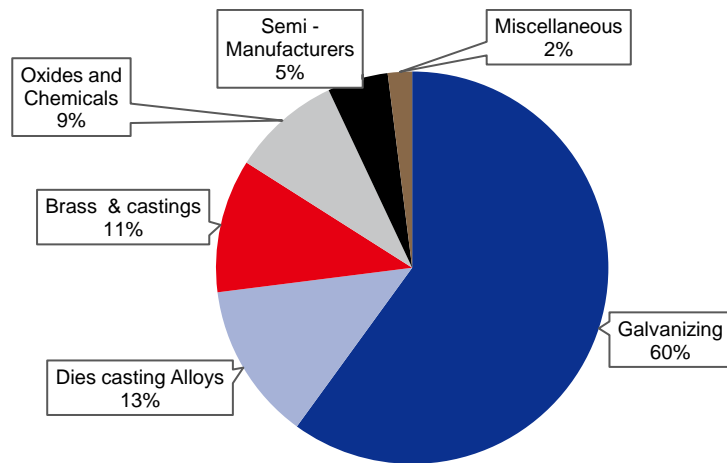
While zinc oversupply looms in the near term, lack of mining investments makes us bullish on the commodity in the long run. There are only a few high-grade zinc mines in the world and as the depth of the mines are increasing, it's becoming more costlier to mine, thereby leading to higher prices. Barring the US dollar weakness-led sentimental rally, we don't expect anything significant for this commodity in the near term.

### Zinc demand goes hand-in-hand with that of steel

One of the main usages of zinc is in galvanizing, which makes its demand go hand-in-hand with steel demand.

### Zinc is primarily used in galvanizing and making alloys

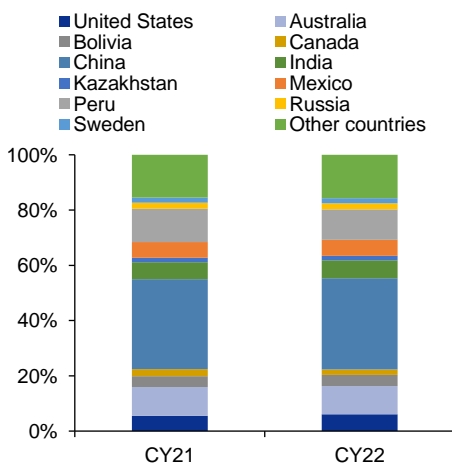
Figure 2: Almost 60% of zinc is used in galvanizing and hence, zinc's fortunes are closely tied to steel production



SOURCE: INCRED RESEARCH, COMPANY REPORTS

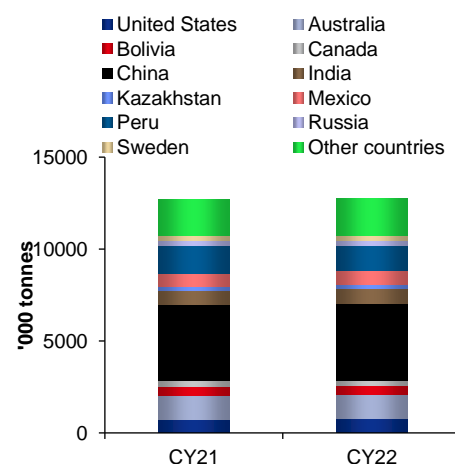
### Historically, China and Australia have been the major producers of mined zinc metal

Figure 3: China accounts for almost 35% of global zinc production...



