



Zinc markets in 2011 and going forward

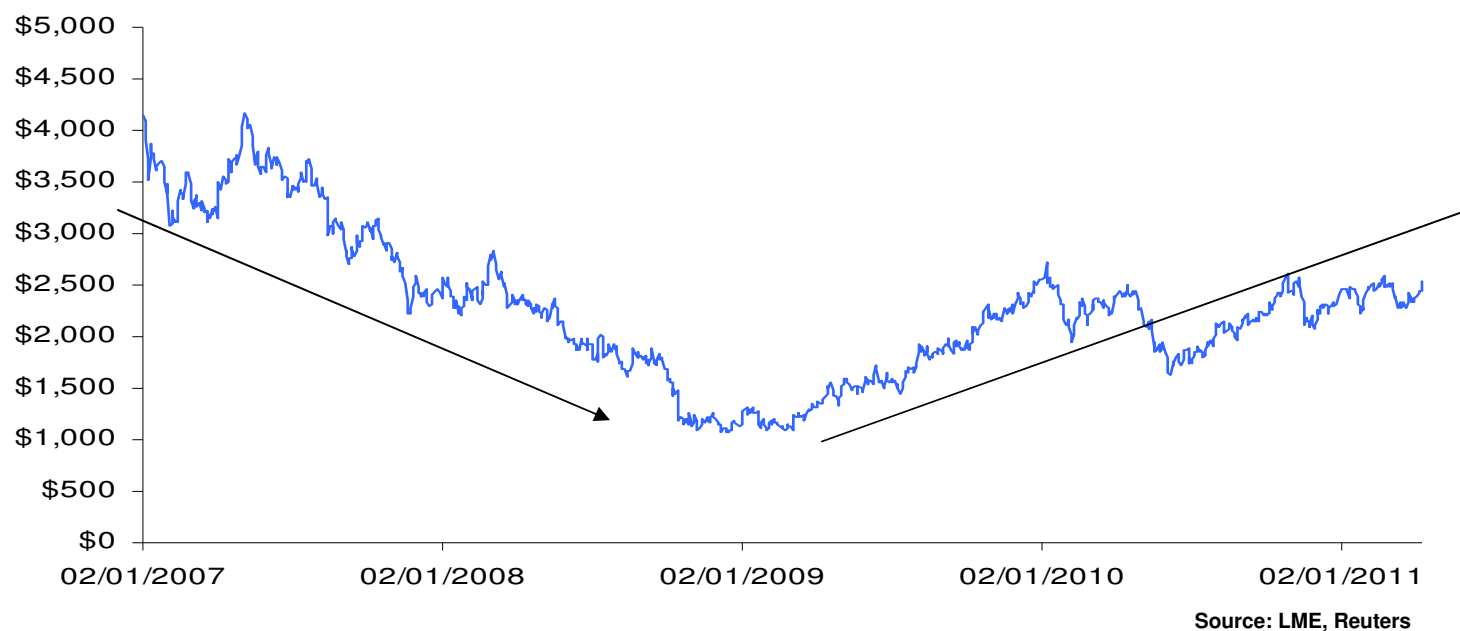
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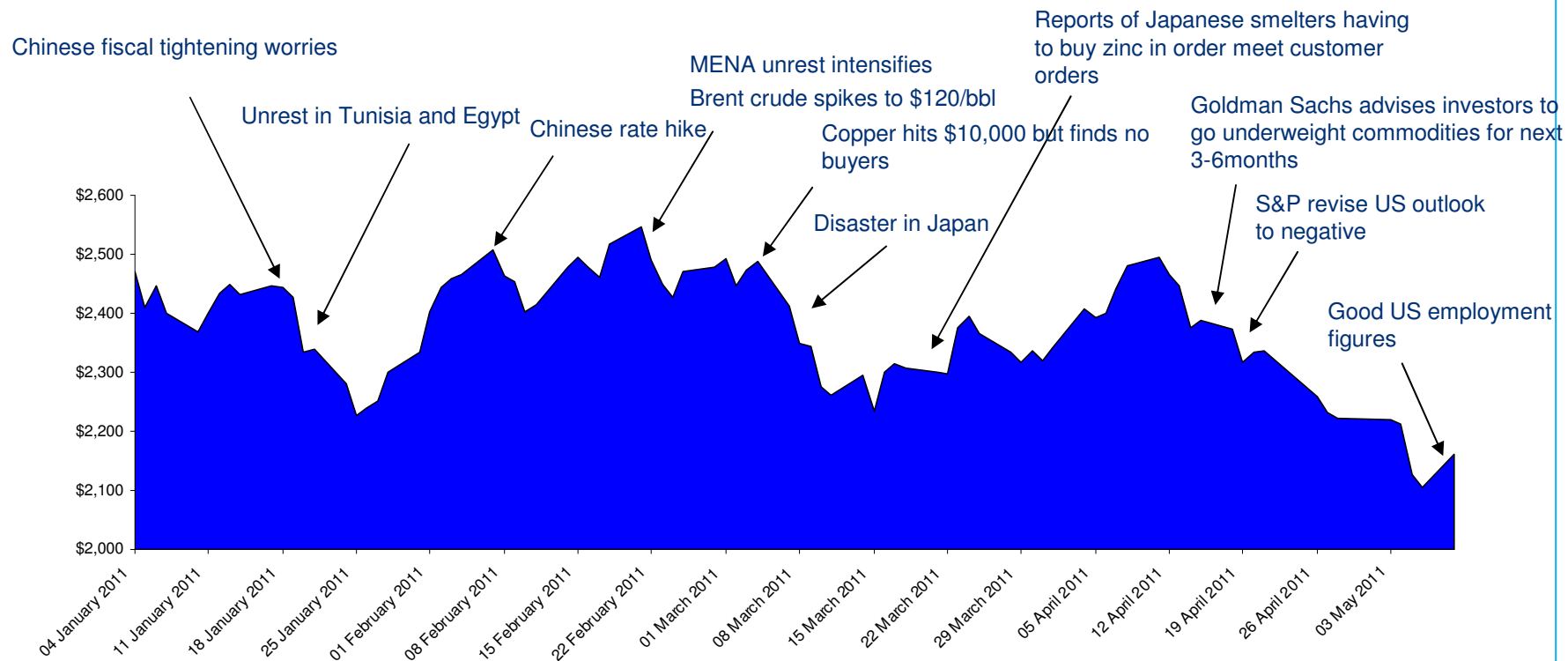
Zinc has traded upwards since the financial crisis



