

Industrial Metals Monthly: Nickel's price plunge shutter mines

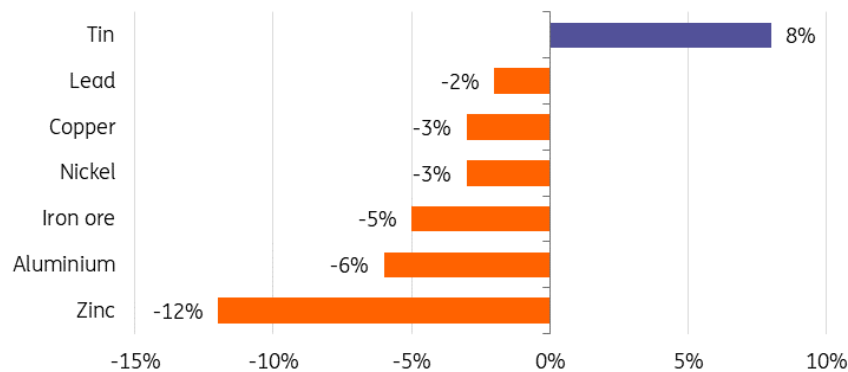
Our monthly report looks at the performance of iron ore, copper, aluminium and other industrial metals. In this month's edition, we take a closer look at nickel and the recent mine supply curtailments



Industrial metals have a disappointing start to 2024

Industrial metals have had a disappointing start to the year so far. China's macro backdrop remains challenging. At the same time, metals continue to be pressured by elevated interest rates and a strong dollar despite expectations that key central banks will pivot to monetary easing this year. [Our US economist expects](#) the Fed to start cutting rates in May, which should boost industrial metals prices. But if US rates stay higher for longer, this would lead to a stronger US dollar and weaker investor sentiment, which in turn, would translate to lower metals prices.

YTD metals performance %



Source: LME, ING Research

China's economic momentum remains soft

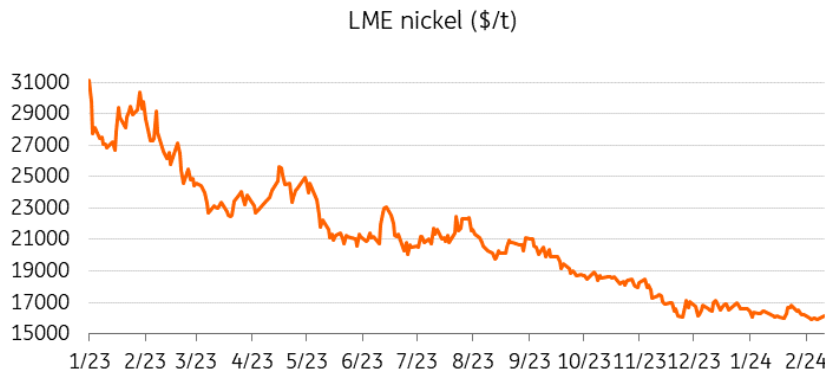
Sentiment around China's economy remains downbeat, which is raising expectations for more policy support. Data over the past month confirmed that the Chinese economy grew by 5.2% year-on-year, exceeding the 5% growth target set at last year's Two Sessions. Despite this, the struggling property sector – the pillar of commodities demand – continues to weigh on sentiment and is likely to remain weak throughout 2024. This suggests that there will not be a significant recovery in metals demand this year. The low level of housing starts will continue to weigh on industrial metals demand looking further ahead, given the lag between starts and metals usage.

Early indications are that while the Chinese economy has stabilised in recent months, momentum remains soft right now. Our first look at China's 2024 activity data was the January manufacturing PMI, which came in at 49.2, slightly below expectations. The Chinese manufacturing sector remains under pressure amid a weak domestic recovery and poor external demand. The manufacturing PMI has been under 50 for nine of the past ten months. [Our China economist thinks](#) that with a less favourable base effect, repeating 5% growth in 2024 will be more challenging.

Nickel continues to disappoint

Nickel was the worst performer on the LME last year with prices falling 47%. 2023 was the second worst year for price growth after 2008. This year, nickel prices have touched the lowest level in more than three years.

Nickel slumps 48% since January 2023



Source: LME, ING Research

One of the key drivers has been the supply surge from Indonesia. 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 raw 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. Indonesian nickel production grew more than two and a half times in just three years.

