

## The LME commodity price grand final: nickel versus tin

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**THIS week Allan Trench taps into footy finals fever – with the metals equivalent being a grand final “price-off” between nickel and tin on the London Metal Exchange.**

There are many great rivalries in sport: Collingwood-Carlton springs to mind in the AFL, Australia-New Zealand in just about everything from netball to rugby and – back in the old country – the soccer rivalry between the reds of Liverpool and Manchester United.

Strictly  
Boardroom

What makes these sporting rivalries most entertaining (to the neutral observer at least) is that the outcome is often in doubt – sometimes until the final minutes of the big match.

Similarly, in price terms at least, there are great rivalries in the mineral commodities world too.

Platinum and gold in the precious metals space (with gold recently moving ahead of platinum in 2011), lead and zinc in the base metals and cobalt and molybdenum among specialty metals are examples.

A further price rivalry is the subject for this column however: Vying for the title of the LME's highest priced mainstream metal are nickel and tin. At the time of writing, the cash quotes for these metals panned out as follows: nickel ~\$US21,400 per tonne and tin \$US23,900 per tonne.

So will tin's current winning break in the price race translate into an end-of-year win? This scribe believes that outcome is indeed the most likely one. Tin is well placed to win this year over its “rival” nickel. What's more is that tin may prove very hard to beat in 2012 too.

To the key forces at work then: demand for industrial metals has been hit across the board by the global economic challenges (ex-China) in mid-2011. Tin and nickel are no exception.

With no demand-side stimulus likely therefore, attention has turned to the outlook for supply:

Firstly to nickel's supply-side.

The project pipeline in nickel has some considerable depth. 2011 production from the Goro laterite project in New Caledonia (Vale) is joined by Onca Puma in Brazil, by Barro Alto, also in Brazil (Anglo American), Taguang in Myanmar and by the ramp-up of the low-grade sulfide project of Talvivaara in Finland in growing the global supply base.

Looking forward to 2012 sees another raft of projects making additional nickel. Western Australia's Ravensthorpe (First Quantum) is likely to be joined by nickel laterites from Ramu in PNG, by Ambatovy in Madagascar and Xstrata's Koniombo in New Caledonia.

The impact of these developments, many of which have experienced long delays to reach this stage, could be to tip the nickel market from small deficit (H1 2011) through balance and into structural surplus in 2012 and 2013.

At around 1.5 million tonnes of nickel consumption each year globally, the demand-side has depth and breadth. Nevertheless, the 2012/13 surplus may exceed 75,000 tonnes in aggregate – and it is hard to see this having no impact upon prices. Indeed, the recent weakening of nickel prices in what is actually still a tight market in 2011 may in part reflect the expectation of weaker prices to come.

Next to tin's supply-side: The contrast from nickel is marked.

The domestic tin price in China has been much stronger than the LME price recently. Support for the Chinese price has come from supply constraints rather than strong demand. Most secondary smelters in China said their raw material and products stocks had decreased because of a lack of scrap in recent months. Secondary production accounts for about 30% of total Chinese refined tin output

Production in Peru has fallen sharply this year as a result of the enforced cut-back in mine production at Minsur's San Rafael operation while an official report on its tailings storage facilities was carried out.

Central African tin production is under-performing, although there are few hard numbers available to measure artisanal mining activity in DR Congo and neighbouring countries. The “conflict” origin of

African ore may further reduce the supply appetite of consumers for this source.

Stocks-to-consumption ratios for tin look set to drop below 5 weeks in 2011, with a further market deficit likely in 2012 placing further upside pressure on prices.

So there you have it: tin already has a break on nickel as the highest-priced of the mainstream LME metals. And if the contrasting supply outlook impacts late 2011 pricing then that price gap may widen yet further.

No doubt the boards of both tin and nickel companies will be barracking for the prices of their respective metals during the footy season finals of coming weeks – and for some time thereafter too.

Good hunting.

*Allan Trench is Adjunct Professor at the Western Australian School of Mines and a Non-Executive Director of several resources sector companies. He is the Perth representative for CRU Strategies, the consulting division of independent metals & mining advisory CRU group (allan.trench@crugroup.com).*