

## Nickel's high volatility to remain on the cards in 2020

The global nickel market is likely to tighten next year not least because of Indonesia's ban on nickel ore exports. There does seem to be an issue with the pricing mechanism as the supply chain has been continuously reshaping itself both regionally and structurally. We're still expecting a high degree of volatility



A furnace at a Vale nickel plant in Indonesia

### Volatility to remain a factor in 2020

Think nickel, think volatility and we're expecting more of that next year. The metal outshone its peers, notably in the third quarter of the year. But those stellar gains virtually reversed in October and November. The rally was triggered by policy in Indonesia which aimed to reshape the supply picture. However, that policy soon unravelled amid demand reality. On top of all that, speculators just added to the volatility. You can see all that reflected in the dramatic flip in the forward curve and acute LME inventory outflows.

In late August 2019, Indonesia announced it was bringing forward an export ban on nickel ore (grade less than 1.7%) from 2020 onwards instead of the initial deadline of 2022. Mining companies were seen to be increasing their ore exports substantially, and investments into the processing sector were somewhat lacklustre. Indonesia is a major nickel ore supplier to China,

exporting around 15 million tonnes of ore (+36% YoY) over the first nine months of 2019.

Indonesia's share of Chinese nickel ore imports is around 38%, marginally below the top supplier Philippines of around 58%. The ban on Indonesian exports would create a short-term supply gap for the nickel market, particularly to China as it had increased large-scale capacity down the supply chain from NPI (nickel pig iron) to stainless steel. Increased appetite prompted the country to boost ore imports ahead of the ban with volumes remaining very strong since September.

## Policy change could lead to supply gap

Indonesia's rationale for the ban was to encourage investments towards downstream sectors. Over the last couple of years, the industry has seen a surge in investment into Indonesia from ore mining, NPI to stainless steel as well as HPAL (High-Pressure Acid Leaching). And a large chunk of that investment comes from overseas. That's evidenced by the rising exports of NPI. These could increase from around 260kt in 2018 to around 360kt in 2019 and further to 500+kt in 2020 as Tsingshan and Antam, among others, add capacity. Nevertheless, the supply gap to the Chinese NPI industry remains unresolved despite prebuilt ore stockpiles, and this may start to lead to a curtailment in Chinese NPI sectors as inventories run down.

If circumstances change again and Indonesia really does stick to the ban from the beginning of 2020, the market will begin to feel tightness towards the second half of next year. In the short term, the market needs to deal with low inventory in the LME sheds, particularly when it was reported to be off-loaded by a single buyer; the market had to get a sense of the real market supply and demand dynamics. That said, if low inventory remains in place, this will provide support to prices and prevent them from falling further on fears of a squeeze. Should the current low inventory persist into next year combined with real tightness, it all should provide more solid ground for prices next year.

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### *There are two aspects to nickel's future demand direction*

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The nickel market is set to see a marginal deficit over next year if Indonesia sticks strictly to the ban. It's hard to stick to a single baseline forecast. We believe that price volatility will remain high. The reason is deeply rooted in an industry which has been reshaping itself both regionally and structurally, and which has partly resulted in an issue in the pricing mechanism. Earlier this year, we highlighted two milestones in the nickel industry and we're set to see a split in the supply chain. With governments and major carmakers gearing towards electric vehicles, we still see a strong demand narrative for power storage batteries and materials, which include nickel. And the latest trend of shifting towards higher nickel content in batteries is encouraging.

In other words, there are two aspects to nickel's future demand direction. The first, as above, is its traditional usage in the making of stainless steel. The second is technological, as it forms a vital element in battery materials. And that's a key thing to consider as it includes a number of HPAL projects which could see a significant breakthrough in the future. In our view, this holds the key to the nickel market's longer-term outlook.

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