

An executive whitepaper written by Aptium Global, Inc.

MetalMiner 2009 Metal Price Predictions

A note from the authors and founders

We lie awake at night thinking about how manufacturers can save (or avoid spending) money on their metal purchases. We take a preemptive global perspective on the issues, trends, strategies, and trade policies that will impact how you source and/or trade metals and related metals services. From aluminum and steel to rhodium to gallium, from the thinnest gauge foils to the largest castings and forgings available today, we cover a wide range of diverse topics—including green sourcing, lean sourcing, global pricing trends, capacity constraints, supply market M&A activity, and much more.

MetalMiner™ provides unique insight, analysis and tools for buyers, purchasing professionals and everyone for whom metals and related markets matter. Commentators Lisa Reisman and Stuart Burns, co-founders of Aptium Global Inc., have sourced and traded metals products around the world. The authors of dozens of articles, sourcing tools, and white papers, Reisman and Burns share strategies, insights, and trends for cost avoidance and cost savings opportunities for metals related purchases.

Welcome to MetalMiner!

Lisa Reisman and Stuart Burns



MetalMiner™ is available online at www.agmetalminer.com

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Steel (Part One)

January 20, 2009

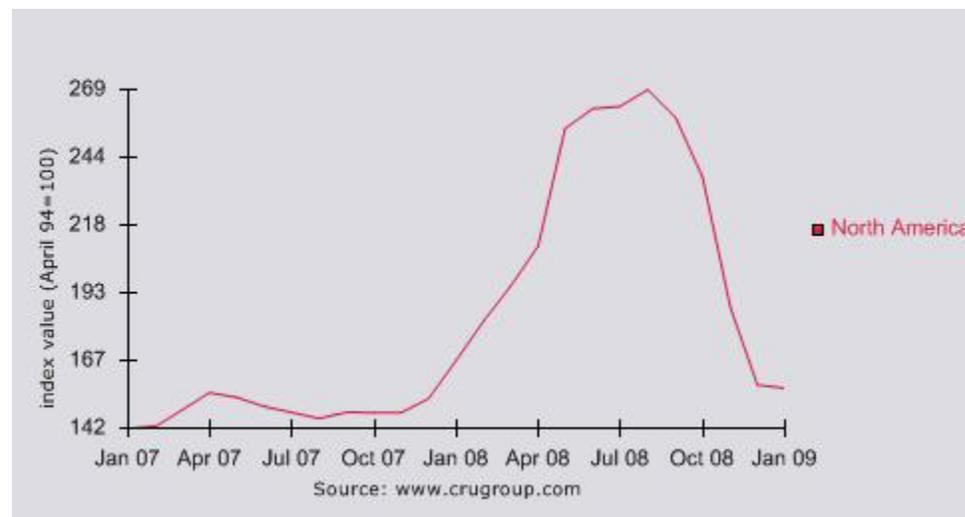
Perhaps no metal had as dramatic a ride as steel during 2008! What started as moderate pricing \$600+/ton for hot rolled steel last January, shot up to \$1200+/ton in July (cold rolled coil also doubled in price from January through July). And today, steel prices have the appearance of “normality” at \$520-545 ton for hot rolled coil and for carbon plate pricing in the \$880 range according to Purchasing.com. Some strip mill plate is down in the \$520 range. Our own [MetalMiner IndXSM](#) shows the China price at similar levels for hot rolled coil at \$555/ton. Cold rolled coil traded at \$640 ton on Friday whereas plate products traded at \$662/ton. And all of these price points lead to one question: what will the market bring in 2009?

To answer that question, we digress by walking through several pieces of data to help us form our conclusions.

Unlike some of the other base metals which are traded on exchanges such as [nickel](#) and [lead](#), steel still lacks a futures market (though we are hopeful that the LME billet contract and Nymex HRC contract will begin to move the industry in that direction). Speculation, therefore, plays a smaller role in price setting within the steel market. Good old fundamentals, we would contend, such as supply and demand still greatly impact the price of steel. But perhaps a bigger determinant of steel pricing relates to the behavior and strategies of the largest steel producers. And in all fairness to the steel producers, they are doing whatever they can to create a steel shortage. We know that sounds preposterous but hear us out.

Some of the first **Steel** came from East Africa, dating back to 1400 BC.

