

Nickel price could fall below \$20,000 shortly, enough supply to meet stainless steel growth - ELG

By Perrine Faye - Deputy Chief Correspondent, perrine@basemetals.com (+44(0)20 7929 6339)

Monte Carlo, 2 June 2008 - The price of nickel, which has more than halved in a year, could fall further in the very short term to below \$20,000 a tonne, before stabilising amid solid investment demand and strong stainless steel production growth, Michael Wright of ELG Haniel Metals said on Monday.

"There could be some readjustments and profit taking and now that it has breached the \$25,000 mark, there is a strong possibility nickel could go below \$20,000 in the next couple of weeks," he said in an interview.

"There is no shortage of nickel and I believe the stainless steel stockers are not anymore putting inventories down," added Wright, who is chairman of the BIR Stainless Steel and Special Alloys Committee.

Industry specialists are gathered in Monaco this week for the Spring Convention of the Bureau of International Recycling (BIR), against a background of falling nickel prices -- they traded around \$22,000 tonne on Monday on the London Metal Exchange (LME) having hit \$21,355 last week, the lowest since July 2006.

Prices reached a record high of \$51,800 a tonne in May 2007, before collapsing by 50 percent in just three months, as the LME intervened to boost nearby availability and stainless steel producers -- the end-users of two-thirds of nickel output -- began a period of heavy de-stocking.

"A lot of movement in the nickel is based on the investment funds. I honestly cannot see nickel going back to the \$50,000 area and the LME made it clear they were prepared to take action if they saw something happen there," Wright, who is a member of the LME's nickel committee, said.

"It should stay around \$20,000/30,000 a tonne. A lot of people still want to invest in raw materials and nickel is a part of that," he added.

The de-stocking phase in the second half of 2007 added more than 1.7 million tonnes of nickel onto the market, prompting warehouse inventories to rise from just 3,000 tonnes to 47,994 tonnes now.

"There was a lack of demand in third and fourth quarter of 2007, so we saw a real falling-out of business, but it has started to come back in 2008," he added.

Wright predicted global stainless steel production would rise by around 8 percent in 2008 to reach some 30 million tonnes "or maybe slightly less", with China again seen as the main growth contributor. In 2007, production eased to 27.9 million tonnes, with 58 percent consisting of austenitic of nickel-bearing grades.

A lot of the nickel used in stainless steel will come from nickel scrap, whose current availability is estimated around 8 million tonnes.

"There will be no shortage of nickel scrap availability to meet the increase in stainless steel production -- scrap availability will not be a problem for the next ten to 15 years," Wright said.

On average 30,000 to 40,000 tonnes of additional nickel per year globally comes through increased volumes of scrap availability, and this should rise to 40,000/50,000 tonnes in the coming years. Secondary nickel production is growing at four times the rate of that of primary, Wright said.

Meanwhile, stainless steel scrap availability is expected to grow by six percent per year, meaning around 200 million tonnes of potential stainless steel scrap could come on a regular basis year after year, he added.