

# Aluminium and nickel return to fundamentals with sanctions on Rusal in flux

## Aluminium: Limited growth in supply, destocking pace is key

### Domestic supply remains stable

The supplies of aluminium and alumina sustained their stability at high levels in April. China produced 3.01, 2.73 and 3.03 million mt of primary aluminium in January, February and March, according to SMM survey, with operating rates at 88.4%, 88.7%, and 88.2%, respectively.

Chart 1. Aluminium output (1,000mt, %)

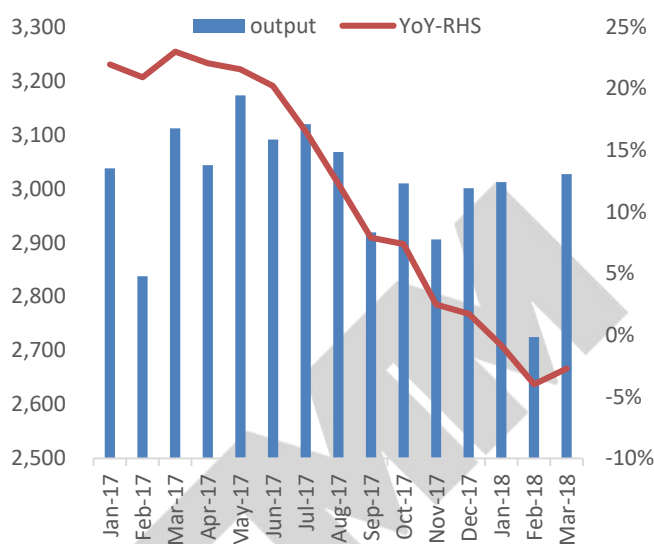
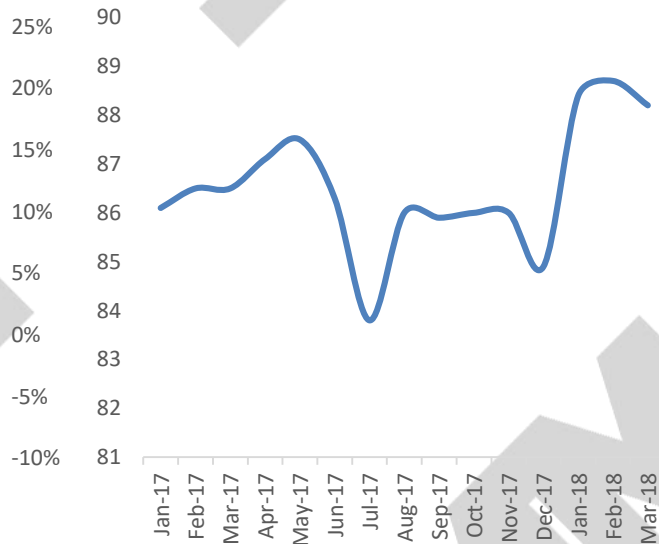


Chart 2. Aluminium operation rate (%)



Source: NBSC, SMM

Output of alumina stood at 5.56, 5.71 and 5.08 million mt in January, February, and March, with operating rates in Shandong province at 78.2%, 78.2% and 87.8%, respectively. We see limited upward room for the growth in supplies of aluminium and alumina. The movements of prices are mainly dependent on demand.

Chart 1. Alumina output (1,000mt, %)