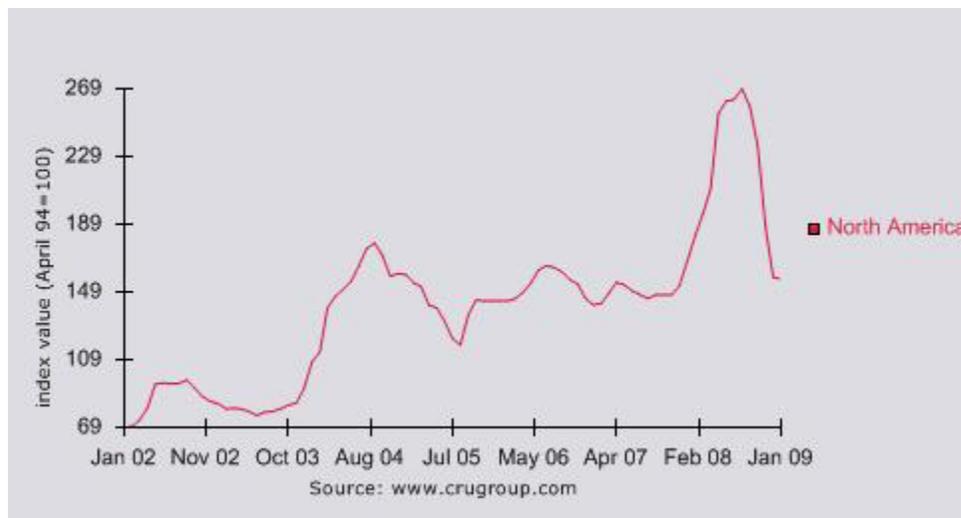
The steel mills have been very quick to pull capacity offline in an effort to better match supply with demand. And though prices have fallen, we would argue the rate of decline has started to slow. For example, by looking at the CRU North America Steel Price Index on a monthly basis from January 2007 until now, we can see a flattening of the curve:



Using our integrated steel cost build-up analysis, our steel production cost analysis went from \$423/ton back in late November to \$358/ton today. Back in the late summer that model was at \$592/ton. Again, these are production numbers and not inclusive of steel producer profits. The analysis helps to better understand the cost drivers of producing one ton of steel. Declining coking coal prices led the drop in general, followed by steady iron ore price declines. We say steady because our model has the price at \$70 ton (which is a representative spot market price)

though many steel producers are still tied to contracts at higher numbers. The spot price had actually dipped in the late fall to \$65/ton and has since rebounded slightly. The other interesting aspect of the change with iron ore prices relates to how buying organizations enter into and negotiate yearly contracts. Historically, these contracts are set on an annual basis with negotiations really getting underway after the Chinese New Year with contracts in place for April shipments. The Chinese, however, are the first to push back on this process requesting a more flexible pricing model with [quarterly price adjustments](#).

Another analysis we like to conduct looks at where the price of steel is in relation to its historical average. We'll cover that analysis in tomorrow's post. But in the meantime, this chart, also the CRU North America Steel Price Index only this time on a quarterly basis for the past seven years, suggests that current market pricing appears to fit within the range of pricing between the years 2004 and 2008 before last year's price spike.



The **Steel** industry is often considered to be an indicator of economic progress.

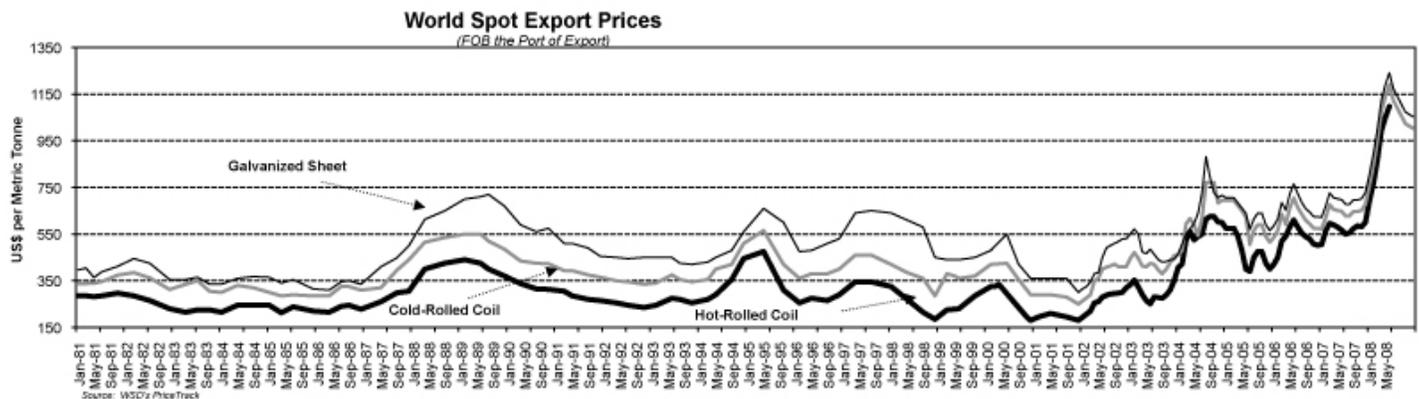
As many buyers know, the super-cycle for steel pricing began during the fourth quarter of 2003. So today's steel pricing still remains well within the super-cycle price range. We'll cover this a bit more tomorrow, the role of imports on domestic steel prices and supply and demand within key end user markets. Finally, we'll offer our actual price predictions. In the meantime, if you are interested in taking a look at our steel production cost model, drop us a line at ireisman@aptiumglobal.com. We'd be happy to email it to you. If you are interested in tracking the price of steel from China, register for our free pricing service, MetalMiner IndXSM at the top of this website. ●

Steel (Part Two)

January 21, 2009

Yesterday we posted a rather lengthy piece on price trends within the [steel industry](#). In that post we examined the prior two year price trend, an integrated steel producer's cost of production and a seven year CRU price trend chart showing where we are in the "super-cycle." Today we will examine a few more areas which have a bearing on the price of steel for 2009. These areas include: the historical steel price average, demand drivers and the role of imports on steel pricing. Depending on how concise we can be, we'll aim to include specific price predictions within this post.

