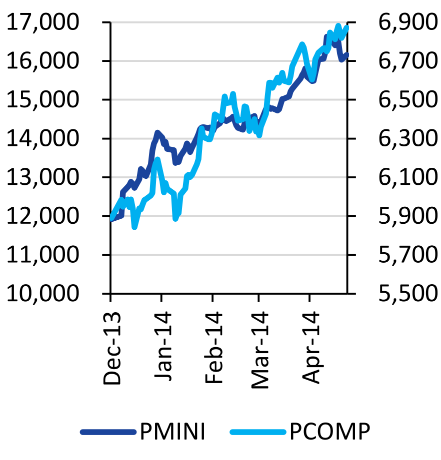
FIRST METRO INVESTMENT CORPORATION
Metrobank Group

20 May 2014

Philippine Mining Report
Is Recovery Sustainable?

PCOMP vs. PH mining index



Source: Bloomberg

Mining Stocks enjoy massive YTD growth. Mining stock prices have risen since the beginning of the year in step with the main market index. The mining index outperformed the PSEi, rising 37% versus 17% as of year-to-date May 19, 2014. Surprisingly, the leaders were the past years' laggards. Both Century Peak Metals (CPM) and Nihao Mineral Resources (NI) jumped 90% and 94% each to PHP0.97 and PHP3.05, respectively, from year-end 2013 close of Php0.50 and PHP1.57. Dizon Copper-Silver Mines (DIZ) and Nickel Asia Corp. (NIKL) followed, rising 78% and 88%, respectively to Php9.10 and Php28.55. Prices of Marcventures Holdings, Inc. (MARC), Oriental Peninsula Resources (ORE), Lepanto Consolidated Mining (LC) and Philex Mining Corp. (PX) all registered double-digit price change ytd of 62% to Php4.78, 52% to Php2.13, 31% to Php0.41, 17% to Php9.30. Atlas Consolidated Mining & Development Corp. (AT) lagged, rising only by 3% to Php14.90. The average price change year to date of mining shares was 56%. See Table 1.

Drivers of the Rally and Outlook

The rally hardly takes inspiration from flattish value of Philippine metallic mineral production, but mining investments could be the key, real demand and speculative bets on base and precious metals (hedge funds). The view is that nickel prices will recover and stay elevated on the back of the Indonesian export ban. Nickel spot at the LME has risen 42% to $19,785/ton. Copper, while down year-to-date by 5% had stayed above the critical level of $3.00/lb at the current $3.15/lb. The outlook is one of greater price stability at above $3.00 on the observed slow depletion of China inventory. That's the view of Atlas Mining Corp. which noted the strong correlation between China's copper inventory and global copper prices. The world's largest producer of refined metal, Norilsk Nickel, predicts the global market for nickel will swing to a deficit next year while copper stockpiles have slumped 50% this year to 183k tons. China is the world's biggest importer of copper with 680m tons of demand yearly. On the other hand, the jobless, anemic and slow recovery of developed world (US, EU, Japan) together with the geopolitical risks in Southeast Asia and Ukraine are creating a case for longer gold bets, making it the second best performing asset in 1Q14, up 6%. Ytd price change is 8%.

Philippine mining investments faster than expected. Production value was only up only by 0.26% in 2013 to PHP99.33bn, where nickel was majority, 41.3% (PHP41.04bn) total. Gold had a share of 32.7%, (PHP32.44bn) and copper 22.5%, (PHP22.36bn). The remaining 3.5% (PHP3.50bn) were silver, zinc, chromite and iron ore.

Philippine mining investments grew faster than expected in 2013 despite the absence of new commitments as investors continued spending for existing ones. Investments reached USD1.31bn in 2013 from USD812.49mn in 2012, 60.39% more than the government's projection of USD817.58mn. That level represents a 61.4% increase, attributed to additional spending for existing projects.

