

February 25, 2010

## Banks are also Customers

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After a brief correction, when prices reached a relative low of just above USD 17,000.00/mt at the beginning of the month, since the 9th February nickel has been firming up again on the London Metal Exchange. Up to this moment in time, prices of over USD 20,500.00/mt have been seen. Yet the end of this move should not have been seen. For some days now there has been a notable daily withdrawal of nickel stocks out of the LME, which has not happened in a long time. So, that which has long been forecast here has started to happen. The recovery which has begun in stainless steel production is met by a commodity supply which is slow in building up. Especially in secondary commodities, stainless steel scrap is showing clear signs of a bottleneck, due to the small amount of new scrap available, and the reduced activity in industrial scrapping. Taking scrap to be over 50% of the commodity input share for stainless steel works, this will definitely have an influence on the supply and demand situation in the commodity market. The existing market disequilibrium will only be solved in the medium term by the price. Producers of stainless steel should be prepared for rising commodity prices and also consumers should be warned that the days of favourable purchasing prices are most likely soon to be over. Added to this, a recent study of the rating agency Moody quite correctly points out that rising commodity prices could hit the steel producers quite nastily. Some representatives of the industry even reckon with iron ore prices, for example, to rise by up to 40% in 2010. This would cause the margins of the steel producer to clearly shrink, unless they are in a position to pass the price increases on to the customers. But in today's scenario of a weak economy this is hardly likely. It certainly becomes clearer, that in the commodity markets, whoever is actively purchasing on a continual basis certainly has the upper hand. Unfortunately most of the managers and colleagues in purchasing departments have long understood this; only some at the head of companies still do not. Strategy advisors still wave the set rules of Working Capital at heads of companies. As much as this may be the right way to go in other branches, in commodity purchasing it is not often always advantageous to companies.

As so often in the past, under the term of urban mining, the ever increasing importance of, and awareness for, secondary commodities has been reported in political and media circles. A good example of this is a report which appeared recently in the "Handelsblatt" publication: "The topic of recycling gains more importance with the decline of natural resources. Experts talk about Urban Mining, and actually mean the just about inexhaustible commodity reservoir which can be found, in almost ready made form, within human conurbations." Even scientists, like those from the renowned Yale University in the United States, have started to investigate just how many reserves of the industrial metals, copper, iron, zinc and aluminium, there are in cities. In Germany, on behalf of the Federal Environmental Ministry, similar data is being collected by researchers of the Wuppertal Institute for Climate, Environment and Energy, as part of an all-embracing documentation. But this subject matter should not just be left to the environmental agencies alone, for, apart from the advantages to the ecosystem, the employment of recycled materials certainly has definite economic benefits for business. For this reason it should be hoped that, for the future, economic ministries work with greater incentives and increased activity. In March the first professional convention under the title of "Urban Mining" takes place. Even if this convention is still a relatively small one, the interest behind it for what development may mean for the future, will surely be great. The next episode in this discussion is keenly awaited.

As planned the trade in both cobalt and molybdenum futures began on the 22nd February 2010 on the LME. As was also expected trading activity in the first few days was slight. Traders must first gain confidence and trust in this market and collect experience in how it functions. Up to now the main reference to the molybdenum price now trading on the LME, had been the weekly publication in Platt's Metals Week. After a large discrepancy at the start of trading between the spot quotes published in Metal Bulletin and Platt's Metals Week, and those of the molybdenum contract on the LME, the differences started to diminish as the trading days continued. All in all, in the last few weeks before introduction to the LME, the interest in the metal was climbing rapidly. Molybdenum is now trading around an average of USD 39,000.00/mt on the LME. It should be expected that when it is more established and has enough liquidity in this market place, then contractual pricing will increase, based on the LME quotations. The start of this, however, is still too early to predict. The accredited broker houses on the LME are in two minds. Some LME traders are watching the development from a distance, while many others are already in a position to conclude molybdenum contracts. The average price business, in which the average from settlements is taken over a certain period, will clearly only take off after the spot and future price business is well underway. The lack of liquidity here also means that the gap between bid and ask prices is too wide to be very appealing.

In the first English edition of the publication "Finance", the chief editor, Bastian Frien, asks an interesting question in an editorial: are banks actually the customers or the suppliers of companies. In the ongoing aftermath of the economic crisis, the financial industry has had to accept (hopefully) constructive and well-founded criticism and

has had to bite the bullet not only in economic terms, but also in the effect this has had on its damaged image. Yes, even banks (at least at the moment) are customers of business and should therefore be treated as such. For companies dealing in the scrap business, this is no real eye opener, for, like money, scrap is also a scarce commodity; suppliers have to be fought for, just like customers have to be won over. In other sectors of the economy, especially in a crisis, stable and reliable key suppliers should also be just as highly valued, just like the customers too, without whom there would be no turnover. Whilst companies, however, are trying to win favours from investors for their equity and corporate bonds by means of extravagant road shows and presentations, efforts are not being made in as much the same scale for debt capital, which has become just as rare. With the necessary involvement and greater engagement in this financial sector, and with credit worthiness presupposed, then success will come sooner than later. Yet the banks themselves do not seem agreed on this role of customer and supplier. In their contact with business and with the people they deal with here, they position themselves more as sales staff rather than purchasers. In consideration, this point of view, although seemingly quite unorthodox, does present us with a different line of thought.

## LME (London Metal Exchange)



### LME Official Close (3 month)

February 25, 2010			
	Nickel (Ni)	Copper (Cu)	Aluminium (Al)
Official Close 3 Mon. Ask	20.350,00 USD/mt	7.080,00 USD/mt	2.090,50 USD/mt

### LME stocks in mt

	February 1, 2010	February 25, 2010	Delta in mt	Delta in %
Nickel (Ni)	165.870	161.742	- 4.128	- 2,49%
Copper (Cu)	543.525	550.225	+ 6.700	+ 1,23%
Aluminium (Al)	4.611.350	4.579.875	- 31.475	- 0,68%