

Snap | 23 May 2022

Rising supply of nickel intermediary products could ease tightness

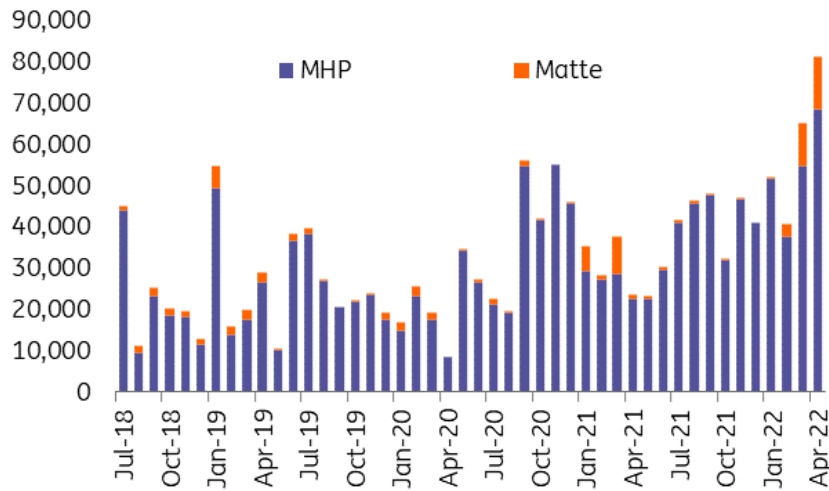
The rising supply of nickel intermediary products could be converted into Class 1 nickel as market tightness persists, which could also increase the availability of the right type of nickel for exchange deliveries



Raw nickel rock found in Indonesia

China's imports of MHP (mixed hydroxide precipitate) and matte hit a fresh record in April after the speed-up of NPI-to-matte conversion and the ramp-up of MHP projects from Indonesia, both suitable for making sulphate to meet the demand from the battery industry. During the first four months of 2022, total MHP imports into China have almost doubled from the same period of last year. Meanwhile, imports of matte jumped by 56% year-on-year, with March and April seeing the strongest volumes.

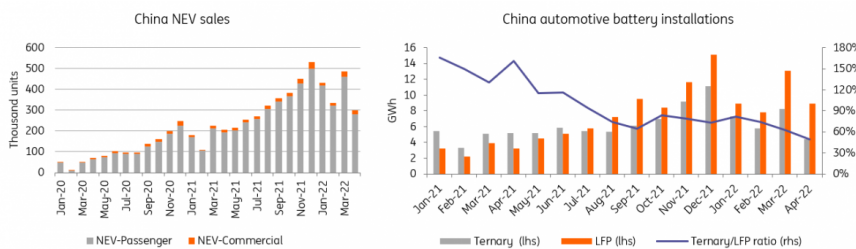
Surging imports of MHP and matte into China (tonnes)



Source: China Customs, ING

However, as the supply of feed sources for making sulphate accelerated, especially after the epic squeeze in early March, end-use demand for sulphate was hit hard by Covid lockdowns and some sulphate and precursors producers were reported to have cutbacks.

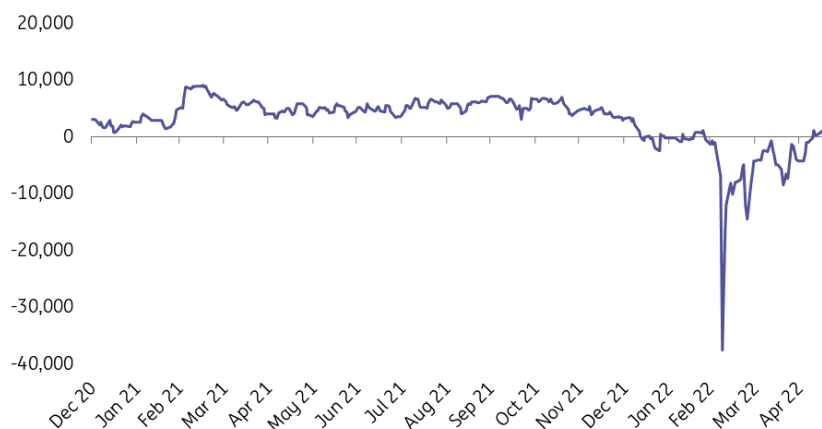
Nickel usage in the battery and NEV sector craters amid Covid lockdowns



Source: CAAM, ING

China's ternary battery installations hit a speed bump in April, along with new energy vehicle sales after lockdowns. Ternary battery installations plunged 47% month-on-month in April; meanwhile, total NEV sales dropped by 38% MoM. As a result, converting briquettes for making sulphate has been struggling to make profits.

Theoretical margin of converting briquettes into sulphate based on spot prices (yuan/tonne)



Source: Asian Metal, ING

The current forecasts of the market surplus are primarily dominated by Class 2 supply. Instead, the Class 1 market has remained tight, especially those for exchange deliverable nickel. As a result, Shanghai Futures Exchange nearby spreads have recently surged to a record backwardation.

This now creates incentives to convert matte/MHP into Class 1 nickel that meets the standards for exchange delivery. China Huayou recently announced that it will restart its plant to produce refined nickel using MHP. Meanwhile, we estimate at least 4kt matte was used to swap for Class 1 nickel last month. All of these suggest that the currently elevated London Metal Exchange prices could invite deliveries due to improving availabilities in the right type of nickel. Should that happen, spreads could come under further pressure.