

Can nickel avoid a crash?

The move higher in nickel seems overdone, and a pullback in the short term appears inevitable given the weak stainless steel downstream demand. Is a crash in price the only fate for nickel?



Nickel's poor performance in 2023 has been driven by a supply surge from Indonesia

Nickel has had a stellar year so far, defying the broader downbeat macro sentiment. The London metal exchange 3-month nickel reached its peak of \$18,850/tonne in early September - a 75% rally since the start of the year. The rally was largely fuelled by Indonesia bringing forward a nickel ore export ban from 2022 to the beginning of next year. While the move higher was exaggerated by strong buying from a single market player, which tightened up the market, pushing the cash/3M spread to above US\$200/t backwardation at one stage.

We think the nickel price is overdone and we also believe a pullback is justified, however, it's too early to judge whether the stainless steel sector will provide the significant downside some expect

However, more recently we have seen a pullback below the \$16,500/tonne level, while the spread

has shifted back to contango, as doubts start to creep in about the scale of the move higher in prices this year, particularly with weak end-use demand from the stainless steel industry. The International Nickel Study Group (INSG) also revised lower its expected deficit for the nickel market over 2019 from a previous estimate of 84kt to 79kt. Meanwhile, they are currently forecasting that the deficit will shrink to 47kt in 2020.

When we look at nickel's physical indicators - either the stainless steel stock overhang or weak premiums (which are in fact negative in China), they are all pointing towards weak demand, and suggest that there has been a disconnect between the recent strength on the LME and the physical market, implying a correction or even crash is inevitable.

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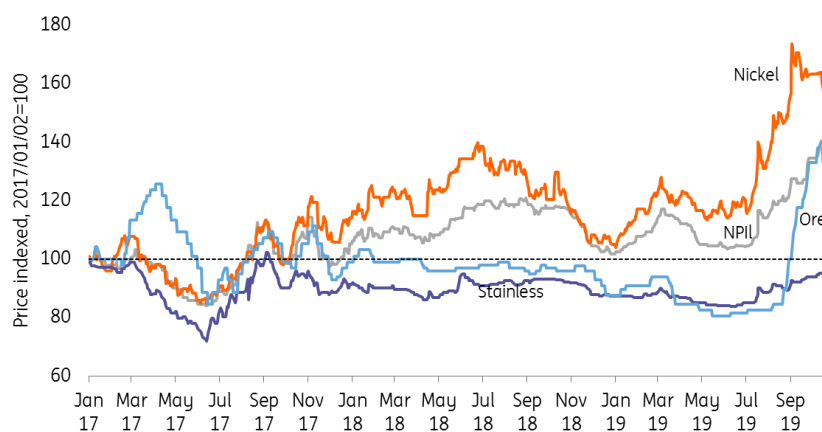
? Could the dislocation perhaps be the new normal going forward?

Over the last decade, the industry has witnessed a number of dramatic changes in the supply chain, which has led to these dislocations in the market. Perhaps the first can be traced back to around 2007 with the start of NPI (nickel pig iron) production, which consequently became a major ingredient in stainless steel making in China.

Since then we have seen nickel laterite ores leading in total ore supply, rather than sulphide ores. More recently, we have also seen Indonesia becoming a larger player in the NPI market driven by government legislation pushing the mining industry to invest more heavily in downstream assets. The second milestone is more recent, and that is the constructive demand outlook for nickel from the batteries industry, driven by electric vehicles. However, a large part of this does appear to be on the back of expectations of a significant pickup in demand, rather than realised strong growth.

These developments have led to supply chains evolving, with increased amounts of NPI used in stainless steel production leaving exchange-traded nickel slightly isolated, and reflecting increasingly other demand drivers. This divergence is likely to only grow moving forward, as demand from the battery sector is expected to grow, and capture a larger share of global nickel demand.

The price performance of nickel related products



Source: Bloomberg, ING

? Could there be another scenario?

This begs the question on whether nickel could come out largely unscathed from weaker end-use demand from the stainless steel sector, with LME nickel becoming increasingly disconnected from the stainless steel market. We believe that a trend we will see in these markets is a further break up between the two chains, i.e. nickel cathode vs NPI to stainless.

This means that at some point the stainless steel story would become less relevant as a driving force for prices. If this is the case, we would likely see the spread between cathode and NPI widen further. However for now, with the stainless steel sector still the dominant end-user of nickel, the weak stainless market should feed through to weakness in nickel.

Although this is a relationship that we expect to change over the long term.

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