Prices pre financial crisis

Prices post financial crisis

Zinc price resilient to shocks



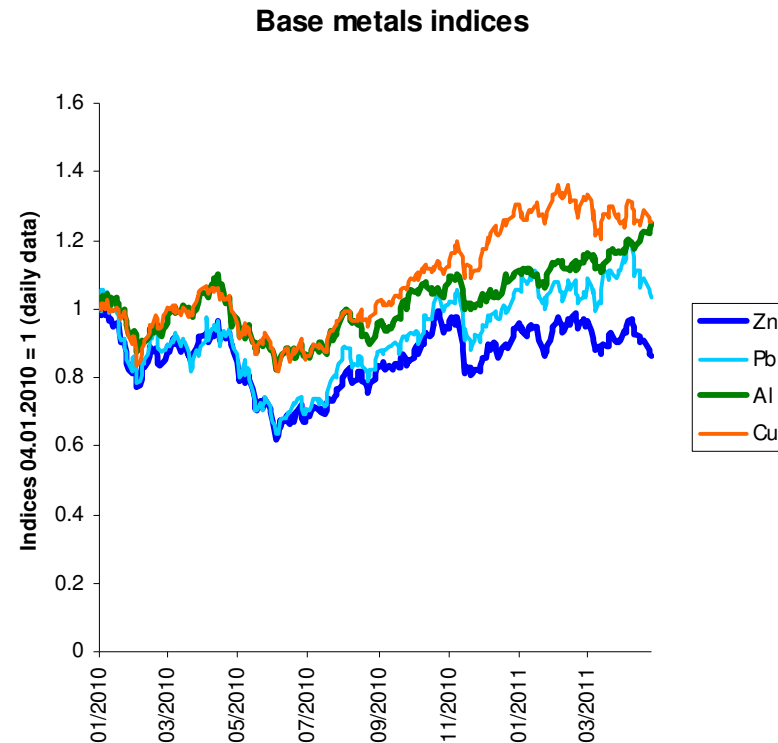
Source: LME, Reuters

Trading Range 2011: \$2100-2500/mt

However, zinc underperforms against other base metals

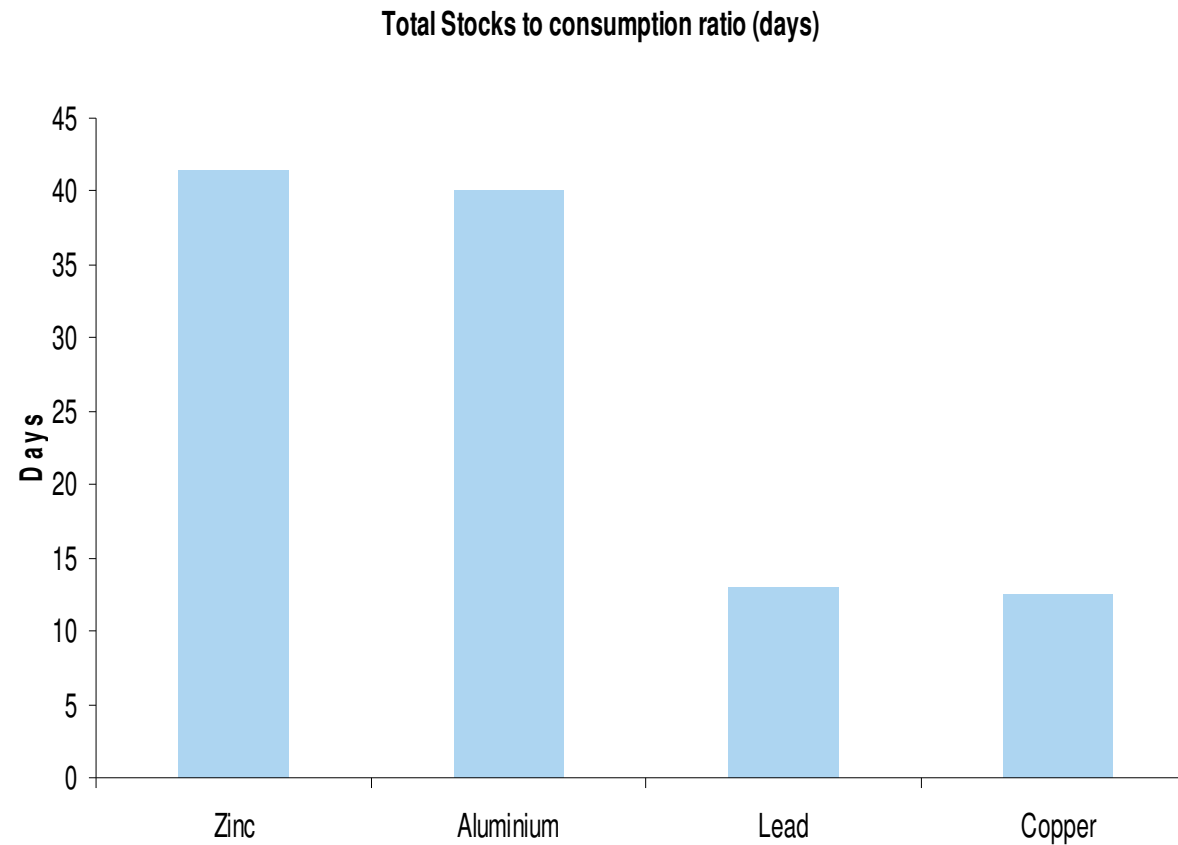
Reasons

- Copper:
 - nearby deficit
- Aluminum:
 - cost push due to energy spikes
 - expansion under threat in China
 - disruption in the Middle East
- Lead:
 - balanced market
 - high upside potential due to sudden changes in demand



Source: LME

Zinc has a relatively high visible stocks to consumption ratio

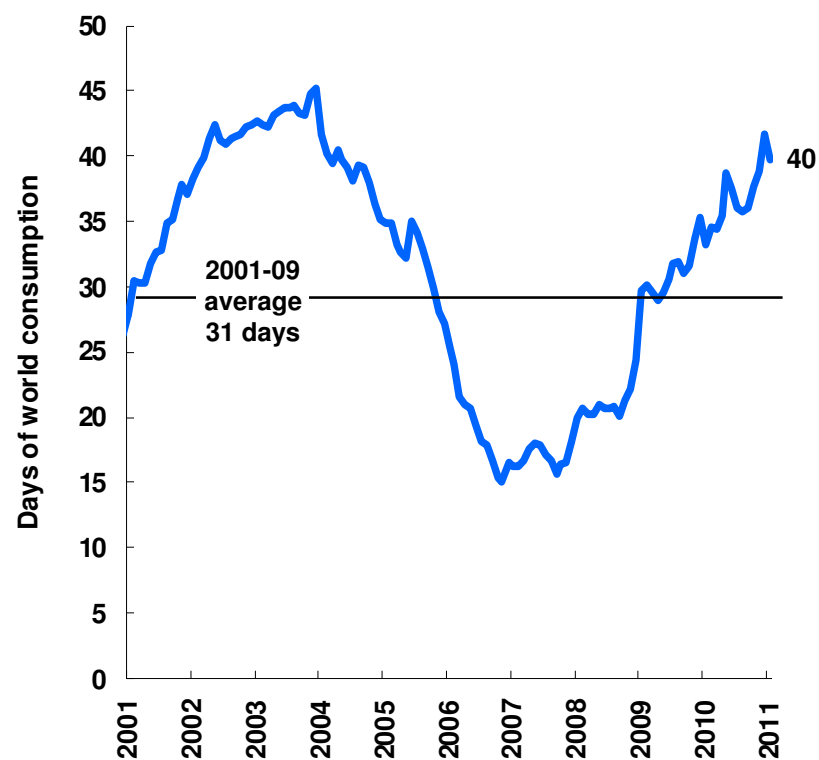


Source: CRU, IAI, ILZSG, WBMS, LME and RBS forecasts (March 11)

Zinc stocks historic perspective

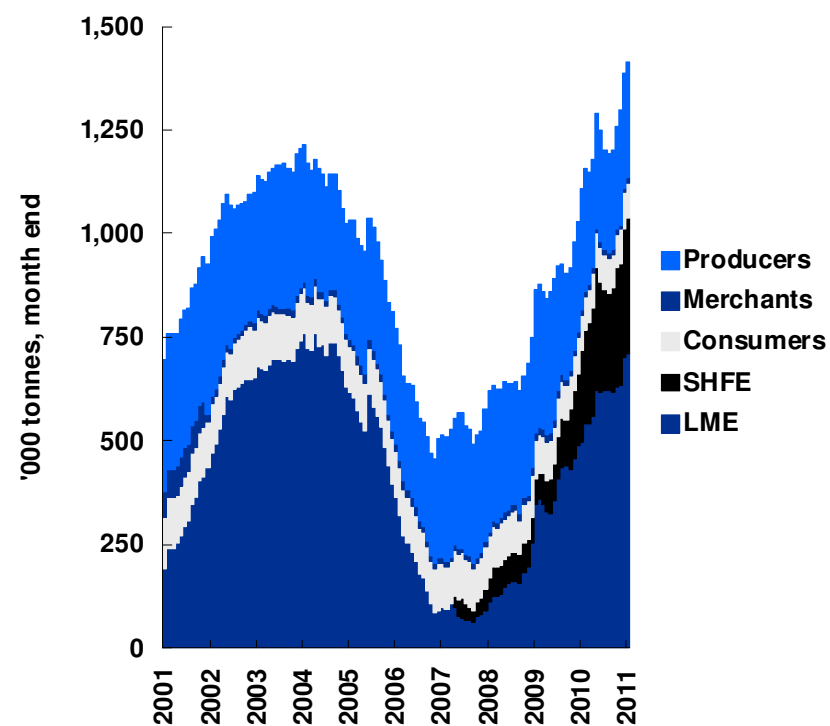
Looking at traditional dynamics we can see a Supply and Demand balance and stock situation where there appears to exist a significant surplus of zinc

