



Metals Market Comment



Crouching tiger tin is poised to outrun nickel again

Both nickel and tin have fared poorly

Over the last year or so we have consistently taken a bearish view of nickel and a bullish view of tin, both absolute and relative to other base metals. Our stance has been more than half right. Nickel has slumped by, at worst, over 30% from its high of late February, while the price ratio to copper recently touched 2.3:1, down from 2.9:1 when we first proposed a long copper/short nickel trade in September 2010. And tin was by far the best performing metal in the nine months to mid-April. However, tin has since, at worst, plunged by 35%, while its price premium over nickel collapsed from more than USD 7,000/t to just USD 1,500/t. So have we misread the tin market? And can we still be bearish of nickel now that it is trading near USD 22,000/t and the average price of 2010?

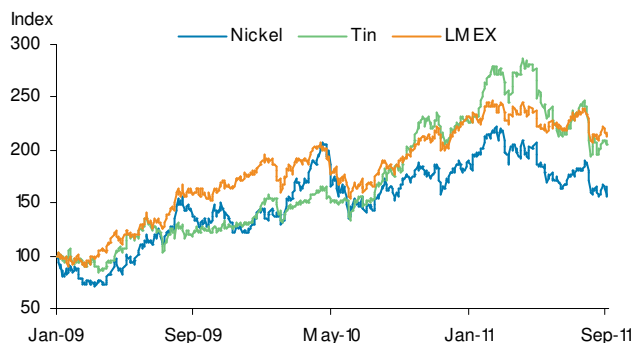
Nickel is heading into structural surplus

Nickel's sharp price decline since February should logically mean that we are not as bearish as we were. But the fundamental outlook has, if anything, darkened further in recent months. In particular, conditions in the stainless steel market have deteriorated since Q1'11. A weak second quarter left world stainless steel output up just 4-5% y/y in H1 (Chart 2), and prospects for a decent rebound in H2'11 have dimmed with recent economic developments. We now forecast that global nickel demand will increase by only 5.5-6.0% this year and the risks are on the downside. At the same time, nickel production may end up a little higher than we previously forecast. There have been yet more supply disruptions and shortfalls, but our assumptions were already very conservative. We now expect world finished output to leap by over 9% in 2011.

The net result is that, rather than a deficit of about 20kt, we now forecast a broad balance in the nickel market this year (Table 1), a surplus in H2 offsetting a deficit in H1 of perhaps 40kt. Visible stocks may not entirely mirror this pattern but they were still historically quite high in mid-2011. And we remain convinced that nickel is heading into a period of sustained structural surplus, due to continued rapid production growth.

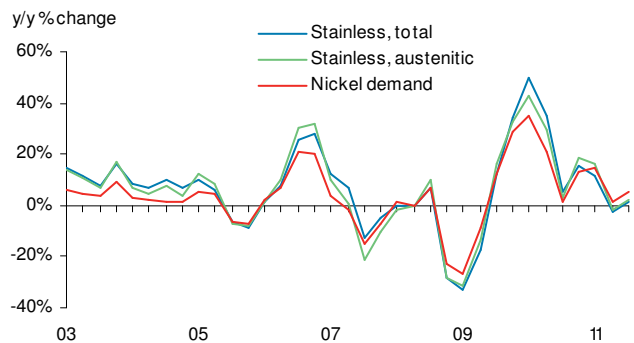
The boost to nickel output provided by plant restarts will begin to fade next year, but this should be countered by a fast rising contribution from new mines. We consider our assumed production profiles for the key new mines shown in Table 2 still to be conservative. Yet even so, we forecast that world

