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Nickel Supply Deficit Seen Greater Than Expected, Sumitomo Says  
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By Jae Hur and Ichiro Suzuki

July 14 (Bloomberg) -- The nickel market may swing into a greater deficit than expected this year because of supply disruptions and greater Chinese demand, which could boost prices, said Sumitomo Metal Mining Co., the biggest producer in Japan.

World demand may exceed supply by 40,000 metric tons this year, up from the company's forecast in April of 36,000 tons, Toru Higo, general manager of the Tokyo-based company's nickel sales and raw material department, said yesterday in an interview. This would be the first deficit since 2006, after a surplus of 27,000 tons last year, he said.

The price of nickel has tumbled 28 percent to \$19,550 a ton after touching a two-year high on April 16, as concern that Europe's debt crisis and Chinese steps to curb property prices will hurt global growth, reducing demand for stainless steel in homes and buildings. About two-thirds of nickel production is used to increase corrosion resistance in stainless steel.

"A longer-than-expected supply disruption may help the deficit widen further," Higo said, referring to a labor dispute at Vale SA, the fourth-largest producer. Stockpiles tracked by the London Metal Exchange plunged 28 percent from their peak in February because of the disruption, he said.

Vale workers at two Ontario, Canada, plants voted to end their yearlong strike, the United Steelworkers union said July 8, closing the longest industrial dispute in the company's 67-year history. Vale's Sudbury smelter has operated at 50 percent capacity since January.

#### China Demand

Nickel demand from China, the biggest user, may increase 18.6 percent to 510,000 tons, while output may grow 18.3 percent to 284,000 tons, Higo said. Global nickel output may increase 7 percent to 1.38 million tons this year, while consumption may advance 13 percent to 1.42 million tons, he said.

China's property prices were little changed in June from the previous month, ending 15 months of gains, statistics bureau data showed June 12. New lending of 603 billion yuan (\$89 billion) last month was the least in three months, the central bank said July 11.

Global stainless steel production may rise 15 percent this year, while China's steel output is expected to expand 13 percent, he said.

Japan was the third-largest refined nickel producer after China and Russia in 2009, according to researcher CRU.

Sumitomo plans to boost refined nickel production capacity at its Niihama refinery in Ehime prefecture, in western Japan, to 65,000 tons a year by 2013 from the current 41,000 tons, with the completion of its \$1.3 billion Taganito nickel and cobalt project in the Philippines, he said.

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