Zinc stocks to consumption ratio



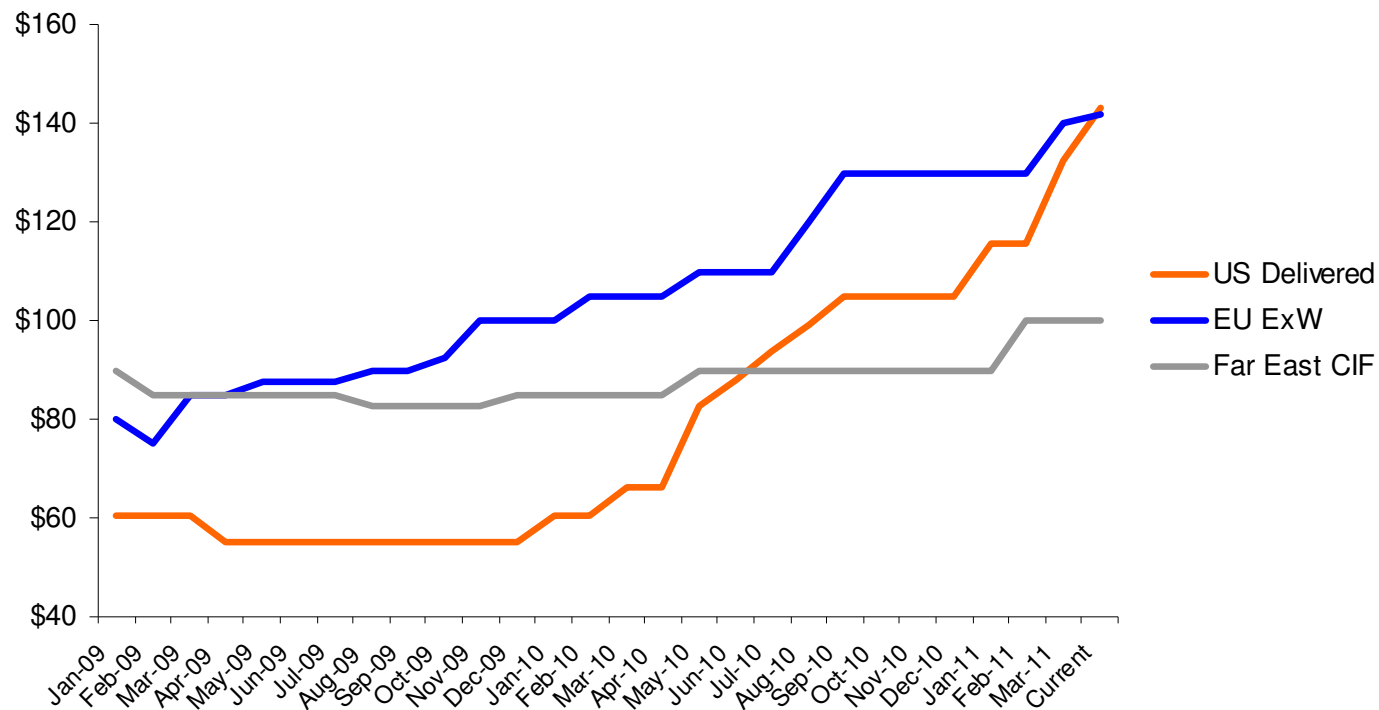
Source: Macquarie Research

Commercial zinc stocks by type



Source: CRU, ILZSG, WBMS, Macquarie Research

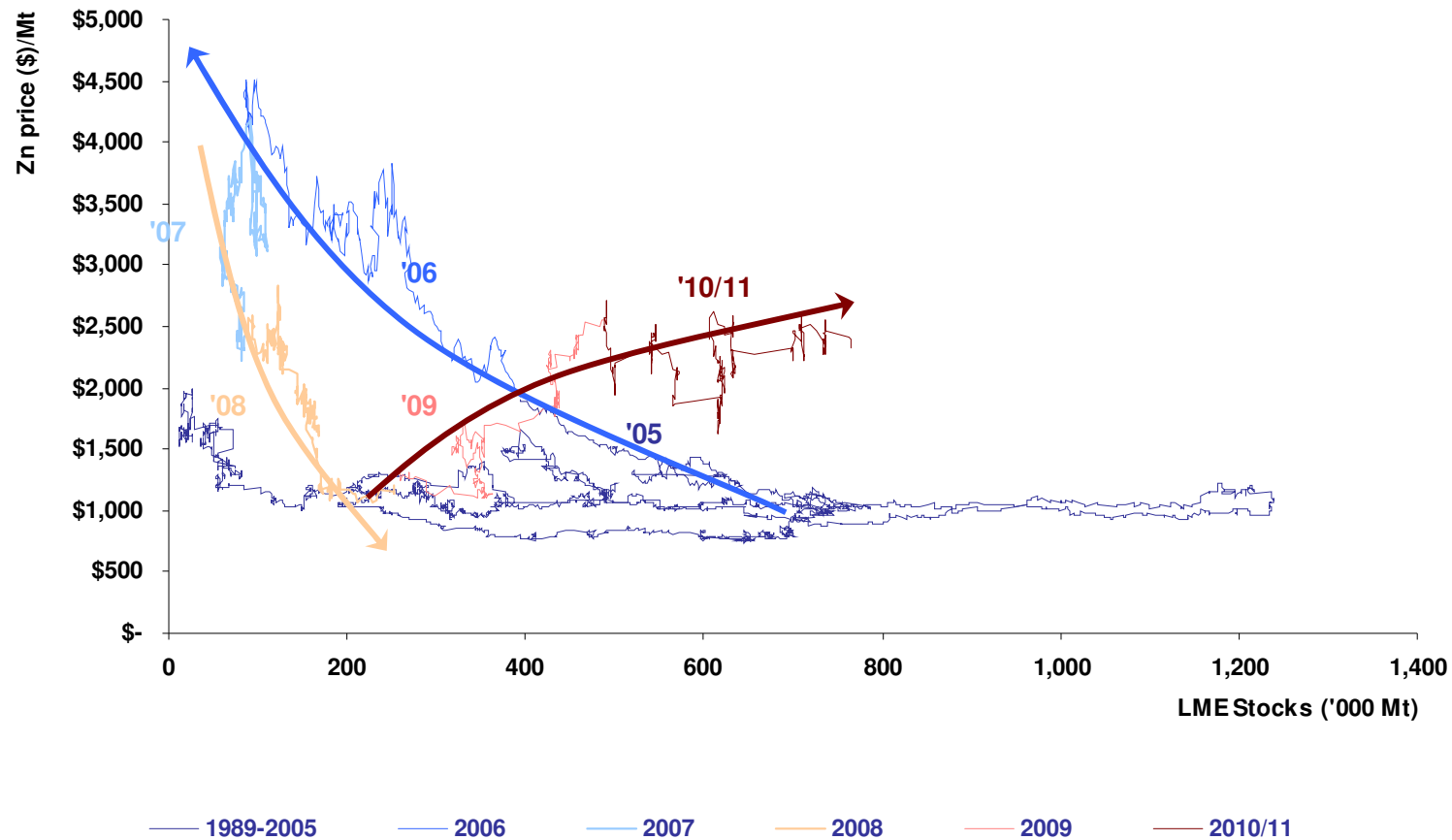
Premiums have performed strongly



Source: CRU, Macquarie, Nyrstar Estimates

Again, despite the rising stocks

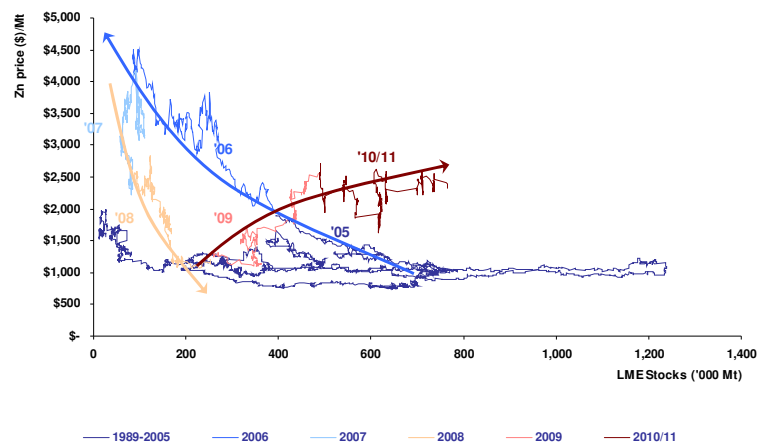
A significant development is that we have seen a decoupling of the relationship between stocks and prices