Chart 1: LME nickel*, tin* and LME X, all rebased*



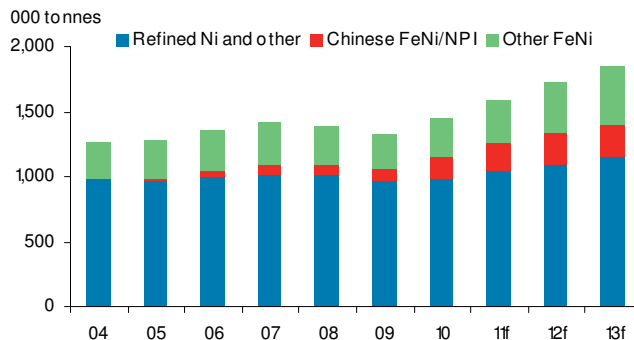
Source: LME, Bloomberg, BNP Paribas * 3M USD price, + indexed to Jan 09

Chart 2: World stainless steel output & nickel demand



Source: CRU, BNP Paribas Data to Q3'11 (e)

Chart 3: World finished nickel production



Source: INSG, Brook Hunt, CRU, BNP Paribas estimates and forecasts

finished output will grow by 9-10% again in 2012 and by 6-7% in 2013 (Chart 3), unless lower prices force some closures, perhaps in the Chinese nickel pig iron industry. Although the stainless steel cycle is often not closely synchronised with that of the global economy and China now accounts for 40% of the market, we cannot see global nickel demand rising by more than 6-7% in 2012. This may leave the market in a surplus of at least 50kt next year, with 30kt possible in 2013.

1) This document is classified as non objective market commentary. Please refer to important disclosures at the end of this report.



Tin's hidden deficit will be revealed

In contrast, we still believe that the tin market has again been in a hefty underlying deficit this year (Table 3) and to forecast that it will remain so in 2012. This is despite us now making the deliberately conservative assumption that world tin demand will be little more than flat in 2011. It is possible that the heavy losses in Japan, due mainly to the March earthquake and tsunami, and weakness in other developed nations will largely offset respectable demand growth in China. If so, 2012 should see something of a rebound even with the world economy increasingly likely to be sluggish. Either way, tin will remain a laggard on the demand side. However, tin also stands out from the crowd on the supply side, and here, it is at the opposite end of the spectrum from nickel.

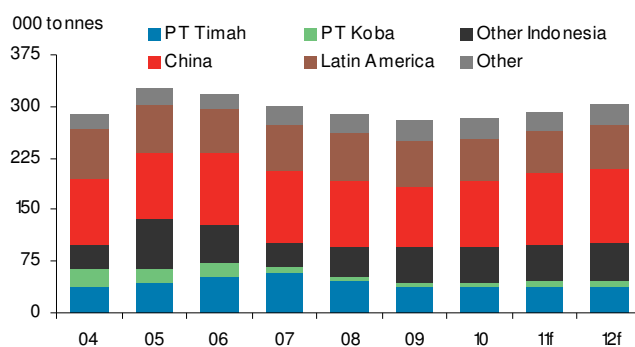
The list of tin mining projects is expanding but most are small and few will contribute before 2013. Meanwhile, there is scope for production growth from expansions, redevelopment and improved performance at existing mines in Australia and Latin America, and from the price sensitive (if otherwise constrained) industries of Indonesia and China. But such growth has this year been countered by an earlier cutback at Minsur of Peru and a collapse of output in DR Congo due largely to the conflict minerals issue. We continue to forecast that world tin mine production will rise by just 2.5% in 2011 and by no more than 4-5% in 2012 (Chart 4). Growth in refined output may be even slighter this year, due to Minsur's August closure and problems in China's recycling industry.

If the tin market is in deficit, how is it that visible stocks rose by 10kt in the nine months to June? Our answer is the same as in previous analysis. China ran down inventory from a stockpile of, we estimate, over 15kt that it built up in 2009 and Q1-Q3'10. In addition to low tin imports (Chart 5), CRU/ITRI estimates from third-country data that China exported about 16kt of tin in the period October 2010 to May 2011. Net exports of around 10kt may not have fully depleted the stockpile, but the price differential between China and the LME has shifted in recent months, first to make exports unprofitable and then to make imports profitable. Unusually high Indonesian exports in June-July also may have involved temporary destocking. We firmly believe that the underlying deficit in the tin market will reassert itself in the coming months. And even now, reported stocks are far from historically high (Chart 6).

