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17th Annual  
**Zinc & its  
Markets**  
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# Looking for and building optionality in multi-speed markets

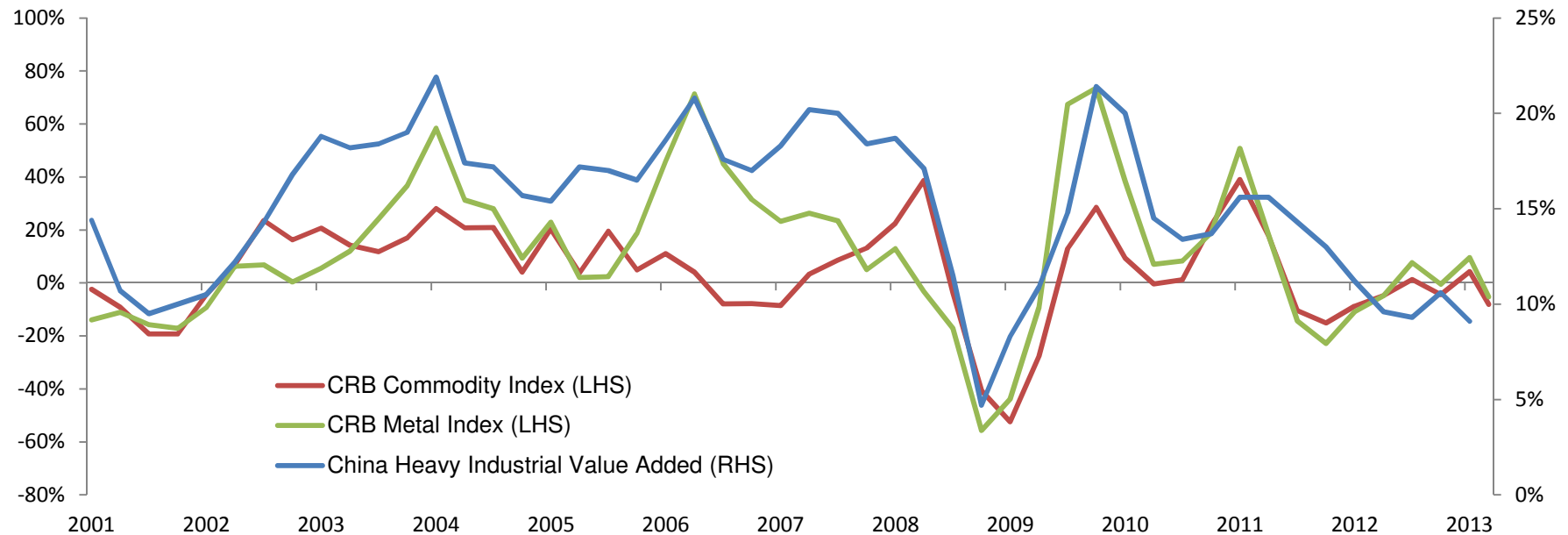


7 May 2013

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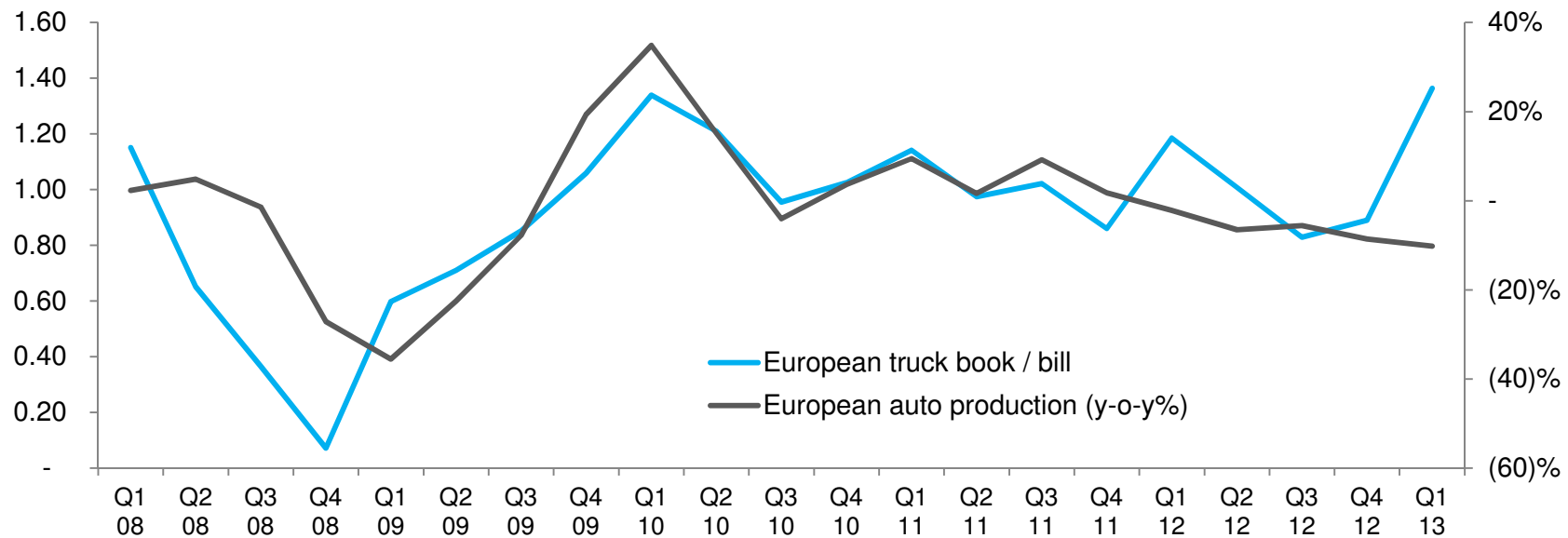
## Zinc transitioning from super-cycle dynamics to stand alone fundamentals, with different regional opportunities



- Every commodity now sitting on own individual fundamentals
- We expect divergent fortunes and decoupling within metals complex
- 'Three speed' (Europe, US, China) recovery world heightens complexity, each with own macro-drivers, and inter-play dynamics
- Complexity coupled with rapidly shifting dynamics leads to opportunities to create significant "soft" margins
- Warehouse/financing dynamic means few are able to tell whether LME movements are demand or 'warehouse wars'
- Critical to move away from the supply side and to focus on demand opportunities

