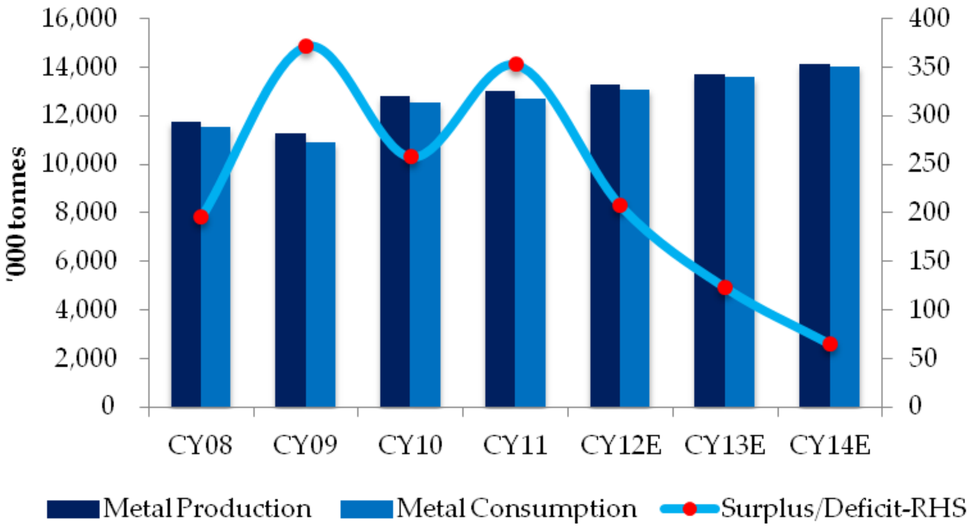
Replacement demand brightens lead to outshine Zinc

Zinc

World zinc demand has increased at a Compounded Annual Growth Rate (CAGR) of about 3.6% over the last decade. Despite the dot-com bubble at the beginning of the decade and a severe recessionary trend in the developed and the European countries for the last 3-4 years, global zinc consumption continued its upward momentum. During the earlier decade (CY90 to CY00), global zinc consumption recorded a CAGR of about 3.1%.

China has been the largest consumer of zinc, accounting for 40% of global demand in CY11. Over CY06-11, China and India have driven the global zinc demand, offsetting the fall in demand from US and the European countries. The rise in production from China, Australia and India has shifted the global zinc industry from a deficit state during CY-04-06 to a surplus state.

Global zinc demand-supply scenario: CY08 to CY14E



Source: International Lead and Zinc Study Group (ILZSG) and CARE Research Forecast, *F - Forecasted*

CARE Research expects the global zinc demand to grow at a CAGR of 3.4% during the period CY 11 to CY14. Despite an expected slowdown in Chinese demand, China is likely to continue its dominance in the global metals demand followed by India and the other emerging economies.

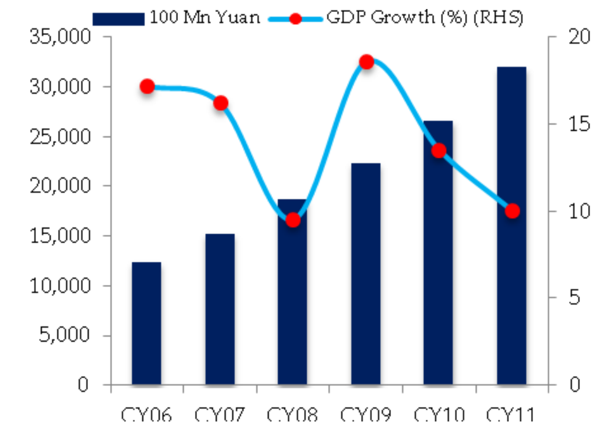
Indicators which pointed towards a significant Chinese slowdown

Similar to other economies, Chinese economy was also among one of those economies which had to combat the collapse of a mammoth real estate bubble. In the last two years, the Central government of China made various policy changes in which it increased the down-payment percentage for new home purchases and also introduced property taxes in selected cities. Apart from taxing the new home buyers, the Central Bank of China was also in a continuous process of revising its interest rates on a higher side.

The tightening of interest rates cycle has impacted the margins of local Chinese producers. The industry's value-added indicator, the Chinese economy, depicts the concerns of slowdown in the Chinese economy. The real estate industry which accounts for about 13% of the Chinese GDP is also showing some signs of weakness.