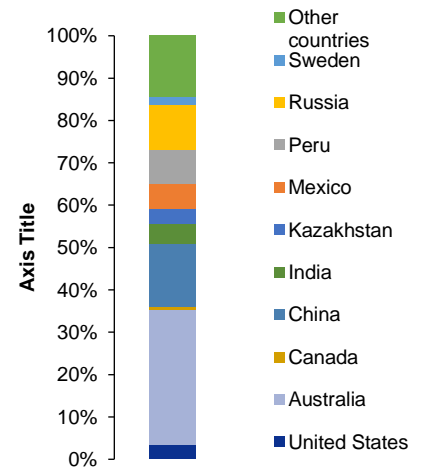
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: ...in million tonnes, it's close to 4.2mtpa



SOURCE: INCRED RESEARCH, COMPANY REPORTS

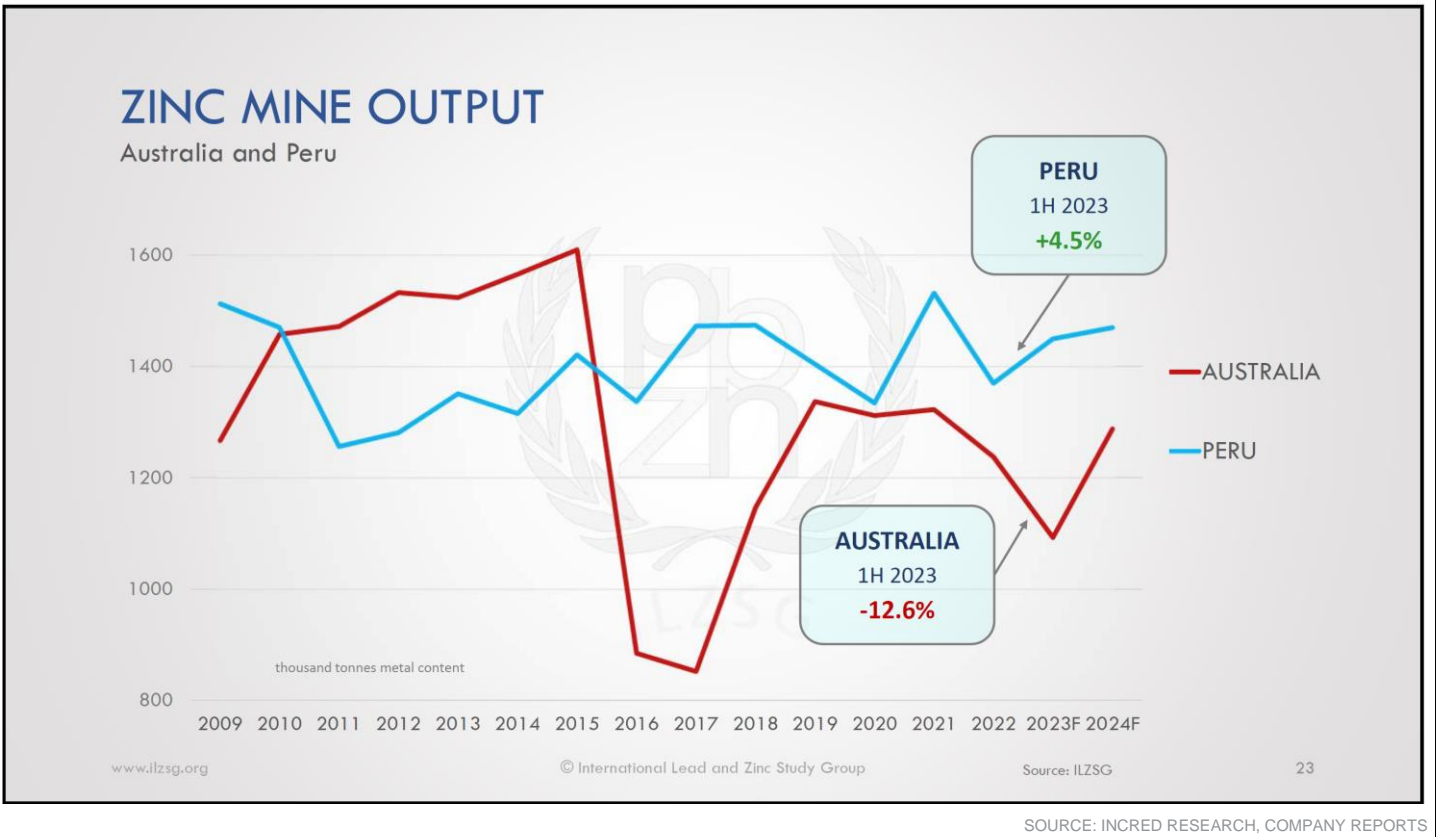
Figure 5: However, Australia has the highest reserves – almost 30% of the global reserves



