

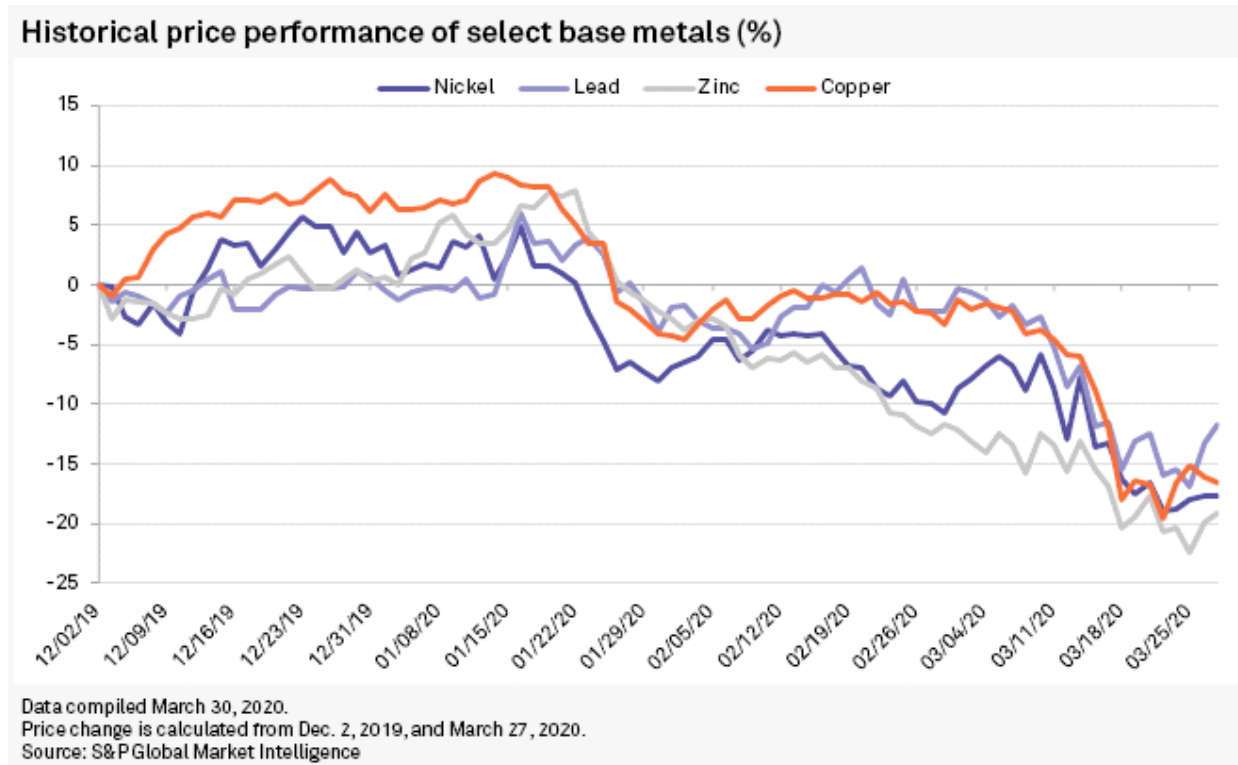
# Nickel tipped to rebound best among base metals during COVID-19 recovery

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By Anthony Barich  
Market Intelligence

Analysts say nickel is the best placed of the base metals to rebound once the world starts to bounce back from the COVID-19 pandemic, given its exposure to electric vehicle demand and to China's economic recovery, which is expected to start in the second half of 2020.

Australian independent analyst Jean-Francois Bertincourt said that while COVID-19 has interrupted nickel's 2019 surge stemming from Indonesia's ore export ban, it was the best performing base metal last year, gaining about 30% compared with stable to negative performance for others.



Bertincourt said in an interview that nickel prices are now depressed below their 100-year average of US\$14,450 per tonne, and while stainless steel still represents 70% of global demand, the promise of electric vehicle demand will underpin strong long-term fundamentals more than any other base metal.

