



Topic



Plea for Solidarity

- ▶ After liquidity injection, nickel prices rose by 12%. Resistance seen at USD 18,550.00/mt. Reason for volatile price movements: computer trading.
- ▶ Price level difficult to explain fundamentally. Satisfactory nickel demand, nickel supply lower than expected. Supply deficit expected. Between February and October prices have dropped by over 40%. Financial market participants' risk aversion is the driving force behind prices on the commodity markets. Developments in the financial world and the real economy are moving further and further apart.
- ▶ A crash of the global economy is not the most probable scenario at the moment. Even stainless steel producers are relatively optimistic for at least the first few months of 2012. However, this has mostly to do with the stocks position.
- ▶ Banks are adaptive. Deutsche Bank reduced its target rate of return to 15%. Business models of the past are unfair. Even 15% must first be reached.
- ▶ Rating agencies have more responsibilities. They walk a fine line between informing investors and creating self-fulfilling prophecies. Politicians want to distract from their own mistakes. But rating agencies are also attempting to hide behind this almost ridiculous facade of free expression in order to distract from their own faults.
- ▶ The Federal Republic of Germany, for decades, has been a very successful example of burden sharing between federal government, state government and local authorities. Politics should provide a positive background. Solidarity amongst the Euro states will strengthen the currency and economy in the medium term.

After nickel prices had seen support at USD 16,500.00/mt at the end of last month / beginning of this month, prices clearly firmed up in the last few days. With an increase of almost USD 2,000.00/mt, or round about 12 % higher from the recent low, nickel 3 month prices on the London Metal Exchange (LME) are now trying to break the barrier of USD 18,550.00/mt. This quite clearly shows that when price levels fall below marginal costs of nickel production, then other factors come into play to pull the market in both directions, and which have little to do with the fundamentals of the nickel market in the strict sense of the term. One reason for the many ups and downs in the market may have been the influence of computer trading (CTA - Commodity Trade Advisors), which just takes a short term view of the market. According to reports, over the last few weeks, these type of traders had further increased their short positions. However, they have been caught out by the concerted action of the central banks to improve the US-Dollar supplies of the banks in the Eurozone. Such measures cannot be predicted in a system based purely on algorithms and past price movements. The movement following on from this took a dramatic turn. The massive price increases in the various markets after this liquidity injection meant that in the automatic trading systems short positions had to be closed out. Due then to the numerous purchase orders, prices moved very quickly upwards. This not only happened with nickel but with essentially all of the metals which are dealt on the LME.

It is not fundamentals which are behind these movements, for stainless steel production worldwide, as the principle consumer of physical nickel (about 70%) still remains quite stable. It is true that growth in 2011 will not be expected to be the same as in 2010, but - despite a slightly weaker tendency throughout the year - will not show a big erosion in production figures. Present expectations for the first quarter of 2012, irrespective of the fragile state of sovereign debt and the financial sector, remain optimistic. Taking the market developments of 2011, once more, the discrepancies between the real economy and the financial world can be seen. Fortunately this can be said for large parts of the

economy. Yet the danger of contagion is still there under the surface. On the other hand, when the real economy falls under the influence of an increasing risk aversion by market participants, this has not only an influence on credit, but, above all, on commodity prices on the market exchanges. This can be the only explanation for the price movements on the LME, also for nickel, especially as consumer rates are satisfactory, nickel supply is still below expectations, and even the nickel content in the secondary commodity, scrap, has been low throughout the year. The latest figures for primary nickel for the year 2011 show a deficit in supply and a backlog in demand, contrary to what was originally expected. The reader can judge for himself how a nickel price correction of over 40% from the end of February to October fits into this picture, but it can be expected that the conclusions made are pretty much universally shared.

As an example for probably many more banking institutions, Deutsche Bank has shown itself to be quite adaptable. It has (finally) broken away from its almost magical target rate of 25% in equity return which it had tried to maintain for many years. This fantasy of 25% equity return, in a manageable to low risk environment, has, in the last few years, been refuted as not being sustainable. In fact, this target rate had been reached in certain years but, as is now known, by taking commission and earnings away from business, while at the same time syndicating the risks. Not a very fair business model. Jürgen Fitschen, one of the future heads of the board at Deutsche Bank, has announced that with a view to the present environment, the bank will in future take 15% as a benchmark. Without doubt, a step in the right direction. Yet this figure itself seems progressive enough, as the equity returns must be reached with an acceptable risk management and without outside help this time.

