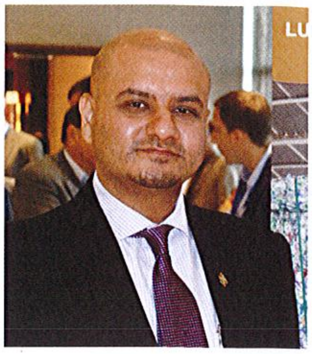
NICKEL - A STAR PERFORMER IN COMMODITIES



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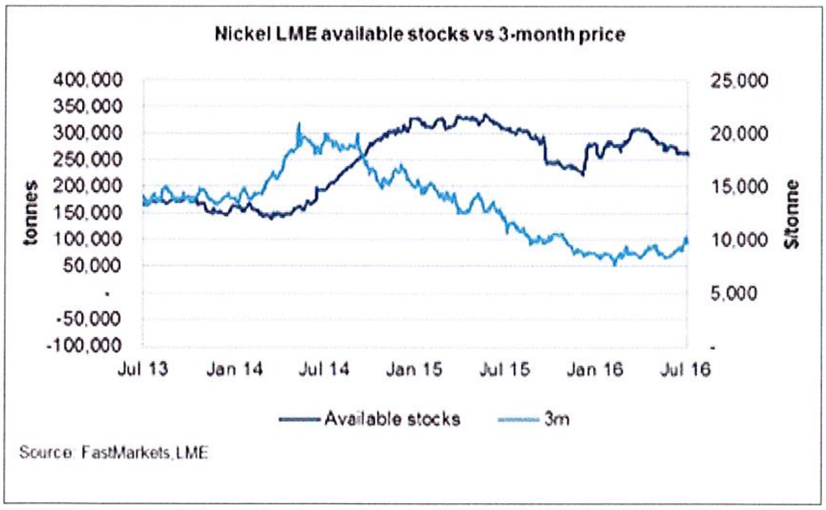
Nickel is looking up with more than a 20 percent rise in price since the beginning of the year to $10,600 per ton this week. The first quarter of 2016 started lethargically, dipping to a low of $7,580 in February; but given the influences rendered by various international economies, it hit a year-high of $11,030 per ton in early August. Global inventories also continue to decline, indicating a rise in demand for the metal.



China's usage of nickel

China drives the commodity market based on its market dynamics and response to global forces. Since it became a powerful economic force in the world, China has pushed stainless steel production to meet its domestic demand, which was once perceived as insatiable. Current nickel prices are still 82 percent below their all-time high of $53,570 per ton in May 2007 at the peak of this demand. Likewise, such market-highs urged global production just as strongly; and because China prefers nickel pig iron over stainless steel scrap as its feedstock, nickel mines were rapidly developed.

When the economic crisis hit in 2008, global demand plummeted. Raw nickel quantities overflowed the market, putting further pressure on the price of nickel and dampening the world's nickel market for several years.

Philippines takes the helm

For the past two years, Indonesia was the prime focus of nickel market dynamics with its ban on low-grade nickel ore exports – forcing China to curb its nickel and stainless steel productions due to lack of incoming volume. With the addition of the overall declining economic climate, nickel was one of the worst performers on the LME last year, sliding more than 40 percent in price, states Bloomberg.

With Indonesia stepping out of the nickel trade, Philippines has stepped up in supplying 90 percent of China's ore imports. Today, the Philippines is the world's largest exporter of mined nickel and accounts for 23 percent of the global ore supply, highlighted by Fastmarkets' Quarterly Report.

With a new Filipino government in place, investigating the nation's mining sector has been set at the very top of the national agenda. Large-scale environmental audits are being carried out in full force to investigate conformity to international standards in mining, with notices issued to shut down violating mines until measures are taken to adjust their operations. Mining.com reports that eight out of 10 mines that have been suspended for environmental violations are nickel mines. Out of a total 27 nickel mines in the country, these closures already measure 10 percent of national nickel production, or about 2 percent of nickel production in the world, according to a Singaporean financial information company, Truewealth Publishing.

Furthermore, 12 more mines out of some 40 mines in the country are due to having their licenses stripped by the Philippines' Environmental Department as they continue their crackdown on environmental lapses: deficient mining practices, lack of proper siltation prevention facilities, technical infringements, and failure to comply with social development standards. Resuming of operations will only be permitted once individual facilities are brought to meet international standards of mining practices.

This fast-moving development in the Philippines could be the game-changing factor in the nickel market, which until recently has been declining over the years. Due to the sheer volumes involved, as mine closures continue, global supply will be sharply curbed as there is not enough alternative supply in the world to step up as replacement, says an analyst from Canada-based Macquarie Financial.

