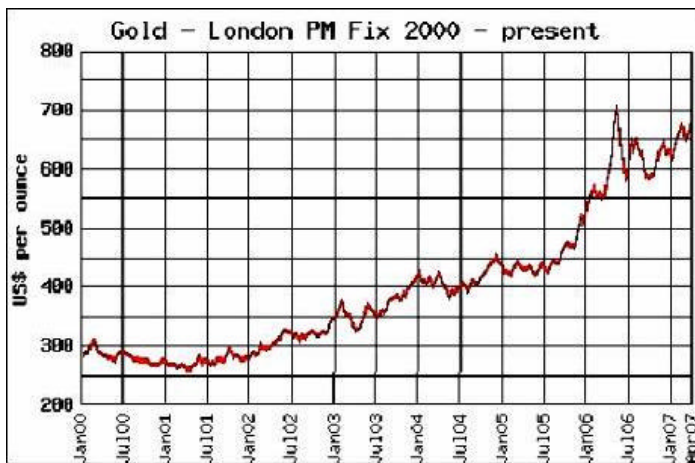


Philequity Corner (April 9, 2007)
By Ignacio B. Gimenez

Metals regain their luster

Last week, we discussed the various reasons behind the recent upturn in oil prices and how investors could adapt in this scenario. We might as well delve on metals prices which, along with the spike in oil prices, have also staged a rebound.

Gold has finally breached the \$682/oz resistance mark and closed at \$689 (for June delivery) last Friday. It has once again found appeal among investors fleeing from dollar assets, as the dollar hit a two-year low versus the euro and fell against five other major currencies. The strong demand for gold also comes amid firming oil price as the yellow metal is highly regarded as a natural hedge against inflation. Gold has posted six annual gains, reaching a 26-year high of \$732 an ounce in mid-May last year.



Source: www.kitco.com

Nickel and copper share the spotlight

Aside from gold, nickel and copper prices have also been on an uptrend. Tight supply amid strong demand, particularly from China, has enabled nickel prices to almost triple in the last twelve months to \$22.7325/lb. This was aggravated last week by a strike in a Canadian mine which accounts for 4% of the world output.



Source: www.kitco.com

Meanwhile copper prices have also recovered after falling momentarily to below \$2.5/lb in late February to \$3.33/lb last Friday. This was largely on account of expectations for growing demand, especially from China.



Source: www.kitco.com

What's in it for the Philippines?

Rising metal prices mean a tremendous lot for the Philippines. We have written extensively in the past on the potentials for Philippine mining industry (see "*The Philippines Does Not Have to Remain Poor*" and *Mining Boom, Back to the 60s* on the April 3 and April 24, 2006 issues of *The Philippine Star*, respectively). We highlighted that the country is the fifth most mineralized country in the world but we have barely tapped into the country's vast potentials. The prevailing strength in world metal prices only serves to heighten these opportunities.

Beneath the surface

Much of the peso's strength and the economic relief that we are experiencing today have been attributed to the steady inflow of huge OFW remittances, the advent of BPOs and the strengthening current account position of the country. However, we may have just scratched the surface and there is so much more underneath if we can only truly develop our mining sector. Today, mineral exports account for just about 2% of the total compared to 25% in the 1970s. In terms of output, the mining GVA is now at around 1.5% versus the peak of 2.2%. In countries with well-developed mining industries, mineral exports account for 20-60% of the total while the mining GVA represent between 4-15% of their GDP. Just imagine the boost to our economy if we can achieve these levels of contribution from our mining sector.

Separate the dust from the gem

These figures indicate that there are just as bright opportunities for investors in mining companies, either directly or through the stock market. However, we have to caution investors to do their research before digging in. Most of the mining companies in the country are either just in the initial stages of development or rehabilitation. It may take a long while before these are brought to productive or operating stage. As such, these are rather speculative and risky especially as many of these firms or projects entail huge capital investments.

As in any other investment, also check into the background of the management behind these firms. Do they have enough relevant experience and the required highly-specialized skills? Also, make a distinction between those which are now producing and profitable and those which may still be in the feasibility stage. It is also equally important to take into account the extent and quality of the ore reserves of these companies as this will give an idea on the sustainability of their operations and profitability.

While we advise prudence to investors, we maintain our belief that there are great opportunities for individual stock market investors to make money in the mining sector.

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