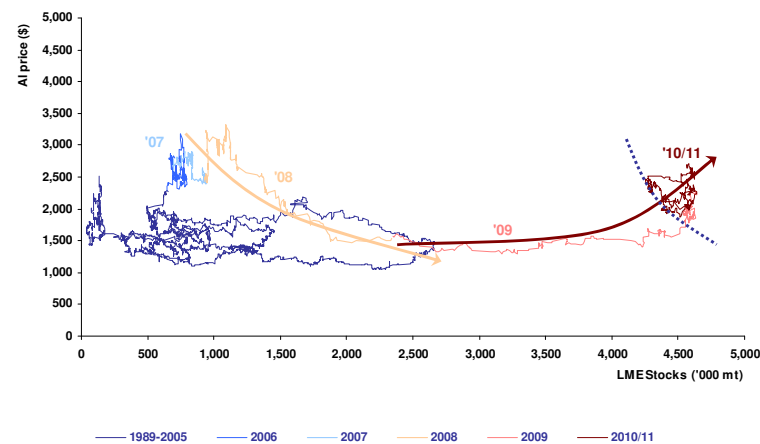
Source: Nyrstar, Reuters

This is a development across all base metals

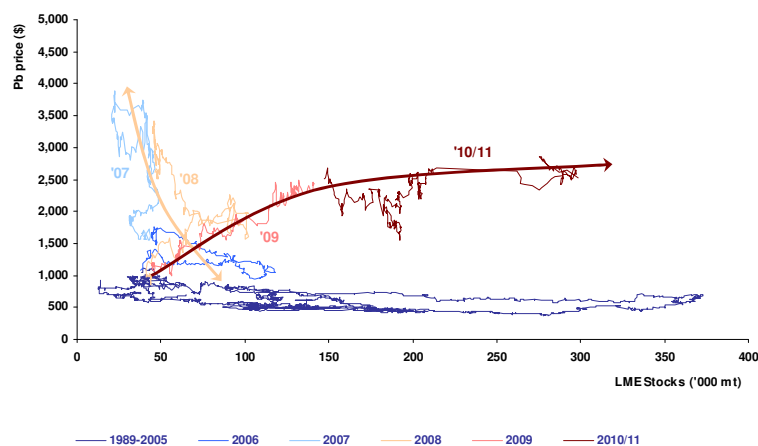
Zinc



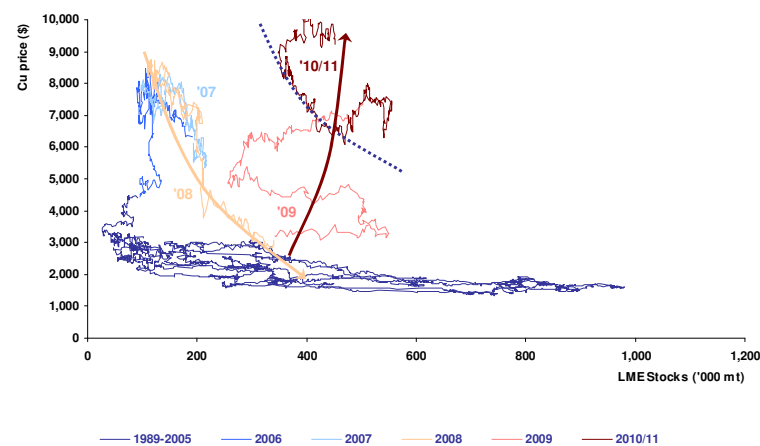
Aluminium



Lead



Copper



Source: Nyrstar, Reuters

“New” dynamics versus “Old”

“Old” Dynamics

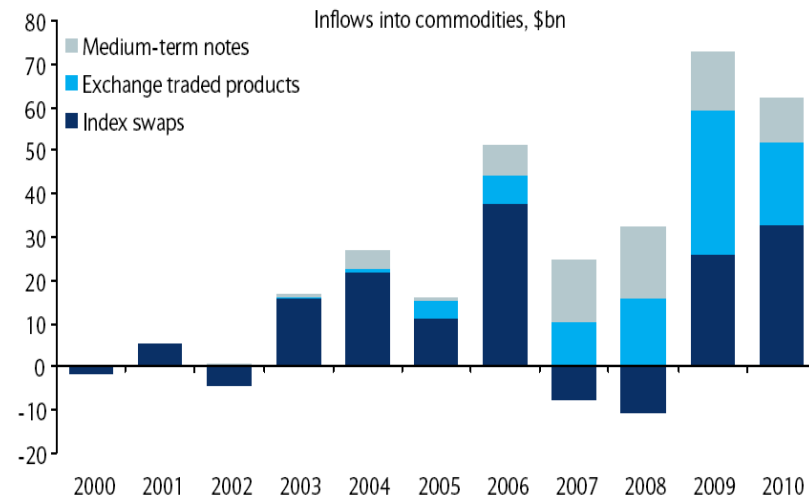
- Physical demand = consumption
- Physical supply = production
- Stocks and inventories
- Macroeconomic indicators

“New” Dynamics

- Total Supply and Demand forecasts
- Stocks and inventories
- Macroeconomic indicators
- Base metals as an alternative investment product
- Base metals as an inflation hedge
- Stocks financing, and financing using stocks

Why stock levels are having less impact on price

- The inflow of outside investment into the commodity space has seen metal prices more influenced by future demand, and not just fundamentals
- Macro investors are more confident of the attractive prospects for demand and are more in tune with its lead indicators than traditional metal dealers and analysts
- This is particularly attractive given the current liquidity due to low interest rates and poor returns elsewhere
- Economic growth and likely tightness on the mining side from 2013 onwards mean that current stocks could likely be absorbed with minimal impact on the price

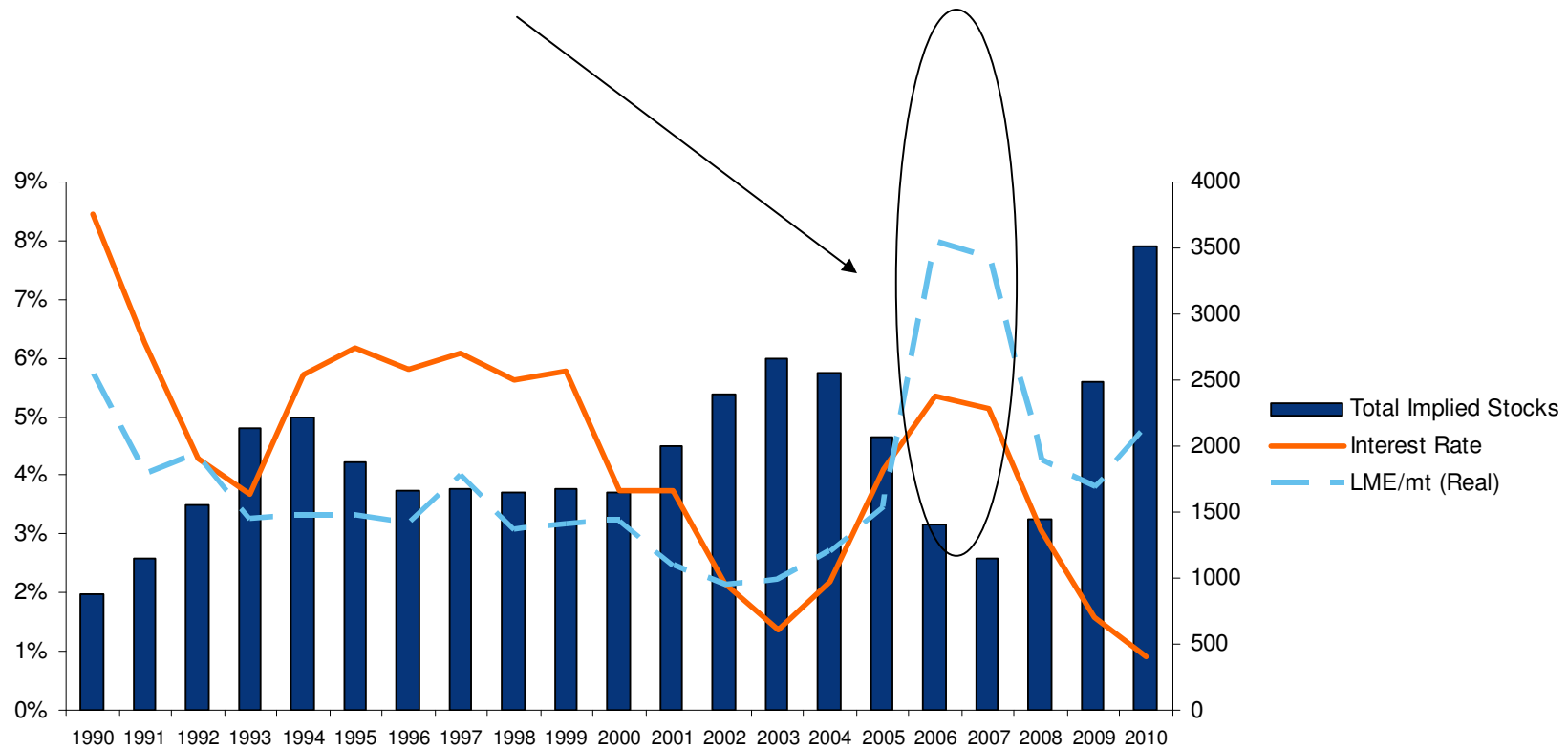


Source: Barclays Capital

Stock levels are less important for premiums

- Long term contango financing deals
- Off warrant inventory held by few players
- Size of total warehouse inventory means that metal is difficult to get to
- Consumers maintaining low inventories

And, this would not be the first time where high stocks have preceded a bull run for zinc!



