



# SELWYN RESOURCES LTD.

## Zinc-Lead Market Newsletter

Symbol - SWN-TSX.V

2010-01-12

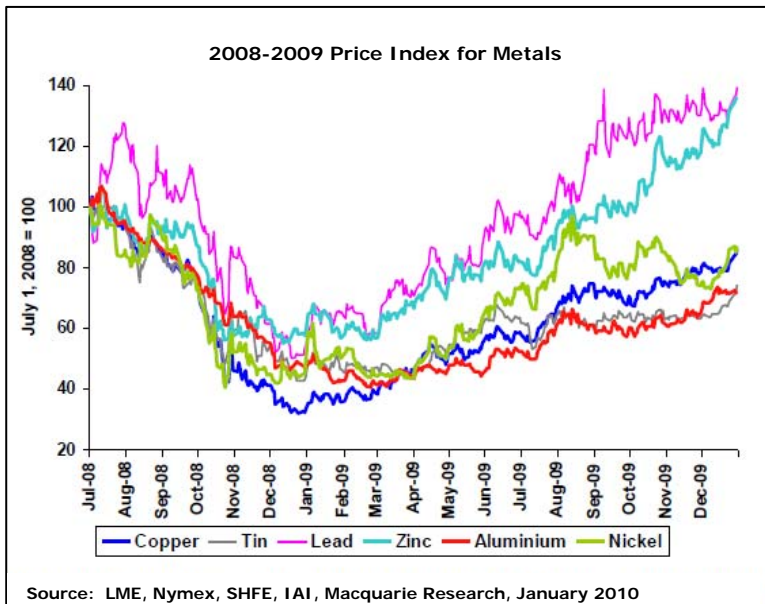
### ZINC AND LEAD OUTPERFORM THE OTHER METALS

In our October 8, 2009 Zinc Market Update we suggested that zinc was poised to rise through US\$1.00/lb. LME spot zinc peaked at US\$1.195/lb on January 7, 2010 before falling back slightly. Perhaps surprising is the continued rise in zinc prices despite rising stocks on both the LME and Shanghai warehouses that saw increases of 49,125 and 61,825 tonnes respectively in Q4 2009.

The recent rise in inventories following an apparent peaking in August and September likely reflects the general increase in concentrate supply as mine production in China reached new record highs, and shipment of producer inventories to warehouses as the zinc price improved.

In the near term, the future path of reported zinc inventories and zinc prices will in part depend on the effect of seasonal loss of production or at least delayed delivery of concentrate to the smelters. This may halt the further increase in inventories in Q1 2010; however, the real determinant in inventory build up will depend on the recovery of zinc consumption in America and Europe.

Zinc and lead were the star performers during the past 18 months! Few would have predicted



the traditional laggards of zinc and lead to lead copper and the other metals. Some would suggest, that with inventories continuing to rise, that zinc and lead are ripe for a correction.

It is suggested that the correction will be modest; with any reasonable improvement in demand outside of China, inventories should level off and commence decline in the second half of 2010.

As 2010 advances we will begin to see the parade of major mine shutdowns due to reserve depletion (see May 20, 2009 Zinc Market Update on website). Given demand forecasts over the next several years, the supply-demand balance should lead to chronic deficit, as there are essentially no significant new mine projects in the development pipeline.

**Note to Reader:** This overview is intended to provide readers with useful information on the usage, supply, production and consumption of zinc. The overview has been assembled from a large number of information sites that are believed to be reliable; however, the companies make no representations as to the accuracy or completeness of the information herein. The reader should use this information for general purposes only and seek advice from its investment advisors as to the details of zinc markets.

