

# Stainless Steel Price Outlook for H2 2014

by Wei-Kai Lin, Industry Analyst of MIRDC



**A**lthough the nickel supply in 2013 was significantly excessive, the excessive margin turns minor in 2014, landing at 40 thousand tons. The average nickel price at London Metal Exchange (LME) in 2014 is estimated at USD 16.5 thousand. The overall nickel price will slump then finish strong in Q4 at a fast pace. The global stainless steel price in H2 2014 will head for a gradual growing trend.

## International Nickel Price in 2014 is Expected to Rise Gradually

**1. The supply side is the core factor that leads to global oversupply of nickel, including the surging supply of Chinese nickel pig iron as well as consecutive investment in production of large sized nickel of global producers.**

In 2008 Chinese nickel pig iron capacity was less than 100 thousand tons; in 2010 it rose to over 150 thousand tons; in 2011 it climbed to over 290 thousand; in 2012 it went up to over 350 thousand; and in 2013 it landed at around 450 thousand. Quite the contrary against the increasing capacity of nickel pig iron, the production cost descends due to the improving smelting process. Traditional blast furnaces are replaced by electric furnaces, which utilize rotary kiln process and prevail in the market. This is because rotary kiln considerably lowers the production cost of nickel pig iron. Imported laterite nickel is the material of almost all China's nickel pig iron, and China plays a role of marginal producer in the global nickel supply. Increasing nickel pig iron capacity increases the supply, and the decreasing production cost lowers the bottom line of the nickel price.

**2. The growth of the international nickel price in 2014 will not be huge**

Coupled with the sluggish global economy, China's adoption of RKEF technology for nickel and iron production deteriorates the condition of the excessive capacity and supply, which keeps the price of nickel from hiking. As certain Chinese makers have started to use advanced laterite nickel processing to smelt stainless steel and produce steel billets, the cost is down 20-30%, which is lower than the cost for using pure nickel to smelt, and which thus reduces the demand for pure nickel, resulting in increasing inventory of nickel at LME and the continuous drop of the nickel price, causing the average nickel price during the last twelve months of 2013 to reach only USD 15,262 per ton, down USD 2,411 from the previous USD 17,673. Consequently, in the short term, significant growth of the international nickel price is not foreseeable. The average nickel price in 2014 is estimated to be around USD 16,500 per ton.

**3. Exchange rate influences metal price**

As the debt crisis in the euro zone remains unsolved, coupled with the depreciating euros against US dollars, the metal price and USD are still in a negative correlation. USD will continue to rise amid fluctuations. The rising USD will form a certain counter-force to the metal price. If the rise is due to the improvement of US economy, the negative impact on the price will be offset by the growing economy, which implies that the appreciating USD will not result in too much pressure against the nickel price. However,

with the slow recovery of U.S., European, and Japanese economies, as well as the QE policy of Japan, the demand driven by risk avoidance will strengthen the value of USD. The dual negative factors will create large pressure to the metal market, making the metal price less likely to rebound considerably.

**4. Withdrawal of QE cannot keep the nickel price in complete control**

The structure of supply and demand determines the nickel price in the mid-term and long-term period. The nickel price at LME, the benchmark for the global nickel price, is greatly affected by the capital flow (in this case I'm referring to the circulation of USD in the market) and expectations in the market. How the monetary policy of the Federal Reserves is going will be the key to USD circulation in 2014. The policy in 2014 is believed to be not tight and the withdrawal of QE won't be too fast; as a result, complete withdrawal of QE is less likely to finish this year. With the less strong economic recovery, and the forecast of stable mid/long term inflation, we may expect to see the increase in the interest rate by the Fed for the first time in H2 2015. The decrease in circulation of USD in the market and the market expectations will lower the prices of commodities. However, circulation is not a definitive factor for the nickel price. The current nickel price has dropped close to the production cost, so there is no significant bubbling. The impact on the nickel price due to the withdrawal of QE by the Fed is believed to be only reflected on the near-to-mid term market.

## Conclusion

To see from a big picture, the current nickel price has almost reflected the extremity of excessive supply, and the structure of supply and demand cannot cause any more pressure against the nickel price. The nickel price at LME dropped year after year during 2011 to 2013, but it is less likely to repeat the pattern in 2014. Stainless steel price is expected to cease the continuous drop in 2014, and it will exhibit a mild increase in the second half of the year.