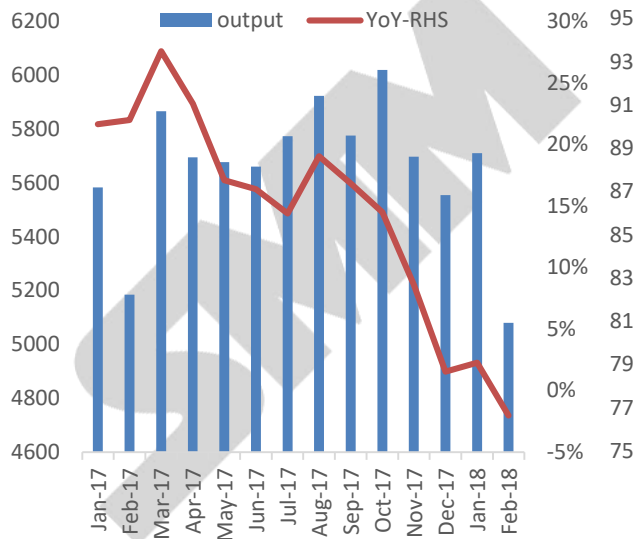
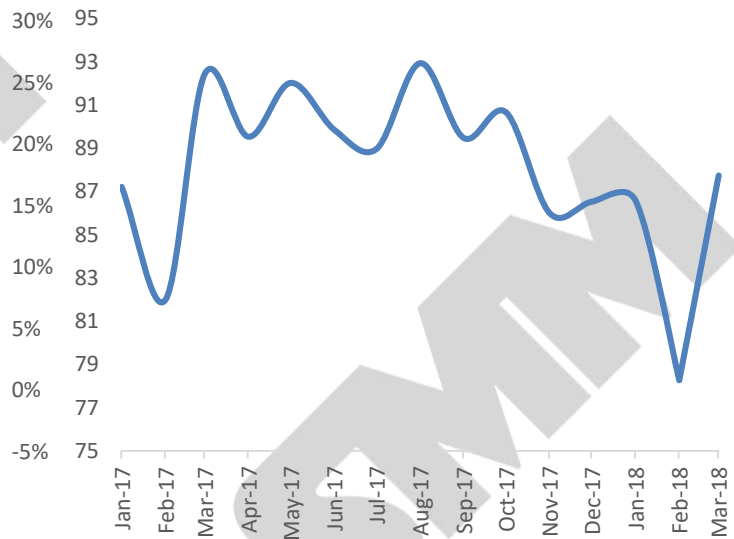


Chart 2. Alumina operation rate (Shandong Province, %)



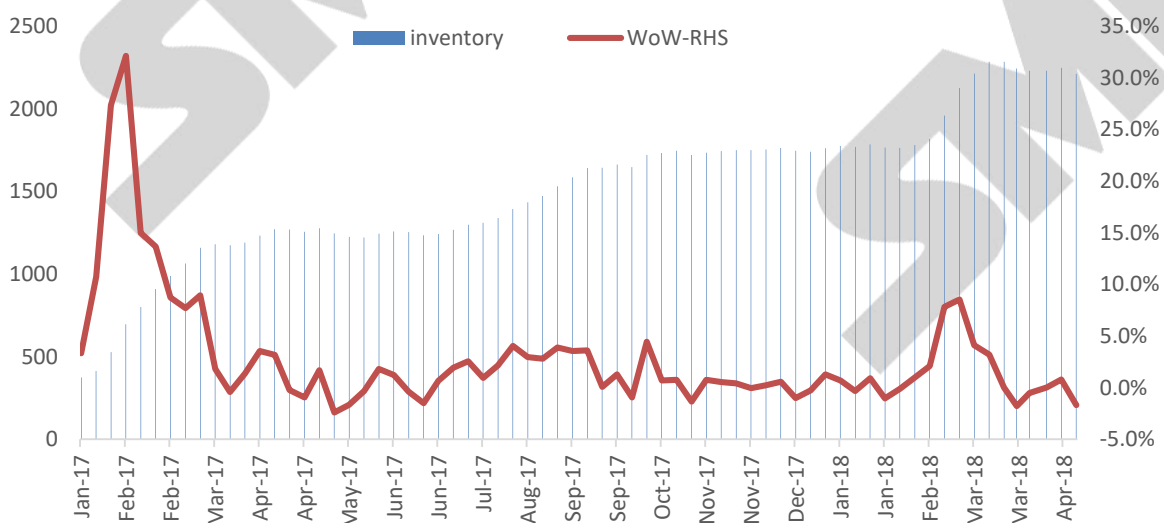
Source: NBSC, SMM

### Destocking pace is key amid high season

Aluminium returns to fundamentals as the US sanctions against Rusal were in flux, while March and April are the high season for aluminium consumption. As production recovered, supplies rose in March. The movement of aluminium prices is likely to follow the downstream demand as supplies stabilise with limited upward room. SMM believes inventory is key to watch out for in the near term.

Aluminium inventory stood at 2.21 million mt this week, down 1.7% from a week ago, according to SMM data. We are bullish on the consumption in the second quarter as China seems inclined to loosen its monetary and fiscal policies to support the economic growth. Demand is also likely to ramp up in the second and the third quarter amid more regular environmental checks.

