

Nickel trading in crisis mode

Nickel is clearly trading in crisis mode. Market positioning could be the trigger, but the industry has long faced structural issues



A furnace at a Vale nickel plant in Indonesia

We predicted that nickel prices would remain elevated in 2022 due to structural issues in the market. These issues are an important vector behind the current crisis. On Monday, LME 3M nickel soared as much as 70% intraday, and the gains have continued on Tuesday, crossing US\$100,000/tonne, compared to just above US\$20,000/t at the start of the year. As a result, the exchange has been forced to halt nickel trading at the time of writing.

Fundamentals, though supportive of stronger prices, do not justify this frenzy. Strong demand has continued this year with the battery sector remaining firm, while stainless steel was in a seasonal lull but expected to pick up in the coming months. Exchange inventories continued to decline to 75kt, the lowest since 2008. Such a backdrop is not favourable for bears holding large short positions and has left the market vulnerable to a squeeze.

It remains to be seen how this crisis ends. However, the market has long been faced with structural issues. In particular, the exchange tradable/deliverable nickel is only around a quarter of global saleable nickel. But the supply growth is increasingly dominated by non-exchange deliverable nickel such as NPI or matte. This suggests that the underlyings behind the exchange nickel are increasingly decoupling from the real market. What we are seeing right now is only part of the impact as the nickel industry is constantly evolving.

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