

Australian Metals & Mining

Critical Nickel unlocks welcome funding support, but (much) more needed

Industry Overview

Govt. funding and royalty support for domestic nickel

Australian Federal Resources Minister Madeleine King has upgraded nickel from a 'Strategic Mineral' to 'Critical Mineral', providing local nickel producers access to Government's A\$6bn Critical Minerals Facility and critical minerals-related grant programs. At the state level, the WA Government has also announced an 18-month, 50% royalty discount for nickel producers following BHP's decision to take a US\$2.5bn (post-tax) impairment against the carrying value of its WA Nickel business while flagging the possibility of parking up the entire division as it struggles with low nickel prices and high industry cost inflation (see [note](#)).

No quick fix for nickel industry facing structural issues

While the royalty discount and inclusion of nickel as a Critical Mineral are a positive signal for Australian nickel producers under our coverage (BHP, S32, IGO), these initiatives alone will not resuscitate a sector stressed under the glut of lower cost Indonesian nickel supply. We expect a 50% royalty discount to average US\$550/t for Australian nickel ops. In our view, the conversation needs to shift away from 'green premiums' for ESG-friendly nickel more toward economic incentives for buyers to choose 'green' nickel over cheaper alternatives. Without significant incentives for global buyers to bid for Australian nickel units over lower-cost global suppliers, we see the Australian nickel sector remaining challenged on costs as nickel price continue to soften.

Battery nickel becomes a pipe dream for costly producers

Loss-making class I nickel producers who were expecting to benefit from the EV revolution have been largely undercut by lower-cost Indonesian suppliers. A wave of Indonesian intermediate production (nickel-in-matte and nickel-in-MHP) saw battery grade nickel prices fall 26% in the last 12 months, with nickel sulphate trading at a discount to LME for most of 2023. With Wood Mackenzie expecting Indonesian MHP production to grow by 76% by 2026 and LFP batteries continuing to gain market share, higher-cost nickel mines look more challenged than ever. Concerns around the structural change are accelerating the closure of high-cost nickel operations in Australia (Savannah, Cosmos, Ravensthorpe, Kambalda), and New Caledonia (Dioniambo and Koniambo).

Indonesian nickel tax breaks hard to compete with

Indonesia based nickel producer Nickel industries (NIC) benefits from extensive corporate tax breaks including 7-year tax holidays for its NPI projects and 15-year tax holidays for its pending HPAL project. Indonesian President Prabowo Subianto is expected to continue supporting down streaming industries, including nickel, as e pledges to transform Indonesia into a high-income economy by 2045. Nickel Industries produced 101kt of Ni Eq in 2023, representing 80% volume growth YoY and equating to 60% of Australia's total nickel output. Furthermore, NIC generated an average margin of US\$2,500/t of nickel, keeping NIC profitable in a declining nickel price environment.

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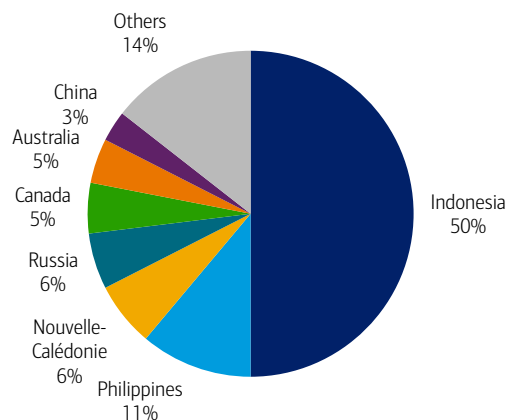
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Low-cost nickel supply continues to grow

Loss-making class I nickel producers who were expecting to benefit from the EV revolution have been largely undercut by lower-cost Indonesian suppliers. A wave of Indonesian intermediate production (nickel-in-matte and nickel-in-MHP) saw battery grade nickel prices fall 26% in the last 12 months, with nickel sulphate trading at a discount to LME for most of 2023. Indonesian MHP production is expected to grow by 76% by 2026 whilst nickel in matte could grow 22% by 2026, further adding to class I supply.

