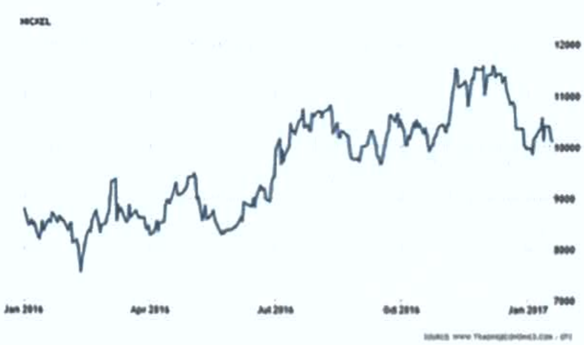
NICKEL - FACING POLICY TURBULENCE

Riz Shaban
Director of Gulf Region
Lucky Group

Nickel is one of the most predominant metals used in the modern industry, with two-thirds of the world supply being used in the stainless steel sector. Nickel has seen significant policy changes in 2016 and carrying well into 2017. Indonesia is partially reversing their knock-out export ban policy, Philippines continues on its environmental protectionist mission and China reacts accordingly to fluctuating nickel ore supply. Even India is caught in the flow of policy upheaval, demanding its government lower import taxes on raw materials or do away with customs import duty on materials like nickel which has no presence in India at all – and hence does not require policy protection.

Nickel finished at $10,180 per ton in mid-January, about a $100 higher than the LME price on New Year's Day. Metal markets started the year off in a damp mood and a weak dollar with the press conference by US president-elect Donald Trump disappointing investors with the lack of detailed fiscal plans and direction, shares Metal Bulletin. However, the Trump promise to boost infrastructural spending may still support prices.



Indonesia: Policy Turnaround

Indonesia will be relaxing its ban on nickel ore exports – a ban put in place in 2014 to encourage downstream industry development in the country. Ideally, it would be more profitable to process the ore domestically and export a higher-value product than export the ore directly to demanding countries like China.

The Problem

Investment into downstream smelters was slower than planned – miners were reluctant to invest when their own revenues had dropped due to the export ban. Indonesia lost billions of dollars in revenue, which it had until then been the number one feeding stream for nickel into China's vast stainless steel sector. With falling revenues, Reuters highlights, unemployment rose in Indonesia's mining sector.

The Resolution

Within three years, Indonesia has decided to relax the ban to restart cash flow into the country to direct into downstream investment – with a stipulation. Nickel ore has 1 to 3.5 percent nickel content. The ban reversal permits the export of only low-grade ore (with 1.7 percent or less nickel content) against a commitment to develop its own smelter within five years. Export will further be permitted after meeting 30% of Indonesia's own low-grade ore requirement.

The Reaction

Markets turned bearish when considering the amount of permitted nickel ore that will flood the global market. In the three years since the ban, several smelters – mostly from China – had developed inside Indonesia to process ore and export product to meet China's NPI demand – a gradual sign of success of the purpose behind the original ban. These smelters had assumed the ban would be in place for many years, providing a continued opportunity to tap into the rich resources of the country to feed China's stainless steel sector. It justified their investment of as much as $15 billion in downstream facilities, with NPI export almost entirely to China jumping 213% year-on-year in 2016 to 95,900 tons. At the announcement of partially reversing the ban, according to the Processing and Smelting Companies Association (AP3I), corporate shares of these smelters plummeted and are now floundering with the uncertainty of Indonesia's export policy direction.

A Reuters-cited interview of an Indonesian nickel miner called it a "massive double blow" for smelters – the mandatory use of low-grade ore will increase operating costs, compounded by an impending market crash that will drop prices further. Low-grade ore accumulates as it is dug through to reach higher-grade ore, and is often discarded. With the low-grade ore stipulation, it allows it to be utilised in a market, but on the flip side it increases the cost-base for NPI, is more energy-intensive and more polluting – issues that key buyer China is combatting.

A Counter-Argument

Energy and Mineral Resources Minister Ignasius Jonan claims that the export allowance will not flood the global market as feared; in fact, it "is aimed at balancing the country's smelters and creating job opportunities at mines." Metal Miner statistically argues a bullish direction. With Indonesia's smelting capacity at 16 million tons, 30 percent or 4.8 million tons must be processed domestically. 10 million tons of low-grade ore is produced; which leaves 5.2 million tons to potentially export. Considering Indonesia would export 60 million tons prior to the 2014 ban, this is just 9 percent of it – hardly an amount that can 'flood' the global market.

Philippines: Environmental Crackdown

When Indonesia stepped back in 2014, Philippines took the lead as the number one global supplier of nickel ore, accounting for about one-quarter of the world's nickel supply. It is on a mission to crackdown on environmental infractions, including investigations into mines. One planned $2.5-billion nickel venture has been suspended, just like more than 18 nickel mines last year – which had spurred prices by 14 percent in response to concerns about tight nickel ore supply in the global market.

According to Economic Calendar, the lasting impact of these decisions will depend on how effectively the suspensions are enforced. Philippines will have to be sensitive about their trade relationship with China – it still requires the Asian giant's investment across all its sectors while China expects the country to meet its raw material requirement.

China: A Slowing Stainless Steel Sector

Metal Bulletin predicts a slowing stainless steel production growth in China for 2017, which could dampen its nickel requirement. With China targeting domestic excess capacity and better environmental conditions for its people, many new stainless steel projects remain unapproved or postponed. This could also explain why Chinese industrialists are adamant for their Indonesian projects not to be jeopardized by the country's export reverse-ban.

China also continues to tighten its export policies and implement controls to cool its real estate market, the domestic smelters will now face more competition from Indonesia as it restarts its exports, and Europe and USA impose stricter anti-dumping duties. All of these play into imposing downward pressure on nickel demand and price.

The Future of Nickel

UK-based BMI Research expects refined nickel prices to remain under pressure with the uncertainties of the impact of Indonesia and Philippine policies on global nickel supply, and anticipates a gradual rise in price in H2, 2017. Numerically, nickel could dip below $10,000 per ton before moderately rising to an average $10,500 per ton for 2017. The key bolster for nickel price will be China's continued progress in the construction and transport sector, of which stainless steel production will be a requisite material, it claims.

Likewise, the International Nickel Study Group believes demand for nickel will continue to rise well into 2017 with increased stainless steel production across all major sectors. Outside stainless steel, nickel demand will remain strong from aerospace and battery sectors. New York-based INTL FCStone forecasts nickel price to average $11,200 per ton in 2017, ranging from $9,000 to $13,000 per ton throughout the year.

www.luckygroup.com

Disclaimer: This report has been prepared solely for information purposes, using publicly-accessible sources that are believed to be accurate and reliable at the time of publishing. LUCKY GROUP accepts no liability whatsoever for any loss or damage resulting from the use of information or opinions expressed in the report.

Sources: BMI Research, Chinese Merchant Futures (CMF), Economic Calendar, International Nickel Study Group, Metal Bulletin, Metal Miner and Reuters.