BIR CONVENTION - China's nickel pig iron to dictate nickel market balance - SMR

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Singapore 24/05/2011 - China's nickel pig iron (NPI) production is going to be the "invisible hand" in the nickel market, as the country's ability to ramp up output can quickly move a balanced market into surplus or deficit, researcher SMR said.

"In the future NPI will act as the invisible hand in the nickel market," said Markus Moll of Steel and Metals Market Research at the BIR convention here.

China can move "really fast" into NPI when the nickel price approaches $13 per pound, or nearly $29,000 per tonne, potentially producing 500,000 tonnes per year and significantly reducing imports, he said.

By contrast, when nickel falls to $7 per pound, or $15,400 per tonne, China's NPI production disappears, he added.

"China is a very cost-effective source of raw materials for China but it is an environmental disaster," Moll said.

NPI is used by China in the production of stainless steel, a sector that normally absorbs two-thirds of the global nickel demand. When NPI is unprofitable to produce, China uses domestic stainless scrap or imports nickel (to combine it with chrome and iron).

The use of NPI gives China a raw material cost advantage of $300 per tonne based on a nickel price of $20,000 per tonne, according to SMR.

The nickel price fell to a six-month low of $22,347 per tonne this weekend, before recovering to $22,860 per tonne on Wednesday. It has traded in a wide range $22,000 to $30,000 per tonne since last October.