DAILY ANALYSIS REPORT

Thursday, October 24, 2019

Supply concern and falling LME inventories to keep Nickel prices firm

Crude oil prices up after a surprise drop in US inventory

SUPPLY CONCERN AND FALLING LME INVENTORIES TO KEEP NICKEL PRICES FIRM

- Nickel prices touched one-week high today, after authorities in Papua New Guinea shut down a nickel processing plant following a slurry spill. Papua New Guinea nickel plant is run by Metallurgical Corporation of China.
- In another incident, an accident at major Nickel producer Nornickel's mine this week in Siberia was also providing support to prices. Norilsk Nickel's Siberian operations include two ore concentrators, capable of treating 11Mt/y of ore, and three smelters with a combined capacity of 350,000t of copper and 160,000t of nickel. Three people were killed on Tuesday in an accident at Taimyr underground mine in Siberia. This incident raised some supply concerns, but the fear quickly eased after the company said the mine was unaffected.
- Nickel inventory dropped nearly 46% in one month. LME warehouse stocks were at 156108 mt a month ago and currently stand at 83694 mt. LME inventory are at 2011 levels. Meanwhile SHFE warehouse stocks were at 318988 mt a month ago and currently stand at 316466 mt. SHFE inventory drop marginally in comparison to LME inventory.
- Nickel prices have rallied to five year high in September, following an export ban levied by Indonesia. Indonesia announced in September 2019 to stop nickel ore exports from Jan. 1, 2020, which was two years earlier than initially indicated. Indonesia is developing electronic vehicle industry. The government aims to have 36 nickel smelters by 2022 with a total input capacity of 81 million tonnes. Nickel is widely used in batteries used by Electronic Vehicles. Nickel prices are up by 59% from December 2018 levels.
- Indonesia is a big supplier in the global nickel market, which contribute nearly 27% of world mined production. Indonesia is followed by Philippines at 14%, Latin America at 10% and Caledonia at 9%.
- Export ban in Indonesia will be affecting the supply of ore to China. China imports the ore to produce nickel pig iron (NPI) which is then used to produce stainless steel. Indonesia will capture lost market share from China to produce nickel pig iron (NPI). In 2018, China produced nearly 26.71 million tons of Stainless steel which was nearly 53% of world total production. China depends on Nickel ore imports from Indonesia. In the years 2015 to 2016, when the Indonesian government restricted nickel ore exports, China compensated for it by importing nickel from the Philippines. While these imports will replace or offset the shortage but it will not meet the entire requirement for the China because of lower grade quality.
- According to a recent report from International Nickel Study Group (INSG), Global demand for Nickel is expected to increase to 2.52 million tonnes in 2020 versus 2.45 million tonnes in 2019, while global output of nickel is expected to increase to 2.48 million tonnes in 2020 versus 2.37 million tonnes in 2019.

Outlook

- Supply concern and falling inventory to keep Nickel prices firm. Nickel found strong support around 16000 per ton after a sharp decline from high of 18857; we expect price bounce from current levels if support level is not broken. We expect supply constraints to continue in the coming months and warehouse stock to drop further from current level to meet demand. Trade negotiations between US and China could also provide direction to Nickel prices as Nickel supply deficit to widen further in case trade war between US and China settles on a positive note.

CRUDE OIL PRICES UP AFTER A SURPRISE DROP IN US INVENTORY

- Crude oil prices have rallied on yesterday after EIA reported a surprise drop in crude oil inventory. This drop was mainly due to a decline in US oil imports and increase in exports.
- Energy Information Administration has surprised the market by reporting a draw of 1.7 million barrels for the week to October 18. Now Crude oil inventories are at 433.2 million barrels mark which matches the five year average for this season. Last week, the EIA reported a 9.3-million-barrel increase in inventories which kept prices lower thought-out the week.
- Oil refiners in US processed a daily average of 15.9 million barrels per day compared with 15.4 million barrels per day compared to the previous week. Refiners have increased oil production, but increased production is getting exported and keeping market in balance.
- According to the EIA report, Net US crude imports fell by 873,000 barrels per day to the lowest on record, while exports rose 435,000 barrels per day to a near-record 3.7 million barrels per day last week. Over the past four weeks, crude oil imports averaged about 6.17 million barrels per day, down by 1.50 million barrels per day year on year, while crude oil exports averaged about 3.30 million b/d, up by about 1.24 million barrels per day year on year.

Outlook

- Brent oil prices have found support around 58.30-57.50 and drop in US crude oil inventory to keep oil prices firm. The focus is on the US-China trade deal which could provide direction to oil demand as the global economic outlook is still looking weak and every rise in oil prices could be used a fresh selling opportunity.

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