

World Nickel faces supply shock as ubs flag risk in 2017

- ‘About 10 percent is a big cut in any commodity market’: UBS
- China stainless-steel output quite strong from second quarter

About a tenth of the world’s nickel supply is at risk after the Philippines widened a crackdown on miners, raising the chances of prices rallying by another 25 percent through 2017, according to UBS Group AG, which had already billed the metal as one of its favored commodities.

The market is reeling after the Philippine government threatened to close another 14 mines last week, pending responses to an environmental audit. Of 41 operations reviewed -- the majority of them nickel-producing -- about three-quarters have been halted or told they need to come up to scratch.

That puts 55 percent of Philippine nickel output, or 11 percent of global supply, at risk of exiting the market, according to UBS. Shutdowns raise the chances of nickel reaching \$6 a pound, or \$13,228 a metric ton, by the end of next year, analyst Daniel Morgan said by phone from Sydney on Friday.



“A supply cut of about 10 percent is a big cut in any commodity market,” he said. “In the short term, there is enough metal out there as a buffer for the next few months, so are the stainless-steel customers anxious? I would say not yet, but they will be in 2017. Our base case is heading toward \$6 by the end of 2017 but there is every potential that a rally could go further.”

Mining Crackdown

Nickel is 20 percent higher this year at \$10,560 a ton, with the bulk of the gains coming since June, when incoming Philippine President Rodrigo Duterte and his environment secretary, Gina Lopez, vowed to crack down on an industry they say is despoiling the land and threatening the livelihoods of the poor.

Mined production from the Philippines may tumble 18 percent this year, according BMI Research, which cited the crackdown led by Lopez as well as weak Chinese demand for the drop. While output may pick up next year as larger miners expand, it wouldn't reach previous highs, BMI said.

UBS named nickel as one of its most-preferred commodities in August, before the extent of the Philippine crackdown had become apparent. The Southeast Asian nation supplies nearly all of the ore used in China's stainless-steel industry, and Citigroup Inc. has also warned that the "unexpectedly stringent" audit could materially tighten supplies.

"Stainless-steel output, globally, was flat for two years, and that's a horrible thing for any commodity to experience," said Morgan. "However, from the second quarter this year, China's stainless output has been quite strong, and they are going to be looking for much more nickel in early 2017."

Bullish Forecast

UBS's forecast for next year is for nickel to average \$5 per lb, or \$11,023 a ton, above the median consensus from 18 analysts of \$10,920 a ton. Still, the metal has defied previous predictions of big rallies after Indonesia's halt to ore exports in 2014. Last year, it [missed](#) estimates by more than any other base metal as demand slumped and stockpiles stayed high.

The Philippines is expected to give a final verdict this month on the latest mines recommended for suspension. The country has done "[irreparable damage](#)" to its reputation among foreign investors, according to Mick Wilkes, chief executive officer of Melbourne-based OceanaGold Corp., which mines copper and gold and operates a project facing the ax.

<http://www.bloomberg.com/news/articles/2016-10-02/world-nickel-market-faces-supply-shock-as-ubs-flags-risk-in-17>