

# Metals Insights – Industrial Metals

## Nickel: tailwind for price

**Casper Burgering**
*Senior sector economist Industrial Metals*

casper.burgering@nl.abnamro.com

High peaks and deep troughs, and so pretty much business-as-usual for nickel prices. Since 1 January this year, nickel prices have increased by more than 22%. This is in stark contrast to the development in the prices of other base metals, such as aluminium, copper and zinc, which increased by an average of only 0.2% in the same period. Why is the nickel price the odd one out, and is this here to stay?

**Figure: Strong gains nickel price and LME inventories further down**



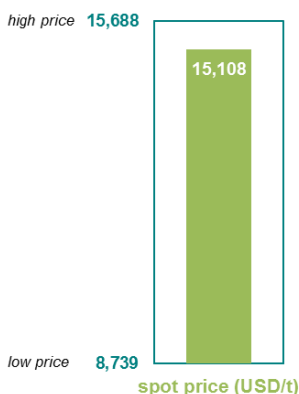
Source: Thomson Reuters Datastream

'Bullish momentum' is how the current trend in nickel prices has been characterized, with prices rising by almost 10% in the past three months and seeing a strong revival since early April. LME inventories have been declining steadily and have fallen by more than 24% this year. This has been for a variety of reasons, of which geopolitical and fundamental trends – and speculation by investors on these two trends – have been the most important. The peak in prices in April was mainly due to the sanctions announced by the US on Russian oligarchs. Initial panic was high and many investors expected the sanctions also to hit a large Russian nickel producer (Norilsk Nickel). This would significantly reduce supply in the nickel market. As a result, prices rose sharply. However, the situation soon normalized and the fundamentals regained the upper hand.

### 'EV hype'

The bullish momentum is largely due to the expectation that future demand for nickel will be boosted by a strong impulse from the emergence of the electric car. New production facilities for lithium-ion battery materials are being built, especially in China, to meet the expected strong growth in demand for batteries for electric cars. While the increase

#### 52 week price comparison:



#### Trend in nickel price:

	Spot price (15/06)	One week price trend (in %)	One month price trend (in %)	Three month price trend (in %)	One month price volatility	Price volatility 2018	Price volatility since 2000
<b>Nickel</b>	<b>USD 15,108/t</b>	<b>-1.6%</b>	<b>+5.2%</b>	<b>+11.3%</b>	<b>11.3%</b>	<b>10.3%</b>	<b>13.1%</b>

*Volatility is the difference in the highest price and the lowest price over the period mentioned*

in these production facilities is likely to continue boosting demand for nickel, various studies show that the increase in the penetration rate of the electric car in the coming years will be at a snail's pace. The penetration rate is expected to amount to 2% of the global fleet in 2020 and rise to 30% by 2030.

### **Demand for nickel remains solid**

For a profound analysis of demand for nickel, it is better, therefore, to focus on established large-end users of nickel, such as the stainless steel sector. This is because, globally, about 65% of all refined nickel finds its way into stainless steel products. The demand for nickel from this sector is currently in good shape, thanks to the growth in car sales, increasing activity in the construction sector and consumer spending on household appliances. As growth in the stainless steel sector in recent years has been above-average, global capacity has expanded. The challenge that the sector now faces over the coming years is to cope with overproduction and overcapacity, both of which represent an obstacle to future growth.

The influence of countries such as Indonesia and the Philippines should also not be underestimated, especially on the supply of ores. Together, these countries account for 30%-40% of total global mine production of nickel ores (particularly laterite ores), much of which is destined to be used in the production of Nickel Pig Iron (NPI)<sup>1</sup> in China. Lately, however, some NPI production facilities in China have had to scale back or, in some cases, even completely stop production owing to stricter environmental requirements in China. This, in turn, has increased the demand for refined nickel.

### **Trend in price going forward**

The nickel market - and also the aluminium, copper and zinc markets – witnessed more downward pressure from a possible escalation of a trade war between the US and China, the series of disappointing macro figures from China last week and the stronger dollar. The uncertainty of the US economic policy will impact trends in base metal markets. The weaker macro figures from China are in line with our view of weakening economic growth this year. In the third quarter of 2018, the dollar is likely to strengthen further (towards EUR / USD 1.10 at the end of the third quarter) and after that the dollar will weaken again. This expected dollar trend during the third quarter will put downward pressure on base metal prices.