SOURCE: INCRED RESEARCH, COMPANY REPORTS

However, Australia doesn't appear to be investing in mining assets and hence, its production is declining ➤

Figure 6: Australia's zinc mine production is declining



The official data on mining projects in Australia also paints a grim picture ➤

The official data on Australian zinc and lead mining projects paints a grim picture.

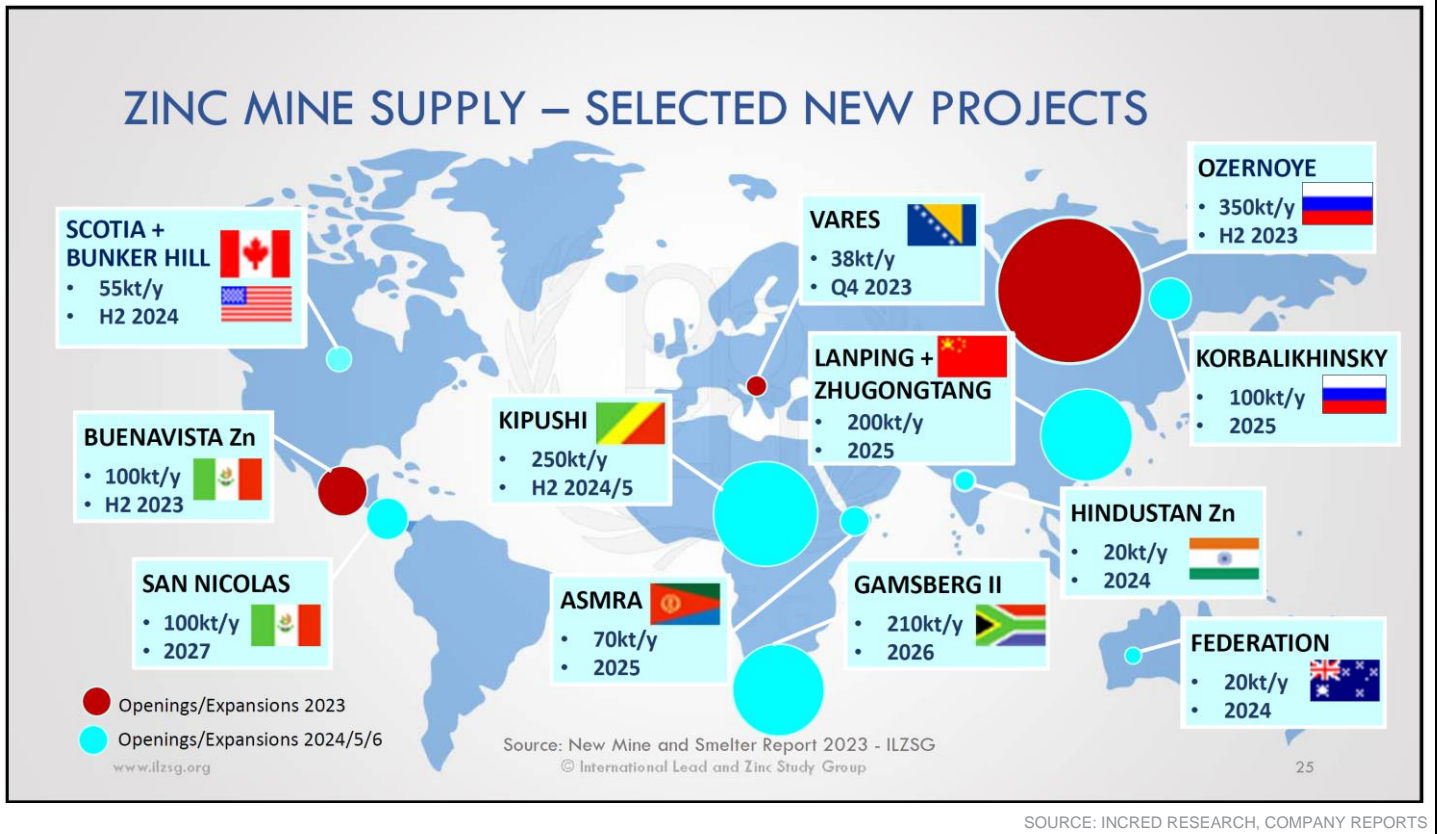
Figure 7: In Australia, only ~100kt of zinc expansion projects are coming online in the next 12 months