Mining investments for 2013 were led by projects in various stages of development. Among those in the operating stage, Philsaga Mining Corp.'s Co-O Gold Mine project in Agusan Del Sur province led investments with USD31.48mn, followed by the Toledo copper project with USD25mn. The Surigao Sumitomo HPAL project and the Siana gold project -- both in the construction and development stage -- brought in investments of USD407.68mn and USD14.60mn, respectively.

Among those in the feasibility and financing stage, the Silangan copper project led the pack with USD442.41mn in spending, followed by the Mindoro nickel project (USD75mn), Tampakan copper-gold project (USD52mn), the Far Southeast gold project (USD25.52mn) and King-king copper-gold project (USD25mn). Only the Balabag project registered spending (USD2.9mn) among projects in the advanced exploration stage. Mining investments may grow slightly to around USD1.32bn from continuing investments, along with a new investment: the Agata project in Agusan del Norte, to be operated by TVI Resource Development. ▲

Table 1. Philippine Mining Companies

Company	Price at 31 Dec 2013	Current Price	YTD growth	2014PE	2013P/BV	2013EPS Growth	2013ROE	FMIC Rating
Philex Mining Corp.	7.92	9.28	22%	17 .0	2.20	64%	2%	BUY
Atlas Mining	14.54	15.30	3%	11.4	0.86	-46%	5%	BUY
Dizon Copper-Silver Mines	5.10	9.02	92%	--	54.30	13%	--	
Oriental Peninsula Resources	1.40	2.19	39%	6.45*	0.81	-4%	--	
Benguet Corp.	6.34	9.00	45%	231.00	0.48	-99%	--	
Lepanto Consolidated Mining A	0.31	0.41	35%	--	2.57	--	-5%	
Marcventures Holdings Inc.	2.95	4.79	44%	6.8	2.38	609%	--	BUY
Nickel Asia Corp.	15.20	27.80	68%	18.7	3.31	2%	--	BUY
Nihao Mineral Resources	1.57	2.96	94%	--	2.13	--	--	
Average	6.15	8.76	49%	95.74	7.67	77%	1%	

Source: Bloomberg; ORE is 2013 PE

Nickel Asia Corp. (NIKL)

NIKL stock data	
Price (PHP)	25.50
Market Cap (PHP mn)	64,406.8
Outstanding shares (mn)	2,525.8
P/E (x)	28.75
P/BV (x)	3.19

Source: Bloomberg

Core income up 77% on the back of robust sales. Nickel Asia Corp. (NIKL), the country's largest nickel miner, sold 2.7mn MT of nickel ore over the first quarter of 2014, up by a massive 52% versus the same period last year. The total estimated value of the company's shipments increased 21% to PHP1.5bn from PHP1.2bn in 1Q13. This was achieved despite lower nickel prices.

The substantial growth is mainly attributed to shipments to the new Taganito HPAL, which is on its first year of commercial operations. NIKL's 65%-owned Taganito mine shipped a total of 931k MT of limonite ore to the plant, and is scheduled to deliver over 4mn MT for the year.

Healthy shipments resulted in a 77% jump in NIKL's core net income to PHP177.1mn from PHP100.3mn in 1Q13.

In 2013, NIKL experienced another record year of ore shipments, which rose 19% to 14mn MT from 11.7mn MT in 2012. Due to weak nickel prices, however, revenues decreased to PHP11.1bn, 4% lower than the previous year's PHP11.6bn. EBITDA followed suit, falling 4% to PHP4.9bn from PHP5.1bn. Further down the line, NIKL posted net earnings of PHP2.05bn, down 7% from PHP2.21bn in 2012. ▲

Atlas Consolidated Mining & Development Corp. (AT)

NIKL stock data	
Price (PHP)	15.00
Market Cap (PHP mn)	31,141.8
Outstanding shares (mn)	2,076.1
P/E (x)	17.55
P/BV (x)	0.85

Source: Bloomberg

1Q14 income slides on copper prices. Atlas Consolidated Mining & Development Corp. (AT) reported a 79% drop in net income in 1Q14, settling at PHP117.6mn. This was attributed to lower copper prices and the expiration of wholly-owned subsidary Carmen Copper Corp.'s (CCC) income tax holiday. The company also suffered a forex loss of PHP159mn on its dollar-denominated debts.

