



Nick Snowden

Nicholas Snowden is a seasoned Commodities Analyst with Barclays Capital in the UK. Barclays has a more optimistic—or perhaps realistic—forecast for the year than those who claim the sky is falling. Nick predicts a very strong first quarter in 2010, with a slow down trend through the year as stimulus spending winds up and investors rethink strategies. In a sense, Mr Snowden feels 2010 will be a gentler reverse of 2009.

Resource Intelligence: You have been very bullish in your writings and interviews on both lead and zinc prices. Why is that?

Nick Snowden: Our current forecast for zinc this quarter is \$2,700/t (\$1.22/lb) and likewise in lead, to average \$2,750/t (\$1.25/lb). That is more or less a 30% appreciation. The basis for this pretty optimistic outlook is three pronged. First, we think in the next few months we're going to see a sharp recovery in demand levels, namely in Japan, USA and Europe. We think an aggressive restocking cycle along the supply chain in both zinc and lead-leveraged industrial sectors will really drive improvements in demand levels.

We also think at the same time China will continue to be a source of positive influence on metals markets. While import levels will not be as high as they were previously, domestic demand levels will continue to be robust.

Finally, supporting that optimistic price outlook over the next few months is the fact that we still have a very loose monetary policy in place in the majority of the major economies globally, as well as fiscal policy. Those three factors, we think, are really going to support prices over the next few

months.

RI: What about stimulus spending in the US, the UK and other countries?

NS: I think there are two key economies where the fiscal policy over the last 12 months has been supportive for base metals. First is China, where a vast package was put in place in terms of infrastructure investment as well as incentives towards household consumption. The second major economy is, of course, the US where money from the fiscal stimulus package has gone into infrastructure investment and there was also the cash for clunkers scheme that supported the auto sector. I'd highlight those two economies as having fiscal packages that really supported metals demand.

RI: When those come off, as they inevitably will, what happens farther out, say in 2 to 3 years? What are we seeing for zinc and lead performance as a commodity?

NS: If anything, you can actually look closer in time for a change in dynamic, in terms of the impact of tighter monetary policy, the end of fiscal packages. Our outlook for zinc and lead this year is that you are going to see the highs set during the first quarter and then prices will progressively moderate lower over the course of the year, to bottom out during the fourth quarter. We see lead averaging \$1,750 (\$0.79/lb) in the fourth quarter and zinc averaging \$2,000 (\$0.91/lb) in the fourth quarter. The logic behind those declines over the course of the year is, firstly we will have tighter monetary policy, particularly in the US and China and that will feed through into moderating economic growth and thus metal demand, but also, we will begin to see these fiscal packages tailing off in influence on demand levels and then we'll just be left with the condition of private sector and demand. Clearly that has some time to go before it recovers to pre-crisis levels and it's unlikely that 2010 will see that full recovery.

RI: By the sound of what you're saying, you believe we're on the road to recovery?

NS: Undoubtedly. All the data coming out of the US over the past six months has really surprised to the upside and I think it's clear that the US economy, in particular versus Europe perhaps,

is on a clear path to recovery. However, it will take some time for the end consumer to recover, particularly in terms of metals demand and once you have tighter monetary policy and less support from fiscal policy, that will work to depress metals prices. Moving into 2011 and 2012 when the consumer has recovered in those areas of the economy, then one can expect prices to move back upward.

RI: You have said that low-grades, mining closings and project delays can spell great trouble for supplies of commodities like lead and zinc. What does that spell for the junior exploration sector?

NS: Across all the base metals, it's becoming harder to find easy to access sources of ore in traditional mining countries such as Chile, Australia and the US and so companies are either having to develop more sophisticated techniques to access more difficult, deeper sources of ore, or they are having to go to new countries, less traditional mining countries like Asia or Africa. I guess you could say that the influence of that effect is both geographical and technological.

RI: What companies are you looking to provide new growth in the supply chain?

NS: In the lead market, the key source of mine growth in 2010 is actually a restart, which is

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Magellan Mines in Australia [Ivernia Inc.] where we think we see at least 90,000 tonnes of production. In terms of zinc, I think the key additions to supply in 2010 are fairly similar in that respect. We think Century Mine in Australia will improve production over last year and we'll also

see new output from Peñasquito Mine in Mexico.

I think in the longer term, ore grades and accessibility to fresh ore starts to play a key influence as we start moving into 2011 and 2012. That is particularly key in terms of zinc. In 2008/09, during the downturn, we saw a large portion of zinc mines being closed permanently and as we move into 2010 there are several mines that are reaching the end of their life in the next few years and also suffering progressively lower ore grades. One of the key mines to outline in that respect would be Brunswick, which is currently slated to end in 2011, as well as Century mine, which should end in 2014. These are two of the largest mines in the world and there currently are no new projects slated to provide fresh output to counterbalance those closures. I think we probably emphasize

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zinc in particular as having the prospects of a medium term supply side crunch.

RI: How important has China's rebound been to commodities this year?

NS: China's rebound and appetite for base metals has been absolutely intrinsic to the performance of base metals prices in 2009. Without China, one can state with some confidence that we wouldn't have seen the price gains that we have. I think China will continue to be the positive influence on the markets during the first half of this year, until monetary policy tightens there in Q3 and the fiscal stimulus begins to wear off.

RI: Will other BRIC (Brazil, Russia, India and China) nations pick up in that demand?

NS: I think Brazil and India, in the medium to longer term horizon, on a five to ten year basis, will develop into extremely key demand side supports for base metals prices, but currently they make up nothing like the proportions of China in terms of metals demand. For example, China consumes close to 40% of the majority of base metals globally. Whereas these in other countries, it is far smaller.

RI: What about the US—is demand actually

shrinking in the US or is it still growing?

NS: Across the majority of base metals, demand in the US was weaker year on year in 2009. We do think demand levels will recover going forward and will rise again back to 2008/07 levels. I don't think that the US has structurally changed in terms of the composition of its metals demand and so it will continue to be a key demand-side dynamic for base metals.

RI: How important are the junior explorers to the supply chain?

NS: Across all base metals, junior mining companies are all important in the sense that they are more adventurous in where they are willing to explore and we've seen that particularly in the copper market, which probably had the most constrained supply side dynamic, in the respect that the copper belt in Africa is now producing some of the more notable sources of supply coming on to the market in the next few years, while the political and social environment acted as a barrier to entry to many of the more sizable mining companies.

RI: You are commodities analyst for Barclays in London. How would you characterize the last

year as a lead and zinc analyst and are you optimistic about the future?

NS: I think we have seen an absolutely stunning past year. We started 2009 with valuations driven by fear over the future of the financial system, and in turn whether the US or European economies would collapse. Yet over the preceding 12 months, driven by aggressive production cuts and the resurgence of Chinese import, fundamentals improved at a rate beyond people's expectations. We've seen some stunning price gains and I think in many respects 2010 will be very different. We still expect the US and Europe to continue their recovery, and demand levels to improve, and at the same time China will continue to be this positive influence on the market. However, we are no longer coming from a position of widespread macroeconomic uncertainty and how that was discounting prices. There is far more confidence now in the financial sector and the global economy than there was back then. Based on our outlook, the highs for this year will be achieved in the first quarter, before we see some gradual tapering off. Indeed, 2010 could represent a profile of the complete opposite of 2009, although not reaching as low as we achieved in 2009, but still seeing lower prices at the end of the year than what we started at.