Project	Company	Type	Annual Estimated New Capacity	Capacity Unit	Resource	Estimated Start-Commercial Operations
Abra Lead-Silver Project	Galena Mining	Reactivation	93, 0.6	kt, Moz	Lead, silver	2023
Bowdens Project	Silver Mines	New project	5.4, 6, 5.2	Moz, kt, kt	Silver, zinc, lead	2025
Century - Silver King and East Fault Block	New Century	Expansion	33, 22, 1	kt, kt, Moz	Lead, zinc, silver	2024
Hayes Creek	PNX metals	New project	18.3, 1.4, 14.7	kt, Moz, koz	Zinc, silver, gold	2029
Hobart Zinc Works' electrolysis plant	Nyrstar	Expansion	n/a	n/a	Zinc ingot	2024
Paris Silver Project	Investigator Resources	New project	7.25	Moz	Silver	2024
Paroo Station	LeadFX	Reactivation	70	kt	Lead ingot	2029
Sorby Hills	Boab Metals	New project	67, 2.2	kt, Moz	Lead, silver	2024
Sun Metals Zinc Refinery (Stage-2)	Sun Metals	Expansion	70	kt	Zinc ingot	2023

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Globally also, we see limited projects coming online ➤

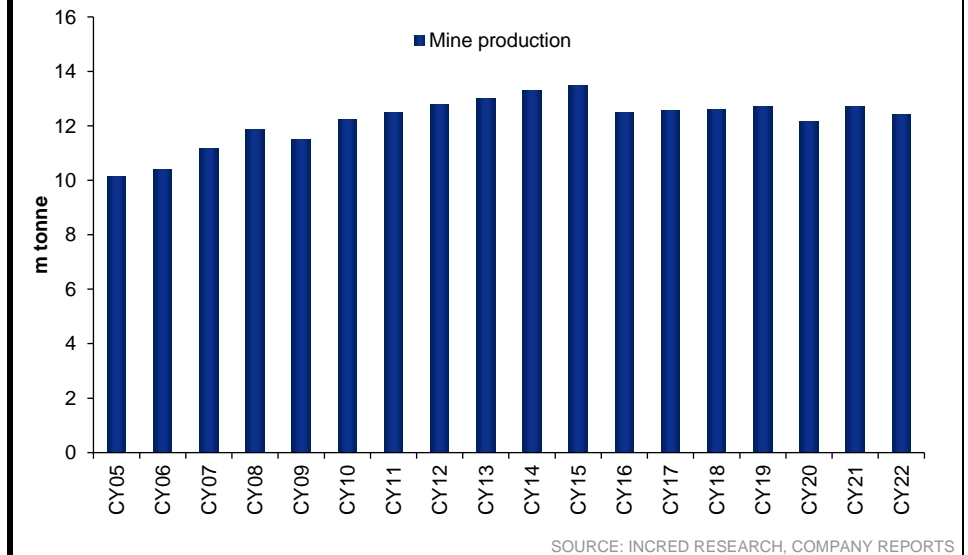
Figure 8: Globally, we see limited projects coming online in the next five-to-six years