However, from a fundamental point of view, market condition look more favourable. The fact that the nickel market was in deficit in 2017 (and rose to 4.7% of total consumption) was one of the reasons why prices increased by 8% that year. We expect a nickel deficit of 3% of total consumption for both 2018 and 2019. This will have an upward effect on prices. On average we expect higher prices until 2019, but the moments with downward pressure on price will become more numerous.

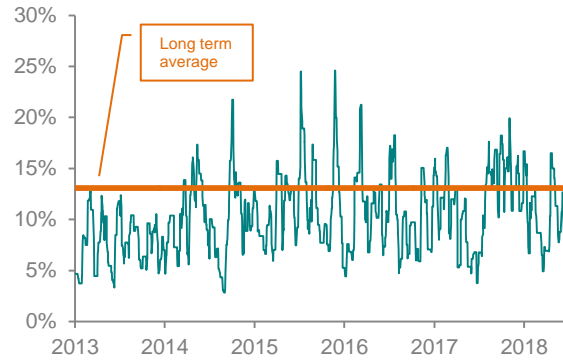
1) 'Nickel Pig Iron' (NPI): Because of the low production costs, NPI is a cheaper alternative to refined nickel. NPI consists of low-grade nickel laterite ore, combined with coking coal and a mixture of sand and gravel aggregates. The mixture is then heated in the oven.

## Graphical Insights

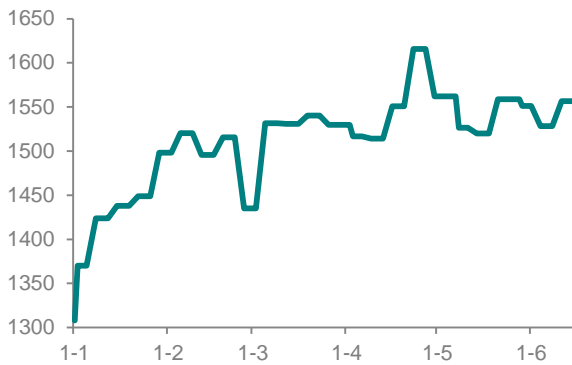
Nickel price (USD/t)



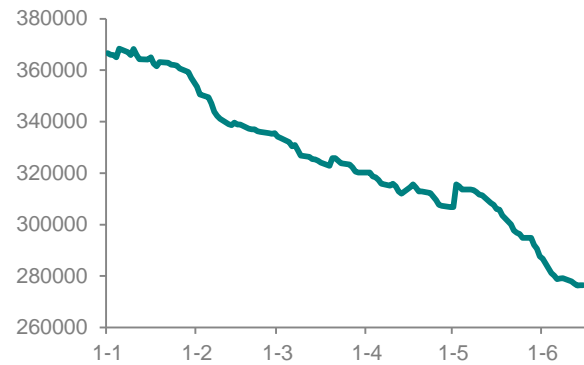
Price volatility nickel (in %)



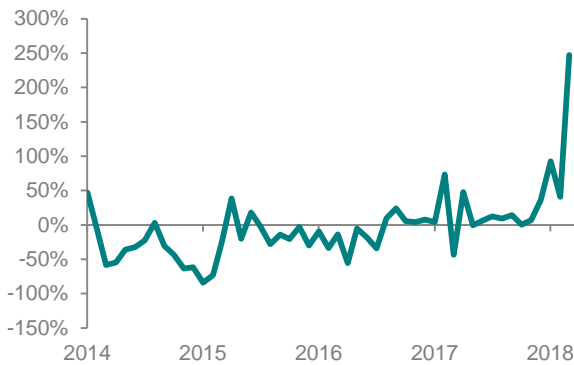
Stainless steel price Europe (USD/t)



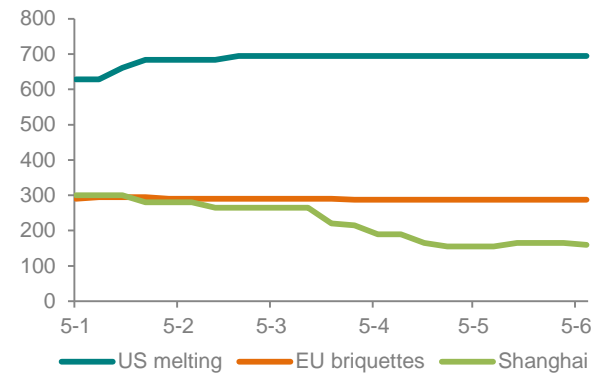
LME nickel inventories (in Mt)



Chinese imports nickel ore (in % j-o-j)



Premiums for direct delivery (USD/t)



Sources: Metal Bulletin, Thomson Reuters Datastream

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