First we examine the historical price of steel. Nearly a year ago we wrote a couple of posts about using historical averages to [make price predictions](#). And without re-reviewing any of those posts, suffice it to say that we have included a historical analysis into our predictions here because it is helpful to understand where steel prices have been. And as we have been reporting, the historical analysis is but one piece of the puzzle. To that end, the following chart shows the world export steel price range from 1981–2008. Courtesy of World Steel Dynamics, the price for cold rolled coil typically traded in the \$350–550 range up until that turning point in late 2003. Hot rolled coil typically traded between \$275–375, again up until that turning point at the end of 2003.



Steel became a relatively inexpensive mass-produced good with the invention of the Bessemer process in the mid-19th century,

With pricing for HRC in the \$520–545 range and CRC in the \$600+ range, today's current pricing still remains substantially higher than the historical average. And we don't feel that pricing will return to the historical average for a number of reasons, the main one being that the steel producers look different today than they did pre-2003. First, the supply community has consolidated creating more power among fewer firms. Second, rather than operate unprofitably, the producers have pursued a strategy of limiting supply by taking capacity offline as quickly as needed, effectively shoring up the price. So as a result, steel producers love allocation markets and by making steel "dear" the price will increase.

Now let us turn to imports and the fiscal stimulus package. After having spent the better part of an inaugural morning pouring through the current summary of the House stimulus package released by Representative Obey to the House Appropriations Committee, we can say that there is not much by way of "stimulus" or "reinvestment" that will impact the metals industry in general and the steel industry, the largest, in particular. A quick tally shows the package to be worth \$825B of which \$550B relates to actual economic stimulus grants, loans, direct funding etc and \$275B of tax cuts. Taking a quick summation of key elements of the proposed legislation, only \$181B can actually be considered "infrastructure stimulus" e.g. monies that will actually go into the hands of the private sector or government spending on goods made by the private sector. That means less than 22% of the entire package is actually "fiscal infrastructure stimulus." The balance largely looks like social programs. Of that \$181B, it is unlikely that much more than 10% of that could be metals. Given that steel is the most widely used metal, we are generous in putting a \$15B stimulus package toward the steel industry. Purchasing.com cites the steel industry as \$800B in size. The American Iron and Steel Institute (AISI) claims to contribute \$350B to the US economy. At best, the stimulus package could touch on 4% of the industry or at worst, 2%. The point is this: not much demand for steel products will come as a result of the stimulus packages in 2009. We don't see a lift in key steel sectors such as construction, automotive or machinery in 2009 either. So much for demand.

That leaves the only other hold-out on steel prices, imports. And for that, the AISI has drafted this letter to [President Obama](#) which basically urges the new President to support protectionist trade policies. Ironically, that would violate the fifth request in the AISI letter, “Eliminate policies that put U.S. manufacturers at a competitive disadvantage by significantly raising their costs.” Protectionist trade policies would do just that—force the price of domestic steel to increase. Based on our earlier posts on where President Obama may be headed from a [trade policy perspective](#), the steel industry may just win a battle in both a) keeping steel in tight supply—see our [Part One prediction](#) and b) pushing Obama into a trade protectionist strategy.

Where does that leave the price of steel? We’re going to call it flat to slightly lower for the first six months of the year. Prices could inch up by 15–20% during the second half of the year, as a cocktail of producer cutbacks begin to restrict supply again, the inevitable flood gates of anti dumping cases start, and the new administration’s protectionist policies begin to put a damper on cheaper imports. ●

Stainless Steel

February 2, 2009

Which came first, the chicken or the egg? Several years ago, nickel prices shot through the roof, on the back of strong stainless demand. Creative engineers the world over reviewed their company’s requirements to find any alternative to high priced nickel. Yet despite the plethora of stainless types available in the market (the Welding Journal describes these in detail [here](#)), most of the alloying elements, nickel, molybdenum and ferrochrome enjoyed big price increases.

But that was then and this is now. Stainless demand, like every other metal, faces significant declines in demand. But unlike it’s brother carbon steel, the stainless market started softening earlier last year, prior to the Beijing Olympic Games. The infamous demand-will-pick-up due to “restocking after the Olympic Games,” never really happened. And it’s unlikely that it will happen much before the end of this year as companies face the triple whammy of sluggish demand, lack of credit and poor cash flow. So though some are calling for this “re-stocking” by the end of the year how much remains to be seen.