Though the EV market is still in its infancy with just 6% of nickel use in 2018, it grew by 340% in the four years up until then, and Bertincourt said preliminary numbers for nickel demand from EV batteries for 2019 already confirms the trend is continuing.

This is despite weaker EV sales growth in 2019 due to China reducing EV subsidies in recent years in an effort to encourage a more self-sustaining and competitive industry. However, news broke this week that the country will extend subsidies and tax breaks for purchases of new energy vehicles, or NEV, by two years.

Like all new successful technologies, Bertincourt expects EV adoption will follow an S-curve, and while it is currently in

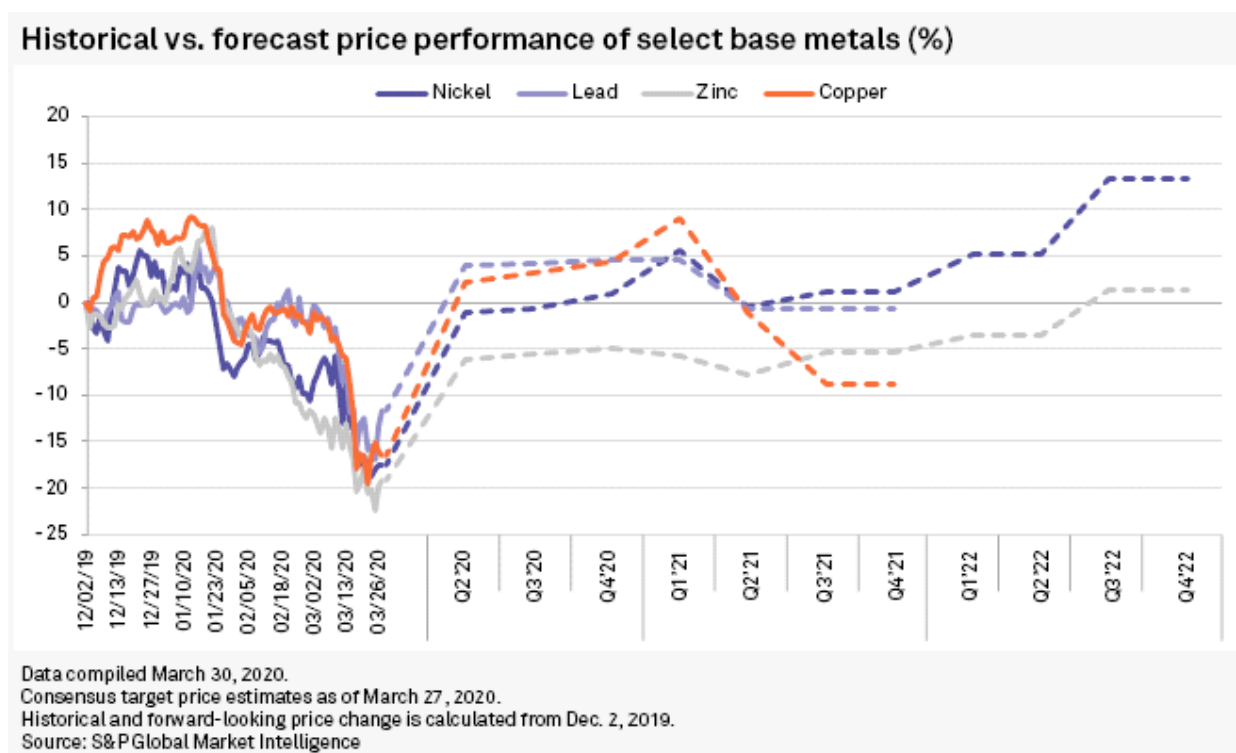
the lower part of the S, the tipping point will be reached when a number of EVs demonstrate their superior performance associated with a lower cost.

