

HD **UPDATE 1-MMG warns output from key Australia zinc mine to drop**

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* Output from Century zinc mine down to 465,000-480,000 T in 2014

* **China**'s MMG says held recent talks on **sale** of Avebury nickel mine

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* MMG shares fall 1.7 pct (Adds CFO comment on Avebury nickel mine)

By James Regan

SYDNEY, Jan 23 (Reuters) - Output from Australia's Century zinc mine, the world's third biggest, could drop 5 percent this year as it nears the end of its operating life, exacerbating an emerging global supply pinch.

The mine will yield between 465,000 and 480,000 tonnes of zinc in concentrate in 2014 against 2013 output of 488,233 tonnes, said **Chinese** owner MMG Ltd.

The decline comes amid a supply deficit driven by rising galvanised steel production. Zinc is primarily used as a rust-inhibitor in the galvanising process.

MMG's nearby Dugald River mine is under development and was supposed to start yielding zinc in late 2015, partially replacing lost output from the Century mine, which MMG forecasts will run dry in mid-2015.

But MMG last month warned Dugald River would miss its start date due to poor ground conditions.

An additional A\$57 **million** has been allocated to study problems at the project, according to MMG.

A global hunt is on to find new deposits of zinc as **China** buys more of the metal to rust-proof new cars and coat steel used to build bridges and skyscrapers.

Multinationals such as GlencoreXstrata and Belgium's Nyrstar, along with MMG are funding new mines from Africa to the Yukon in search of more metal.

London Metal Exchange zinc prices have tumbled as much as 19 percent in the last year, but the outlook is turning. In the last two weeks, the price has gone up by as much as 5 percent and was standing at \$2,071.75 a tonne at 0514 GMT.

The fourth quarter of 2013 appears to have marked the beginning of a new cycle in zinc characterized by undersupply, Morgan Stanley said in a report on Thursday.

"The combination of steady demand growth, declining mined and refined production, and falling exchange inventories brought our estimation of the stock-to-usage ratio to its lowest since 2010," it said.

MMG, which operates additional mines in Australia and Laos, forecast total output of 173,000-186,000 tonnes of **copper** and 600,000-625,000 tonnes of zinc in 2014.

Total production in 2013 was 187,738 tonnes of **copper** and 600,221 tonnes of zinc.

RECENT TALKS

The **company** has no plans to reopen its Avebury nickel mine in Australia, which it has been looking to sell since 2011, and Chief Financial Officer David Lamont said on Thursday it had recently held talks with potential buyers.

Lamont said the recent jump in nickel prices following Indonesia's ban on unrefined metal exports could boost the price it gets for the small mine in Tasmania, mothballed since 2008.

"Certainly we would hope as a result of that (bump up in nickel prices) we may find a sensible buyer for that operation," Lamont said on a conference call with analysts and reporters.

He declined to comment on MMG's prospects of winning the bidding for GlencoreXstrata's Las Bambas **copper** mine in Peru. MMG is seen as the frontrunner for the project, which is expected to cost \$5.9 **billion** to build.

MMG shares fell 1.7 percent to HK\$1.71, down slightly more than the Hang Seng index. (Additional reporting by Sonali Paul in Melbourne; Editing by Joseph Radford)

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CO oriemi : MMG Limited | cminmc : China Minmetals Corporation | imreht : Inner Mongolia Baotou Steel Rare-Earth (Group) Hi-Tech Co Ltd | lawspr : Minmetals Land Limited

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