Tin's premium over nickel set to widen again

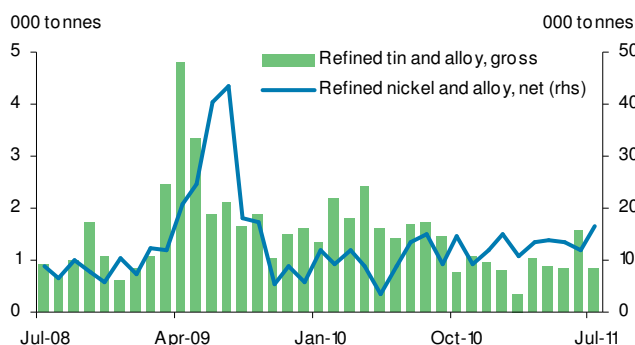
So as we see it, prospects for nickel and tin could hardly be more different. The former is, in our view, heading into a prolonged period of structural surplus, whereas the latter is likely to remain in underlying deficit at least through 2012. Even though the outlook for base metals generally may not be as bullish as it was, we expect the tin price to recover strongly in the coming months. It may eventually approach its April peak. But the nickel price will remain under pressure. This suggests that tin's premium over nickel may not only return to USD 7,000/t but comfortably exceed it. The longer-term potential downside for nickel is now more limited – the cost curve

Chart 4: World tin mine production



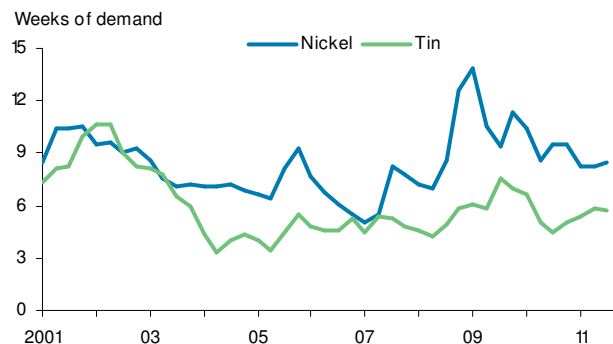
Source: CRU, ITRI, BNP Paribas forecasts

Chart 5: Chinese imports of nickel and tin



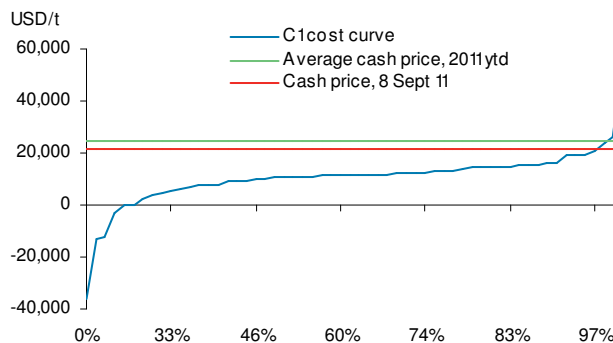
Source: Chinese General Administration of Customs, BNP Paribas

Chart 6: Reported nickel and tin stocks



Source: LME, INSG, CRU, Brook Hunt, BNP Paribas estimates

Chart 7: 2011 world nickel industry cost curve*



Source: Brook Hunt, BNP Paribas

* basis Q2'11

(Chart 7) points to 10% at most – but the nickel/copper price ratio may fall further in the months ahead.