Copper arm boosts capacity. AT expects higher production this year with the capacity expansion of its processing plant and a shift to a richer section of its copper mine in Cebu.

The initial commissioning of CCC's expansion project yielded positive copper recovery and grind size accuracy. CCC added two ball mills, four flotation tanks and an auxiliary line that has a 30,000 MT/day capacity, increasing the facility's milling capacity by 50% to 60,000 MT from the previous 40,000.

AT aims to boost copper production up to 40% more to 125-130mn lbs. this year from 91mn lbs. produced in 2013. As of 1Q14, copper output reached 22-23mn lbs. from 18-19mn lbs. in 1Q13.

2013 earnings weighed down by lower copper prices, forex losses. AT reported a 54% drop in net income in 2013, driven mainly by lower copper prices and foreign currency translation losses. This is despite higher production volume and a decrease in cash costs during the year.

The appreciation of the US dollar against the Philippine Peso resulted in the recognition of a net unrealized foreign exchange loss of PHP1.02bn. Net income amounted to PHP1.9bn from PHP3.4bn in 2012. ▲

Philex Mining Corp. (PX)

NIKL stock data	
Price (PHP)	9.66
Market Cap (PHP mn)	47,691.4
Outstanding shares (mn)	4,937.0
P/E (x)	18.76
P/BV (x)	2.17

Source: Bloomberg

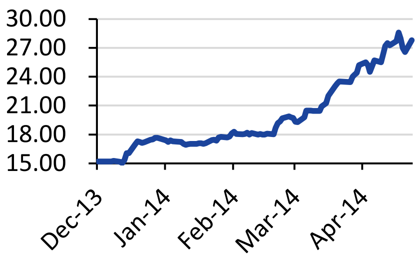
Padcal mine fully operational for 2014. The Padcal mine of Philex Mining Corp. (PX) will be operational for the full 12 months in 2012 after 2 successive years of partial operations. The third and final chute is currently underway and will be completed by 1 July 2014.

The Company's Silangan Project in Surigao del Norte, meanwhile, also continued to progress in 1Q14 as PX awaits the completion of the project's Pre-Feasibility Study within the second quarter of the year.

1Q14 core income soars, driven by higher volume. On 30 April 2014, PX announced that its core net income for 1Q14 jumped 110% to PHP278.4mn from PHP132.4mn in 1Q13. Reported Net Income for the period, however, was lower at PHP267.4mn from PHP403.3mn in 1Q13, which included a significant amount of one-time income from insurance claims received (PHP1.017bn).

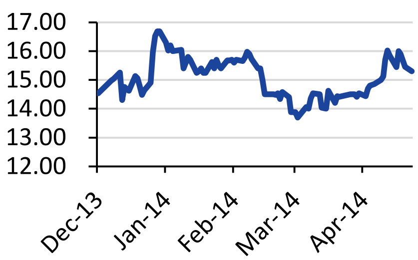
Consolidated revenues amounted to PHP2.9bn in 1Q14, 228% higher than in 1Q13 (PHP889.3mn). The growth in revenues was a function of the higher number of operating days and the corresponding increase in metal production, partially offset by lower realized metal prices. Total MT milled in 1Q14 was 2,396,077 (1Q13: 611,801 MT), equivalent to an average daily throughput of 26,623 MT — 4% better than the 25,492 average daily tonnage in 2013. ▲

NIKL price performance (YTD)



