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FUNDAMENTAL OUTLOOK

- Zinc - mainly used in production (galvanizing) of stainless steel.
- Possible slow down of the US economy like to keep zinc prices down.
- Olympic games in China (2008) and Commonwealth games in India (2010) are expected to keep stainless steel prices high .
- Substitutes being discovered.

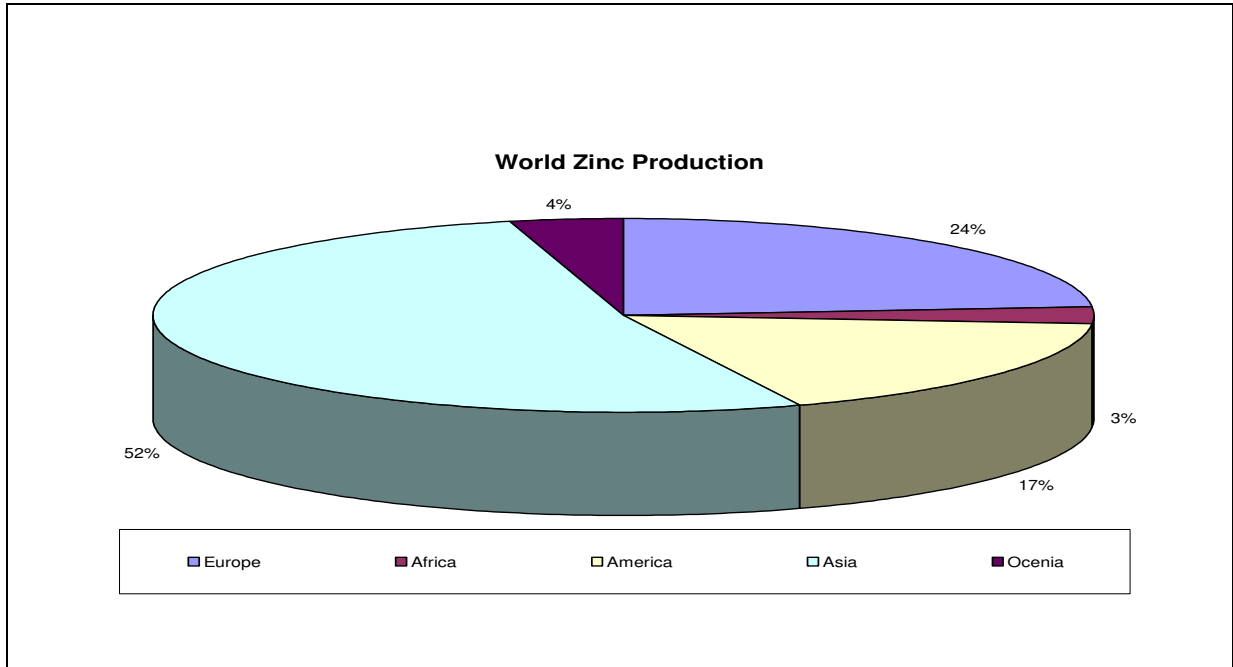
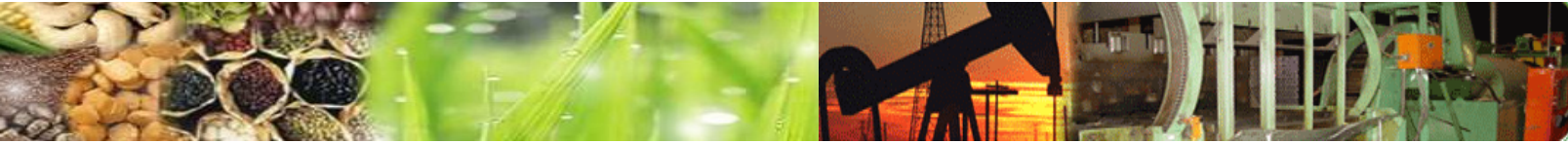
INTRODUCTION

Zinc-The white metal is mainly used for the purpose of galvanizing steel. Galvanizing is the process by which steel is coated by using zinc; this protects the metal from being corroded. Along with this zinc is used to manufacture medicines.

Zinc has been in the bearish phase since the end of 2006, when it touched Rs 208/kg. But with demand going down and new mines being discovered at places like Australia, South America and Canada keeping the price down.

