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Topic

Goose for Christmas and Fruit Punch in Summer

- Steep rises in nickel stopped for the moment. Stimulus of electro-mobility is still very much far in the future. Even China is putting on the brakes because of debt reduction and environmental issues.
- But the market prognosis for 2018 still looking positive. World trade is growing again. Final demand for stainless steel is good. Deficits in supply are successively reducing LME stocks.
- China is investing more in electric arc furnaces. These are predestined to use scrap. Scrap is low in emissions and attractive. This is good for the environment and the economy.
- Glencore is forming a partnership with the teachers of Ontario which will focus on mining royalties. The teachers' pension fund hopes for good returns. Glencore can build on its mining portfolio and profit from its marketing.

The steep rise in nickel prices on the London Metal Exchange (LME) has come to a standstill for the moment. The euphoria had originally been set off in the market by the projected requirements which the use of electromobility would bring. But it quickly became apparent that an actual increase would not come very soon. On top of this, the present supply situation of primary nickel is still high enough, especially with ample stocks in warehouses. And also, the increased efforts of the Chinese government to regulate and reduce the high debt of companies, especially in the real estate sector, as well as putting more importance on environmental issues, if need be at the cost of growth, have made the investment market sit up and pay attention.

Yet nickel prices, which on one day had even briefly risen over USD 13,000.00/mt, did not crash through the floor. The correction came to an end for now at around USD 11,000.00/mt. At this level the market seemed to show good support, since attempts to push down more always ended up in an upwards movements back in the direction of USD 11,000.00/mt and higher, which is not really surprising as the end demand for stainless steel is still strong. In addition, prospects for global economic growth in 2018, also for the emerging markets which had long been below average since the financial crisis, have given reason for hope.

At the same time, the development of world trade, after a long period of negative growth and decline, (finally) seems to be moving positively again, despite all talk of protectionism. And the fact that China's growth rate is being reduced step by step after the decimal point is not really a problem, and can actually even be welcomed in the context of sustaining growth. What quite a few commentators seem to forget, is that a gradual lower relative growth at a higher level always leads to higher demand in absolute figures. And if supply does not keep up, there is a tendency to reduce the existing supply excess and after a certain turning point, to even increase excess demand.

In line with this, the news agency, Reuters, took their latest survey about price expectations and supply and demand, which is always traditionally carried out in November. For 2017, the consensus, which is a way of saying the mathematical average of the forecasts of market participants, expects a supply deficit of at least 49,350 tons in the nickel market. For 2018, if the forecasters are right, this then should stay around about the same level at 43,000 tons. This would still require a reduction of the existing nickel warehouse stocks by over 90,000 tons. In comparison: The participants in the Reuters survey for copper for 2018 alone expect a surplus of 93,000 tons. This just goes to show how different the fundamental data is for the various base metal markets.

With regard to prices, the survey brought the following findings to light. For 2017, it is expected, as of November, that there is an average cash price of USD 10,245.00/mt (which is not that risky for analysts to say actually as the average price as of the end of October was USD 10,148.10/mt). For 2018, all the analysts only cautiously distance themselves from this year's developments in that they expect an average LME cash price of USD 10,904.00/mt. And even today, it is also more than certain that by the end of 2018, prices will look very much different to what has now been predicted. Probably higher, but true trust in the dynamics of the global economy, as there had been before the financial crisis, has not yet fully returned. The boom on the stock markets is more due to a schematic reaction of the lemmings on the financial markets, because of loose monetary policy and low to negative interest rates, rather than the result of fundamental analysis or a wager on a positive future, which is why so many investors have a hellish fear of an interest rate change.

In the context of nickel, it is interesting that Indonesia and the Philippines, which have both dominated the news in recent times, now seem to have, more or less, disappeared from the headlines. The perception, or rather, the agenda setting of the media seems in this case to be very selective. Whilst the recurring seasonal offerings in restaurants generally functions well, for example, goose at Christmas and fruit punch in early summer, to the average commodity journalist this seems too mundane. They do not seem to like having the same menu over and over again, or in other words keep repeating themselves in print. So at the moment, little can be read about the reduced supply of nickel ore and the fewer shipments due to the start of the rainy season in the Philippines. This also contributes of course, to the reasons for the nickel price having such a good support.

