

## Downside risks persist for nickel amid supply glut

Nickel has been the worst-performing metal on the LME so far this year, with prices down around 3% year-to-date. We believe this underperformance is likely to continue – at least in the near term – amid weakening demand and a sustained market surplus



Trucks transport mining material in a nickel mine in Indonesia

### Indonesia drives supply growth

A surge in output in Indonesia has dragged nickel lower over recent years, and demand from the stainless steel and electric vehicle batteries sectors continues to disappoint. Nickel prices recently hit their lowest point since 2020.

Nickel smelting has expanded in Indonesia since the government imposed a permanent ban on nickel ore exports in January 2020 in a drive to attract foreign investors, encourage domestic processing and further downstream use of its materials. The ban has enticed foreign investors, mainly from China, to build local smelters and has helped to boost the value of Indonesia's exports. Indonesia now accounts for more than half of global nickel output.

Indonesia hosted 44 nickel smelter operations as of September this year, compared to three nickel smelters in 2014, according the country's Directorate General of Mineral and Coal.

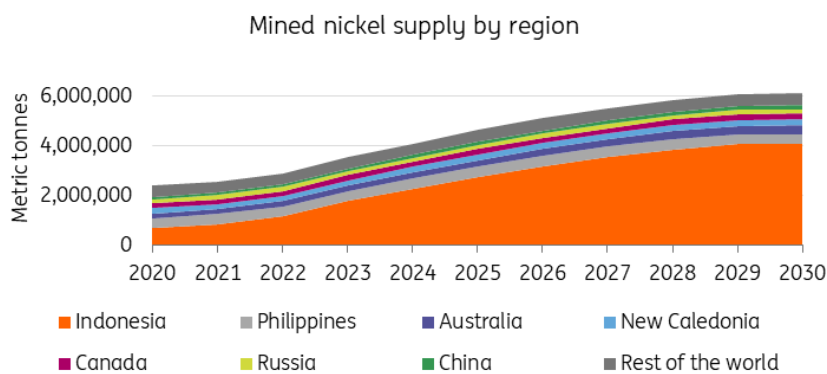
Indonesian officials said they expect the market to hold near current levels as new plants start up.

In more recent comments, Indonesia’s Minister of Energy and Mineral Resources, Bahlil Lahadalia, said the country will manage the amount of nickel ore produced domestically to balance supply and demand.

Tight nickel ore availability – due to government licensing issues, declining ore grades and a higher level of rainfall in the early part of the year – has contributed to a tighter domestic nickel ore market this year in Indonesia. In turn, this has forced some primary nickel producers in Indonesia to import nickel ore from the Philippines, the world’s second-largest mined nickel producer. The issues with the Indonesian mining production and sales quotas, known as RKAB, have persisted since the start of the year.

Shipments of nickel ore into Indonesia increased 57 times to 9.3mt in the first 10 months of the year from the 161,917t in the corresponding period of 2023, data from the country’s statistics bureau shows.

## Indonesia’s share of the nickel market continues to grow



Source: BNEF, INSG, company reports, ING Research

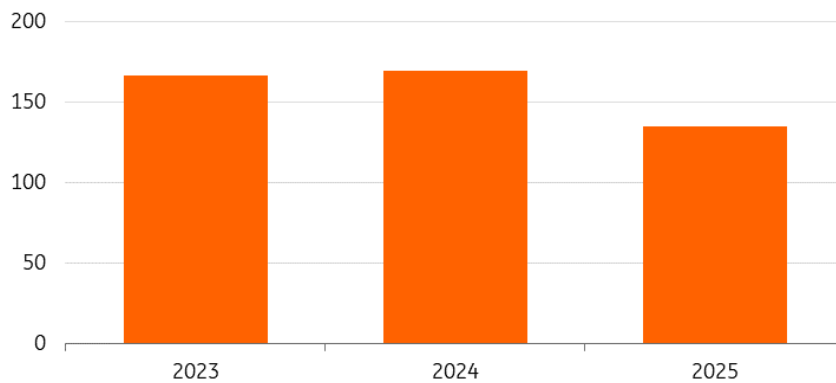
Indonesia’s supply boom has already forced several mines to close. The nickel market this year has seen a number of announcements of mine suspensions and closures from producers struggling amid low nickel prices. In Australia, First Quantum Minerals placed its Ravensthorpe nickel mine on care and maintenance, and BHP Group suspended its Nickel West operations and West Musgrave nickel project.

Despite the mine supply cuts this year, rising primary nickel from Indonesia will keep the market in surplus next year. The surplus is mostly in Class1 due to strong supply growth in China and Indonesian cathode production. The Class 2 market is much tighter on the back of lower-than-expected growth in Indonesian nickel pig iron (NPI).

The world primary nickel market is expected to be in a surplus of 170kt in 2024. The surplus will lessen next year, however, totalling 135kt (according to INSG data). Meanwhile, world primary nickel production is forecast to reach 3.515mt in 2024 and 3.649mt in 2025. It’s worth noting that there is a risk of more production shutdowns if prices stay low.

