



Friday 17 April 2009

LME cash price

	US ¢/lb	% Change day on day
Aluminium	65.6	-2.2
Copper	214.3	-1.8
Lead	68.4	-2.7
Nickel	560.6	-0.3
Tin	527.9	1.6
Zinc	66.5	-1.4

Other prices

		% Change day on day
Gold (\$/oz)	880.50	-1.2
Silver (\$/oz)	12.65	-2.2
Platinum (\$/oz)	1213.00	-0.2
Palladium (\$/oz)	235.00	0.4
Oil WTI	49.62	0.4
Cobalt (99.8%)	15.75	0.0
\$US/€ exchange rate	1.32	-0.2
US\$/A\$ exchange rate	0.72	-1.1

LME/COMEX stocks

	Tonnes	Change
LME Aluminium	3,658,350	-8,525
Nymex Aluminium	9,830	0
Nymex Al. Pieces	17,873	816
LME Copper	475,200	-5,200
Comex Copper	43,092	59
Lead	60,325	-50
Nickel	105,348	84
Tin	11,660	-20
Zinc	348,025	-1,100

Source: LME, Comex, Nymex, SHFE, Metal Bulletin, Reuters, LBMA, Macquarie Research

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Commodities Comment

Nickel - signs of life

Feature article

- Nickel prices are up 30% since March on short covering, fears of production disruptions, lower scrap availability, and signs of new stainless steel orders.

Latest news

- Base metals stumbled slightly on Thursday, despite generally lower inventories, after China's first quarter GDP growth came in at 6.1%.
- Euro-zone industrial production fell 2.3% MoM in February 2009, and by 18.4% YoY. US industrial production fell to the lowest level since December 1998, to be down 12.8% YoY in March (compared to an 11.2% YoY decline in February 2009). Russia's industrial production was reportedly down 14.3% YoY in the 1Q09, with the decline in March -13.7% YoY. Chinese industrial production growth came in at 8.3% YoY in March, bringing 1Q YoY growth to 5.1%, while Chinese GDP growth slowed to 6.1% YoY, compared to 6.8% in 4Q08 and below Macquarie's estimate of 7.2%.
- Stocks of aluminium held at Japanese ports, which were at their highest level in a decade in February, dropped in March as metal was shipped out of Japan into China due to the large price arbitrage. Port stocks dropped from 391,000t at the end of February to 354,000t at the end of March, but need to fall by around another 100,000t to be back to normal levels.
- World Steel Dynamics (WSD) reports world export hot-rolled coil prices down \$6/t (2%) over the past fortnight to \$400/t. WSD reports lower prices across products and markets, with the most notable price falls an 8% (\$41/t) decline in US hot-rolled band and a 5% (\$22/t) decline in Chinese hot-rolled band.
- TEX reports that Rio Tinto's semi-soft coking coal has been settled at an average of \$78/t, with different volumes of carryover meaning different prices for various customers, and around \$82/t where carryover has been cancelled. The same contracts were settled last year at \$240/t. TEX reports also that prices for Vietnamese anthracite have been settled into Japan at prices comparable to Australian material. PCI grade anthracite has been settled at \$90/t, with all carryover tonnage reportedly cancelled.
- The Macquarie Group is acting as Advisor to Rio Tinto Ltd and Rio Tinto PLC in relation to its strategic partnership with Chinalco as announced 12 February 2009.

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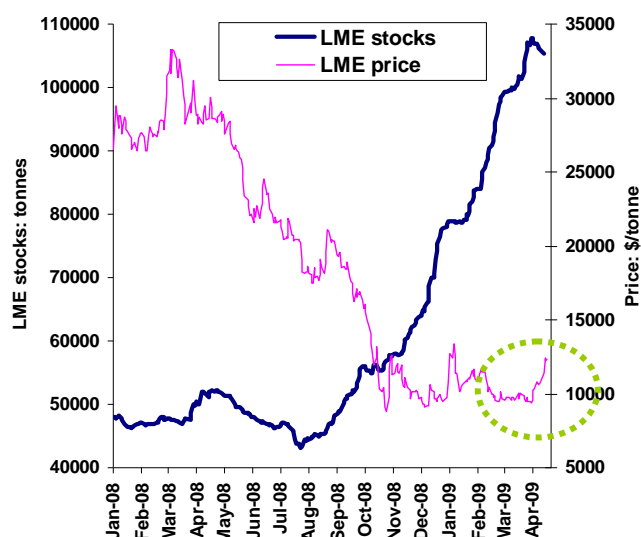
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Nickel – signs of life after the collapse

- Nickel prices have rallied strongly since the end of March, rising by over 30% from around \$9,400/t (\$4.25/lb) to \$12,300/t (\$5.60/lb). As the chart below shows, the price has exhibited a certain amount of “stability” since late-2008, reflecting the fact that plunging demand has been offset by a constant stream of production cut announcements.
- The recent rally has taken many by surprise in that the news from the main end use markets (especially in stainless steel, which accounts for around 65% of total demand) on the whole remains bleak and there is still a feeling that massive excess capacity and unsold stock hangs over the market.

