

# Glencore strikes bullish zinc deal

## COMMODITIES

By Jack Farchy

Glencore has signed a contract to buy zinc ore with no charge for the cost of converting it into metal, a highly unusual deal that reveals the commodity trader's bullish outlook on the zinc market.

In exchange for forgoing the traditional discount on ore compared with refined metal, Glencore will receive a large share of the profits if zinc prices rally, industry executives said.

Duncan Hobbs, senior commodity analyst at Macquarie, said in a note to clients that the deal "appears to suggest a bullish outlook on the zinc price in the medium term on the part of the buyer".

Glencore is the world's largest trader of zinc ore – called "concentrates" – and

zinc metal, as well as being one of the world's largest miners of the commodity, giving it a privileged view of the market.

According to the prospectus for its \$10bn initial public offering in May, Glencore supplies 60 per cent of the international third-party market in zinc and 50 per cent of the international third-party zinc concentrates market. This month the commodities trader announced a plan to merge with Xstrata, the mining company, in a deal that would create a \$90bn company.

Zinc is used by the galvanising industry to give a protective coating to steel products such as roofing or car parts.

Zinc traders and smelters usually buy zinc concentrates at a discount – known as a "treatment charge" – to compensate

them for the cost of smelting it. However, Glencore's agreement to purchase concentrates from Volcan, the Peruvian miner, includes no such discount.

Instead, Glencore will receive a larger than normal share of any increase in zinc prices. While some price participation is common in zinc supply deals between miners and smelters, it is typically 5 per cent or below. Glencore's deal involves a share of as much as 25 per cent of any price rise.

Glencore's move highlights a growing consensus that zinc prices could spike in the next few years as several of the world's largest zinc mines close.

In recent years, zinc has underperformed other industrial commodities such as copper, tin and iron ore as oversupply

weighed on prices. But Mr Hobbs at Macquarie said: "We certainly share the view that there is a possibility of a zinc price spike emerging over the next three years.

"Perhaps the catalyst will come when the first of the major zinc mine closures that are pending is finally announced, focusing investors' attention on the supply side challenges ahead."

Benchmark zinc prices on the London Metal Exchange rose 1.3 per cent to \$2,120 a tonne yesterday. They touched an all-time high of \$4,580 in November 2006.

Glencore said it could not comment on the details of an individual contract while Volcan did not respond to a request for comment.

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