## Nickel market heading for another surplus in 2025

Nickel market balance (kt)



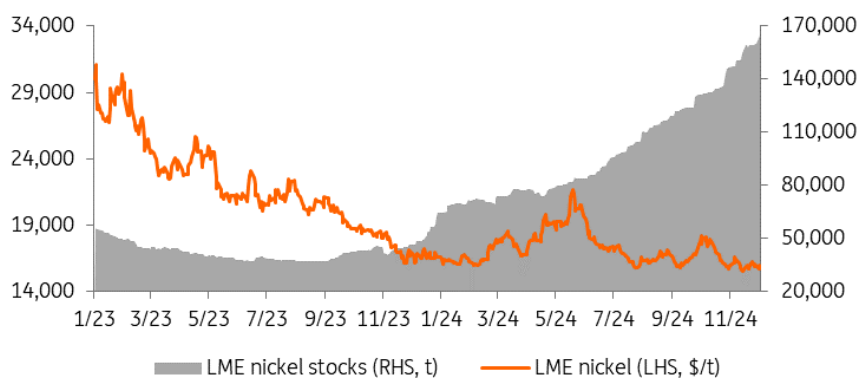
Source: INSG, ING Research

The recent supply curtailments also limit the supply alternatives to the dominance of Indonesia, where the majority of production is backed by Chinese investment. This comes at a time when the US and the EU are looking to reduce their dependence on third countries to access critical raw materials, including nickel.

In the US, the incoming Trump administration could make the US Inflation Reduction Act’s foreign entity of concern (FEOC) guidance stricter. The guidance states that any company with at least 25% ownership held directly or indirectly by a “covered nation”, of which China is one, is a FEOC and as a result ineligible for the Act’s \$7,500 EV tax credit. Indonesia has been trying to reduce China-based ownership of new nickel projects to help its nickel sector qualify for the IRA tax credits. Tighter FEOC rules would create more issues for nickel supply chains and would be an obstacle to Indonesia’s goal of expanding its export market to the US. If the rules are tightened, it would mean that Indonesian primary and intermediate nickel products will continue to be largely exported to China.

We don't believe that the 2025 supply and demand outlook is supportive of a significant rise in nickel prices.

## Class 1 surplus reflected in rising exchange stocks



Source: LME, ING Research

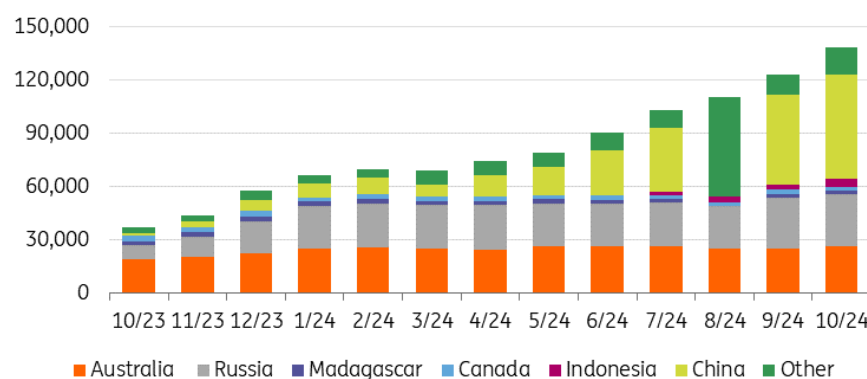
## LME stocks keep rising

The surplus in the Class 1 market is reflected in the rising exchange stocks. LME data showed more refined Class 1 nickel from China and Indonesia being delivered in October. The LME saw first deliveries from Indonesia into the exchange’s warehouses in July this year following the LME’s approval of Indonesian brands.

Most of the inflows have come from China, which in July shifted to a net exporter of primary nickel. Further inflows of Chinese and Indonesian metal into the exchange’s sheds could put additional downward pressure on the LME’s nickel prices.

## More China, Indonesia material arrives in LME stocks

(tonnes)



Source: LME, ING Research

## Demand faces headwinds

Demand from stainless steel – the biggest market for the metal – has mostly disappointed this year. China’s economic growth has slowed in 2024, dragged down by tepid consumer demand and a slump in the real estate sector, which has weighed on demand for nickel.

China’s latest official PMI data showed that manufacturing activity in the country has only just returned to expansionary territory, with a reading of 50.1. The last time the PMI was above the 50-point line that determines contraction from activity was in April, with a reading of 50.4 This rebound was mostly attributed to government stimulus measures introduced in September, including interest rate cuts and targeted support for the property sector. The sector remained in expansionary territory in November. Its recovery, however, remains slow.

Uncertainties remain as to whether or not the recent trend can be sustained and if the recent stimulus measures will translate into higher stainless output.

Nickel demand is also facing headwinds from the batteries sector due to slower electric vehicle (EV) sales, the pick-up of lithium iron phosphate (LFP) batteries and an increase in demand for plug-in hybrid EVs at the expense of battery EVs. Batteries now account for around 17% of total nickel demand, behind stainless steel.

Looking into next year, global consumption of nickel is expected to increase to 3.514mt from

3.346mt in 2024 (INSG). However, supply growth from Indonesia will remain strong and more than sufficient for meeting demand growth, keeping the market in a surplus next year.

## Prices to remain under pressure

We forecast nickel prices to remain under pressure next year as the surplus in the global market continues. We see prices averaging \$15,700/t in 2025, with the main upside revolving around stronger stainless steel output and/or restricted ore supply from Indonesia. The main downside risk to our view would be a slower uptake of EVs and a potential of a reversal of some of the EV incentives in the US during Trump’s second presidential term.

## ING forecast

	1Q25	2Q25	3Q25	4Q25	2025
LME Nickel (US\$/t)	16,000	15,800	15,500	15,500	15,700

Source: ING Research

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