Daily LME nickel stocks and prices



Source: LME, April 2009

- Some of the factors explaining the recent rally are:
 - ⇒ **Short-covering:** open interest on the LME has fallen over the past week as prices have rallied, indicating that speculative shorts have covered. This reflects the general rally in other base metals and also a more bullish general macro outlook based on the expectation that lead indicator data may soon start to bottom out in the USA and China.
 - ⇒ **Stainless orders on the rise:** after collapsing for the past 6-9 months, reports are filtering through in Europe and in parts of Asia (especially Taiwan) of a rise in orders for stainless steel. There are also reports of a small rise in stainless steel base prices in some markets for the first time in a while. The order rise could reflect speculative orders on the back of nickel price rises, given that a part of the stainless steel price is an alloy surcharge based on the previous month's nickel prices.

⇒ **A growing shortage of secondary nickel:** as we have reported in the copper market, low prices and weaker economic activity have led to less secondary supplies being available. In the stainless steel market, almost half the nickel comes from recycled stainless steel scrap and reports from the market indicate that scrap availability will fall by more than 20% this year. In China, we have heard of a mad scramble to buy ferronickel from the import market as a result of tight scrap availability (and also a collapse in nickel pig iron production). This has run down a lot of the non-reported nickel stocks in recent months.

⇒ **Fear of further supply disruptions:** speculation is growing about potential industrial action at Vale Inco's Canadian nickel operations, where new labour contracts are due for renewal at the end of May. Including half the Voisey's Bay product (which is processed at Sudbury), this could affect around 100,000tpa of nickel (around 8% of 2009 world output).

- Of course most participants in the nickel market are incredulous at the rally given the dire state of the current market. According to latest INSG (International Nickel Study Group) data released yesterday, world nickel use fell 27.4% yoy in the first two months of this year. Production was reported as having fallen by only 10.7% yoy, implying a surplus of supply over demand of 41,800t. (LME stocks rose by just over 20,000t over the same period.)

The nickel market in Jan-Feb 2009 ('000t)

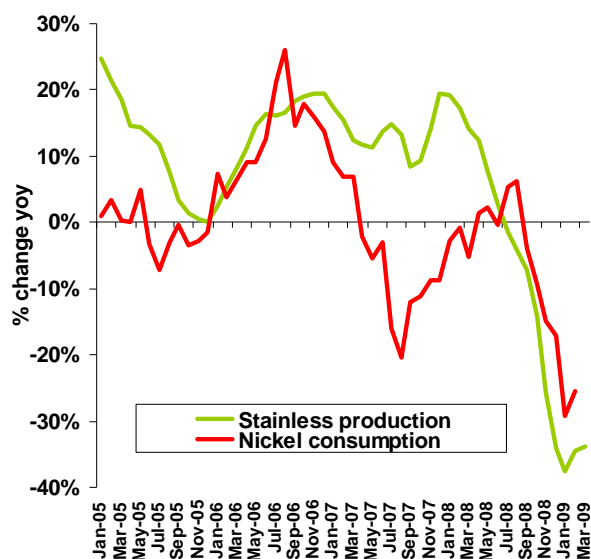
	2009 Jan-Feb	2008 Jan-Feb	Y-o-Y % Change
Usage			
Western Europe	43.9	70.3	-37.6%
Eastern Europe	1.0	1.5	-33.3%
Former Soviet Union	4.0	5.5	-27.3%
China	61.5	63.0	-2.4%
Japan	13.2	28.0	-52.8%
Other Asia	23.9	30.6	-21.9%
USA	14.0	22.6	-38.1%
Rest of world	8.6	12.8	-32.8%
Total world use	170.1	234.3	-27.4%
Total world production	211.9	237.2	-10.7%
Balance	+41.8	+2.9	

Source: INSG, April 2009

- According to our estimates, world stainless steel production fell just over 30% yoy in the world in both January and February and over 40% yoy outside China, some of the biggest declines ever seen.
- Such an enormous rate of decline suggests a major destocking cycle was underway and this gives some hope that when the destocking ends, demand could rebound dramatically.



