

Nickel price rally not expected to tempt producers

Nickel has found some strong bidding interest in the last few months for the first time since late 2015. Nickel is a versatile metal element that gives alloys corrosion resistance and the ability to withstand high temperatures and pressures. Nickel-containing materials play a major role in industries as diverse as food preparation equipment, mobile phones, medical equipment to transport, buildings and power generation.

A large percentage of all new nickel sold each year goes into alloys, two-thirds going into stainless steel. It therefore follows that the fortunes of nickel are inextricably linked to that of stainless steel. In this regard, Chinese economic data becomes of increasing importance to the nickel market, given how inherently reliant the global steel and stainless steel markets are on Chinese demand.

At the end of their useful life, nickel-containing products can be collected and recycled for future use and re-use, which is likely to make the metal useful in terms of today's world characterised by more environmentally friendly leaning government policies.

Nickel prices are up sharply this year, with the price rally accelerating earlier in July. The market is seeing support from a supply shortage and increased Chinese demand. In terms of the latest buying interest, the proposed environmentally friendly leaning measures of the Philippine government have been one of the purported reasons for this due to potential mine closures as a result.

An audit of mines being carried out by the new Philippine government, which has vowed to shut operations causing environmental harm has fuelled worries over supply side

dynamics. The Philippine minister in charge of mining, Regina Lopez, has already suspended operations of seven domestic mines for failure to meet environmental regulations. However, if the Philippine government's crackdown on mines ends up resulting in very few mine closures, then nickel prices could see a steep correction.

At the same time though, refined nickel imports in China have surged to a record in the first half of the year, with the Philippines being the largest exporter of nickel to China, which may still offer the metal some support in the coming months.

In terms of these two developments, it is interesting to note that the latest Reuters analyst projections on the nickel market see analysts increasing their global deficit projection to 41,000 tons from 25,000 in the April forecast. Core Consultants' outlook for 2016 has remained unchanged at 24,000 tonnes in deficit.



The increase in nickel prices however has not yet been good enough to encourage nickel miners. According to Core Consultants' evaluation completed in June this year, almost half of global output is losing money with the percentage of underwater production even higher when capital spending and other costs are factored in, with many nickel miners seeing diminishing returns on production.



This suggests that the latest price rally may not yet be enough to tempt more producers into the market in the near term with the supply deficit-fueled rally still being questioned. In terms of this, investors should place some focus on the latest Chinese PMI data for more insight in terms of potential future demand.