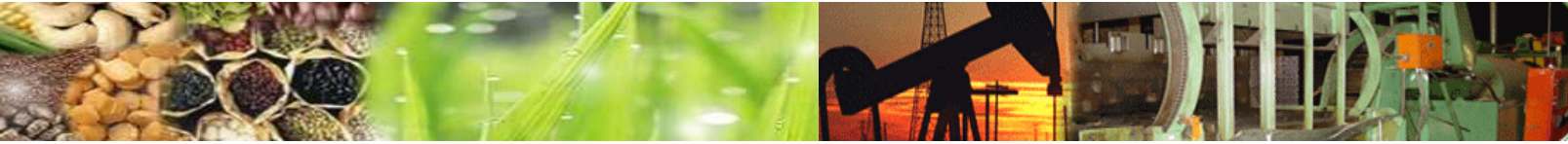
THE GLOBAL SCENARIO

Mine production had shown growth of around 3 per cent in 2007 to 10.5 million tonnes, reflecting increase production at new and existing mines. Operations are scheduled to commence at a number of locations in South America, Australia and Canada by end of year 2008. These projects include San Cristobal in Bolivia (capacity of 165 000 tonnes a year), Cerro Lindo in Peru (110000 tonnes a year), the Lennard Shelf restart in Australia (75 000 tonnes a year) and Langolis in Canada (54 000 tonnes a year). Reflecting the growth in mine output, refined zinc production in 2007 has increased by 5 per cent to 11.2-11.5 million tonnes. A large proportion of the increase in refined zinc production is expected to come from new smelters in China and India.



In addition, some new smelting capacity is expected to be commissioned in Peru in October, using increased zinc production associated with new mines. In 2008, world mine production is forecast to increase by a further 6 per cent as mines that commenced operations in 2007 produce at an increased rate. In addition, Ozernoye (capacity of 300 000 tonnes a year) in the Russian Federation is scheduled to commence production in 2008. In 2008, refined production is forecast to increase by 5-6 per cent to 11.8 million tonnes, as new capacity is added in China and Canada.

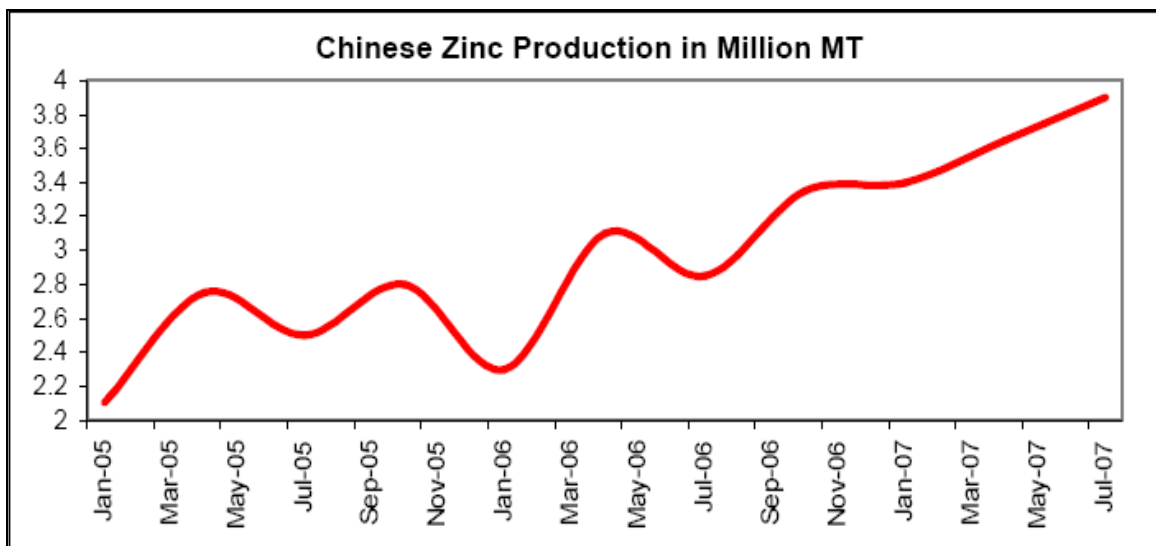
Canadian producer Breakwater Resource's zinc mine, located in north-western Québec, is back in commercial production. The mine re-started production at the end of last year and has reached commercial production status on schedule in 2007 and is expected to produce around 44,750tpy of zinc in concentrates.



Hindustan Zinc, which is part of UK-listed Indian metals group Vedanta, is expected to lift significantly its zinc production capacity to 671,000tpy at the end of the current financial year (Apr 07-Mar 08) from the current 400,000tpy.

Outlook-Asia

Half of all refined zinc is consumed in the construction sector and a further 25 per cent in transport industries, including motor vehicle manufacturing. These industries are expanding rapidly in developing Asia, particularly India and China, as their economies grows. Despite zinc prices doubling in 2005-06, there is no evidence of significant moves to the use of substitutes for zinc. More over with India & China trying to go on with the economic growth, the demand for zinc seems to be there for quite some time.