SOURCE: INCRED RESEARCH, COMPANY REPORTS

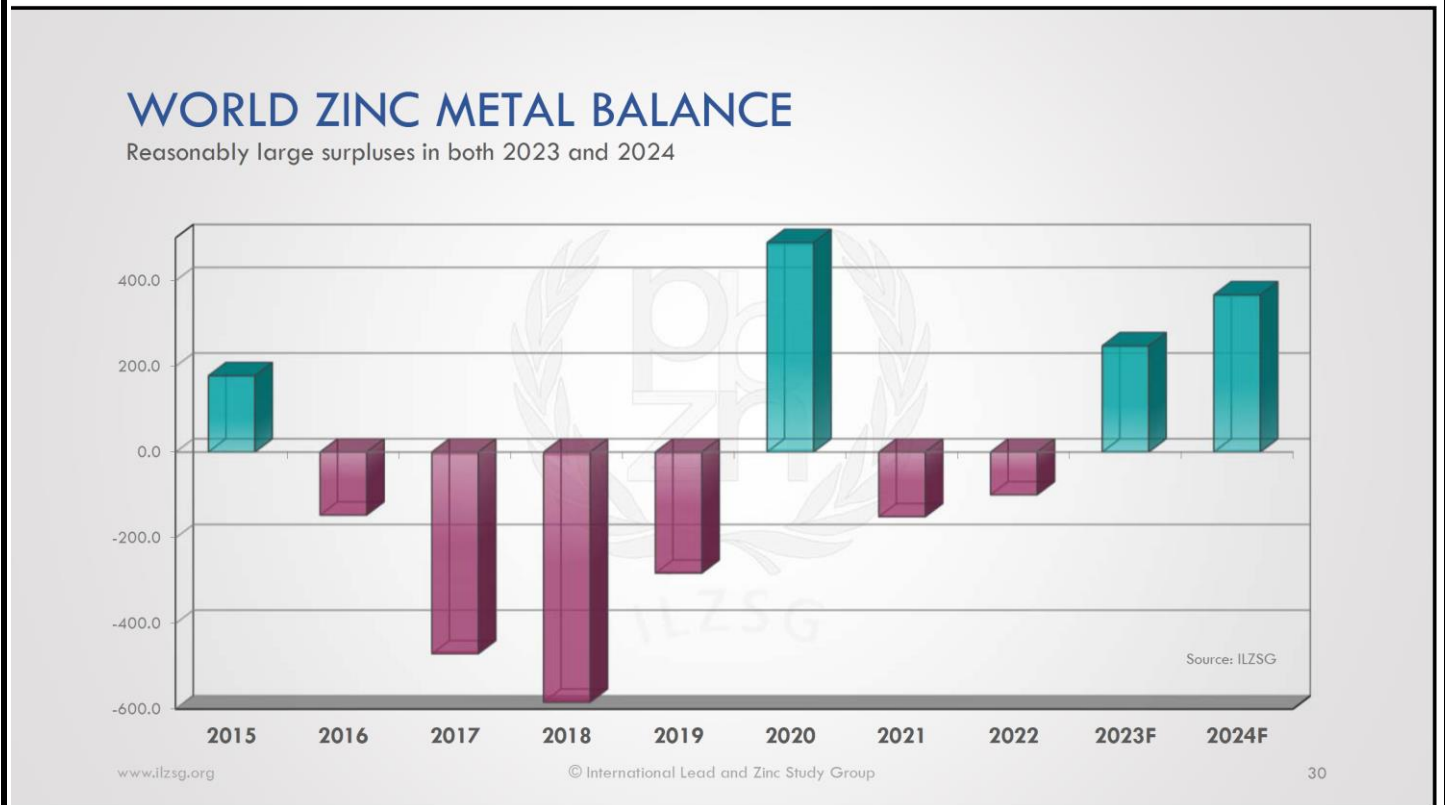
Global mine production has been declining over the last five-to-six years ➤