## Europe: 'Green Shoots' emerge

### European truck book / bill leads auto production by one quarter

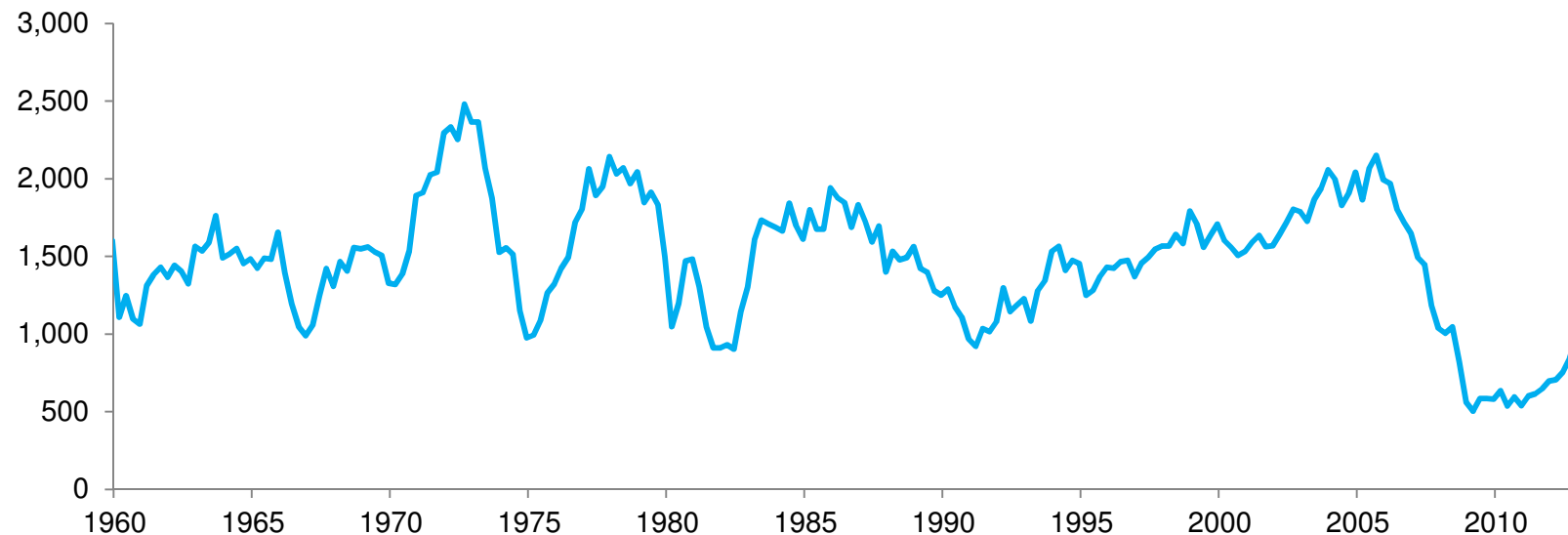


- Demand conditions weak in 2013
- Growth concerns as exporters face competition from weaker Yen
- Passenger and commercial vehicle sales down 22% year on year
- But destocking is complete; H2 bounce back expected in Germany, Poland and Nordics
- Growing concern is competitiveness, global share loss and position in EM of Euro-galvanizers



## United States: Momentum gathering

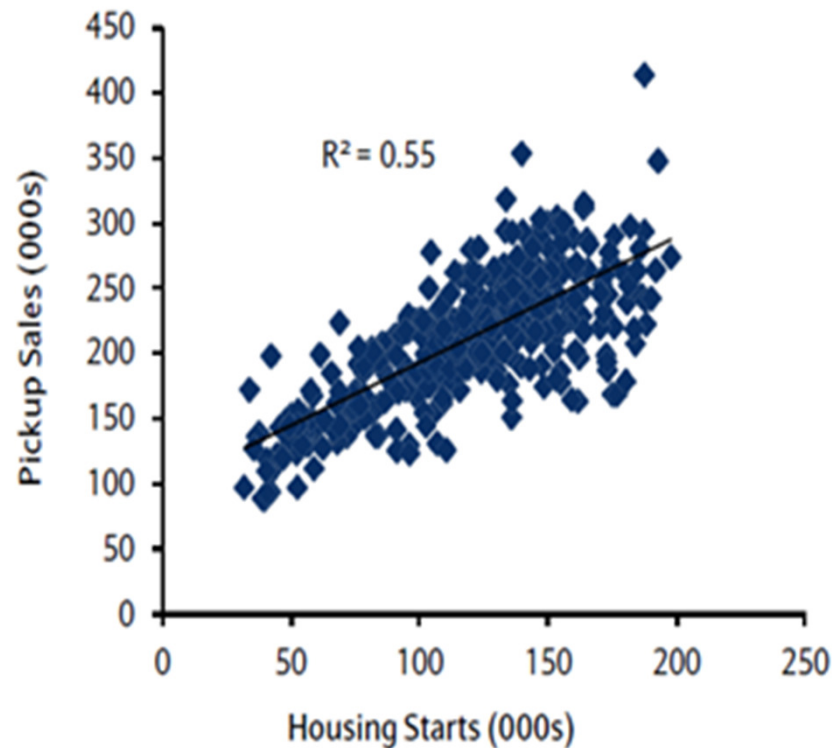
United States housing starts (thousand units)