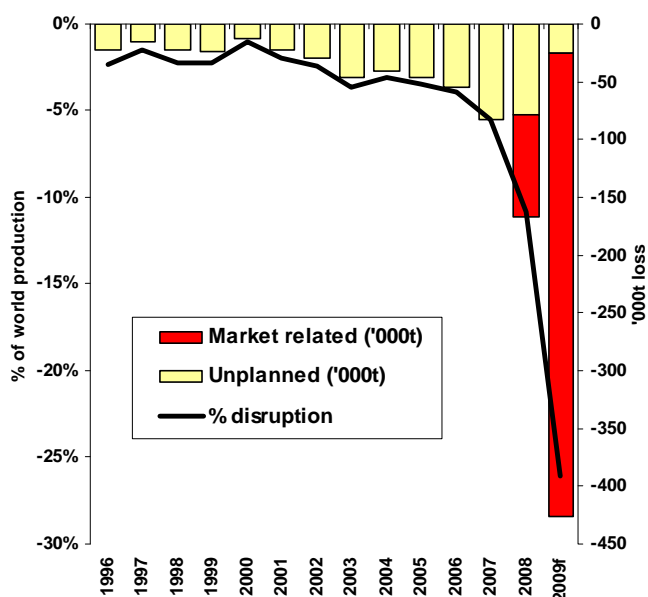
World nickel and stainless production – collapsing through the first quarter of 2009



Source: INSG, Macquarie Research, April 2009

- The problem for nickel is that there is an enormous stock sitting on the LME (just over a month demand compared with just over a week of demand in copper for example) and also that the industry is operating at such a low rate of utilisation (around 75% according to our estimates compared with over 90% in copper). Plenty of potential supply hangs over this market.

Nickel production is running around 25% below plan in 2009



Source: Macquarie Research, April 2009

- The positive element in the nickel market is that historically, when demand turns, it turns very sharply (due to speculative over-stocking – see our forecasts in table below) and also typically that tighter scrap supplies in the upturn lead to a massive rise in primary nickel demand. Also, it is likely that there would be a significant lag before supply taken off-line could be brought back into production (2-6 months). In addition, history tells us that LME stocks are not always readily “available” in an upturn!
- On balance, it may be too early to be buying nickel and the risks of a short-term pull back are still quite high. However, the risks are gradually moving to the upside as the year progresses and being short ahead of a potential Vale Inco strike may be risky.

World stainless steel – strong rebound by 4Q 2009? ('000t)

	China	ROW	Total
Q108	1972	5557	7530
Q208	1889	5587	7476
Q308	1651	4684	6335
Q408	1430	3615	5045
Year	6942	19444	26385
Q109e	1800	3218	5018
Q209f	1600	3441	5041
Q309f	1850	4032	5882
Q409f	1950	4681	6631
Year	7200	15372	22572
% change yoy			
Q108	20.7%	-6.8%	-0.9%
Q208	1.0%	-1.2%	-0.7%
Q308	-4.5%	8.1%	4.5%
Q408	-27.5%	-29.9%	-29.2%
Year	-3.7%	-7.9%	-6.8%
Q109e	-8.7%	-42.1%	-33.4%
Q209f	-15.3%	-38.4%	-32.6%
Q309f	12.0%	-13.9%	-7.2%
Q409f	36.4%	29.5%	31.5%
2009f	3.7%	-20.9%	-14.5%

Source: INSG, ISSF, CSSC, Macquarie Research, April 2009

Nickel supply/demand balance ('000t)

	2007	2008f	2009f
'000t Ni			
SS Production (mt)	28311	26410	22574
% Change	-0.5%	-6.7%	-14.5%
Austenitic SS (mt)	19768	18605	16206
% Change	-7.5%	-5.9%	-12.9%
Nickel Consumption	1343	1284	1167
% Change	-5.5%	-4.4%	-9.1%
Nickel supply	1417	1368	1204
% Change	5.2%	-3.5%	-12.0%
World Market Balance	74	84	37