Indonesia's nickel output continues to rise



Source: BNEF, INSG, ING Research

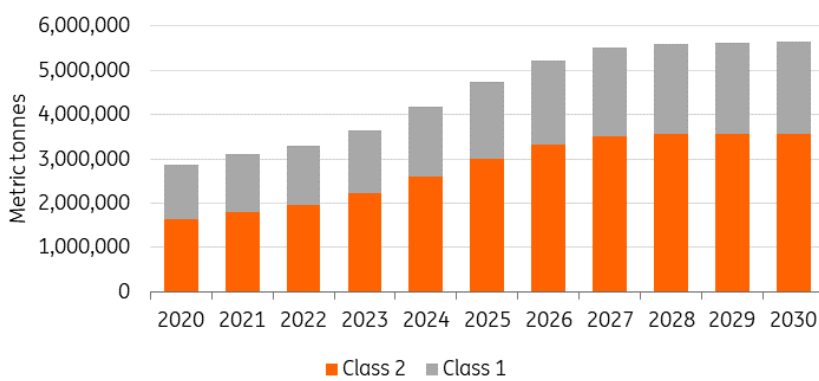
Indonesia's supply boom has already forced several mines to close. Since the start of the year, the nickel market has seen a number of announcements regarding mine suspensions and closures from producers struggling amid low nickel prices.

In Australia, BHP Group said it would close part of its Kambalda concentrator after supplier Mincor Resources (a unit of Wyloo Metals) suspended nickel sulfide operations in the mining town. Panoramic Resources plans to halt its nickel sulfide operations in Savannah and First Quantum Minerals said it would scale back operations at its Ravensthorpe mine in Western Australia. The total suspended capacity in Australia accounts for around 1.7% of mined-nickel capacity in 2023.

In New Caledonia, Glencore announced it plans to suspend production and sell its stake in the 60,000 tonnes per year Koniambo ferronickel operations. Last year, the smelter produced around 27,000 tonnes. Two other nickel operations in New Caledonia, Doniambo ferronickel smelter and Prony Resources producing intermediate product, remain at risk from the plunge in nickel prices. These two operations produced around 75,000 tonnes of nickel in 2023. New Caledonia was the fourth-largest mined-nickel producer in 2023.

Despite the recent mine supply cuts, rising primary nickel output from Indonesia will keep the market in surplus this year, marking the third consecutive year of excess supply. Historically, market surpluses have been linked to LME deliverable/class 1 nickel but in 2023 and 2024, the surplus is mainly related to class 2 and nickel chemicals. Much of Indonesia’s output is of Class 2, lower purity material.

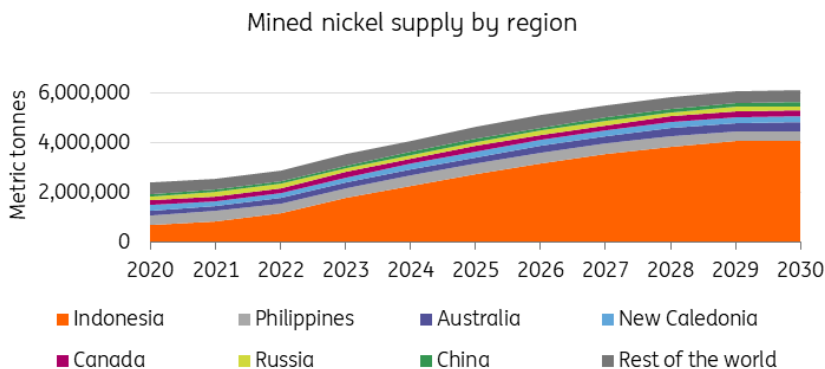
Primary nickel supply by class type



Source: BNEF, INSG, ING Research

The recent supply curtailments 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.

Indonesia’s share of the nickel market is growing

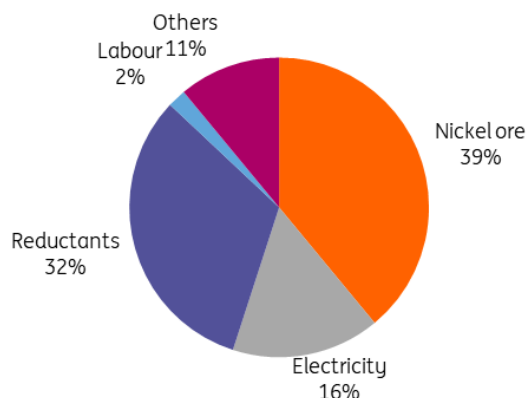


Source: BNEF, INSG, company reports, ING Research

Despite plunging nickel prices, Indonesia, at least for now, is unlikely to slow down its nickel supply to the global market. The country is likely to be more resistant to output cuts benefiting from inexpensive labour, subsidised power and abundant raw materials.

Meanwhile, the newly elected president of Indonesia, Prabowo Subianto, is likely to continue the current government’s mining policies in the country. We believe rising output in Indonesia will continue to pressure nickel prices this year.

Nickel industry cash components (2022)



Source: BNEF, ING Research

ING forecasts

	Q1	Q2	Q3	Q4	2024
Copper	8,380	8,500	8,700	8,900	8,620
Aluminium	2,220	2,250	2,270	2,300	2,260
Nickel	16,600	16,800	16,850	17,000	16,813
Zinc	2,550	2,570	2,600	2,580	2,575
Lead	2,180	2,200	2,100	2,200	2,170
Iron ore	130	125	120	115	123

Source: ING Research

Author

Ewa Manthey

Commodities Strategist

ewa.manthey@ing.com

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