The three big rating agencies, Fitch, Moody's and Standard and Poor's are being given a very high level of economic responsibility. For one, they must comply with the task of timely informing investors of any changes in the credit rating of borrowers of all types; the agencies are well aware that any changes they make to ratings, and the consequences of such, can influence later developments (the words self-fulfilling prophecies can be mentioned). It is quite a balancing act which has to be achieved. At the moment, in political circles, the role of rating agencies is being keenly discussed. In these discussions and in statements, the finger is being pointed at others to distract from own mistakes. The reasons for the financial crisis are very complex, and even governments have to be able to take criticism of their involvement. Certainly since these agencies, and this is not very well known, are subject to government.

As a result of these discussions, it can only be hoped that rating agencies in the future do not let themselves be used as a political instrument, nor be biased by the interests of their contracting client. This seems to have happened in individual agencies from time to time. It is important to continually maintain impartiality and authority in order for them to justify their role as a private institution, a role which many wish could have been under public control, similar to the field of annual auditing by certified accountants. This will only be successful if rating agencies have a sense of proportion to see the possible consequence of their actions, without neglecting investor interests. But investors should also be more interested in finding solutions to a crisis in state, company and in the financial world, rather than worsening the situation by self-fulfilling prophecies. Though admittedly, well timed warnings, such as that now in connection to a possible downgrade of nearly all countries in the Eurozone, could lead to greater efforts and common work by the crisis managers. But to blame mistaken judgements in credit worthiness on free expression, as rating agencies have done in the past, and the fact that only information available in the public domain, or provided by their contracting client, is used to evaluate a rating, is a basic error not helping in the judgement of credit worthiness of a debtor.

There are long and hard discussions at the moment, especially in Germany, about the help which can be given to the weaker countries of the Eurozone such as Greece and others. Even in the new Federal states of Germany many hefty debates have been held, which is less understandable thinking back to what has happened since 1989 and the guarantees of economic help. It is being said quite often that these countries do not deserve the help because they are responsible for their own mistakes. Voicing examples, grotesque exaggerations in the extravagant spending of tax income and other monies are being talked about. Yet if a glance were to be made into the annual report of the German Federal Audit Court or the individual State Audit Courts, then similar gross abuse would be found, amounting to quite a large figure. It is actually all about something else. That is, that people think they have to hand over something without taking any responsibility. As is often the case, a look into history can help. After the second World War, Germany was only able to recover so quickly and now have one of the strongest economies in the world because it was supported by other countries. After the dark deeds of Germany there had not really been any motive for providing this. Germany has also been able to profit the most in recent years from the common currency, the Euro. Compared to its productivity, a currency for Germany should be much stronger. But because of the differing structure of the Eurozone, on average, a softer Euro has evolved, which has actually had the effect of encouraging exports in the German economy. From this revenue and through savings, made by the low interest rates of sovereign bonds, a controlled aid should not be difficult to make. This will happen anyway, and that much is certain.

Of course, it is only natural and understandable that in present discussions the countries who need support are asking for quick aid, with more to come, as is understandable that the countries providing the aid turn this down. It can only be

hoped that for the benefit of a future economically strong Europe, that solidarity amongst the states will prevail. The example of the Federal Republic of Germany shows that such a system, in the long term, can be successful, where from the very beginning - and not just since the inclusion of the new Federal States - there was a system of mutual support and transfer between Federal government, state government and local authorities. In such a structure there certainly also has to be a mechanism for control and sanctions, including the safeguard of autonomy, in order to still give an incentive to solve one's own problems.

Governments should, therefore, spend less time with populist words of nationalistic character and act on isolation and blame attribution. A more positive climate for solidarity has to be achieved in order to deliver the aid on its appropriate political platform. Helping can also create happiness. If Europe wants to maintain prosperity and peace, then Germany, also in the future, will have to shoulder a good portion of the burden. Despite protestations of some politicians there is no way around this. And the European partners are right in criticising Germany for its delaying behaviour which has certainly already led to a rise in costs to cover the crisis.

We would like to take this opportunity to thank all our business associates for the successful cooperation in 2011 and look forward to a continuance of this in 2012.

We wish all our readers and their families a Merry Christmas and a Happy New Year. We are already looking forward to providing interesting reports next year on all matters concerning nickel.



LME (London Metal Exchange)

LME Official Close (3 month)

December 7, 2011			
	Nickel (Ni)	Copper (Cu)	Aluminium (Al)
Official Close 3 Mon. Ask	18,160.00 USD/mt	7,835.50 USD/mt	2,109.00 USD/mt

LME stocks in mt

	November 15, 2011	December 7, 2011	Delta in mt	Delta in %
Nickel (Ni)	83,688	90,510	+6,462	+7.72%
Copper (Cu)	403,300	389,450	-13,850	-3.43%
Aluminium (Al)	4,562,600	4,549,000	-13,600	-0.30%