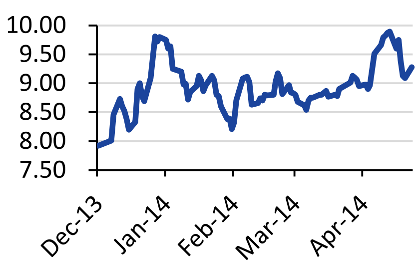
Source: Bloomberg

AT price performance (YTD)



Source: Bloomberg

PX price performance (YTD)



Source: Bloomberg

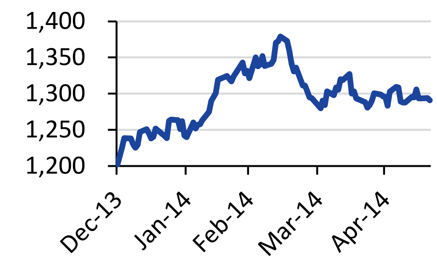
Table 2. P&L Forecasts

	2013A	2014E	2015E	CAGR
Nickel Asia Corp. (NIKL)				
Revenues	11.11	17.73	20.71	23.07%
EBITDA	4.90	11.79	12.39	36.24%
EBITDA Margin	44%	66%	60%	
EBIT	3.55	11.07	11.18	46.58%
EBIT Margin	32%	62%	54%	
Net Income	2.05	8.52	8.67	61.72%
Net Income Margin	18%	48%	42%	
Atlas Consolidated Mining & Development Corp. (AT)				
Revenues	14.45	18.08	19.70	10.88%
EBITDA	5.41	8.90	10.66	25.37%
EBITDA Margin	49%	50%	51%	
EBIT	3.07	5.93	7.47	34.50%
EBIT Margin	28%	33%	36%	
Net Income	1.90	3.25	4.39	32.20%
Net Income Margin	17%	18%	21%	
Philex Mining Corp. (PX)				
Revenues	10.24	10.91	11.63	4.32%
EBITDA	3.33	3.84	4.42	9.93%
EBITDA Margin	30%	22%	21%	
EBIT	1.88	2.27	2.74	13.40%
EBIT Margin	17%	13%	13%	
Net Income	1.86	3.01	3.16	19.37%
Net Income Margin	17%	17%	15%	

Sources: S&P Capital IQ, Bloomberg, FMIC-Research estimates

Gold

Gold price/100 oz (USD)



Source: Bloomberg

Bullish trend won't last. The gold rally since Dec. 31 ranked fifth among 24 commodities tracked by the Standard & Poor's GSCI gauge, which gained 2.4%, led by coffee, U.S. natural gas, hogs and silver. Gold prices are negatively correlated with economic growth and inflation. As such if US growth accelerates with attendant hawkish warnings from the Fed about rate hikes and hand in hand with a build-up in inflation, gold bulls may be on the losing side over the bears. This inverse relationship was partly behind gold's rally early this year after sharp falls last year. News from the US was that its economy was losing steam early in the recovery phase. There were also so-called "headwinds" from emerging-market economies. These two factors according to Bank of America Merrill Lynch (BAML) were largely behind the gold rally. And the bulls were investors from Europe and the U.S. However, a notable trend was that physical buyers in large parts of Asia remained sidelined. We surmised it is because not all gold bull drivers are present. Inflation pressure is conspicuously absent in the US,Japan, and Europe. Deflation is the common problem in the last two places, which go against any extended gold price rally.

The price effect. Gold's best forecasters, including French bank Societe Generale (SG), said in a report the rebound won't last. Two factors: gold is pricey and this will damp demand. SG forecasts gold price will dip to USD1,050/oz by year-end. Even after gold dropped 31% from a record USD1,923.70/oz in Sept. 2011, prices are twice the average of 2006. Historically, demand for gold as a safehaven happens only when it is cheap, according to Westpac Banking Corp., the 2nd most accurate gold price forecaster tracked by Bloomberg. Westpac forecasts gold will drop to a lower USD1,050/oz.