Figure 9: Global mine production is declining after touching a peak in CY15



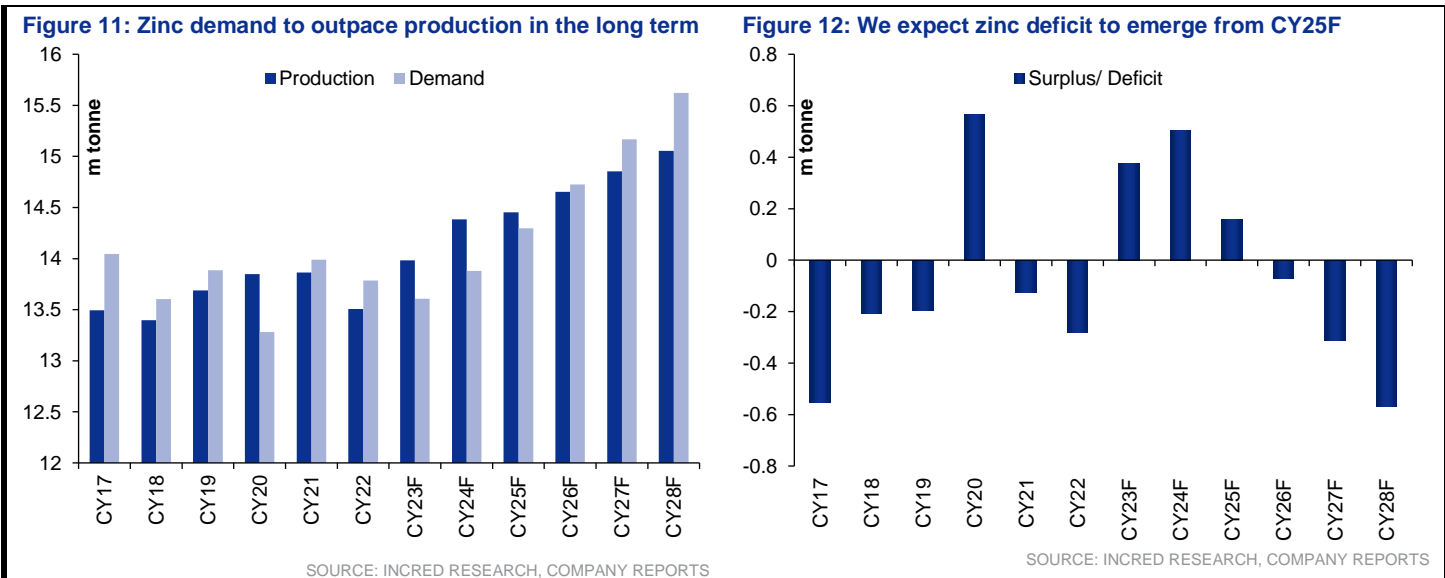
**In the near term, bunched-up supplies can create a glut but it won't sustain for long ➤**

**Figure 10: Zinc surplus can increase slightly in 2024F, but as global steel and alloy demand makes a comeback, we will again see zinc in the deficit mode**



