Nickel's Spike Isn't Over Yet for Citi as LME Stockpiles Dwindle
2019-07-18 07:17:55.336 GMT

By Bloomberg News

(Bloomberg) -- One of nickel's most powerful rallies this decade has room to run at least in the short-term, according to Citigroup Inc., which says an unusual trading structure on the London Metal Exchange -- specifically tight supply showing up on forward contracts -- is fueling gains.

The metal used in stainless steel is up 20% in 10 trading days, its best performance by that measure since early 2010. The spike has extended an already yawning lead over its peers, with nickel nearing a 40% gain for the year-to-date against mostly flat prices for other base metals. It's also happening in defiance of any obvious shift in supply-demand drivers, Citigroup analyst Oliver Nugent said by phone from London on Wednesday.

Nugent cited "pockets of tightness" on the LME's forward curve, where some prices for nearer term delivery are now higher than later dates, implying short-term issues with supply and discouraging investors who may want to bet against the move. "My gut tells me you have another week of this momentum, maybe slowing down a bit, but that it's still a bit too early to fade the top" of the rally, he said.

Some have attributed the rally to reports that top producer Indonesia could end exports of unprocessed nickel in 2022. But Nugent said Jakarta's deadline isn't new and instead pointed to a dwindling in official exchange inventory, which is expensive to store and doesn't account for stockpiles being held elsewhere.

Speculative History

Nickel has a history of attracting speculative interest on expectations of supply shortfalls, only to see rallies quashed once it became clear there wasn't a shortage. The metal attracted a lot of interest in late 2017 from investors betting on its future role as a vital ingredient in high-performance batteries for electric vehicles, but that remains a small part of demand for now.

For Nugent, reduced LME inventory is spurring the latest bout of tightness and encouraging the spike in price. For example, it's pushed LME September futures to a $20 premium over October, after being at an $18 discount on July 2. It's a

backwardation that contrasts with nickel’s more usual contango structure, he said.
“What I think you’re seeing now is that a lot of stock has moved from on-exchange to off-exchange,” he said. “It’s that kind of tightness that will be discouraging people from entering short positions against a rally. It’s something that is happening more often when you’re losing that on-exchange stock.”
That view is bolstered, he said, by the fact that the LME appears to be leading the Shanghai Futures Exchange, rather than the other way around. While open interest and speculative long positions have also risen on the SHFE, the gap between London and Shanghai prices has widened in the past month.
“It’s humbling -- it’s a big, big move” he said. “Basically there was a consensus view for nickel to trend above $13,000 or $13,500 given we’re in a deficit, but the pace of this has been shocking,” he said. The metal currently trades at $14,845 a ton on the LME.

To contact Bloomberg News staff for this story:
Martin Ritchie in Shanghai at mritchie14@bloomberg.net
To contact the editors responsible for this story:
Phoebe Sedgman at psedgman2@bloomberg.net
Alpana Sarma