Stephen Briggs



Table 1: BNP Paribas world nickel supply/demand balance – last updated 8 September 2011

000 tonnes nickel	2008	2009	2010	2011f	2012f	2013f
Mine production	1,580	1,420	1,635	1,775	1,940	2,040
Finished production	1,377	1,325	1,445	1,580	1,730	1,840
Finished consumption	1,280	1,280	1,490	1,575	1,680	1,810
- % change	-5.2%	0.0%	16.4%	5.7%	6.7%	7.7%
Implied balance	97	45	-45	5	50	30
Year-end reported stocks	251	292	278			
- Change	49	42	-15			
- Weeks' consumption	10.2	11.9	9.7			
Implied change in unreported stocks	48	3	-30			
LME cash price (settlement) – USD/tonne	21,027	14,700	21,809	24,100	21,500	20,000
LME cash price – USD/lb	9.54	6.67	9.89	10.93	9.75	9.07

Source: INSG, Brook Hunt, CRU, Reuters EcoWin Pro, BNP Paribas estimates and forecasts

Table 2: Selected new nickel mine projects

Mine	Type*	Company	Country	Possible mine production profile (kt Ni)						Target capacity
				2009	2010	2011f	2012f	2013f	2014f	
VNC (Goro)	L	Vale	New Caledonia	-	5	10	15	25	35	60
Onça Puma	L	Vale	Brazil	-	-	10	20	35	50	58
Barro Alto	L	Anglo American	Brazil	-	-	15	30	35	35	36
Taguang	L	CNFMM et al	Myanmar	-	-	5	15	20	20	22
Ambatovy	L	Sherritt et al	Madagascar	-	-	-	10	25	40	60
Ravensthorpe*	L	First Quantum	Australia	2	-	-	15	25	35	40
Ramu	L	MCC et al	Papua New Guinea	-	-	-	5	10	20	31
Koniambo	L	Xstrata	New Caledonia	-	-	-	5	20	30	60
Taganito	L	Sumitomo et al	Philippines	-	-	-	-	4	15	32
Sotkamo	S	Talvivaara	Finland	1	10	20	32	45	50	50
Santa Rita	S	Mirabela	Brazil	1	10	15	20	24	25	23
Nunavik	S	Jien Canada	Canada	-	-	-	5	10	15	15
Kevitsa	S	First Quantum	Finland	-	-	-	3	6	10	10
Eagle	S	Rio Tinto	USA	-	-	-	-	1	10	18
Total of above				4	25	75	175	285	390	515

* L = laterite, S = sulphide * Redevelopment

Source: Company releases, Brook Hunt, BNP Paribas

Table 3: BNP Paribas world tin supply/demand balance – last updated 8 September 2011

000 tonnes tin	2007	2008	2009	2010	2011f	2012f
Mine production	300	288	278	283	290	303
Refined production	354	337	336	350	355	370
US DNSC stockpile sales	8	4	0	0	0	0
Refined consumption	373	348	320	362	365	380
- % change	1.4%	-6.5%	-8.1%	13.1%	0.8%	4.1%
Implied balance	-11	-8	16	-12	-10	-10
Year-end reported stocks	35	32	46	36		
- Change	-1	-3	14	-10		
- Weeks' consumption	4.9	4.8	7.5	5.1		
Implied change in unreported stocks	-11	-5	2	-2		
LME cash price (settlement) – USD/tonne	14,536	18,499	13,593	20,447	27,625	29,925
LME cash price – USD/lb	6.59	8.39	6.17	9.27	12.53	13.57

Source: CRU, ITRI, LME, WBMS, Reuters EcoWin Pro, BNP Paribas estimates and forecasts



Commodity Markets Strategy Contacts:

Harry Tchilinguirian	Head of Commodity Markets Strategy, Oil Strategy	London	+44 20 7595 8779	harry.tchilinguirian@uk.bnpparibas.com
Gareth Lewis-Davies	Oil Strategy	London	+44 20 7595 1225	gareth.lewis-davies@uk.bnpparibas.com
Anne-Laure Tremblay	Precious Metals Strategy	London	+44 20 7595 8775	anne-laure.tremblay@uk.bnpparibas.com
Stephen Briggs	Metals Strategy	London	+44 20 7595 8774	stephen.briggs@uk.bnpparibas.com
Mehdi Chaouky	Agriculture Strategy	London	+44 20 7595 8649	mehdi.chaouky@uk.bnpparibas.com
Teri Viswanath	Natural Gas Strategy	Houston	+1 713 393 3137	teri.viswanath@us.bnpparibas.com

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