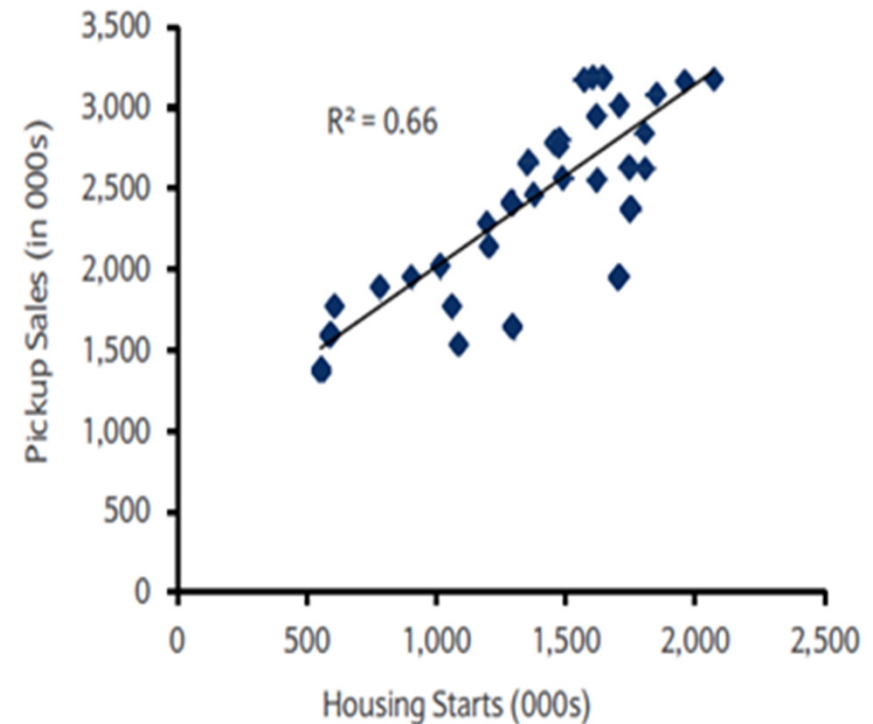
- Still some soft data but US beginning to decouple itself from external shocks
- Agriculture sector led by corn, cotton and wheat; growing zinc micro-deficiency and late Spring
- Current galvanised demand from construction disappointing, but likely to recover in H2
- Auto on a “tear”; Big Three results in April were huge. Pace of 15.5 million
- US housing sector recovering, significant upside potential
- Evidence of tightening market conditions

## As pent up demand for housing releases home equity, impact will be immediate on light trucks

Monthly correlations between pickup truck sales vs housing starts

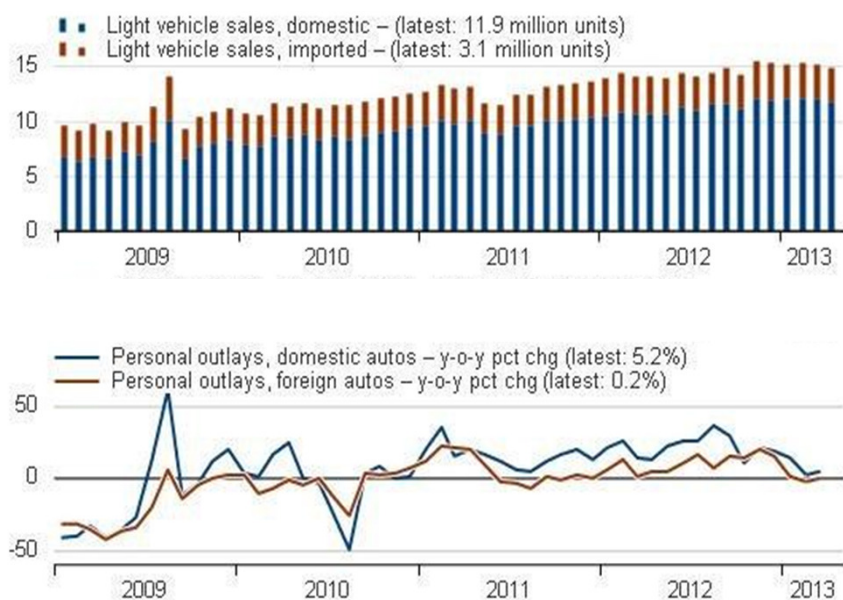


Yearly correlations between pickup truck sales vs housing starts



## Big Three are off to a great start; 15.5m could be achieved in 2013

### US auto sales



Source: Thomson Reuters data stream

### US cars and light trucks sales and gas prices

Sales of cars and light trucks in US retail market (*millions of units at seasonally adjusted annual rates*)