Chart 3. Aluminium social inventory (1,000 mt, %)



Source: SMM

### SMM bullish on aluminium in mid-term on cost support

Costs are set to rise given the routinisation of environmental checks and the more strict regulations on captive power plants. In addition, the commissioning pace of newly added capacities may fall short of expectations in 2018, with supply increase failing to meet the forecast at the start of the year. **SMM expects primary aluminium to trade at 13,500-15,500 yuan/mt in 2018.**

## Nickel: Prices see support with new-energy vehicle demand and declining supply

### Nickel demand falls on NPI output growth in China and Indonesia

SMM expects an output addition of 78,600 mt of nickel pig iron (NPI) in Indonesia and 89,200 mt in China this year. As the monsoon season in Indonesia ended, the grade of NPI slightly increased and supplies rose. NPI prices are likely to be under pressure in the short term and production costs at stainless steel mills would decline. This is set to curtail the consumption of nickel. In addition, high inventories and sluggish demand of stainless steel also put a limit on nickel consumption. China's stainless steel output stood at 2.05, 1.88 and 1.97 million mt in January, February and March, while inventories were 2.89, 3.95, and 4.09 million mt, respectively.

Chart 1.Domestic NPI capacity (1,000mt, %)

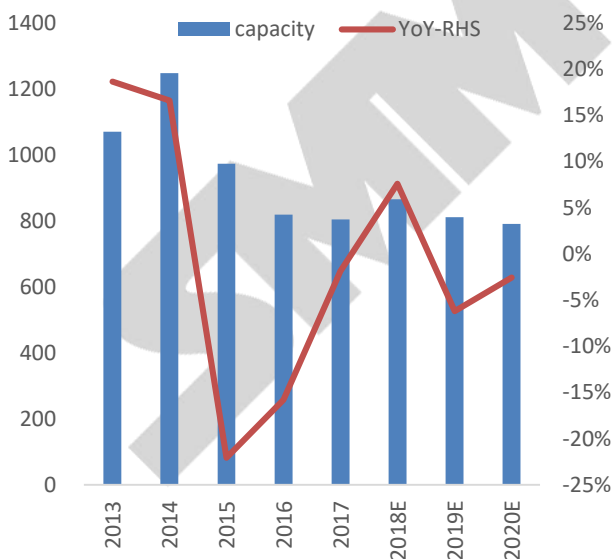
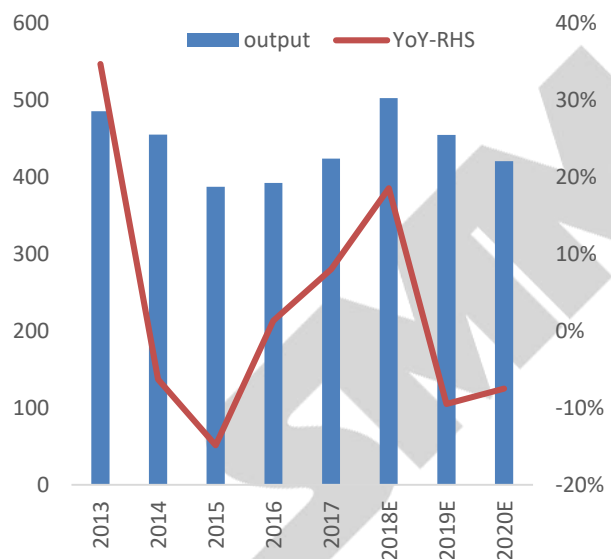
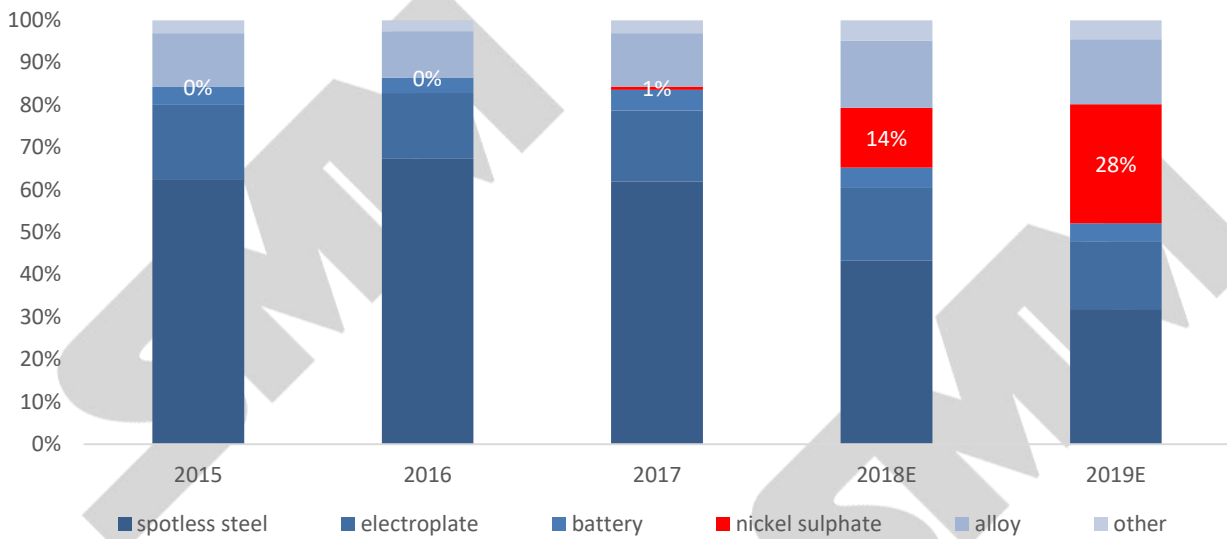