This is evidenced by Tesla Inc.'s Model 3, which owes its existence in part to decreasing battery costs year on year, with purchasing costs in line with similar internal combustion engine, or ICE, vehicles, far lower running costs and far superior longevity.

"With other car manufacturers reaching that point, the EV market share should experience tremendous growth creating tension on battery raw materials, with nickel representing in excess of 70% of the metal in new cathode chemistries," Bertincourt told S&P Global Market Intelligence.

From a market size of 2.5 million tonnes of nickel currently, Bertincourt said EV demand could add up to 2 Mt in the next decade.

"No other base metal is likely to experience such market disruption," he said, and Market Intelligence data shown below shows its positive expected trajectory compared to base metal rivals.



However, Market Intelligence nickel analyst Jason Sappor said nickel prices will have to rise further to incentivize the development of new class 1 nickel projects — such as capital-intensive high-pressure acid leach projects — needed to satisfy demand from the growing global EV industry beyond 2022.

It expects downward pressure on nickel demand from the novel coronavirus pandemic to overcome supply-side support that was anticipated to result from Indonesia's export ban.

Sappor said this will drive the global primary nickel market from an estimated deficit of roughly 30,000 tonnes in 2019 to a small surplus of 11,000 tonnes in 2020, and forecasts the average LME three-month nickel price to fall by 13.8% to US\$12,036 per tonne in 2020.

Based on expectations that the Chinese economic recovery will start from the second half of 2020, Market Intelligence expects China's primary nickel consumption to rise above pre-COVID-19 levels by 2021.

"We forecast that this, combined with reduced nickel pig iron in China as a result of a shortage of a nickel laterite ore

due to the Indonesian nickel ore export ban, will push the global primary nickel market back into a deficit over the next two years," Sappor said, so the average LME three-month nickel price will increase to US\$14,000/t by 2022.

Sappor said the main risk to Market Intelligence's forecasts in the short-term are skewed to the downside, like the possibility that a second-wave of the novel coronavirus in China could delay its economic recovery from the pandemic, which would negatively impact primary nickel demand and prices.

Longer term, higher primary nickel production from Indonesia, which is aiming to produce more value-added metals products, could make the primary market less tight than expected beyond 2020 and put downward pressure on prices.

However, recent updates on virus outbreaks there could hinder this downward pressure, with the Indonesian government saying that the coronavirus will likely delay the development of about US\$11 billion worth of nickel projects.

### **Key players**

Bertincourt said the emergence of a new market comprising various lithium-ion batteries for EVs or energy storage systems has already changed the behavior of major miners, citing BHP Group which tried to sell its Nickel West division for five years up to mid-2018 but is now investing to convert its nickel products to better fit the requirements of EV battery manufacturers.

He noted that over 75% of Nickel West's nickel production is now delivered to battery manufacturers against none in 2015, with similar changes observed with Sumitomo Metal Mining Co. Ltd..

Broker Bell Potter Securities' senior resources analyst David Coates said in an interview that Australian mid-tier producers are well placed operationally to benefit from forecast future demand, even amid the current COVID-19-related downturn.

Western Areas Ltd. and IGO Ltd. are advantaged by an Australian-dollar cost base, while Nickel Mines Ltd. has costs below US\$8,000/t, so "even at [around] US\$12,000/t they're still making pretty good money."

On April 1, Western Areas reported that its COVID-19-related procedures have enabled production from its operations to proceed as planned, with deliveries of nickel concentrate to local and export customers "continuing as normal," and fiscal 2020 production guidance maintained for now.

Nickel Mines said in a same-day statement that Pt. Indonesia Morowali Industrial Park had enforced strict safety COVID-19 measures since January, and the government of Central Sulawesi locked down its borders on March 23. Yet both the company's Hengjaya nickel and Ranger nickel rotary kiln–electric arc furnace projects for the first quarter of 2020 have seen an "undiminished continuation of the steady state production output and operating cost performance."

*Anna Duquiatan contributed to this article.*

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