What is noteworthy is how quickly the ferrous producers have cut production to shore up the price as quickly as possible. Whereas the same can not be said of the non-ferrous producers as we have [discussed previously](#). This raises an interesting point with regard to stainless. On the one hand, large stainless producers such as Allegheny Technologies and AK Steel have both furloughed and laid off workers to shutter capacity, similar to what the big steel producers have done such as [ArcelorMittal](#). On the other hand, metals such as aluminum and nickel “were expected to lag in a recovery because of high and rising stocks,” according to this [Guardian article](#). We recently posted our predictions on nickel. You can read them [here](#). Though aluminum is irrelevant in terms of stainless, the excess supply of nickel and the lack of massive production cuts are continuing to drive the price of nickel down. Nickel, in turn, will continue to drag down the price of stainless.

Ferrochrome producers have [smartly] cut production by half but that’s unlikely to shore up the price of ferrochrome. Stainless demand and “de-stocking” will have to work their way through the system before ferrochrome prices recover anytime soon. We wrote about this back in August

Common uses of
Stainless Steel
are cutlery and
watch straps.

of last year. The price back then, in comparison, [looked absurd](#) at nearly \$3/lb compared to today's price in the mid \$.40's/lb.

Molybdenum has behaved rather similarly to ferrochrome (as opposed to nickel) in that supply has been curtailed and several new projects have been put on hold in an attempt to better match supply with declining demand. But unlike ferrochrome, with 70% of its demand used in stainless, only one third of molybdenum supply is used in stainless. The balance is used in general [steel-making](#), such as tool steels and high temperature alloy steels. So molybdenum pricing may actually take its pricing cues more from steel whereas nickel and ferrochrome will receive the majority of its pricing cues from overall stainless demand. In other words, we might expect molybdenum prices to increase before both nickel and ferrochrome.

All of this has resulted in a steep drop-off in stainless pricing. And the pricing is below forecasts from December. Purchasing.com reported a forecasted surcharge of \$.70/lb for January and \$.62/lb [for February](#) but our own MetalMiner IndXSM is reporting surcharges of \$.40/lb and \$.41/lb for 304, depending on the producer. However, surcharges may start to move up to the low \$.50's per pound. Regardless, if the average price of stainless for 2007 was \$2.44, the average price in 2009 will likely not even hit a quarter of that average price. It's about 0.70/lb ex distributor now before surcharges are added, ex mill it is probably one quarter of 2007's average (before surcharges). Our call? Stainless will go steady to lower through Q3 of 2009. Only if demand picks up in the fourth quarter will we see any price appreciation. ●

Gold was first smelted around 6000 BC.

Gold, Platinum, Palladium and Silver

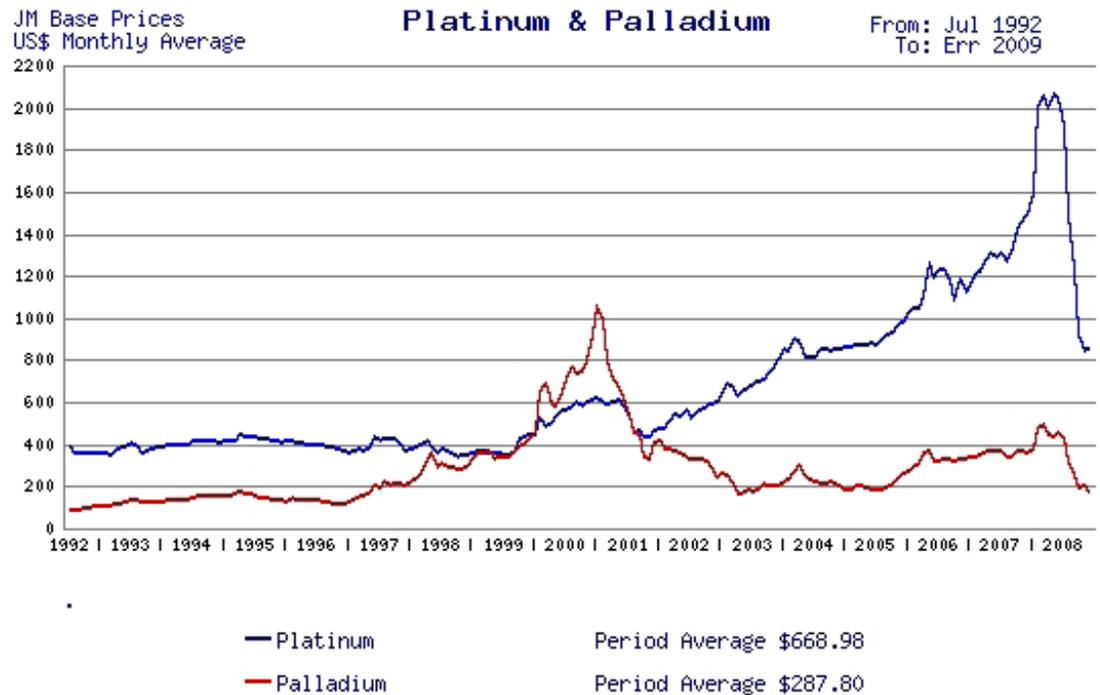
January 29, 2009

Most of the precious metals appear fairly straightforward (the picture doesn't look too pretty for 2009) with one exception, gold. Now from a jewelry perspective, I'd always short gold (I personally am not a fan) but alas, that's not the purpose of this analysis. Many of the major investment banks and research houses are bullish on gold, mostly due to gold serving as the safe haven asset in times of trouble. Banks like Citi predicted back in early December that gold would shoot to \$2000/oz [though we believe](#) that prediction may be more based on Citi's own precarious situation. Many are already saying that this recession is the worst since the end of WWII, and deeper than the recession of 1981–1982. But let's take a look at a few of the key factors that impact gold prices.

