

NICKEL PRODUCTION BECOMES UNPROFITABLE

BY GALINA KOVALISHINA, HEAD OF THE CORPORATE FINANCE DEPARTMENT,
FEBRUARY 26, 2009

World refined nickel production has been growing until mid-2008. Then the global economic recession drove down demand for base non-ferrous metals that have been vital for several rapidly developing industries. Major metal consuming countries are seeing daunting economic difficulties that impact demand for metals. To adjust their business to global demand, manufacturers cut metal production (see the Table). Nickel prices slide in response to lower demand, and nickel production becomes unprofitable because nickel operations are very expensive (production costs average \$7,000 per ton).

Primary nickel production by area, thousand tons

Area	2000	2004	2006	2007	2008
Europe	403.1	468.3	512.9	512.2	510.9
Asia	221.2	249.4	303.6	379.4	374.8
America	253.0	312.3	324.2	330.7	316.4
Australia and Oceania	154.5	166.3	162.6	156.2	155.1
Africa	50.2	54.8	54.5	49.1	49.0
Total	1082.5	1251.1	1358.1	1427.6	1406.2

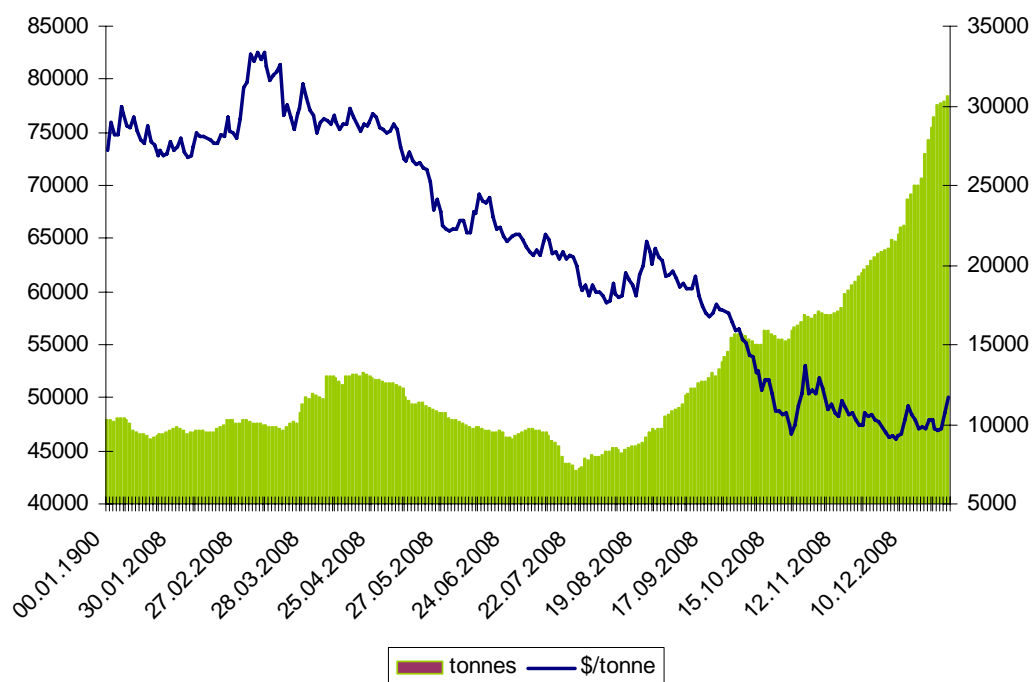
* IFS estimates

Source: International Nickel Study Group

Until recently investment and hedge funds have been active players in the nickel market. Also, demand for nickel from the steel industry has been surging. As a result, nickel prices climbed stably between 2006 and 2007. In early 2008, stainless steel production slowed down and nickel sales fell, consequently. The market faced nickel surplus that pushed the prices down.

(see the Figure)

Nickel prices and stocks at the LME



Source: LME

As far as nickel production cutting is a time consuming process and production costs do not fall sharply, nickel prices are not likely to drop lower than 7.5-8.5 thousand per ton in 2009. Some of the earlier announced projects to step up production will be continued, some – halted. This just illustrates that there is no clear understanding of the nickel market prospects. Nevertheless, we expect that this year the surplus will decrease owing to production cuts and a slight rise in demand.

Some countries undertake measures to support their manufacturers, China, for instance, cancelled the import duty on nickel concentrate after two years of applying it. The step is intended to back up companies that re-export processed concentrate. Measures like this also encourage global demand for nickel.

Russia has decided to zero export duties and raised import duties for certain types of metal products and pipes for a nine month long period. This will enhance domestic production and secure planned profits for nickel producers.