Chart 1.Domestic NPI output (1,000mt, %)



Source: SMM

**Chart 3. Nickel downstream breakdown (%)**


Source: SMM

### Nickel demand rises on booming new-energy vehicle demand

The trend of using high nickel and low cobalt batteries in new-energy vehicles is likely to boost the demand for nickel. SMM expects the capacity of nickel sulphate used in the production of high nickel content battery to rapidly expand during 2018-2020. Global capacity is estimated to reach 913,000 mt, 1.3 million mt and 1.55 million mt respectively in 2018, 2019, and 2020, up 73%, 42% and 19% year on year. Output are expected to reach 813,000 mt, 1.14 million mt and 1.35 million mt respectively, up 56%, 40% and 19% year on year, adding nickel consumption (in nickel content) by 32,000, 40,000 and 38,000 mt in 2018, 2019, and 2020.

SMM believes nickel prices would be bolstered further as the increase of demand for new-energy vehicles would offset that from stainless steel and as nickel supply decreases. We expect a global deficit of 38,000 mt in nickel content in 2018, and that of 2019 and 2020 to be 32,000 mt and 7,000 mt, respectively. **We expect nickel prices to trade between the range of \$15,000-16,000/mt this year.**

**Table 3. Global nickel supply-and-demand balance (1,000 mt)**

Name	2013	2014	2015	2016	2017	2018E
Global nickel output	1,954	1,988	1,976	1,989	2,118	2,315
Global nickel real consumption	1,785	1,871	1,882	2,027	2,150	2,322
Global balance (-short/+surplus)	169	118	94	-38	-32	-7
China nickel output	755	737	643	631	662	746
China nickel real consumption	850	971	987	1,083	1,143	1,190
China balance (-short/+surplus)	-96	-234	-344	-452	-481	-444
LME nickel price forecast (dollar/mt)	15,106	17,018	11,864	9,640	10,466	12,000

Source: SMM



Shanghai Metals Market

SMM has a comprehensive **China Cost Database** for nonferrous and ferrous metals, by conducting regular field trips and interviews with a majority of Chinese metal producers, from large-scaled to small-scaled, from SOEs to private-owned. We collect their detailed cost breakdown for individual plants/mines and for the whole production process, and update the database regularly as well as keep close track of any updates/changes.

We also have the **Cost Database** for Steel, Iron Ore, Aluminum, Copper, Copper Mine, Nickel, Nickel-Pig-Iron (NPI), Tin, Manganese, Lead and Lead Ore, etc.

**For more information, please contact:**

Email: [service.en@smm.cn](mailto:service.en@smm.cn)

Tel: +86 021-51550306