For us at MetalMiner, we believe the factors influencing gold include the following: global interest rates, the value of the dollar, inflationary/deflationary cycles, industrial and jewelry demand and ETF investment. In support of gold prices, we have massive monetary stimulus and a lack of confidence in most global currencies. This is the safe haven argument. And in general, gold prices go up when interest rates go down and inflation increases. ETF's also serve to boost gold prices. Prior to 2005, the dollar and gold traded in lockstep. But since 2005, gold has spiked even when the dollar has declined. So what is our call? We believe demand for jewelry will remain depressed as will industrial demand. Short term, deflation will be a bigger concern than inflation. However, inflation could become a big issue as soon as the economy picks up (perhaps in late 2009/2010). Global interest rates will continue to drop or be pushed lower to stimulate various economies. The dollar will likely remain "relatively" strong over the short term. The research firms believe ETF's will overcome weak industrial demand pushing up prices. We tend to agree though we'll temper our estimates with a lower average 2009 price because of deflationary concerns. So if Citi is at \$2000, some of the analysts such as

Morgan Stanley are at \$900, we are slightly less enthusiastic putting our price estimates in the \$800–900 range as the yearly average.

For platinum and palladium price predictions, we turn to Johnson Matthey and their 26 year historic chart for both metals:



Platinum is derived from the Spanish term *platina del Pinto*, which is literally translated into “little silver of the Pinto River.”

We like to look at these charts because they put pricing in context with the historical average. Clearly the activity of the last two years coincided with the overall metals market boom. Platinum in particular, challenged by significant supply disruptions during the early part of last year, spiked to \$2290/oz in March of last year vs. \$953/oz on Tuesday. But this year, the issue is less about supply and more about demand (or lack thereof). Catalytic converters and related automotive applications account for an enormous percentage of total platinum demand. And with auto sales and forecasts as horrific as they look for 2009, it’s hard to see how platinum prices can go up by much. In addition, as we have previously reported, [automakers](#) are looking at identifying alternative materials for catalytic converters. And they are nearly in the product launch phase as the first cars with less precious metal content will roll off the line later this year for the 2010 Mazda3. Like gold, we don’t see platinum trading much above current levels, at least throughout 2009. Palladium which trades in a much tighter price band will also remain depressed for 2009, though possibly higher than it’s long term historical average.

The silver price charts will look like something in between gold and platinum. Though the long term chart for silver mirrors that of some of the other precious metals:



silver appears to be moving more in line with metals like copper and platinum as opposed to gold. Though there are more EFT dollars flowing into silver, industrial demand still greatly impacts price. Over the longer term, silver will also face supply constraints similar to platinum. Though silver is trading at \$12/oz, we feel silver will average in the \$9-11/oz range for most of 2009. After that, it's anyone's guess. ●

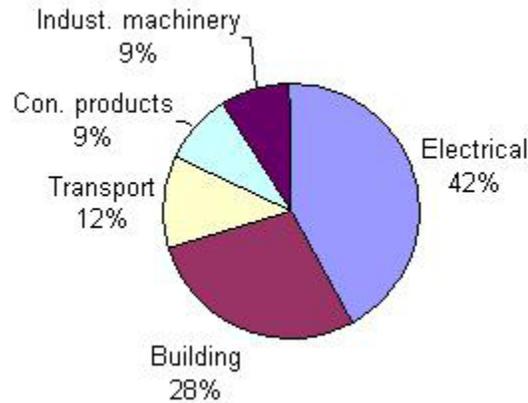
The word **Copper** comes from the Latin Cuprum meaning from the island of Cyprus.

Copper

January 30, 2009

Of all the base metals, copper probably benefited the most from the belief that the China super-cycle would never end. As ore grades deteriorated and labor and equipment problems hit mine production in South America, the Chinese were visibly scrabbling to invest huge sums of money in African mines to guarantee an assured supply of concentrates for their smelters. On the back of rising demand fed by rapid industrialization speculators, both ETF's and physical traders piled into the market driving the price to nearly \$9000 per metric ton (or over \$4/lb).

Well we all know what has happened since. The price has crashed, falling \$3000/mt in just five weeks during September/October of last year. While producers still have significant stocks, distributors and consumers are at very low stock levels and likely to stay there as prices look like they may drift lower with demand so weak. Now the price is trading around the mid \$1.30/lb range having dropped below \$1.27/lb just before Christmas. With demand driven by the sectors appearing in the graph below, even the still reasonably robust telecommunication and power transmission part of electrical cannot counter the drastic drop off in demand among all the other sectors.