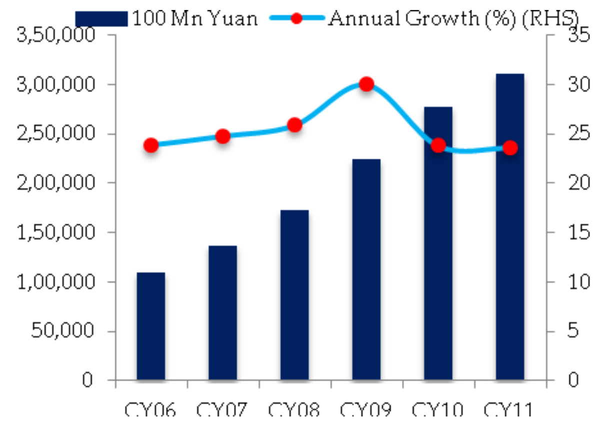
For the past 18 months, Chinese government has taken stringent measures to keep the property prices from overheating. The Chinese value-added construction activity has recorded a second straight year of slowdown in growth.

China Value-added Construction: CY06-CY11



Source: NBS China and CARE Research

China fixed assets investments: CY06-CY11



Source: NBS China and CARE Research

CARE Research believes that the role of Chinese government through its various stimulus packages has been an important supportive factor for stable growth in the fixed assets investments, with participation of private players continuing to remain low.

Better late than never, starting the re-balancing act:

Sighting a significant slowdown which prompted towards underachievement of the Chinese official GDP forecast of 7.5% for CY12, the Chinese policy makers have proactively taken a few steps addressing the global concerns over the slowing Chinese economy. Since July 12, Chinese policy makers have cut interest rates twice in quick successions and have also reduced the minimum fund requirements for banks, in order to encourage lending and increase liquidity within the system. Apart from a slew of policy-easing measures, the Chinese government during the first week of September 12, also announced a massive infrastructure package worth more than 1 Trillion Yuan (US$ 158 Bn), in its efforts to stabilize the Chinese economy.

Still a giant in volume growth

Increasing at a CAGR of about 12%, China's zinc consumption has almost doubled during CY06 to CY11. Despite the various measures announced, CARE Research believes, while the Chinese domestic demand is likely to be supported, demand for Chinese exports market will continue to remain under pressure. Going ahead, CARE Research expects China's rate of growth in demand for zinc to reduce significantly in the next few years. CARE Research expects the Chinese zinc demand to grow at a CAGR of about 5.7% during CY11 to CY14E.

Domestic demand to follow the steel consumption growth

Over the past decade the zinc industry in India has expanded its base and the country's domestic consumption of the metal has more than tripled. During FY01 to FY11, domestic zinc consumption has been growing at a CAGR of about 10%

CARE Research expects domestic zinc demand to increase at a CAGR of about 7.2% during FY12 to FY16. Demand from the metal alloying industry (accounts for a share of about 10% in the domestic end-use consumption pattern) is likely to grow at a CAGR of about 11%. Domestic demand for zinc from the steel galvanizing and the zinc oxide/chemicals industry is likely to increase at a CAGR of about 7% and 6% respectively each.

Lead

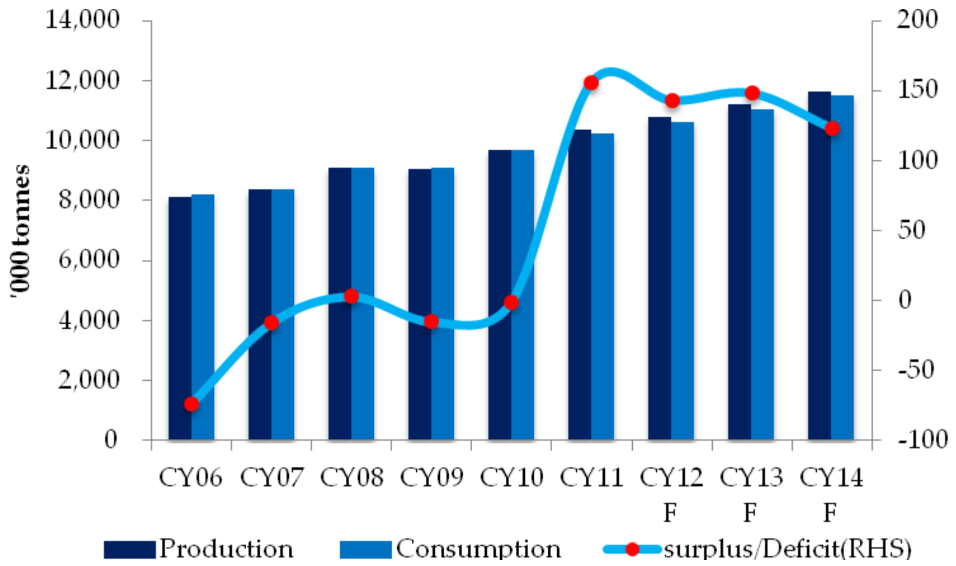
Not just referred to as a metal but as a heavy metal, Lead is widely used by the global automotive industry, although not directly but in Lead acid batteries. The automotive segment accounts for more than two-third of the demand for lead acid batteries while the rest is accounted by industrial and residential housing segments. Hence, the demand outlook of the metal is more dependent on the performance of the global automotive industry. Apart from the Original Equipment Manufacturer (OEM) demand, replacement demand (vehicle population) itself is one of the major sources of demand for the lead acid batteries. Lead also finds its application in various other industries such as rolled metal products, alloys, pigments, ammunition etc.