The global supply picture

With the onset of Philippine mine closures, traders anticipate supply crunches, according to Recycling Today, due to which China's nickel ore imports have been steadily climbing last month to a 13-month high of 4.3 million tonnes. Meanwhile, LME warehouse stocks have sunk 17 percent to 365,784 tons this year, its lowest level in two years, as stated by the World Bureau of Metal Statistics, resulting in a small deficit in the first half of 2016. This is the first deficit developed in the last five years of a highly oversupplied market, and is likely to further increase as the year progresses.

The International Nickel Study Group (INSG) highlights yet another developing supply constraint: further extraction of available nickel reserves in the world. It predicts a 10-year gap in new production, as majority of remaining nickel reserves are increasingly costlier to access, which will further deepen the market deficit in the coming years.

The demand scenario

Nickel is highly resistant to corrosion, justifying 68 percent of raw nickel use in stainless steel production. It is also widely used in other products like rechargeable batteries used in electric cars due to its own electronic and magnetic properties. As a result, both stainless steel and electric car industries will continue to propel nickel demand forward.

China consumes 52 percent of the world's nickel produced, most of which is directed to its stainless steel production which jumped 7 percent in the first half of 2016. As for electric cars, the world's second-largest nickel producer, Russia's Nornickel, anticipates nickel usage in car batteries to more than triple by 2020. As demand consumes more of the nickel stockpiles leftover from previous years of overproduction, a real deficit can emerge that will boost the metal's price in the coming years.

Other global factors

Apart from the overwhelming roles played by international industries, other geopolitical factors may also hold sway over how the nickel market advances. The questions behind the development of China's economic future, the Brexit impact, the global economy progression, the dollar movements, the US elections and the decisions made by the US Federal Reserve to maintain national stability can encourage uncertainty in the global economy, potentially reducing metal consumption like that of nickel-containing stainless steel.

On the flip side, UK-based Sucden Financial underlines the gradual transition of the Chinese economy from an industrial-based and export-led system to become more consumer and services-oriented. It claims that even though China continues to grow at a much slower rate, the mere five or six percent growth it records still has the potential to generate a lot of demand due to the sheer magnitude of its economy that can counter any dampening economic forces.

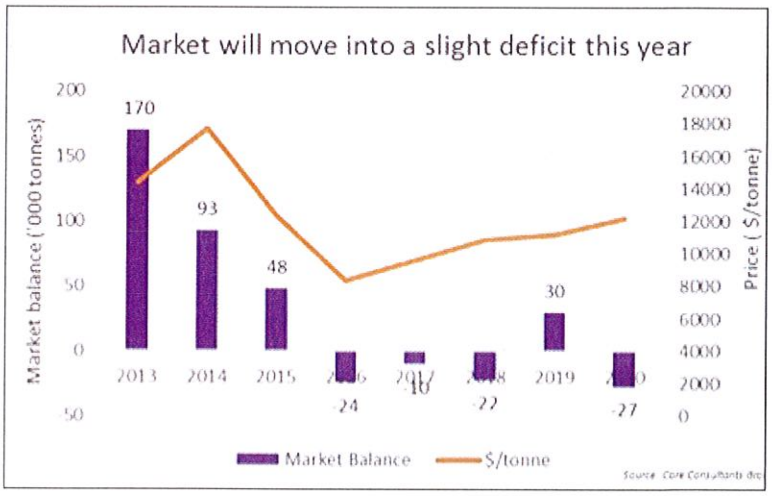
The future for nickel shines bright

The commodity market has been down-pressured by neutral-to-bearish sentiments, which could change for nickel if the Chinese economy proves stronger, and the global supply contracts due to the Philippines and other mining-based issues.

Russian Nornickel expects nickel prices to remain in the $10,000-per-ton range by the end of the year and well into 2017 while nickel giants Indonesia and Philippines remain occupied in upgrading their mining infrastructure over the next few years and consequently limiting global supply. Goldman Sachs warns that Philippines' suspensions can push nickel ore to a critically low level, surging nickel prices to a potential $12,000-per-ton by the end of this year.

US-based Fitch Ratings is optimistic of a gradual price incline over the next few years, with 2016 averaging to $9,000 per ton, $10,500 per ton in 2017, and up to $11,700 per ton in 2019.

In a rare agreement regarding commodities, it seems most market experts can only perceive a way up for nickel over the oncoming years.



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Sources: Bloomberg, Fastmarkets, Mining.com, Reuters, Recycling Today, Sucden Financial, Truewealth Publishing Asia.