Source: Macquarie Research, April 2009



Thursday 16 April 2009



Commodities Prices

	Closing price *		Closing price *		% Change day on day	2009 year to date US ¢/lb	2008 US ¢/lb
	16-Apr-09 \$US/tonne	16-Apr-09 US ¢/lb	15-Apr-09 \$US/tonne	15-Apr-09 US ¢/lb			
LME Cash							
Aluminium	1445.8	65.6	1478.5	67.1	-2.2	61.9	116.6
Aluminium Alloy	1373.5	62.3	1398.0	63.4	-1.8	51.5	102.2
NAASAC	1293.5	58.7	1302.0	59.1	-0.7	46.5	102.5
Copper	4725.0	214.3	4811.5	218.2	-1.8	159.5	315.4
Lead	1509.0	68.4	1551.3	70.4	-2.7	53.3	94.5
Nickel	12360.0	560.6	12399.0	562.4	-0.3	474.1	953.7
Tin	11638.0	527.9	11455.0	519.6	1.6	499.9	839.4
Zinc	1466.0	66.5	1487.0	67.4	-1.4	53.9	84.8
LME 3 Month							
Aluminium	1482.0	67.2	1515.0	68.7	-2.2	63.6	118.9
Aluminium Alloy	1400.0	63.5	1425.0	64.6	-1.8	53.1	104.1
NAASAC	1330.0	60.3	1340.0	60.8	-0.7	48.1	104.6
Copper	4729.0	214.5	4819.0	218.6	-1.9	161.2	312.4
Lead	1504.0	68.2	1549.0	70.3	-2.9	53.5	94.9
Nickel	12450.0	564.7	12500.0	567.0	-0.4	478.4	962.4
Tin	11550.0	523.9	11350.0	514.8	1.8	492.7	837.2
Zinc	1497.0	67.9	1520.0	68.9	-1.5	55.0	85.9

* LME closing price - 1700 hrs London time. Year-to-date averages calculated from official fixes.

Gold - London PM Fix (\$/oz)	880.50		891.00		-1.2	906.19	871.78
Silver - London AM Fix (\$/oz)	12.65		12.94		-2.2	12.60	15.00
Platinum - London PM Fix (\$/oz)	1213.00		1216.00		-0.2	1041.68	1574.84
Palladium - London PM Fix (\$/oz)	235.00		234.00		0.4	202.35	351.44
Oil WTI - NYMEX Latest (\$/barrel)	49.62		49.44		0.4	43.64	100.00
Cobalt (99.8%) - Metal Bulletin (\$/lb)	15.75		15.75		0.0	17.50	38.42
\$US/€ exchange rate - latest	1.3199		1.3221		-0.2	1.307	1.471
\$US/\$A exchange rate - latest	0.7184		0.7264		-1.1	0.669	0.853

Exchange Stocks

(tonnes)	16-Apr-09	15-Apr-09	Change since last report		Cancelled	End-08	Change
			Volume	Percent	warrants	stocks	since end 08
LME Aluminium	3,658,350	3,666,875	-8,525	-0.2%	85,675	2,338,300	1,320,050
Nymex Aluminium	9,830	9,830	0	0.0%	-	9,910	-80
Nymex Al. Pieces (1)	17,873	17,057	816	4.8%	-	24,707	-6,834
Shanghai Aluminium	126,849	126,849	0	0.0%	-	203,063	-76,214
Total Aluminium	3,803,222	3,803,222	0	0.0%	-	2,575,980	1,227,242
LME Copper	475,200	480,400	-5,200	-1.1%	66,275	340,550	134,650
Comex Copper	43,092	43,033	59	0.1%	-	31,311	11,781
Shanghai Copper	18,766	18,766	0	0.0%	-	17,822	944
Total Copper	553,780	553,780	0	0.0%	-	389,683	147,375
Aluminium Alloy	95,160	95,580	-420	-0.4%	1,820	103,560	-8,400
NASAAC	229,400	229,500	-100	0.0%	11,700	245,020	-15,620
Lead	60,325	60,375	-50	-0.1%	2,075	45,150	15,175
Nickel	105,348	105,264	84	0.1%	612	78,822	26,526
Tin	11,660	11,680	-20	-0.2%	835	7,765	3,895
LME Zinc	348,025	349,125	-1,100	-0.3%	14,150	253,475	94,550
Shanghai Zinc	73,318	74,040	-722	-1.0%	-	62,616	10,702
Total Zinc	421,343	424,465	-3,122	-0.7%	-	316,091	105,252

Note: (1) Nymex aluminium "pieces" calculated based on 0.75t per "piece"
 Source: LME, Comex, Nymex, SHFE, Metal Bulletin, Reuters, LBMA, Macquarie Research