

This article analyzes the price trend of nickel, which is a key material used in the stainless steel industry, based on its supply & demand, the current Chinese stainless steel industrial condition, and fluctuations of global exchange rates.

Forewords

Viewing the whole global market, we see that the global economy is recovering slowly and the nickel overcapacity in 2016 will definitely influence the supply in 2017. The average LME nickel price in 2017 is expected to reach USD 13.5 thousand, which will show a sign of an increase after a decline. It is expected that in the first half of 2017 the global stainless steel price will show a slow increase and the global nickel price in 2017 will also show the same trend.

Forecast of Stainless Steel Prices in H1 2017

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Less Supply, More Demand, and Nickel Turns from Oversupply into Shortage

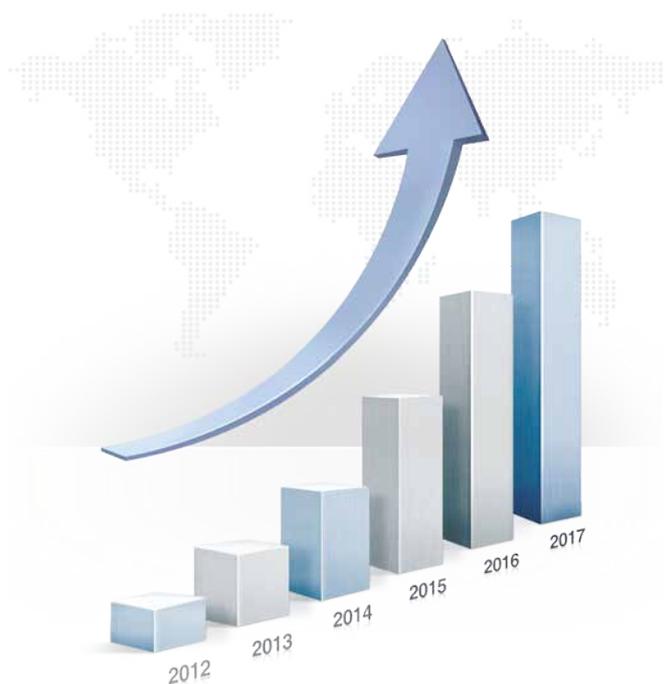
According to the latest data from World Bureau of Metal Statistics (WBMS), in the first 6 months of 2016 the global nickel supply showed a lack of 80.8 thousand tons, meaning stagnant global nickel supply, reduced nickel supply, and less shipments from mining companies. In addition, the production of refined products also shrank. The demand showed growth. The most significant short-term factor that influences the nickel price will remain as the result of enforcing the environmental protection on nickel in Philippines. So far, those large mining companies in Philippines are very likely to pass the environmental protection validation. If Surigao (one of the three major nickel mining areas) goes into the rainy season and those mining companies located at Zambales and Palawan previously stopping their operation are forbidden to re-launch their operation by law, the supply will very likely be influenced, resulting in increasing nickel prices. Moreover, growth will appear in new demand sectors, such as the mass production of new energy vehicles, which is expected to become the 2nd largest nickel consuming sector. It is expected that by 2025 the total nickel used in batteries will amount to 120 thousand tons and more than 250 thousand tons by 2030. It is expected that within 5 years starting from 2016 the nickel consumption in the downstream market will grow over 14%.

Chinese Stainless Steel Industry Entering a Stable Period

The major stainless steel manufacturers in China are Zhejiang Tsingshan, Tisco, Baosteel, Lisco, ZPSS, and Jisco. In terms of production volumes, during 2005-2014 the CAGR of Chinese stainless steel production was 24.83%, higher than the global (excl. China) average level (20.11%); this means that the stainless steel production of the world (excl. China) almost did not show growth in the past 10 years and the growth in the global production volume was mostly dependent upon China. In 2015, Chinese stainless steel production was 21.56 million tons (down 0.6% from 2014) and Chinese stainless steel production volume represented 2.68% of its crude steel production. In recent years, Chinese stainless steel capacity keeps growing and the capacity utilization continues to be at the level of 60-70%. According to the data for stainless steel consumption per capita, China has reached the level of 11.7 kg per capita (higher than the world's 6 kg and U.S. 7.3 kg). Chinese stainless steel industrial condition has moved into a stable development period from the previous peak.

Exchange Rates will Influence Metal Prices

UK has just voted to leave the EU and the crises in the euro zone haven't been solved yet. The exchange rate between euro and dollar continued to drop and



the change in metal prices still showed significant negative correlation to the fluctuations of U.S. dollars. U.S. dollars, though fluctuating, will continue to show a growing trend. The continuously appreciating U.S. dollars will impose pressure on metal prices. If the appreciation is mainly driven by U.S. economic improvement, the negative impact on metal prices will be offset by the positive impact from the economic growth, causing less pressure on prices. However, the economic conditions in the U.S., Europe, and Japan showed slow recovery and the Central Bank of Japan proposed the quantitative easing policy, and the demand for avoiding risks caused the appreciation of USD. All negative factors caused bigger pressure on the metal market and that is why metal prices did not show a substantial surge.

Global Nickel Price in 2017 is Not Very Likely to Rise

The supply and demand determine the mid-term and long-term trends of nickel prices. The nickel price of LME as the benchmark of the world nickel price is more likely to be influenced by capital flows and the expected impacts. We are talking about the flows of USD and such flows in 2017 will be basically determined by the monetary policies of the U.S. Federal Reserve. We think that with the influence of political factors such as the U.S. presidential election in 2017, U.S. Federal Reserve will continue to adopt the QE policy and the speed of U.S. Federal Reserve to increase the interest rate will not be that fast. As there hasn't shown any strong economic recovery and the mid-term and long-term inflations seem to be stable, we may only expect to see U.S. Federal Reserve's increasing the interest rate after H1 2017. With the expected reduced USD flows, substantial increase in prices of commodities (incl. nickel) is limited.

Conclusion

According to International Nickel Study Group (INSG), the shortage of nickel supply in the world in May 2016 was down to 9,800 tons, better than the 42,500 tons oversupply in the first half of the previous year. Although the demand for nickel turned weak and the nickel supply dropped, the nickel price showed, however, very slight increase. President Chih-Chiang Yang of Jinchuan Group, Asia's largest nickel manufacturers, said that although the nickel price rose by 30%, it was still underestimated and might continue to rise in the future. It is expected that the stainless steel price in 2017 will not decline continuously and in the 2nd half of 2017 it will show moderate growth. ■



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