In the last issue, there was a report about the growing orientation to environmental issues in Chinese politics, and it was expected that this paradigm change could have an impact on the development of technology in steel production, which would also effect demand in scrap. This assessment only too clearly supports an article in the international trade press, where it has been reported that the Italian steel processing plant supplier, Tenova, has claimed to have made contracts over the last eight months to build six electric arc furnaces in China. Tenova has also pointed out that steel production in China is moving in the direction of more electro-steel plants, in line with the demands of the government to reduce CO_2 emissions. Electric arc furnaces are especially better for usage with low emission ferrous scrap and stainless steel scrap rather than primary raw materials. What does not correspond to this is that China recently made the import of scrap more difficult. But then again, even in western politics and administrative policies there are none too few practices which are full of inconsistences and contradictions.

The international commodity giant, Glencore, with headquarters in Zug in Switzerland, is about to conclude a relatively innovative form of mining financing. According to the news agency Bloomberg, the transaction, with a deal worth USD 700 million will be as follows. Glencore will bring royalty arrangements with a value of USD 350 million from 10 mines into a company while the Ontario Teachers' Pension Plan will contribute a further USD 350 million with which the company can buy further royalty streams from other mining projects. For the Teachers' Plan, the main aim is that the returns on the project are a security for future pension assets, whilst for Glencore, it is attractive for a few reasons.

One of those is that investments can be made in new mining projects without Glencore having to take up new debt. This is inasmuch important since the commodity crisis of 2015 when doubts about the debt sustainability of the concern led to considerable falls in the share price. Consequentially the debt had been reduced by around 60%, or in figures, USD 13.9 billion, since mid-2014. It is also, however, attractive for Glencore that the company can secure further metal production for its marketing business, and this would be without even using its own balance sheet. It is all too often forgotten that Glencore is not just a very big commodity producer, but also a very powerful trading and marketing organisation.

Furthermore, what makes this story even more significant is that the royalty deal comes at a time for the market when, according to banks and brokers, non-too few large investors are thinking about whether or not to return to the industrial metals markets. For years now these have just been viewed from the periphery. But what has been quietly spoken about for an amount of time now is becoming more certain. A change in trend in the commodity markets in general, and in the metals markets in particular, is happening and the brave and those with foresight are now looking for entry opportunities.

George Orwell's book “1984” was a literary look into the future and fantasy, but in the meantime it has become reality. “Big Brother is watching you” in all facets of life in actual fact. For example, since 2014 China has been trying to develop a Social Credit System. This should be introduced by the year 2020. This would then mean that every member of the public will receive a rating based on government data, or in other words, they would be valued according to their individual, social and economic status and behaviour. This is an instrument for clustering and surveillance using big data technology. In accordance with the planning already made to introduce this system, there are essentially four areas: Honesty in administrative matters, commercial and social integrity and legal reliability.

If thoughts can be taken further on this, then soon in China there will not be much hope of a person trying to apply for credit or a certain type of position if that person has been caught crossing on a red light or has not treated an administrator in a friendly enough manner, or even has just not filled in the application form correctly in the first place. This may sound really bad and still far away from us, but it is close enough that our way of life is being affected also. The data needed to produce such a social credit rating is there and exactly in the western part of the world, data can be found everywhere and is being used already in all sorts of ways. Members of the public should be alert to this, even if “they have nothing to hide”.

We wish all our readers, along with their families, happy Christmas celebrations and a good New Year. We hope you have enjoyed reading our reports and you will take pleasure in remaining with us in 2018.

LME (London Metal Exchange)

LME Official Close (3 month)

December 8, 2017			
	Nickel (Ni)	**Copper (Cu)**	**Aluminium (Al)**
Official Close 3 Mon. Ask	11,050.00 USD/mt	6,575.00 USD/mt	2,012.00 USD/mt

LME stocks in mt

	November 14, 2017	December 8, 2017	Delta in mt	Delta in %
Nickel (Ni)	379,590	**376,938**	-2,652	-0.70%
Copper (Cu)	258,800	**195,150**	-63,650	-24.59%
Aluminium (Al)	1,161,275	**1,094,525**	-66,750	-5.75%