Source: CRU, Reuters, LME

**Back to traditional dynamics,
let's look at the prospects for physical demand**

US Outlook

Recovery in manufacturing

- Weak dollar
- Steel production
- Auto sales

European Outlook

Mixed outlook with encouraging signs

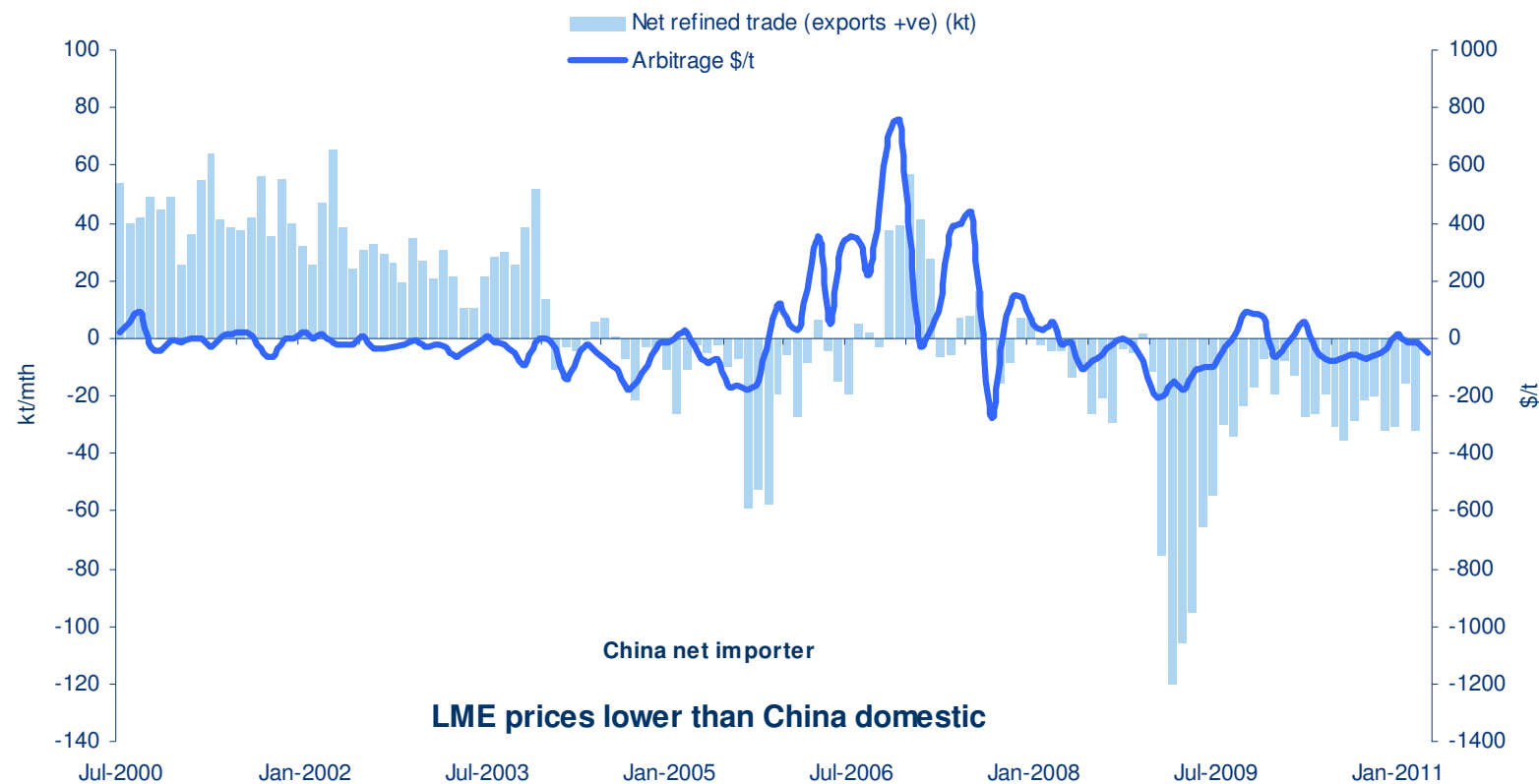
- PMI still firmly in expansionary territory
- Strong rebound from recession
- Confirmed by strong sales book performance

China Outlook

Strong demand prospects

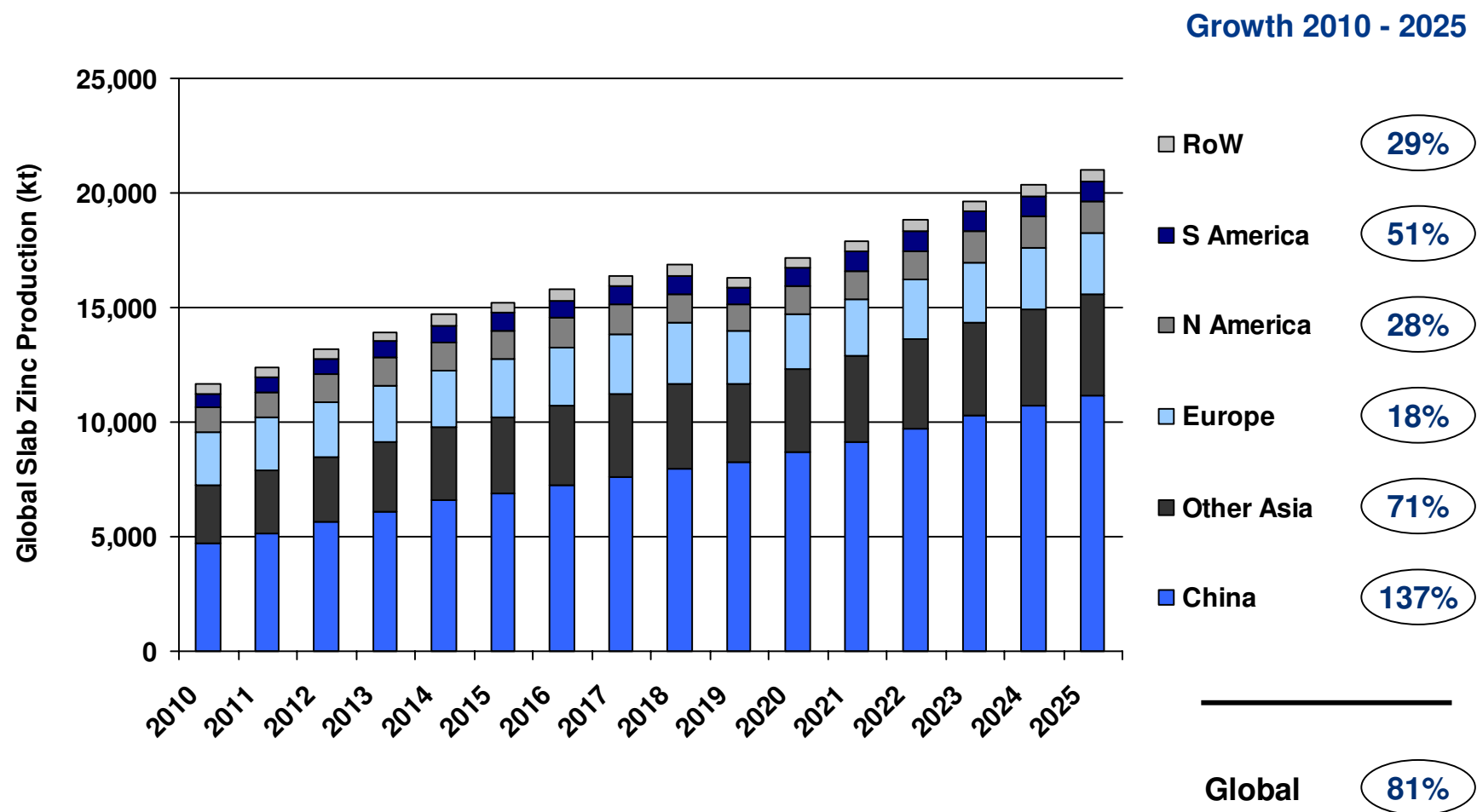
- Urbanisation
- Construction
- Automotive production and sales