The FED Factor. Aside from the price effect, another factor is that the Fed will continue to slow the stimulus (meaning cut on the bond buying) as the economy strengthens. More recent statements from the Fed were interpreted as signalling interest rate hikes from the 0-25 bps Fed rate level to 1% next year. This is negative for gold price. According to the median of nine analyst estimates compiled by Bloomberg, gold price will average as low as USD1,165/ounce in 4Q14. Deutsche Bank in its regional commodity report forecasts a price drop to USD1,125 in 2017 due to positive growth shocks in the US and QE tapering and consequent advances in US real yields and a stronger US dollar. Bank of America Merrill Lynch sees gold to rise to USD1,375/oz next year and USD1,300 this year due to what it calls as "headwinds to EM," noting it is not investors that will buy gold but affluent buyers in developing nations who are set to boost their gold purchases.

Big League Players: China and India. Owen Hegarty, a former Rio Tinto executive, said that Chinese demand for gold is "unstoppable". China overtook India as the biggest buyer of gold last year as consumption surged 32% to 1,065.8 tons. The rise was partially caused by Chinese consumers' increasing affluence, along with more relaxed investment restrictions. The country's "cultural affinity" for gold also played a role. However, the biggest contributor was gold's significant price drop in the second quarter of 2013. That prompted Chinese consumers — mainly middle-aged women — to go on a buying spree that ultimately sent demand for gold jewelry up to 716.5 tonnes, a 42.5% increase from 2012, and gold bar demand to 375.7 tonnes, a 56.6% rise from 2012. As such whatever happens in China, whether there'll be a hard landing or a soft landing will materially affect gold prices. We adopt a normal view as China, based on Prof. Roubini, won't suffer a hard or a soft landing but will be middle-range, slowing to 6.8% next year from 7.7% in 2013.

Indian demand remains high; artificially damped by import restrictions. While China stole India's long-held spot as top gold consumer in 2013, India's demand for the yellow metal is still remarkably high. Once import restrictions on gold are lifted (aimed at curing the external account deficit), pent up demand would be unleashed. A reduction in gold import duties from the current 10 % could spur increased physical gold demand in India next year which could bid up the price.The country's gold consumption reached 974.8 tons last year.

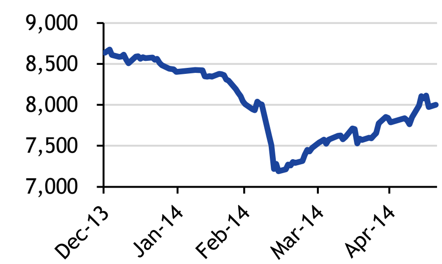
Gold Price Manipulation. The U.S. government recently passed the Volcker rule designed to curb banks' participation in high-risk strategies such as investing in hedge funds and trading gold and silver. In response, the banks are already "seeking exemptions, loopholes and new ways to interpret the rule" instead of figuring out how to comply with it, according to a recent Forbes articles quoted by Silver Investing News. That means gold investors will likely continue to see gold and silver prices manipulated next year as they rise and fall with each mention of another pullback, or continuation, of QE. This is the reason why hedge funds have built up bullish bets on gold futures (69k futuresand options contracts s of Feb. 11, up from a 6-yr low of 26.7k as of last Dec., 2013).

Supply Crunch in 2014. While the World Gold Council noted that total gold supply — mined and recycled — fell three percent in the third quarter compared with the same period a year ago, it is predicting a more serious supply crunch in 2014. That would bode well for the gold price, even if demand factors continue to flounder. According to Clark, the four factors that could chip away at the gold supply are: lower production, delayed mine development, and cuts to exploration budgets; "high-grading" deposits; governments putting a stop to big mining projects; and the implosion in South Africa's gold mining industry. As the old adage goes, "the cure for low prices is low prices", and if all or even some of Clark's four factors come into play next year, the gold price could see an upward move.