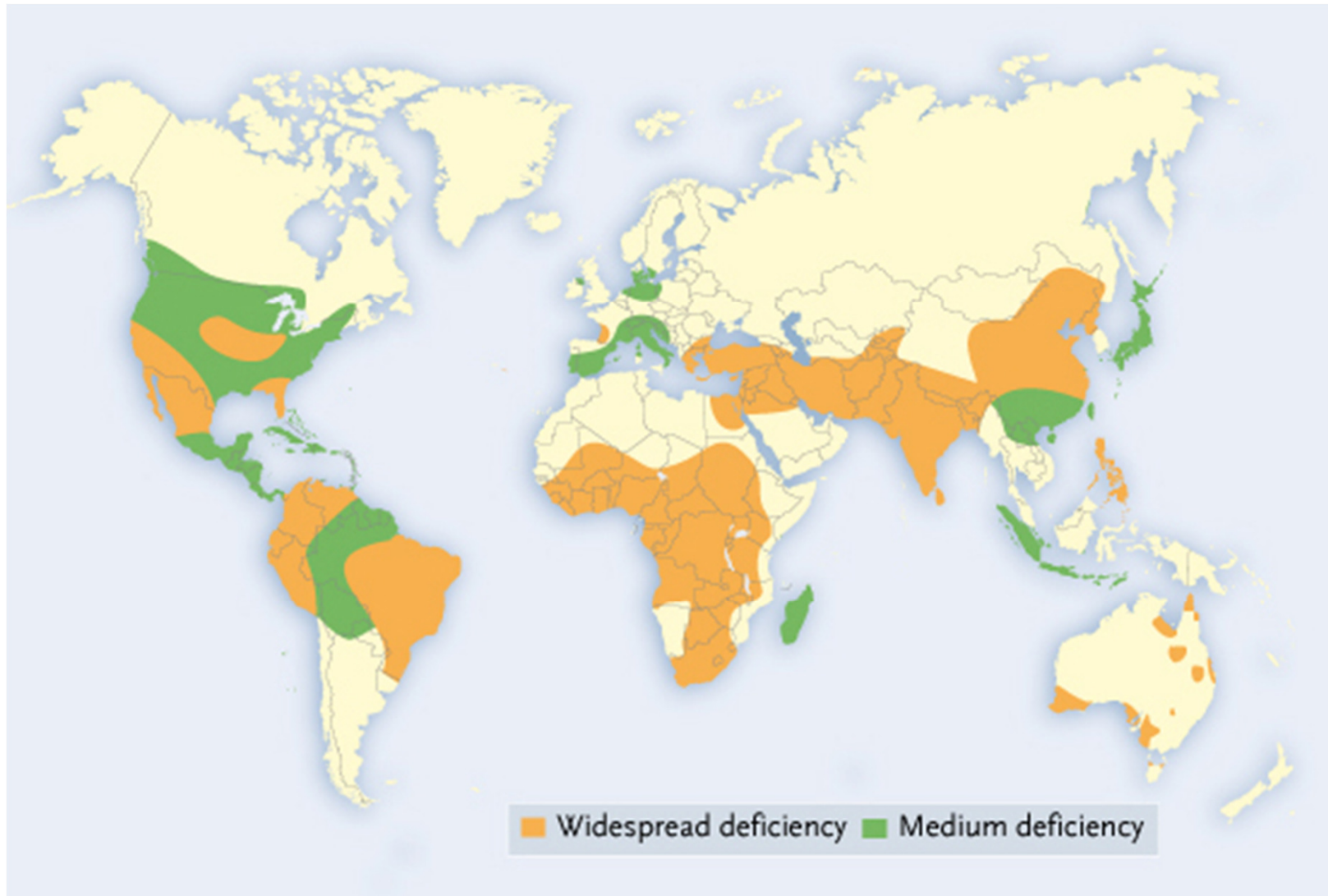
Unleaded gasoline, average weekly retail price per gallon