SOURCE: INCRED RESEARCH, COMPANY REPORTS

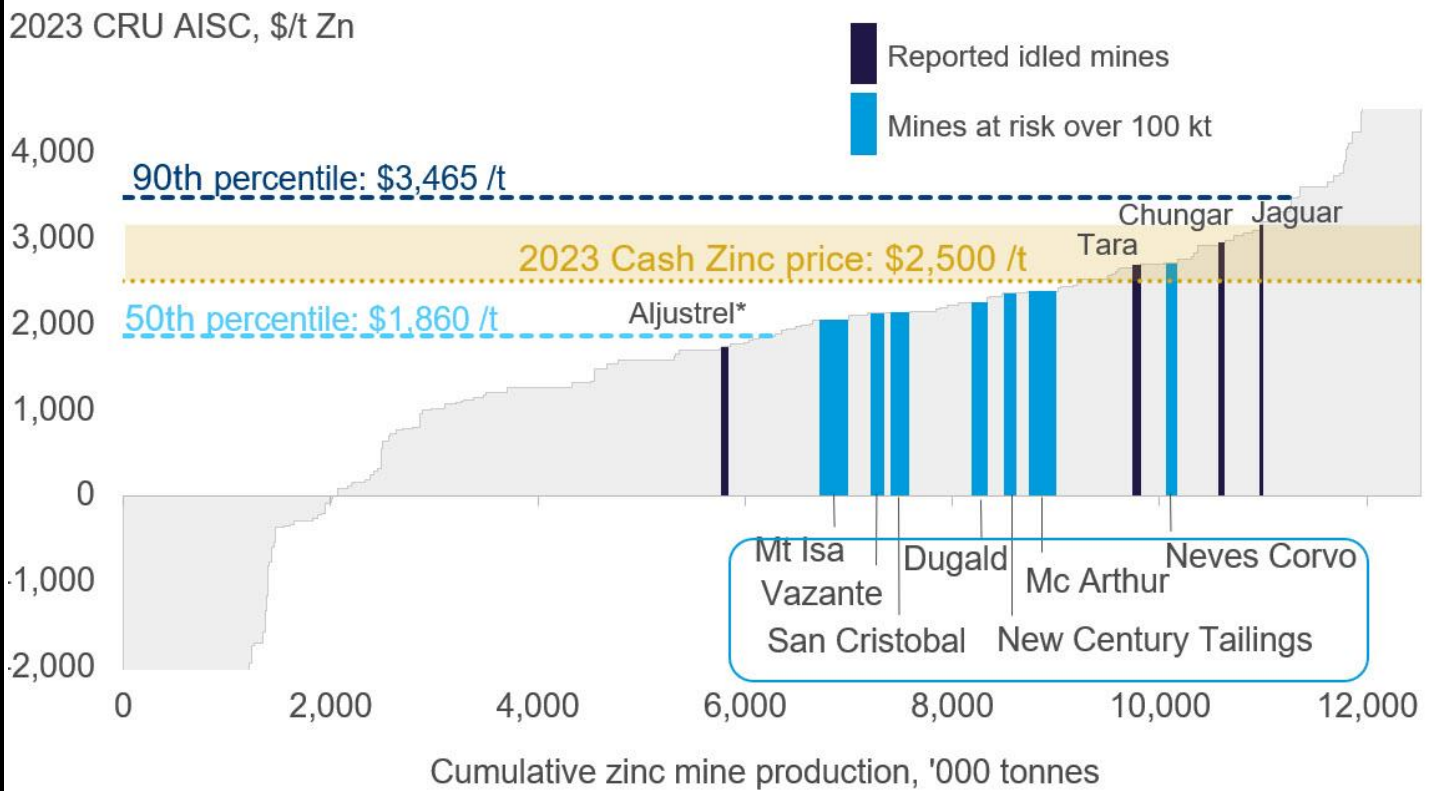
**We see zinc mining deficit in the long term ➤**



**Zinc cost curve should go up as well >**

**Figure 13: At current prices, at least 20-30% of the mining capacity is unviable**

At current price levels, key mines are in the danger zone for temporary closures



DATA: CRU, \* Aljustrel's closure was only partially attributed to the current low zinc prices

SOURCE: INCRED RESEARCH, COMPANY REPORTS [HTTPS://WWW.CRUGROUP.COM/KNOWLEDGE-AND-INSIGHTS/INSIGHTS/2023/FURTHER-MINES-AT-RISK-FROM-LOW-ZINC-PRICES/](https://www.crugroup.com/knowledge-and-insights/insights/2023/further-mines-at-risk-from-low-zinc-prices/)

**Barring sudden strength, we don't see zinc prices falling below US\$2,500-2,600/t >**

The rise in global mining costs led to an increase in the overall cost of production and that's why if the prices fall below US\$2,500/t, some mines may close. Hence, barring sudden dollar strength, there is a little chance of zinc prices falling below US\$2,500/t.

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