

Stainless steel scrap buyers mull alternative to 'volatile' LME nickel price

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More stainless steel producers were considering whether to turn away from using an exchange price to fix the cost of the nickel portion in scrap material, after trade in nickel was suspended on the London Metal Exchange in March when there was a wild spike in the price.

“Over the past 10 weeks, we have been using the old-school method, just making bids and coming up with a fixed number [in nickel pricing] where the stainless scrap supplier could agree with us,” one Middle East-based stainless steel producer said on the sidelines of the Bureau of International Recycling (BIR) convention in Barcelona, Spain, held May 23-25.

Although nickel was now being branded as an electric vehicle (EV) battery metal, the stainless steel industry remained the biggest consumer of nickel, taking more than two-thirds of global output, according to the Global Nickel Institute.

Nickel is widely used in stainless steel production to enhance formability, weldability and corrosion resistance. Its relatively high price, compared with those for other alloying elements used in stainless steel, is a major part of the total production cost.

Since the 1980s, the global stainless steel industry - not only mills in Europe but those in Asia and the United States - has typically applied a discount to the LME nickel cash average price to establish the intrinsic value of the nickel component found in scrap feedstock.

“It’s not only about the exchange price not reflecting our operational fundamentals, its volatility has made it hard to plan,” the producer source said. He added that he intended to watch price movements on the LME for another two months before deciding whether to go back.

A similar decision was made by some of his industry peers among the 15,000 delegates at the recycling convention.

When LME nickel prices leapt upward by more than 250% in March, certain European mills decided to adopt similar approaches to fix their own prices for the nickel component in scrap for April and May, rather than pegging it to the LME price.

'I have personally heard of people moving away from the LME nickel price,' Robin Martin, head of market development for the LME, said on a stainless steel panel at the BIR conference on May 24. He was speaking in response to a question from Fastmarkets on that trend, as well as the reported plan by rival Chicago Mercantile Exchange to launch a cash-settled nickel price.

Martin mentioned a series of measures taken by the LME to rebuild credibility in the nickel market. These included a "forensic" review of trading activity in March, a consultation on whether to introduce over-the-counter position reporting, as well as setting trading limits on the nickel price.

Martin was twice asked by stainless steel market participants on the panel whether the exchange could promise that the March incident would never happen again.

"We use the LME nickel price as hedging [so] the LME must work. I wonder whether we can work with this. Are you sure this won't happen again?" Uwe Dierkes, managing director of Siegfried Jacob Metallwerke, said. "[Nickel trading] volumes were still not back [yet] to the level they were. The LME [can be] under no illusion that [there is] a lot to do to rebuild trust."

The LME three-month nickel price opened at \$26,265 per tonne on May 25, down by more than 20% since the beginning of this month.

Fastmarkets research team's in-house nickel price forecast for the second quarter of 2022, base case, was \$29,380 per tonne.

Last week, stainless steel scrap prices fell sharply in the UK and in Europe, weighed down by low buying interest from mills, weaker terms for supply contracts and lower nickel costs.

"On price referencing and hedging alternatives, it depends on who you ask, a mega or mid-sized mill, and the position of who you are asking. The big guys always want a consensual price to reference," a buyer source with one of the world's biggest stainless steel recycling companies told Fastmarkets after the panel discussion.

"For decades, the LME has been hard to change," he added. "But where there is a need, more options should appear. We will find out at the next BIR conference in Dubai six months from now."