



## Ride the EV Wave With a Tesla Nickel Supplier

### Description

These are difficult times. The global economy just came out of the pandemic and got stuck in the Russia-Ukraine war. The war has inflated the prices of commodities in which Russia is the world's leading exporter. One such commodity is nickel, a key component in lithium-ion batteries used in electric vehicles (EVs). **Tesla** ([NASDAQ:TSLA](#)) founder Elon Musk [flagged](#) a nickel supply shortage as the biggest concern for the EV sector back in 2020.

### Why is Tesla concerned about nickel supply?

Although there is plenty of nickel in the world, all of it cannot be used to make lithium-ion batteries. They need "class one" nickel with at least 99.8% purity. Such high purity is not available naturally, but a higher-grade nickel deposit makes processing less energy-intensive. Higher-grade nickel is mined from sulphide deposits deep within the earth's crust.

Several project pipelines for new, high-grade nickel mines have dried up over environmental concerns. Many miners are looking for environmentally friendly ways to mine high-grade nickel. Tight global supply concerns Elon Musk, as nickel demand will grow with the proliferation of EVs. Battery recycling won't be sufficient to fill the demand-supply gap.

Hence, Tesla has partnered with several nickel miners like **Talon Metals** ([TSX:TLO](#)) to secure nickel supply.

### The Russia-Ukraine war disrupts the nickel supply

Nickel supply is already tight, and the Russia-Ukraine war made things worse. Russia holds about 17% of global capacity for class one nickel. The United States only has one nickel sulphide mine (The Eagle Mine), which is expected to close in 2025. Hence, the U.S. depends on Canada, Norway, Australia, and Finland for the high-grade nickel.

When the war broke, the United States started imposing sanctions on Russia, driving nickel prices.

After Eagle Mine, the United States' hope for domestic nickel production is the Tamarack mine in Minnesota. Talon Metals is developing the Tamarack mine in a joint venture with Rio Tinto and expects to start operations by 2026.

## The investing case of a Canadian Tesla supplier

When Russia invaded Ukraine, Talon Metals stock surged 42% to a five-year high of \$0.89 between February 24 and March 31. Even though the company earns no revenue, investors priced in their panic around the nickel shortage and the need for domestic production.

EVs are a part of President Joe Biden's plan to achieve net-zero carbon emission by 2050. In the light of the tense relations with Russia, President Biden [added](#) nickel under the Defense Production Act (DPA) Title III program that offers several tools to support domestic production. Talon Metals could be a big beneficiary of government support.

On the demand side, COVID lockdowns in China, the largest EV market, have slowed demand growth. Hence, battery metal stocks took a plunge after surging significantly in March. Talon Metals stock fell 40% in line with nickel prices.

[Commodity stocks](#) can give your portfolio [asset-class diversity](#). But never buy commodities at their peak, for they cannot remain there. Commodities are [cyclical](#), as market demand and supply determine their prices. The trick is to buy commodity stocks at the dip and sell them at the peak.

Nickel prices are down temporarily due to weak demand from China, but the long-term demand for EVs remains intact. A *BloombergNEF* [report](#) expects nickel demand from the battery sector to grow three-fold from 400,745 tonnes in 2022 to about 1.5 million tonnes in 2030.

This is a good time to buy Talon Metals to get exposure to nickel prices. If the Tamarack mine becomes operational, the stock could surge high double digits.

### CATEGORY

1. Investing
2. Metals and Mining Stocks

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