Source: Wall Street Journal



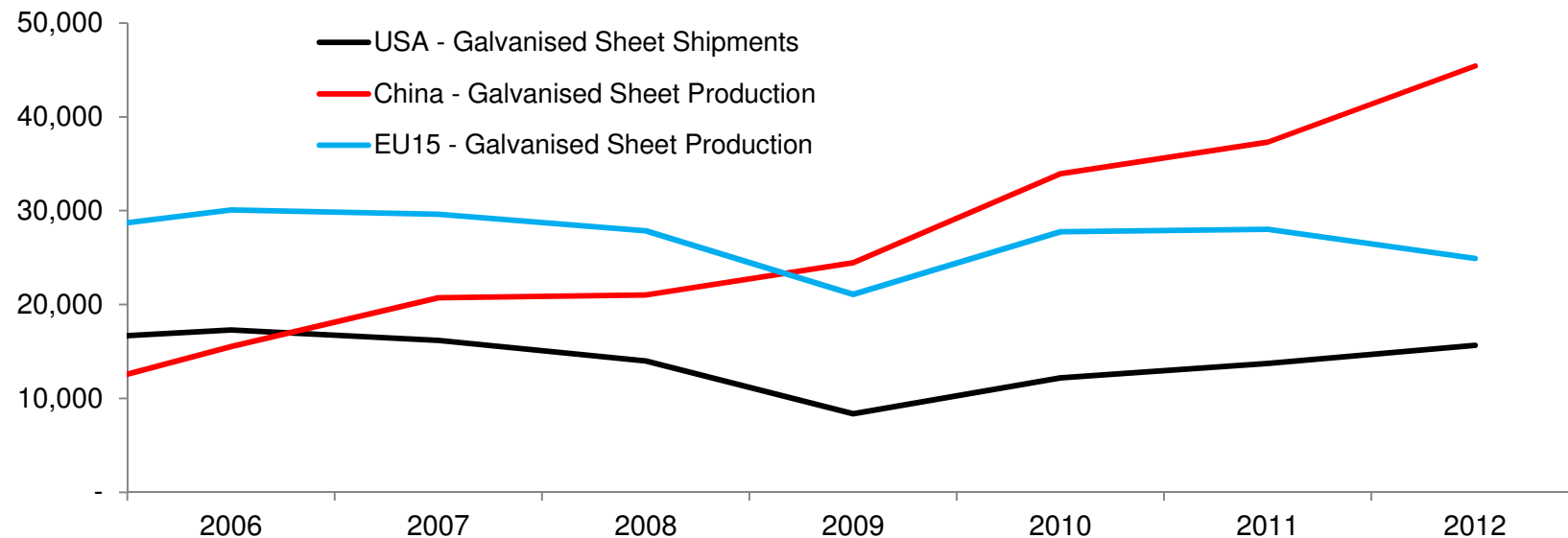
## Should we be following the global zinc deficiency patterns?





## China: Rebalancing creates opportunities and challenges

Galvansied sheet output (thousand metric tonnes)



- Strong growth in autos and housing starts
- Alloys market is slower as Chinese downstream plants suffering due to margin squeeze
- Bigger challenge is impact of Chinese galvansied sheet production growth on European market
- European galvanizers need to get more competitive

## Some Closing Thoughts,

- Shift from super-cycle mentality (mine-to-market) to market-to-mine game plan; focus on demand, not supply, both at regional and end use level
- Winners will need to identify opportunities and target less capital intensive 'soft margins' tied to marketing capabilities, linked to new and exiting pockets of demand
- Opportunities for continued Chinese growth in galvanizing sector will put pressure on European galvanizers to get more competitive. Chinese auto and home sector showing strong signs of growth, tempered only by inflation concerns. Panama canal offers new supply chain.
- Producers must begin to understand and create own views on demand impact and opportunities associated with energy (shale, global LNG movements), consumerism, monetary and fiscal policy (Japan, Brazil, USA) and potential China re-balancing
- Europe may surprise in H2. US on its way with further upside for zinc demand in construction, agronomy and automotive. Watch Chinese exports

# Questions



*Zinc-deficient cotton,  
West Texas*