

October 7, 2005

Nickel remains under pressure after production cuts

The quote for 3 months Nickel on the LME has shown little vibrancy in the last few days. One market trader even described the situation on the nickel market as a "dead loss". Between the 13th and 15th September 2005 the market had certainly let off quite a bit of steam – prices falling from USD 14,600.00/mt down to USD 12,900.00/mt – after which followed a period of consolidation on the lower levels of around USD 13,500.00/mt. As it appears nothing much is on the horizon for nickel activity in the 4th quarter of 2005, further cuts in production are in the pipeline, fundamentally leading to somewhat weaker prices most probably. This fundamental data is however well-known to be only one side of the coin. Long-term expectations and technical influences have their place too, along with the long term outlook for raw materials, certainly metals, which is perhaps not quite as bad as the market is making out to be at the moment.

In view of the cuts in production carried out by steel works at the moment, the following criticising comments made by both Mr. Lee (Chairman and CEO of the Korean company Posco) and Mr. Mimura (President of the Japanese company Nippon Steel) can only be welcomed. At the 39th annual conference of the ISII (International Iron and Steel Institute) both gentlemen expressed the opinion that it remains a challenge to the steel industry to gain the interest of world wide investors. The only successful way for this is to get away from the cyclical mould, so often shaping the steel industry in past and present times, and turn to a more continual and steady approach. According to Mr. Lee, it may be enticing to state that the record results of steel companies in the past business year result from, above all, internal efforts to ensue further economic development and product improvement, he is however concerned about the further development of external factors which may have definitively contributed to this special situation. The big subject matter, that, still today, steel producers ponder the question of functioning capacity and production figures, which, in times now of detailed market research and advanced strategy software and model systems, which are able to deal with complex situations, will certainly leave the outside observer a little bewildered.

There is a new move to the discussion about the introduction of a steel future contract on the LME. In May the Exchange had set up a study group to check the feasibility of a possible introduction, the results of which are to be expected sometime this month. Now Ian Christmas, general secretary of the IISI has spoken. In his opinion this move could not be crowned with success as interest in such a financial product has clearly fallen. He feels it would be more viable to consider the possibility of an iron ore future. In the past steel producers especially were the most critical of a steel future, for the main reason that there is no real standardisation of the many forms of steel existing in the market place. In this connection Mr. Christmas assumes that the necessary standardisation of iron ore for the Exchange is a better possibility. One should not forget in this context, that to use such a contract as a hedging instrument, the degree in consistency of price correlation between future and product price is decisive, and not the hundred percent physical conformity of the steel product. It would be imprudent to presume that for every single type of metal product there would be a derivative available to facilitate a hedge. It is only natural that interested parties must be able to make compromises to overcome a situation without direct hedging possibilities, whether this is for a steel future or an ore future. At the moment metals dealt on the LME provide for a wide range of physical characteristics, in pure form or as alloys. Further the existing market of secondary raw materials for these traded metals cannot be forgotten. We have the situation today with other metals which now represent for steel a hurdle in its introduction. Apart from this, no one would be forced to use the offered derivatives if the correlation is not high enough or for any other reasons. On the quiet, many steel producers have to admit that the introduction of such a future contract can only be viewed negatively, because of the "feared" transparency this would create and so reduce some of their independence in pricing.

LME (London Metal Exchange)



LME Official Close (3 month)

October 7, 2005			
	Nickel (Ni)	Copper (Cu)	Aluminium (Al)
Official Close 3 Month Ask	13.125,00USD /mt	3.893,00 USD /mt	1.906,00 USD /mt

LME stocks in mt

	August 26, 2005	October 7, 2005	Delta in mt	Delta in %
Nickel (Ni)	9.510	13.260	+ 3.750	+ 39,43 %
Copper (Cu)	64.925	70.475	+ 5.550	+ 8,55%
Aluminium (Al)	507.700	503.900	- 3.800	- 0,75%