Conclusion. We are convinced gold prices have bottomed out and are entering a volatile phase that recently went on a rally, making gold the world's 2nd best performing asset class with return of 7% in 1Q14. And the market is at a point when the correction is about to end. History tells us corrections last usually 30 months (from the World Gold Council). From the high of last Sept. 2011, March would be the 30th month of the corrective phase, affirming Citigroup's hunch that gold prices have bottomed out. But a bottoming out is not to be construed with the beginning of an extended recovery. Gold outperformance as an asset class merely reflected increased volatility that will be fed by US economic data and Fed signals. US 10-year rate is seen to reach 3.3-3.5% by year-end, while S&P 500 is expected to break beyond 1,900, according to Roubini and Morgan Stanley. We believe that in the absence of price drivers: inflation and the growing certainty of the Fed's shift to interest rate hikes, gold prices will continue to remain under pressure. ▲

Copper

Copper price/MT (USD)



Source: Bloomberg

Copper influx, sagging China demand prompt oversupply. The copper market will be in oversupply through 2020, should demand fall below 3% annual growth, Bloomberg Industries analysis shows. The past four-year average of 3.7% will be hard to beat if China continues to tighten credit and shift to a consumer-driven economy. The analysis also identifies an additional 6.7mn MT of uncommitted copper supply that could be added to the new supply pipeline and keep the market in surplus.

The direction of Chinese copper demand intensity (demand divided by GDP) in the next four years will prove the difference between copper market deficit and surplus. This measure rose at a 1.06% CAGR in 2008-2010 and has fallen at a 1.5% annual rate since. As China's economy moves from a fixed-asset-driven model toward a service-based one, metal intensity is likely to decline, barring any stimulus. This would produce copper demand growth rates below that of GDP growth.

China is the world's largest importer of copper, followed by the USA.

Manufacturing rise in EU, U.S., Japan aids copper. The U.S., Europe and Japan accounted for 32% of global copper demand in 2013, World Bureau of Metal Statistics data show. In the EU and Japan, PMI readings have been getting progressively stronger, while the U.S. saw a stronger February. If Chinese manufacturing growth slows modestly, demand from the other three regions may prove sufficient to support copper prices. The EU is responsible for 20% of global copper demand, and has had an expanding PMI since July.

China construction completion helps copper demand. Property markets account for more than 30% of Chinese copper demand and a pickup in the segment may bode well for prices. Growth in completions lagged behind those rates in floor space under construction throughout 2010, 2011 and 2013, and barely closed the gap in 2012. As buildings that were under construction for the past two to three years are completed, copper demand may be supported in China.

Falling copper prices may trigger flood of stocks, hurt miner profits. While global copper demand is rising, new mine supply has been higher. Due to this oversupply, copper price estimates continue to decline. Consensus expects prices in 2Q14 to fall to USD7,057/MT, from USD7,190/MT last year.

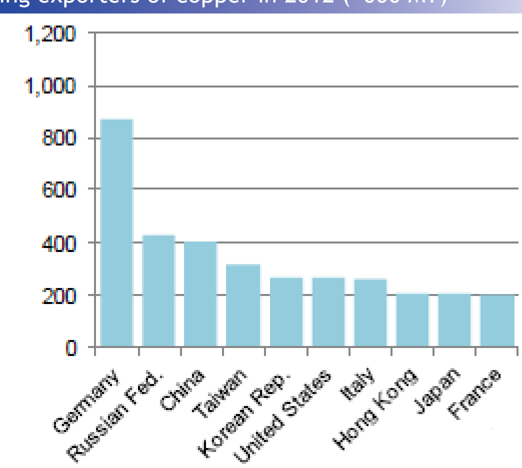
Lower copper prices will hurt copper company profitability in 2014. New copper supply, including Zambia's 10% YoY output increase in 2014 and Peru's doubling of capacity by 2016, may also have a negative effect on global copper prices.