Exhibit 1: World Mine Production 2023

According to USGS, Indonesian nickel production grew 14% in 2023.

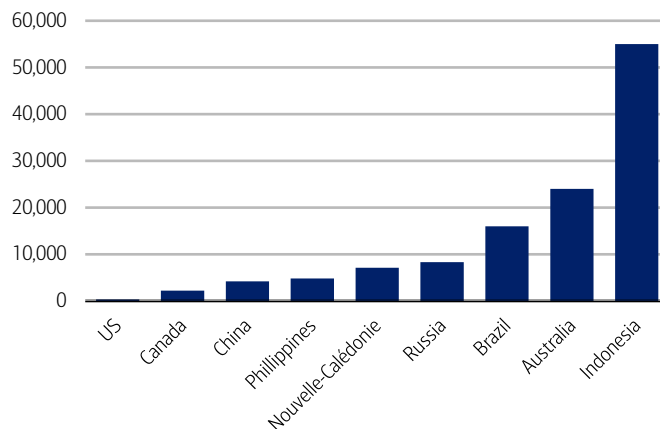


Source: USGS, BofA Global Research

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Exhibit 2: World reserves (kt)

Globally, nickel resources are estimated to contain more than 350Mt nickel, with 54% in laterites and 35% in magmatic sulphide deposits.

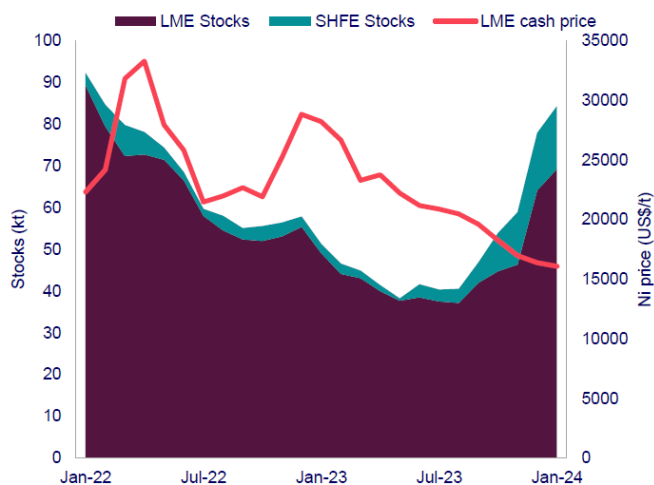


Source: USGS, BofA Global Research

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Exhibit 3: Exchange nickel stocks and nickel prices

Nickel stocks have doubled to more than 80 kt since August 2023

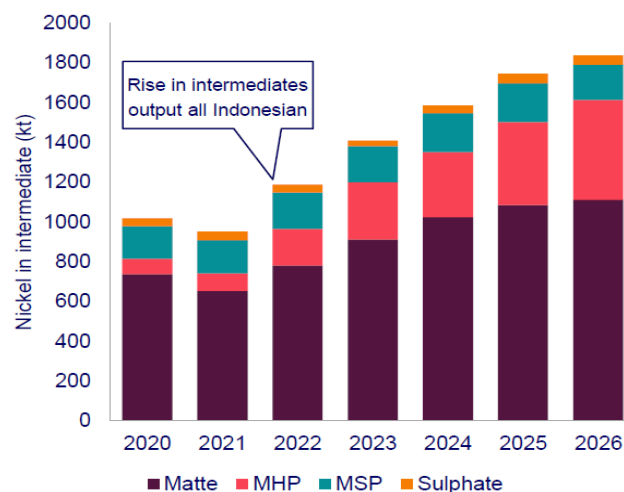


Source: Wood Mackenzie

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Exhibit 4: Nickel-in-intermediates production

Wood Mackenzie expect Nickel-in-MHP output to increase by 76% by 2026.



Source: Wood Mackenzie

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