Courtesy of www.lme.com/copper_industryusage.asp

There have been [reports of the Chinese](#) importing considerable quantities in December and January but this is largely a function of the Shanghai Futures Exchange premium over the LME price. For the time being, it is more attractive for Chinese consumers to import than buy domestically. Chinese consumers and merchants have virtually no stocks and those that do have stocks are holding at historically high prices. Word is they intend to sit on those limited stocks in the hope the market will come back up in the future so they can reduce the losses they would face in using them today.

Copper was separated around 4300 BC and came into common use from west Asia into Egypt around 3600 BC.

But I hear you say will the much hyped infrastructure projects in the US and China boost copper consumption? No not much is the answer. Such a small part of the US package is destined for infrastructure. Of that, such a small part will require significant volumes of copper that the effect will be small. China's package is more focused on infrastructure with particular opportunities in massive rail expansion they have planned. But even so, a real uptick in demand will only come when the housing markets in North America, Europe and China begin to recover—and we can't see that this year.

Meanwhile, mine closures will continue. Many of the African mines are reported by the [ICSG](#) to have a cost of production around \$1.50/lb so expect closures there to continue. Capacity has come off in Chile on top of the falling production due to ore grades and other mining problems over the last two years. Russian and Ukrainian producers have canceled all expansion plans. So far the market remains in over supply and prices could again test the mid to high \$1.20's/lb. But with capacity being closed in what was a reasonably tight supply market prior to the current recession it is likely prices will recover strongly in 2010, possibly even in late 2009. Standard Bank is predicting \$1.91/lb by the end of 2009 and \$2.62/lb by the end of 2010. We are not so sure demand will come back that strongly and would be surprised if prices got beyond the mid \$1.40's/lb by year-end. In the meantime, prices have further to fall and the first half of 2009 will present some good forward buying opportunities for those able to fix prices for any appreciable time frame. ●

Aluminum

January 26, 2009

Often referred to as the light metal, aluminum is anything but that at the moment. Prices have plunged on the back of falling demand due to the widespread retrenchment of consuming industries and the realization the world is massively over stocked—and has been for years.

In reality, aluminum consumption has probably been over estimated for the last two or three years. Material has been produced by the smelters, sold, and then shipped. But all this assumes that the material had been consumed. LME stocks had risen from 644,000 tons in 2005 to 905,000 tons in 2007. But (so the story went) demand had been increasing along with oil prices and aluminum in a warehouse was seen as a rapidly rising asset. The problem was a lot of other people also saw a commodity driven by energy costs as a rapidly rising asset in a world where energy costs only appeared to be going one way. As a result, off warrant stocks held in warehouses, largely on a speculative basis, mushroomed. This went missed by the wider market. As the price has tumbled and credit harder to secure, these stocks have come back onto the “visible” market. With no one buying for consumption, that has largely meant the LME has taken the stocks. 100,000 tons came onto warrant in one day last month. The next day, 55,000 tons came onto warrant in Chicago alone. But the largest invisible stocks were held in China. Although the State Reserve Bureau in China started buying aluminum from domestic smelters in December with an initial 300,000 tons, the purchases may now have reached a million tons. Meanwhile it is estimated China’s smelters and traders are still sitting on an additional three million tons.

Producers have responded by cutting smelter production around the world, driven by the fact that some 60% of the world’s aluminum smelters are losing money at current prices. According to Alcoa, some 13% of the world’s production capacity has been shutdown with more likely to follow. In some cases this capacity has been closed permanently like the 30+ year old Angelsea smelter in the UK owned by Rio Tinto. For others, capacity has been mothballed and will be brought back on stream when demand and prices improve. However more needs to be closed before any inroads are made into the massive stocks around the world. Such volumes will weigh heavily on prices and even if there was an increase in construction and automotive sales—highly unlikely before the latter part of 2009—the stock levels will continue to depress prices.

Aluminum is remarkable for its ability to resist corrosion.

The price could drop to \$1200/ metric ton during the 1st quarter 2009 and is unlikely to get out of a \$1200–1400/ton trading range for much of this year. Standard Bank is predicting \$1790/ton by the end of 2009 but to achieve that there will need to be a visible increase in demand and probably an increase in the oil price. Aluminum is seen as an oil play—when oil prices drop—as happened last week—the aluminum price drops, and vice versa. Standard Bank is predicting oil prices back up to \$60/barrel by year end so that may be part of their evaluation for aluminum prices. Certainly when demand does begin to pick up, when stocks begin to fall and if the oil price rises significantly and assuming those mothballed smelters don’t come back on stream, the increase in prices could take aluminum above \$2000 and more. But that will depend on a lot of “ifs”. ●