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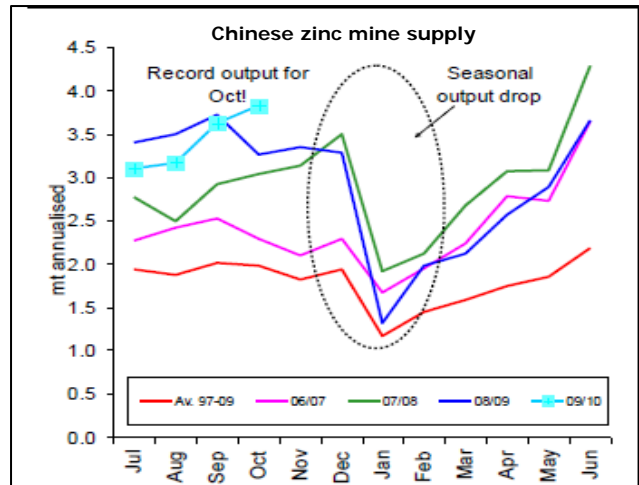
## RECOVERY IN GLOBAL MINE SUPPLY LED BY CHINA

Global mine supply is estimated at 11.2 million tonnes 2009; approximately 1.05 million tonnes below 2008 production and due to the shutdown of many mines. Nonetheless 2009 production exceeded demand by approximately 1 million tonnes resulting in a surplus of metal.

As the chart illustrates, mine output rose significantly in China in 2009, reaching record output in October. The restart of mines and increased output is in response to strong demand in China and improved metal prices.

China has recently experienced severe winter conditions that will likely lead to a repeat of the seasonal decline in mine output during the winter period which should provide some leveling out of concentrate availability and metal output.

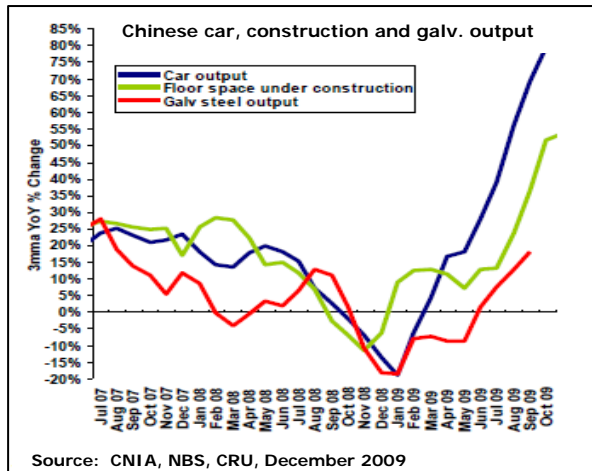
Ex-china numerous mine restarts have added supply but it is expected that there will still be 18 mines with aggregate production of 600,000 tonnes shut down in 2010 (Brook Hunt, January 2010). At higher prices, and as supply shifts to deficit, these mines will likely be re-opened. Nonetheless mine output growth is expected to lag demand growth with forecast average mine growth of 3.1% in period 2012-2020.



Source: CNIA, Brook Hunt, Macquarie Research, December 2009

## IMPROVED DEMAND DRIVEN BY GALVANIZED STEEL INCREASE

Global zinc demand decreased by 9.4% to 10.16 million tonnes in 2009. A decline of 18.2% in mature economies of Europe and North America was partially offset by strong demand in China. Global demand is projected to increase by 6.2% to 10.79 million tonnes in 2010 and an additional 8.3% increase in 2011 to 11.69 million tonnes (Brook Hunt, January 2010).



Source: CNIA, NBS, CRU, December 2009

The chart illustrates the strong recovery of galvanized steel production commencing in Q1 2009 as the key driver in improved zinc consumption. This also corresponds with strong growth in floor space under construction and an 80% increase in auto output in China.

Low intensity of use in mature economies and more imported products suggest very low levels of growth in the USA and Europe over the next several years. China's share of consumption is expected to increase from approximately 40% of world demand to 50% by 2020. The increase in expected demand in China has spawned almost 1.7 million tonnes of planned new smelter capacity over the next three years.

Projects such as the Selwyn Project are key to meeting the demand for concentrates. Recently we have observed

that companies such as Nyrstar are buying mines to secure future concentrate supplies — expect this activity to continue with other smelting groups to participate.

Growth in global demand is expected to remain strong over the next over the next five years as World economies recover.

**Copies of earlier Zinc Market Updates are archived on the Selwyn website, located at [www.selwynresources.com](http://www.selwynresources.com)**

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