During the last decade, apart from the CY01 (dotcom bubble), global demand for the metal continued to remain in a positive territory. The replacement demand from the global automobile industry continues to support the demand for the metal.

Owing to the financial crises during the second half of CY08, global demand for lead witnessed a sharp contraction during CY09, when the Y-o-Y growth in demand recorded a marginal increase of about 0.3%. With the recovery in the global automotive industry during the last quarter of CY09 along with various stimulus packages announced by different countries, global demand for the metal recorded a bounce back during CY10 and CY11 with the Y-o-Y increase in demand of about 7% and 6.5% respectively.

World lead demand has increased at a CAGR of about 4.9% over the last decade (CY01 to CY11). Despite the dot-com bubble at the beginning of the decade and a severe recessionary trend in the developed and the European countries for the last 3-4 years, global lead consumption continued its upward momentum. During the earlier decade (CY91 to CY00), global lead consumption recorded a CAGR growth of about 2.4%.

Global Lead Demand-Supply Scenario: CY08 to CY14E



Source: CARE Research
E - Expected

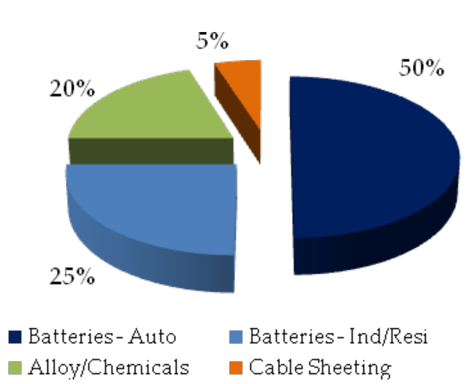
In line with the demand for other base metals, China has been the largest consumer of lead, accounting for around 45% of global demand in CY11. Over CY06-11, China and India have driven the global lead demand, offsetting the fall in demand from US and the European countries. The rise in production from China, Australia and India has shifted the global lead industry from a deficit state during CY10 to a surplus state in CY11.

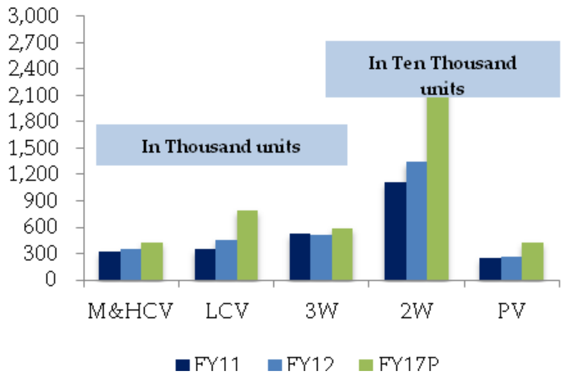
CARE Research expects the global lead demand to grow at a CAGR of 4.1% during CY11 to CY14. Global supply during the same period is likely to increase at a CAGR of about 3.9%. While the replacement demand will continue to remain the major driver of the global lead demand, demand from OEMs in China and India is likely to add further support to the industry.

India becoming the preferred manufacturing destination for the global automobile manufacturers

Low penetration, increasing per capita income and healthy economic scenario would drive the growth in the automobile segment in medium to long-term period. CARE Research estimates the domestic commercial vehicle sales to increase at a CAGR of 11% from about 0.8 million units in FY12 to 1.2 million units by FY17. Similarly passenger vehicle sales are expected to rise at a CAGR of 13% from about 2.6 million units in FY12 to about 4.3 million units by FY17, while, two-wheeler sales are also expected to grow at a CAGR of 13% from 1.3 billion units to 2.1 billion units during the same period.

Lead Usage in the domestic market	Expected growth in the automobile industry





Source: ILZSG and CARE Research

Source: CARE Research

India's inherent advantage of low-cost destination would continue to attract global automobile OEMs for setting up manufacturing unit in India for producing products catering to both local and global markets. CARE Research estimates that the passenger vehicle exports are expected to increase at a CAGR of 19% from 0.5 million units in FY12 to 1.2 million by FY17. Likewise exports of two-wheelers are also expected to grow at a CAGR of 17% from 1.8 million units in FY12 to 3.4 million units by FY17.

Outlook on Global zinc and lead prices:

CARE Research expects average global zinc prices to hover around US$2,100-2,200 per tonne during CY13 while average global lead prices are likely to hover around US$2,200-2,300 per tonne during CY13. Apart from rising liquidity in the global markets through various stimulus packages, rising input costs and reducing global surplus (inventory levels) is likely to add support to the global zinc and lead prices.

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