Zinc

January 28, 2009

The short term future looks rather bleak for zinc. Demand for galvanized steel, the main market for zinc, has probably dropped by the same proportion as the general steel market. Most galvanized steel is used in the construction and automotive markets forcing US producers to aggressively cut production as demand has ground to a halt. European steel producers have not been as dynamic in responding to the falling demand fearing imports may flood into the market and force them to lose market share with the exception of Corus which has just announced it will be mothballing its [Llanwern strip mill](#) which is capable of 360,000 tons/annum. Though this plant was obviously not running at capacity prior to closure. Asian producers

initially cut production as prices slid, have now tentatively begun to come back to the market as galvanized prices have stabilized over the last month. There is belief in China at least that the infrastructure projects there will result in increased demand within a matter of months (spending started some 2 months ago while the stimulus debate just started in the US) but it remains to be seen to what extent that faith is based in reality. The auto and housing industries are still as severely depressed in China as in Europe and the US [Goldman Sachs](#) seems to think zinc will benefit from the infrastructure stimulus package. We are not sure which infrastructure programs Goldman have been looking at but as we examined in this previous blog [about 30% of the US package](#) is for physical infrastructure so the increased demand for metals in the USA will not be as much as many assume.

On the supply side, the major mining companies have been closing capacity since the summer. With the fall of house prices in the US over the last 18 months there were fears over zinc consumption even in late 2007 but no attempt was made to limit production before the second half of last year. Since then, some 1.1mn tons of cuts have been made to refined production according to Standard Bank and some 1.5mn tons of concentrate production. But miners are still lagging the market. Just this week, Boliden decided to keep its 200,000 tons of zinc equivalent [Tara mine](#) open following an agreement with unions over reduced wages. This capacity could really have done with being taken out the market if miners were serious about supporting the price. The [International Lead Zinc Study Group](#) (ILZSG) reported that closures have been sufficient to leave the market in “only” a 134,000 ton surplus up to November but Standard Bank estimates the market at more like 280,000 tons in surplus creating a rising stock inventory at producers and futures exchanges. The reality is even at these prices there is more zinc being produced than the world is using and consumers can expect prices to remain depressed until well into the second half of 2009, possibly into 2010. Our prediction is for prices to trade in a \$1050–1250/ton range for the first half of this year with prices only beginning to firm in the third quarter if demand picks up in Asia and North America. ●

The Greeks imported Tin Ore from the Cassiterides (Tin Islands) widely believed to be Britain. The main ore for Tin today is Cassiterite.

Tin

January 22, 2009

The tin market is a confusing picture for a number of reasons. Combined, they make predicting where the price may be later this year exceedingly difficult. However in the best MetalMiner tradition we will seek to have our say.

The case for tin has been largely supply side based for the last few years. China and Indonesia are by far the world’s largest producers, with only Peru coming a distant third according to the [US Geological Survey](#). So it is not surprising that supply disruptions due to governmental interference, declining ore grades and lately low prices have been the main drivers of prices. Both China and Indonesia have suffered from declining ore grades. In addition, the Indonesian government has fought to prop up prices by closing illegal mines and pressuring smaller private smelters to close. Then as volumes dropped alarmingly and unemployment rose they tried to encourage smelters to start up again. In fact, the government urged the largest miners to move to offshore dredging to maintain ore grades. The result has been yo-yo production and a great deal of consumer anxiety—food for the speculative investors who drove the price to \$25,500 per ton last year.

As solder and chemicals demand have collapsed in the 4th quarter so has the price, dropping below \$10,000 at the year end but since recovering to around \$11,000 today. Global

consumption actually fell in 2008 by 5.5% according to the [World Bureau of Metal Statistics](#) with only tinplate actually growing by a modest 1%. As demand has almost certainly continued to fall this month, so has production. Standard Bank estimates Chinese refined production fell 18% in 2008 and is continuing to fall this year largely due to a shortage of raw material.

So the degree to which constrained supply manages to meet reduced demand is not a clear one. What seems likely is the prevailing bearish sentiment will continue for the first quarter and probably the second. But, if demand recovers even a little or additional smelters close, it is possible prices will pick up significantly in the second half. Not because demand is going to come roaring back but because supply is so constrained. Stocks are at historically low levels both with merchants and on exchanges so there is little buffer in the system to meet supply disruptions or an uptick in demand caused by merchant re-stocking for example. Consequently some analysts such as Barclays and Standard Bank are predicting prices over \$15,000/metric ton by year end on the basis that the recent sell off has been over done.

We expect the bearish sentiment to continue and though we accept the downside is supported around \$10,000, the upper end is probably equally limited by lack of demand to \$12,500- 13,000/metric ton in the second half of 2009. ●

Lead

January 19, 2009

The Pb symbol for **Lead** comes from the Latin Plumbum meaning soft metals and originally was applied to both Lead and Tin. Hence the name for a Plumber who works with water pipes.

