Fastmarkets MB

Nickel Spotlight

August 29, 2024. James Moore, research analyst

Bullish:

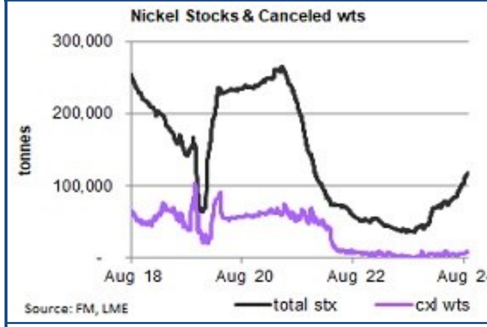
- Further monetary policy easing by major central banks is expected in the coming months. US Federal Reserve chair Jerome Powell signaled "the time has come" to lower interest rates while speaking at the Jackson Hole symposium recently. Markets are pricing both the European Central Bank and Bank of Canada to lower base interest rates by a further 25 basis points in September. While officials signal a cautious approach, a gradual reduction in borrowing costs will help to support spending on big-ticket items such as new cars.
- Data from Beijing-based Antaike paints a supportive backdrop for nickel demand in China over the first half of 2024. Production of nickel-containing 300-series stainless steel increased by 9.2% year on year. New energy vehicle (NEV) production grew by 30.1% while the market share of NEVs rose to 35% for the first half as a whole. Supporting this, battery-grade nickel sulfate production grew by a similar 32.2% year on year.
- While we recently lowered our demand expectations for 2024 due to a weaker battery market, the current generation of EVs and energy storage systems (ESS) remains supportive for rising demand from nickel-containing batteries. We expect a strong restocking cycle to bolster demand in 2025.
- Expansions in the battery sector and the stainless steel market remain key drivers for nickel demand growth in the longer term. Based on our latest quarterly Nickel 10-year Forecast report ,we forecast primary nickel demand to grow at a compound annual growth rate (CAGR) of 4.7% in the 10 years to 2034.
- Figures from the International Nickel Study Group (INSG) showed nickel mine production in New Caledonia, Australia and Papua-New Guinea recorded deep year-on-year contraction in the first half of this year, reflecting price-related closures. We believe these contracts will continue to grow with BHP’s Nickel West complex to halt operations from October.

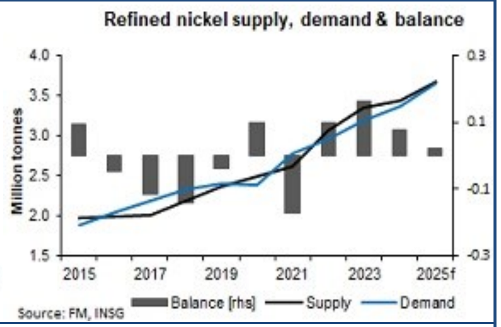
Speculative positions:

Commitments of Traders data show LME investors continue to run a net short fund position (NSFP), which totaled 14,096 lots as of August 23. Nickel’s more constructive price action could put pressure on the gross shorts to cover their bearish exposure in the short term.

Analyst comment:

“Positive chart momentum, improving seasonal demand from downstream markets and a polarized speculative positioning could help generate a modest price rise over the short-to-medium term. However, the continued rise in visible inventories in LME warehouses and current weak sentiment in the EV market will likely act as a barrier to more significant price gains.”





Current trend direction

Short term (0-3 m)		Medium term (3-6m)		Long term (6m+)	
	→↗		→↘		↗

Bearish:

- Geopolitical tensions remain high. Fears remain high that Israel’s conflict with Hamas, or against the Iran-backed Lebanese political organization Hezbollah, could escalate into a full-blown conflict. Russia has launched a wave of deadly air strikes on targets in Ukraine after Ukrainian troops launched an incursion into Russia's Kursk region.
- September is historically a poor month for the major US indices, that investors have dubbed the “September Effect.”
- August flash purchasing managers index (PMI) readings show manufacturing activity in the US slowed sharply while deteriorating forward-looking metrics suggest that recession risks remain. Activity in the eurozone remained in contraction with major industries, particularly vehicle assembly, continuing to contract compared with year-earlier levels.
- Reflecting this, the European Steel association Eurofer forecasts real steel consumption in the region contracting by 3.1% in 2024, compared with the 1.7% contraction forecast in April.
- Visible LME stocks stand at a two-year high with the influx of China-produced cathodes improving availability. Chinese smelters are understood to add an estimated 300,000 tonnes per year of capacity, converting Indonesia-sourced class 2 nickel into class 1 deliverable material, over the next two years. We expect LME and SHFE nickel stocks to keep growing in the coming months while we forecast the market recording an accumulated surplus of 87,000 tonnes in 2024.
- Canada is the latest country to impose punitive tariffs on imports of China-made electric vehicles (EVs) and follows earlier decisions by the US and European Union. Tariffs, either directly on vehicles or on associated components, will do little to bolster sales for domestically-produced vehicles in the short term, with high borrowing costs remaining a major obstacle following the end of subsidies.
- Battery and vehicle manufacturers are accelerating the development of closed-loop recycling plants. Metals and materials recovered from black mass will become an increasing source of supply as demand for lithium batteries for energy transition picks up.