Chinese production in September was 375,600t, up 24.1% year-on-year, while cumulative production of 1.810 million tonnes in the first 8 months of the year was up by 22.4% on the same period of 2006. Annualized production in September was a new record at 4.106 million tonnes.

China flipped back to net exporter of refined zinc in June-07 after being net importer in April and May, according to the detailed trade report issued by the country's customs department yesterday. Net exports totalled 7,284t in June, which was not a comparable figure to the export surge seen over the Nov-06/Mar-07 period.



Outlook-US

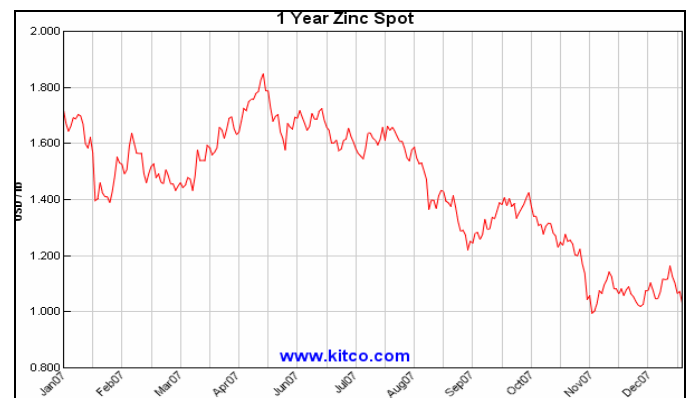
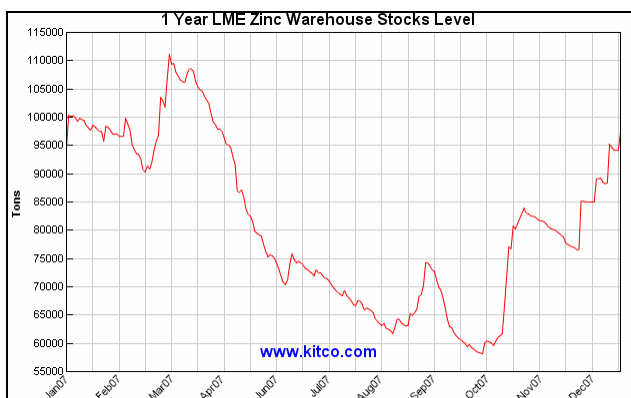
The value of zinc mined in 2006-07, based on contained zinc recoverable from concentrate, was about \$1.56 billion. It was produced in 5 States by 10 mines operated by 5 companies. Alaska, Missouri, Montana, and Washington accounted for about 99.9% of domestic mine output; the Red Dog Mine in Alaska accounted for 86% of total U.S. production. Of zinc metal consumed, about 75% was used in Illinois, Indiana, Michigan, New York, Ohio, and Pennsylvania, mostly by steel companies.

But with the US economy slowing down, the demand for the industrial metals is expected to remain stagnant. Moreover cheap substitute like Aluminium sheets, plastics are being used as substitutes for zinc.

In 2006, an estimated 375,000 tons of zinc was recovered from waste and scrap; about 30% was recovered in the form of slab zinc and the remainder in alloys, oxide, and chemicals. Of the total amount of scrap recycled, 318,000 tons was derived from new scrap, and 52,000 tons was derived from old scrap. About 520,000 tons of scrap was exported, mainly to China, and 8,500 tons was imported, most of which came from Canada (84%).

Outlook-2008

Zinc, which has been in down trend since 2006 is expected to continue it's downtrend for the year 2008. At the LME zinc is currently trading at \$ 2295.5/tonne.



As seen in the charts above zinc prices has been negatively correlated to the inventory levels at LME. For the



year 2008 we may expect the scenario to be the same. The stock with LME is above 95000 tonnes and with new mines coming up at different places around the world the stocks are expected to gain in the future. Along with this, cheap substitutes being found which is slowly but surely being used in place of zinc is checking the demand for the metal.

TECHNICAL OUTLOOK



Zinc (MCX) is trading at 88-89 levels and is forming candle stick patterns indicating bearishness in the counter. Since 2007 the counter has been trading in a channel providing strength in the bearishness in the counter. The counter is trading below the 45 days EMA indicating bearishness in the medium term. In the short term the level of 85 seems to be a good support and a break down below these levels would see the counter touch new lows of 78-80 levels. Traders are expected to stay short in the counter and use any correction to short the counter