

Bright future Polish producer will boost SHG capacity; phase out GOB production

HCM will list zinc brand with LME ahead of output overhaul

MIASTECZKO SLASKIE
BY MARK BURTON

Huta Cynku 'Miasteczko Slaskie' (HCM) has applied to register its 4N5 special high grade (SHG) zinc brand with the London Metal Exchange, commercial director Marek Drosik told Metal Bulletin.

Nearly five years after HCM emerged from bankruptcy protection, the company has now returned to profit and foresees a bright future for the business, despite several headwinds, Drosik said, at the company's plant at Miasteczko Slaskie, Poland.

"We always intended to register, but we have been busy trying to survive, and now we've decided we can afford it," Drosik said.

HCM expects the registration to be completed by mid-2012 at a cost of £40,000 (\$62,000).

"We are one of the last producers of SHG in Europe that have not registered yet so basically we are just catching up with others," he said.

Its decision to register with the LME comes ahead of a three-year investment programme to increase its SHG production capacity by



Drosik: 'We are one of the last EU producers of SHG to register. We are just catching up'

adding three new refining columns at the plant.

The company produces about 40,000 tpy of SHG zinc and 30,000 tpy of 98.5% good ordinary brand (GOB) zinc, which it markets to the European brass-making industry.

But with customers forecasting an EU-wide ban on the use of lead in brass-making by about 2015, HCM will add three new columns to its production line to phase out GOB production and refine up to

100% of its zinc feed up to SHG grade. HCM's GOB zinc contains about 1% lead.

The plant has seven refining columns and can produce up to 41,000 tpy of SHG zinc, and each new column will boost SHG production by 10,000-12,000 tpy.

The total capex for the project will be about \$10-15 million, with half of this due to be committed in 2012.

Its customers in the brass-making industry are based

HCM sees zinc prices at \$2,100 in 2012, expects softer coke market

HCM is using a base zinc price of \$2,100 per tonne for its 2012 budget, and is also forecasting weaker coke prices as the European steel industry softens.

Zinc prices were set at \$2,300 per tonne in its 2011 budget, while prices for the year averaged about \$2,270 per tonne.

The company also forecasts a lead price of \$2,200 per tonne, down \$200 from the previous year.

HCM is confident that prices will rebound moderately from current levels, commercial director Marek Drosik told Metal Bulletin.

While it expects to realise lower zinc prices in 2012, the company is forecasting easier conditions in the forex market and softer coke prices, Drosik said.

primarily in Italy. While they have given conflicting accounts of when a lead ban will be enforced, HCM aims to be ready to phase out GOB production by 2015.

"If the ban comes later, we'll continue to produce GOB until it comes into effect," Drosik said.

"Especially in view of the investment and possibly switching to 100% production of SHG brand, it makes sense to make the registration," he said.

View from Metal Bulletin Research

MBR has a base case forecast of \$2,183 per tonne for London Metal Exchange cash zinc prices in 2012 – barely changed from the average we are closing in on for 2011.

But while this year has seen prices start high and end low, we think next year will see the trend reversed – a weak start as the eurozone crisis and slow economic growth keep sentiment dampened, but the outlook should improve as the year progresses.

Fundamentally, it will still be a year of surplus for zinc though – the sixth consecutive year of oversupply, during which time some 2 million tonnes of excess supply would have built up.

Providing this surplus stays largely locked up in warehouse financing deals, zinc will feel like a much tighter market than it is.

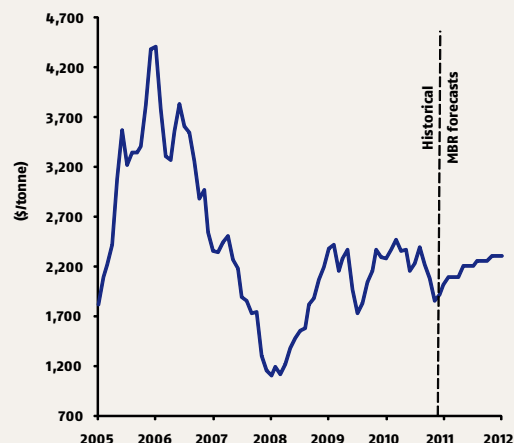
But, if the eurozone fiasco descends into an all-out global crisis, we would not rule out zinc prices revisiting the lows we saw in the 2008-09 downturn. Indeed, it may not be until we are closer to these levels that we see more substantial and widespread production cutbacks.

Nevertheless, this is a bear case scenario, which could see zinc prices averaging out as low as \$1,325 per tonne next year.

But another stimulus package from China, and more quantitative easing to boost liquidity could trigger a 2009-10-style rally that sees prices outperforming on the upside again.

This would be our bull case scenario, and for zinc this could feasibly lead to an annual average price of \$2,625 per tonne next year.

HISTORICAL AND FORECAST LME ZINC CASH PRICES



Source: LME, MBR