China continues to be a net importer of zinc



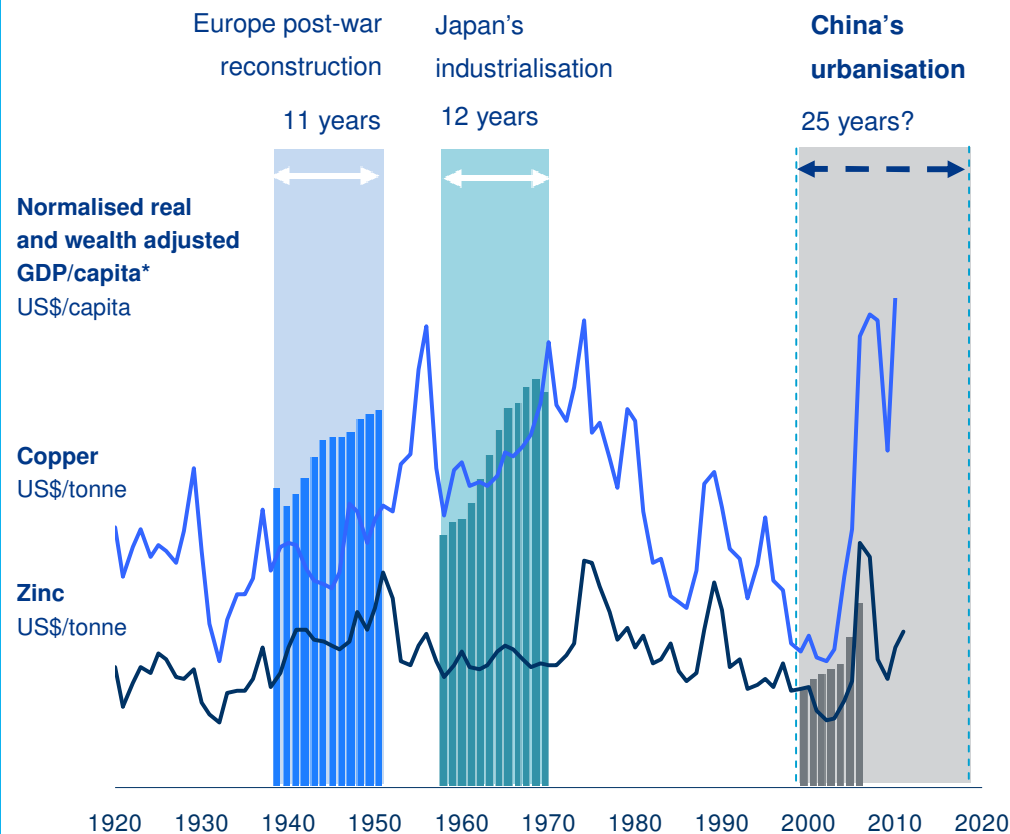
Source Brook Hunt - A Wood Mackenzie Company

China driving global zinc consumption growth



Source: Brook Hunt – A Wood Mackenzie Company

China's urbanisation is driving demand



- **54% of China's 1.3 billion people still live in rural areas (64% in 2000, 74% in 1990)**
- **With vast investment still required for urbanisation, sustained long-term demand growth for zinc and other commodities is expected**

Source: Angus Maddison, Global Insight, Tex Report, USGS

* world average GDP/capita used to deflate GDP/capita for individual countries to 1940 levels

China's Urbanisation: unprecedented scale and speed

From 2005-2025, Chinese cities will add more than 350M people...

...more than the entire population of the USA today

There will be more than 200 cities in China with over 1M inhabitants...

...Europe today has only 35 cities with over 1M people

China will build up to 50,000 new skyscrapers...

...equivalent to building New York City ten times over

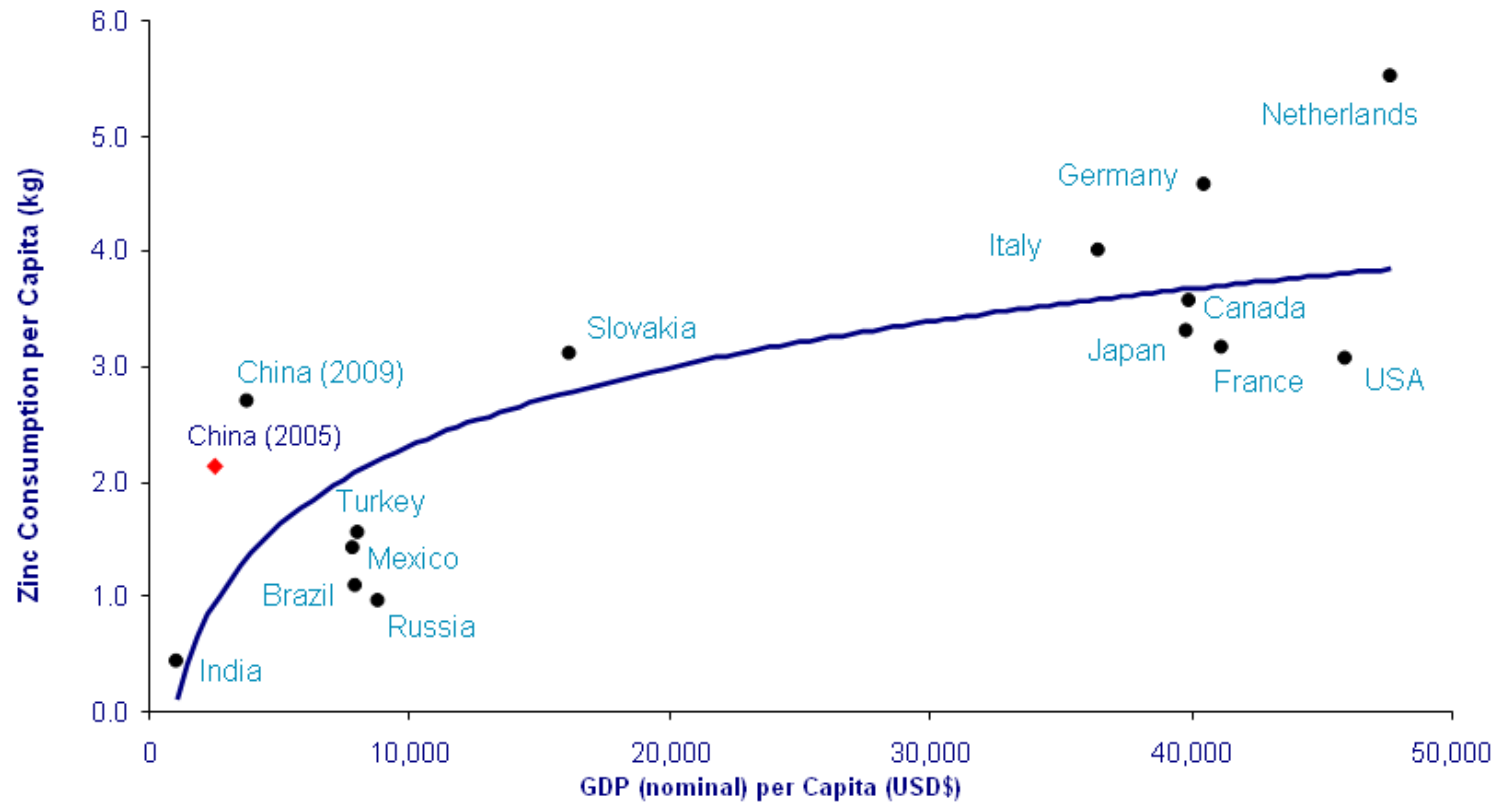
There are plans for up to 170 new mass transit systems...

...Europe today has only 70 mass transit systems

By 2025, two-thirds of people in China will live in cities...

