

**Philequity Corner (June 30, 2014)**  
**By Valentino Sy**

### **An Extraordinary Blessing**

In a previous article, we have written about how the Philippines is blessed in many different ways (see *There's More in the Philippines*, 13 January 2014). We pointed out the many good things in our country, such as the strong GDP growth brought about by OFW remittances and BPOs because of the unique talent and personality of the Filipino. We also cited the reforms that were instituted and PNoy's focus on governance, which created a secular bull market for stocks. For this article though, we will put the spotlight on one of our country's biggest blessings – mineral resources.

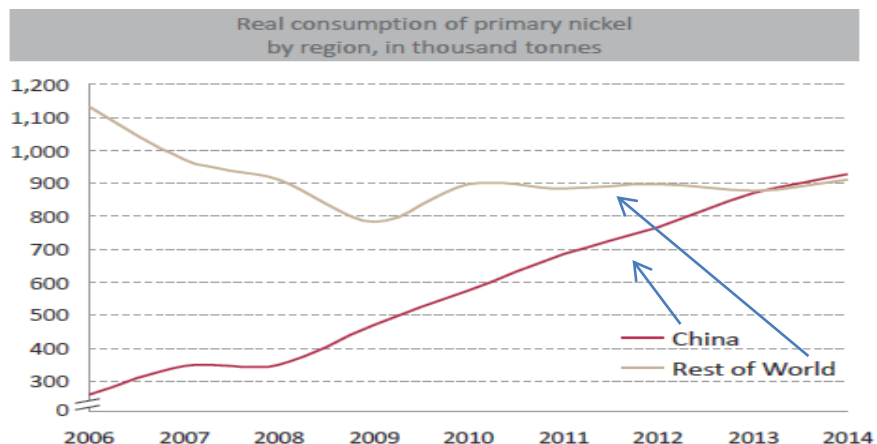
### **More Minerals in the Philippines**

In order to highlight our natural resources, we came out with a series of articles about our country's main metal exports (see *What is Nickel?*, 22 November 2010, *The 'Red Metal'*, 29 November 2010, and *Gold Sparkles*, 13 December 2010). Although these were written more than 3 years ago, the fact remains that much of our country's wealth remains underground. According to the DENR, the Philippines is ranked as the 5<sup>th</sup> most mineralized country in the world. Rich in many metals, research firms have estimated that our total mineral reserves amount to as much as US\$1.5 trillion – more than 5x our total GDP!

### **The Unique Philippine Nickel Situation**

Although the Philippines is known for being rich in gold and copper, it is also rich in another mineral – nickel. Nickel's main characteristic is its high melting point and exceptional resistance to corrosion, making it a primary component in the manufacturing of stainless steel. Due to the many applications of stainless steel, there has been strong demand for nickel, especially from China. In fact, China consumes more nickel than the rest of the world (see chart below). Fortunately for us, more than 90% of China's nickel imports are supplied by only 2 countries – Indonesia and the Philippines. Although Australia and Russia also produce large amounts of nickel, China does not source nickel from them. The main reason behind this is the type of ore they produce. Russia and Australia are rich in nickel sulfide, which is not usable by the ferronickel plants which Chinese nickel refiners favor. Thus, with abundant nickel reserves and a close proximity to China, our country's unique position is an extraordinary blessing.

### **China Nickel Consumption vs. Rest of World**



## Lone Supplier of Nickel Ore to China

Thus, Indonesia's move to ban the export of raw nickel ore last January is a very positive development for our country. In the past few years, Indonesia and the Philippines accounted for 50% and 45% of China's nickel imports, respectively. With China now starved of half its supply, it had no choice but to buy practically all its nickel from the Philippines. Because of our unique situation, we are by default the only supplier of nickel to China – an unprecedented event. This is confirmed by recent trade data from China which shows that in May 2014, nearly 99% of the 4M tons of nickel it imported came from the Philippines.

## Nickel Bonanza

As a result of Indonesia's export ban, nickel prices have skyrocketed. See below a 10-year chart of nickel prices in the London Metal Exchange (LME). After hitting a low of \$6/pound in 2013, LME nickel prices have since risen by 42% to \$8.55/pound. Though many foreign research firms expected nickel prices to rise, the meteoric rise in nickel prices caught them by surprise. At one point, nickel prices reached as high as \$9.80/pound this year.

LME Nickel Prices – 10-yr chart



## Shanghai Nickel Prices

What is more striking is how much higher ore prices in China have risen versus LME nickel prices, with some ore grades now being bought at more than 4 times their 2013 prices. See below a table showing the change in nickel prices in Shanghai from 2013 to 2014. Given that Philippine exports of raw nickel ore use Shanghai prices as a benchmark, the benefit to the country is actually much greater than what the LME pricing suggests.

### Shanghai Nickel Prices

Ore Type	Average 2013	As of June 2014	% change
	\$/WMT	\$/WMT	
Saprolite Ni >1.8%	34.44	115	234%
Saprolite Ni >1.5%	16.14	70	334%
Saprolite Ni >1.4%	-	50	N/A
Limonite Ni >1.2%	9	40	344%
HiFe ore	22.98	40	74%

Source: Shanghai Metals Market, Wealth Securities estimates

### From Trash to Cash

As a result, even low grade nickel ore which was trash and worth nothing in the past is now being bought by Chinese nickel refiners. Before 2014, only saprolite ore with >1.5% nickel grade were saleable. Anything with a lower grade than that was treated as waste material. However, in the past month, China has been purchasing these mounds of dirt to feed its nickel pig iron plants. In fact, our country's largest nickel mining company was able to sell this waste material at \$40/WMT, providing a windfall for the company. This goes to show that there is simply not enough nickel to go around.

### Nickel supply deficit worse than 2007

In the 2 years prior to Indonesia's raw nickel ore export ban, the nickel market was experiencing an oversupply, hence the low nickel prices during that period. However, as a result of the ban, the nickel supply-demand balance swung into a deficit. In order to estimate where nickel prices will go from here, we would have to look at 2007, when the nickel market was also at a deficit (see chart above). Back then, LME nickel prices peaked at \$24/pound. With consensus expecting the supply deficit for nickel in 2015 to reach a record, there is a strong possibility that nickel prices will go much higher from present levels.

### We are Blessed

We have to consider ourselves lucky for the many blessings our country has. For one, we have the unique character and skills of the Filipino people, which have fueled both OFW remittances and the BPO sector. Nickel is another of our country's many blessings which have put us in yet another unique situation. Let us harness it responsibly and be thankful for the many blessings that our country has.

### A Blessing in Uncle Wash

Today, June 30, is the 93<sup>rd</sup> birthday of Uncle Wash Sycip. Even at that age, he is still full of energy and was even able to watch the Taylor Swift concert with teeny boppers. Getting the advice and wisdom of Uncle Wash as a director in corporations, like our own Philequity Fund, is truly a blessing. He is not only a blessing to the corporate world, but to the entire country as well. Happy Birthday, Uncle Wash!

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