

ANALYSIS - Tin to fly higher on tight Indonesia supply

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TIN/SUPPLY (ANALYSIS)

- * Inventories on downward trend, demand rising
- * New projects need prices to go above and beyond \$20,000/T

By Michael Taylor

LONDON, Aug 3 (Reuters) - Tin's position as a front runner in the London Metal Exchange complex this year is likely to remain intact as plummeting stocks, resurgent demand and supply constraints in top exporter Indonesia lift prices.

Relief from the blistering rally could come from much needed investment in production -- but that will only start once the price stays firmly above \$20,000 a tonne, and could take years to work down the supply chain.

Production in Indonesia has been hit by a police crackdown on illegal mining, stricter environmental and export rules, and the depletion of easily mined onshore reserves.

"As demand has recovered, questions have been asked about the supply side, and stocks have been falling," said Robin Bhar, analyst at Credit Agricole. "We're seeing declining production in Indonesia because the government wants to try and regulate the industry."

Refined Indonesian tin exports in the January-June period was estimated at 43,263.47 tonnes, down 14.5 percent from 50,575.2 tonnes in the first six months of 2009, data showed in July.

Southeast Asia's largest economy has also struggled to lure foreign investment into mining, compounded by some politicians taking a nationalist line on resource exploitation and also because of uncertainty over regulations tied to a new mining law passed in 2008.

"Tin was one of the more constructive metals in terms of fundamental outlook for 2011," said Nicholas Snowdon, analyst at Barclays Capital. "Indonesia supply issues have been long-running -- in terms of the depletion of onshore reserves and the government crackdown on illegal mining."

"That has been weighing on production levels for some time."

Global consumption of the metal used in electrical solder and for food packaging fell about 9 percent on the year in 2009 to an estimated 307,200 tonnes, according to an annual tin market survey by consultants ITRI.

On Tuesday, LME tin stocks stood at 14,885 tonnes, having fallen from eight year highs above 27,000 tonnes in January.

Tin prices meanwhile, touched \$19,900 a tonne on Monday, it's highest level since September 2008 but down from a record contract high at \$25,500 hit in May 2008.

Despite the silvery-white metal rising 16 percent this year and outperforming all its LME rivals, bar nickel at 17 percent, there is far from a consensus on where prices go from here.

State miner PT Timah Tbk, the world's largest tin miner expects prices to average no less than \$15,000 a tonne this year.

German tinplate manufacturer Rasselstein declined comment.

A Reuters poll last month showed that analysts see the average tin price at \$17,548 a tonne in 2010, with a range between \$16,200 and \$18,052, while the 2011 average is seen at \$18,550 a tonne.

"At almost \$20,000 a tonne, it's happy times for them," said one physical tin trader on producers. "This year, prices are probably at the peak -- I see the maximum price being \$20,000 but not much further."

Many analysts say however, that as global economic recovery gathers, prices must go way beyond \$20,000 for new offshore tin projects to go ahead, or current producers to ramp up output.

"Because prices for many year were depressed, you've not had the necessary investment in new mines," said Calyon's Bhar. "We had an all-time high a couple of years ago at about \$25,000, and that would be an upside target.

"It's a metal that has been starved of investment."

(Reporting by Michael Taylor; editing by William Hardy)

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