



Press release

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Stainless steel: hedging against volatile nickel markets instead of speculation

- **Team of experts pleads for greater use of hedging instruments**
- **Blind spot stainless steel scrap impairs forecasting reliability for nickel**
- **Greater transparency for less volatility**

"If volatility on the nickel markets cannot be prevented but merely reduced by greater transparency, there is all the more reason for all market players to make active use of the instruments for minimising their own risks. Those who are attempting to compensate for the current structural weaknesses in the stainless steel industry through speculation in volatile nickel markets are pursuing a risky strategy"; it was this appeal by a participant that closed the first Oryx Stainless Research Summit in Dusseldorf on 13 September on the subject "Nickel market – playground for speculators or driven by fundamentals?". 16 international commodity analysts and buyers, fund managers, representatives of associations, traders and other experts from the stainless steel industry were invited by the German-Dutch commodity trading group Oryx Stainless to discuss the results of the study under the same name by JProf. Dr. Peter N. Posch from the Institute of Finance at the University of Ulm, who carried out an extensive scientific and empirical study on speculation and other factors influencing the international price of nickel on behalf of the German-Dutch commodities trading group Oryx Stainless. Nickel, for which more than 7.3 million contracts for 6 tons/contract and with a total value of around 920 billion USD were traded on the leading



London Metal Exchange in 2010, is a price-determining factor for the stainless steel industry. One of the conclusions reached by JProf. Posch in the study is that decisions on the nickel market have thus far been taken on the basis of incomplete information only. Above all, stainless steel scrap, an important nickel resource in terms of the market estimation, is a far-reaching blind spot. To enable greater forecasting reliability and thus to improve the decision making basis for all market players, stainless steel scrap – an important resource for the nickel market – should therefore be recorded statistically. A complete data basis is all the more important given the fact that the classic fundamental factors mining, production and above all consumption have a 75 percent influence on the price of nickel.

Thus far, speculation – a permanent influencing factor – has played only a subordinate role in this respect but, nevertheless, repeatedly results in harmful exaggerations. According to investor representatives, the blame for these exaggerations cannot be laid at the door of one group of market participants. The dealings and strategies of, for example, the investors differ too greatly for this to be the case.

Overall, the team of experts is of the opinion that the stainless steel industry should make even greater use of the hedging opportunities and thus of the benefits of the relatively well developed nickel market. "Volatility is part of every market and is essentially neutral", according to Roland Mauss, Board Member of Oryx Stainless Group. "Important is the strategy with which one actively counters this risk. In this respect, it is clear that a passive approach and speculation on the fact that the market is moving in the right direction is not a good risk minimisation strategy."

In addition to the call for greater transparency, Oryx Stainless again emphasised during the discussions by the team of experts that, above all in a market whose depth is relatively clear, strict monitoring of critical trading positions is important in order to ensure the continued absence of major, unnatural distortions in future which can represent a considerable management challenge for the entire stainless steel industry.

The results of the study, together with further information can be found at:
<http://www.oryxstainless.com/>



Notes for the editorial team

Oryx Stainless Group, founded in 1990, is one of the world's leading trading organisations for raw materials used in the production of high-quality stainless steels. The company, which has locations in Mulheim an der Ruhr and Dordrecht (Netherlands), focuses its activities on the handling and processing of stainless steel scrap into Oryx stainless blends. These secondary raw material blends – individually adapted for the respective stainless steel producers – replace above all primary raw materials such as ferronickel, ferrochromium and ferromolybdenum.

In 2009, Oryx Stainless commissioned a study by the Fraunhofer Institute UMSICHT, which carried out scientific analyses on how much environmentally harmful CO₂ can be saved if new stainless steel is obtained predominantly from high-quality secondary raw material blends and not from primary raw materials. Here, the Fraunhofer Institute UMSICHT came to the conclusion that CO₂ emissions in the production of stainless steel can be reduced by up to 37 million tons per annum or 50 percent in the medium term given greater use of high quality stainless steel scrap for production in future instead of primary raw materials as has been the case thus far.

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