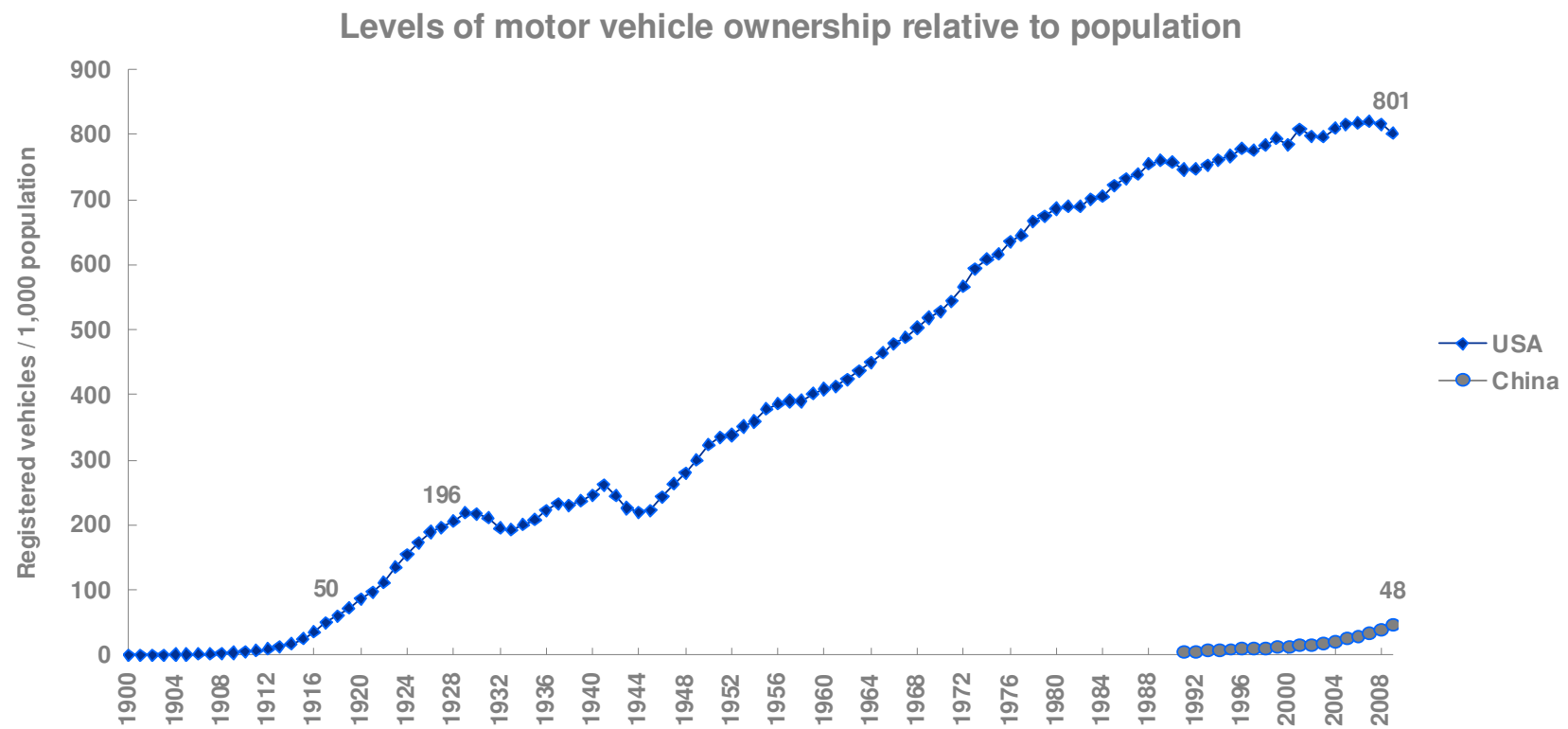
...which in round numbers means one billion people

Per capita zinc consumption demonstrates the potential



Source: CIA Factbook, Brook Hunt, IMF, Nyrstar

Vehicle production is major growth area

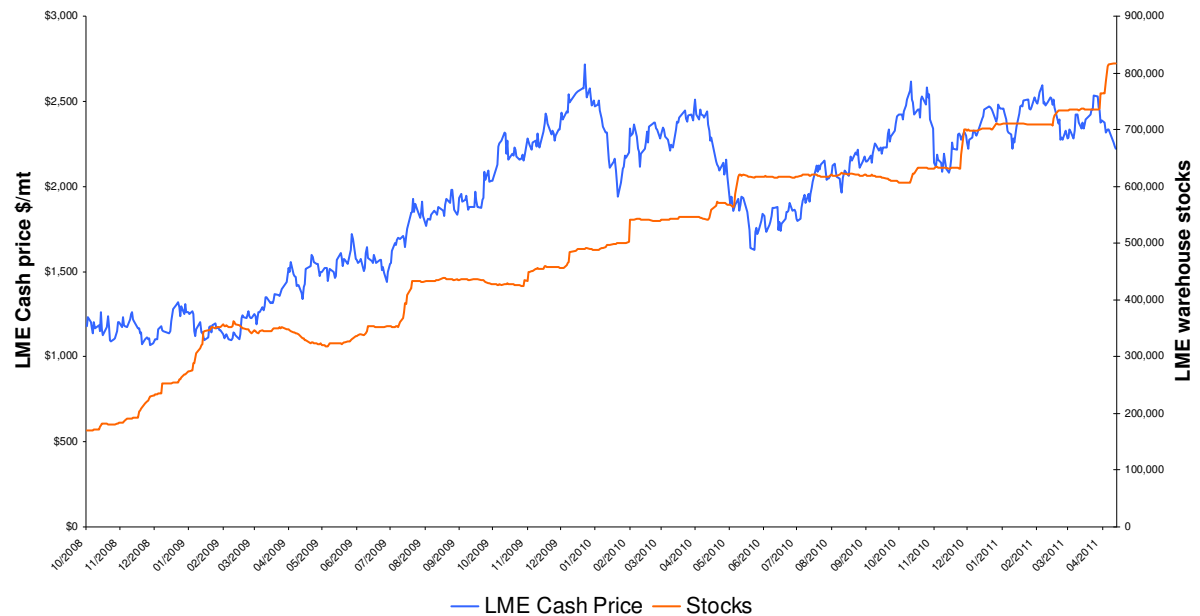


Source: CEIC, US Federal Highway Administration, US Census Bureau, Macquarie Research

Summary of Demand Outlook

- New dynamics mean that even with the current 'market surplus', prices have remained firm
- This is supported by strong demand prospects with recovering Western economies and still buoyant emerging market economies, with China at the forefront

Stocks vs. Price



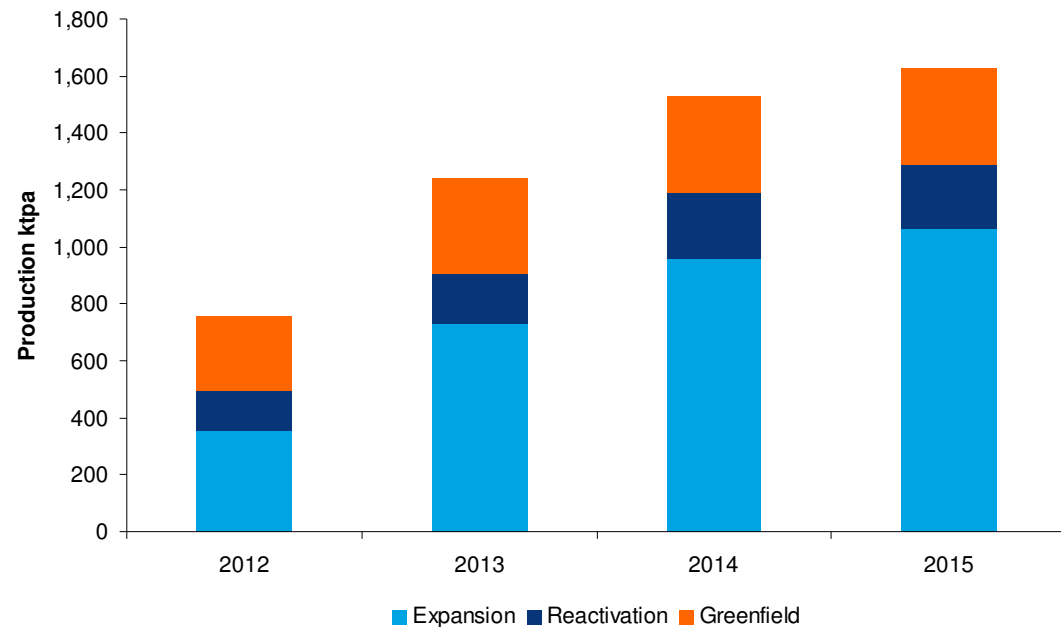
Let's look at the prospects for supply

Probable smelter projects account for only 1.6mio Mt extra production

Zinc demand will need to be met elsewhere

- Capacity utilization increases
- Expansions of existing smelters
- Recommissioning of idled smelters

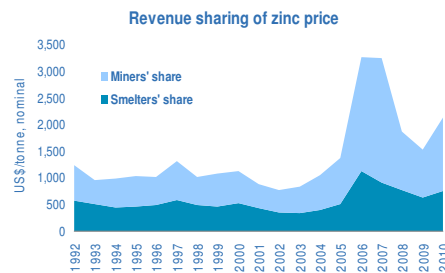
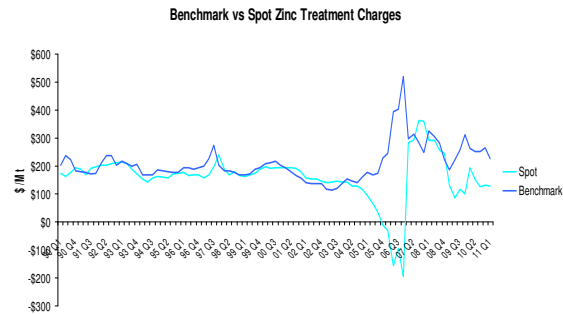
Breakdown of Probable Smelter Projects 2012-2015