Back in October we wrote about lead and put a fairly rosy picture on prospects for the metal. We even rashly suggested that the combination of lead-zinc mine closures and strong demand from electric bikes would help support the price and limit the downside. Well so much for sound fundamental logic. We hadn't allowed for good old fear. The [LME](#) market has continued to decrease from around \$1200/metric ton at the end of October to below \$900 in late December before recovering to about \$1100 today. So much for our lead forecast.

So what has prompted this continued volatility and what are the prospects for lead going forward? Demand has been decimated in the new car market but as we pointed out in our previous article, for every new car not sold a replacement battery will at some stage be required for the old car, especially during winter months. However demand takes time to filter through the supply chain, especially the after market where distributors hold much more stock than the new car battery market where producers tend to deliver direct to the OEMs. The electric bike market has not been as strong as originally anticipated. The market had expected Asia, and in particular China, would continue to grow as much because of the wider consumer retrenchment than in spite of it—as consumers favored more economical forms of transport. In practice, big ticket items have been postponed the world over and consumers in Asia have reacted no differently than those in the west. 88% of lead is consumed in batteries of one sort or another according to the [USGS](#) so the battery market is the demand determining factor on the consumption side.

Like copper, the lead market has kept in reasonable supply balance. Supply does exceed demand but not to the extent that inventories have visibly risen on the exchanges. At some 46k tons, the LME stocks are much the same as last year and the year before. According to the [ILZSG](#), mine output has been declining since late November, mostly as a result of the closure or scaling back of joint zinc-lead mines and copper-lead mines.

Perhaps because the stock levels have not been building, producers have been slow to cut capacity. Although Chinese consumers are [reported](#) to be sitting on stocks of high priced material and instead of consuming it are importing new material at much lower prices. At some stage, these stocks will be consumed and Chinese imports will take a hit as a consequence. Comparatively little smelter capacity has been idled so far. Mine production is down but recycling levels are as strong as ever. [90%](#) of lead in the USA is recycled and 80% of every new battery is recycled material. The figure drops to roughly half globally because many consuming countries do not have the infrastructure developed to recycle efficiently. It is expected that recycling rates will remain near historic levels so any reduction in supply this year will come largely from reduced mine production.

Supply will be getting a boost in H1 2009 if the giant Magellan mine comes back on stream as expected after having been idled for a year. Meanwhile demand is likely to drop off once the northern hemisphere winter season comes to an end around March. If smelters are not idled in the meantime expect prices to drift lower. The market hit \$875/metric ton in December. Though this was during the depths of a widespread market panic, we could see these levels being tested again before a better supply-demand balance establishes itself later in the year and prices return to current levels in the \$1100–1200/metric ton range. As the year unfolds much will depend on sentiment. If the auto industry makes a comeback faster than expected it will support lead prices. Watch sales figures from the major western car markets. Some [analysts](#) are suggesting prices will recover to \$1345 by the year end. We don't believe demand is going to come back that quickly and expect production capacity to be only slowly reduced as producers do not appear in any hurry to trim capacity. Buyers should therefore keep purchases short term until the spring and then look to cover further forward if as expected prices fall further. ●

Nickel was first isolated and classified as a chemical element in 1751 by Axel Fredrik Cronstedt, who initially mistook its ore for a copper mineral.

Nickel

January 16, 2009

The monumental 15% fall in [nickel prices](#) on Monday has probably left many observers wondering what on earth is going on in the nickel market. What can consumers expect regarding pricing going forward? In reality, Monday's crash, followed by a small rally to leave the metal 11% down on the day, came as result of long positions built up in late December being unwound. The positions were built up in expectation that nickel would benefit from the DJ-AIG Commodity Index's New Year re-weighting. By January 6, three-month prices had bounced to \$13,500/tonne, a 36% gain in just five trading days!

However once the re-weighting settled, and reality set back in, one glance at the stock levels brought the markets back to earth with a bump. Nickel started the new year with [LME stocks](#) of over 78k tons (double a year ago) and with stainless steel capacity tightened around the world, in the face of current and predicted weakness, nickel stock levels will continue to rise. Stainless capacity utilization in North America and Europe at just 50–70%, remains depressed, this after capacity came off stream by some 30% worldwide. End-users and service centers have continued to run down inventories buying only what they need for guaranteed consumption.

Nickel [producers](#) have responded with production cuts of up to 20% but with Chinese producers like [Jinchuan Group](#) bucking the trend and actually increasing production, it seems total cuts will not bring the global market back into a demand/supply balance this year.

Though some analysts are predicting nickel at over \$14,500/metric ton this year we don't see it. The market, in significant oversupply and with demand likely to drop further before any improvement later in the year, will remain depressed. Any boost in stainless demand will only rely upon nickel stocks already widely available. The floor, at approximately \$9,000 per ton set in December, may trade in the range of \$10,000 to 11,500/ton. Our advice—buy on the dips. Anything below \$10,000 may represent a good buy but we would not recommend locking at that price too far out. We believe all of the bad news, at least for the first half of 2009, has not come out yet. With manufacturers own sales predictions uncertain, the last thing any sourcing professional needs, a long position in raw materials, may appear expensive if markets take a turn for the worse. ●

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