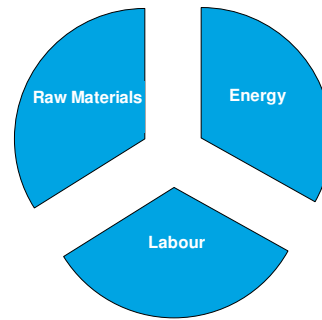
Source: Brook Hunt – A Wood Mackenzie Company

‘Low cost’ additional smelting capacity faces challenges

Smelters pay similar rates globally and probably higher in China



Source: CRU

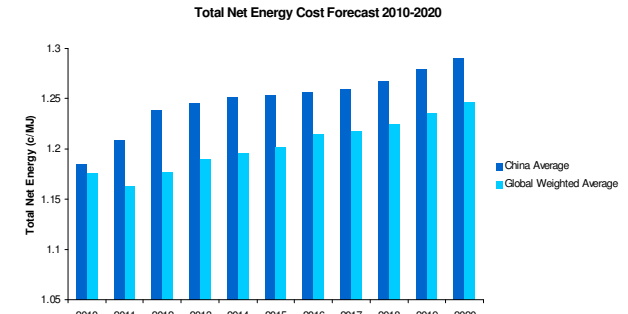


Wage inflation in emerging markets is running at double digits



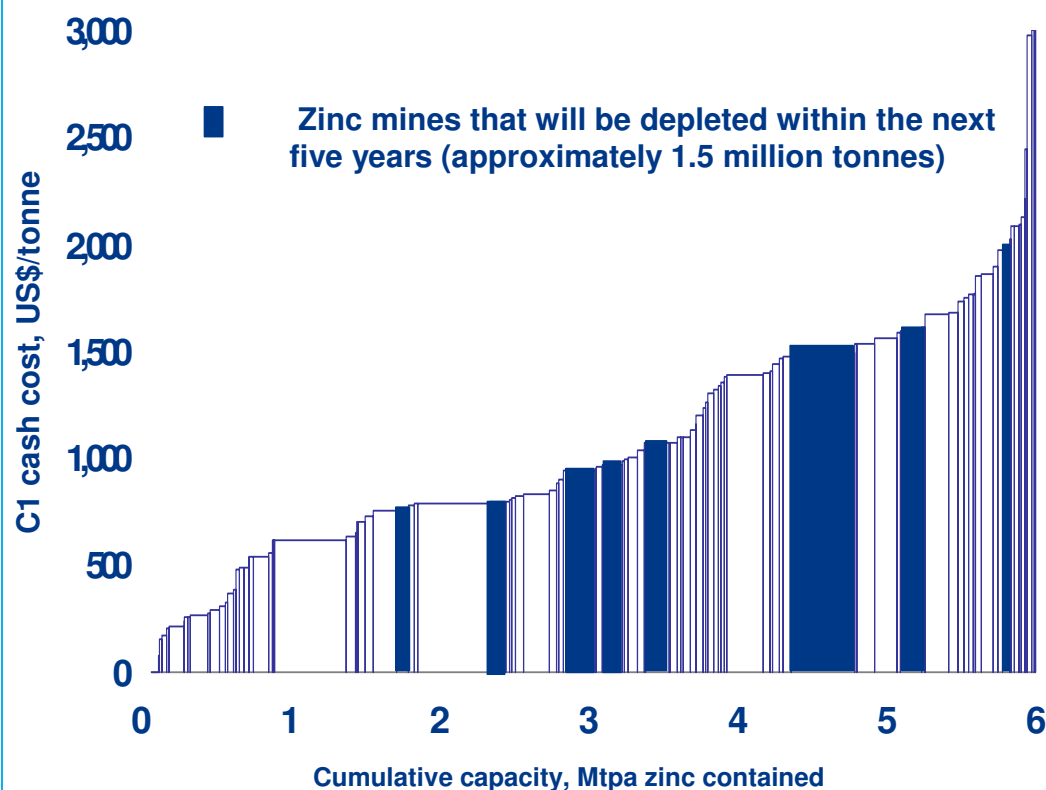
Source: China National Bureau of Statistics, China Ministry of Human Resources and Social Security, Nyrstar

Energy is becoming more globalised, geographical advantages less pronounced



Source: Brook Hunt – A Wood Mackenzie Company

Mining Supply constraints will return



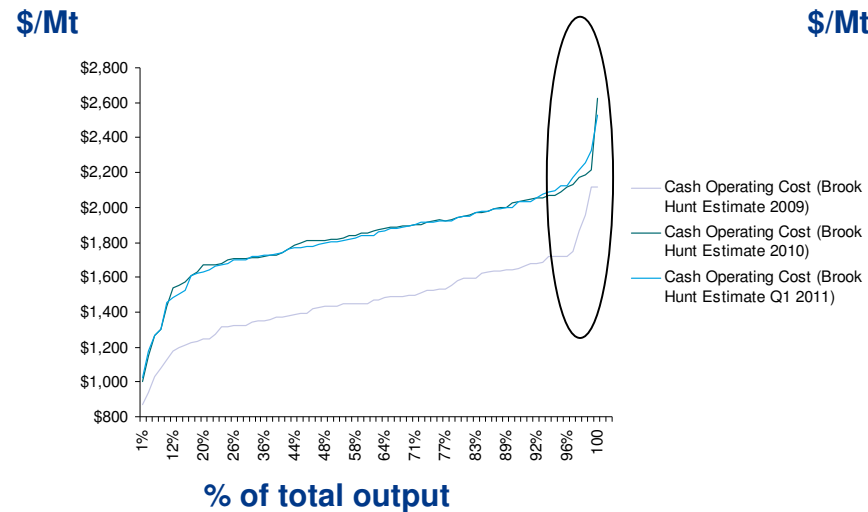
Source: Brook Hunt. Based on currently stated reserves
Excludes number of Chinese mines for which data does not exist

Supply constraints will return and impact long-term prices

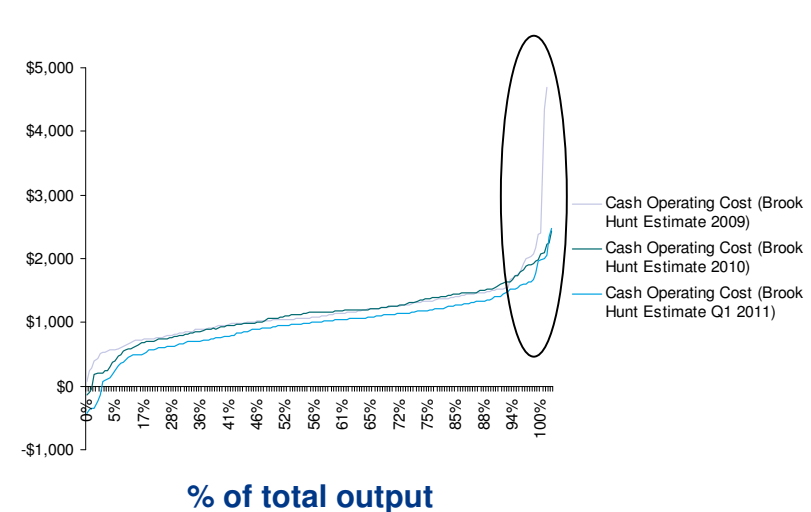
- Number of large zinc mines to be depleted in next 5 years
- Significant reduction in mining capital expenditure exacerbated by financial crisis, and limited focus on zinc by majors
- Limited number of new zinc projects in pipeline
- Supply response will lag recovery in demand
- New projects often in difficult geographies

Summary of Supply Outlook

Cash Operating Costs Smelters



C1 Cash Costs Mines



Source: Brook Hunt – A Wood Mackenzie Company

- Economic development means key costs at the smelters are likely to creep up further and most probable forecast additions to smelting capacity at the higher end of the cost curve
- Tightness in the concentrates market to appear after 2012-2013 due to the depletion of mines and with new projects at the higher end of the cost curve

Conclusions

- New dynamics confirm that prices are at the right level
- Healthy demand prospects for zinc, particularly in emerging markets and especially China
- Extra smelting and mining capacity will be needed, this is likely to be more expensive than current supply
- Price outlook for zinc is positive
- Nyrstar's strategy is very aligned with these market developments.