A recent drop in copper prices could escalate, should financing trades unwind. A Bloomberg sell-side survey shows Chinese bonded warehouse stocks near record highs. The majority is purely collateral against trades in high-yielding Chinese markets, originally imported via low interest letters of credit. As prices fall, the collateral becomes worth less, forcing traders to exit and sell off inventory. This may create a run on prices as tight credit hinders the producer purchasing power.

London Metals Exchange three-month copper prices fell 12% yoy in 1Q14 to USD7,001/MT, the lowest quarterly average since 2009, indicating profits may be challenged. The tide may be turning though, with global exchange inventories falling by 62% from their record highs in June. As 2Q commences and 2014 progresses, new mine supply additions will be watched closely, given that prices are expected to remain largely subdued.

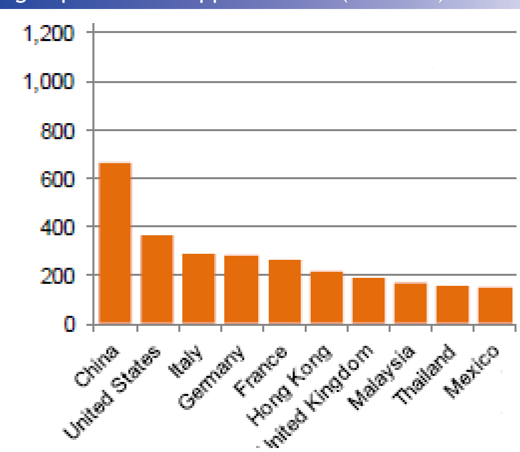
Interest arbitrage keeps copper tied to financing. Copper prices may have support as global exchange inventories are moved to Chinese Bonded Warehouse Stocks by traders taking advantage of the interest rate spread between the U.S. and China. Traders are purchasing copper via low-interest letters of credit and selling them for renminbi that can be leant at a premium. A high ratio of LME copper on canceled warrants might mean more inventories will shift to bonded stocks, tied up as financing collateral. ▲

Leading exporters of copper in 2012 (`000 MT)



Source: International Copper Study Group

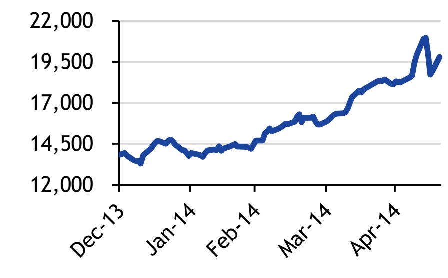
Leading importers of copper in 2012 (`000 MT)



Source: International Copper Study Group

Nickel

Nickel price/MT (USD)



Source: Bloomberg

Nickel prices rise in wake of Indonedia export ban. The price of nickel has risen above USD17,000/MT for the first time since March 2012 as speculative investors opened bullish positions on the back of an export ban. This has the potential to be a game-changer for nickel, which has been plagued by oversupply and high inventories, according to several analysts.

Prices are expected to stay elevated in the next five years. Although the supply of nickel will most likely return to more normal levels once Indonesia completes its own nickel refining plants, it will take a long time for these plants to be operational given the amount of lead time and size of investments required. Approximately USD13.5bn will be needed for Indonesia to make the necessary investments, and it will take over five years for supply from Indonesia to catch up with demand.

Demand will exceed supply by 30,000 MT, compared with a January estimate for a 55,000 MT surplus.

China nickel concentrate imports hit 19-month high on prices. Nickel concentrate imports by China, the largest user of the metal, reached the highest in 19 months as rising metal prices encouraged smelters to purchase the raw material from overseas to boost output. Imports were 68,073 MT in March, the highest since August 2012, according to Bloomberg.

The March import figure was obtained after deducting laterite ores from Indonesia and the Philippines from the nation's total nickel ore imports. China combines nickel concentrate and laterite ores, both used to produce NPI, in its monthly import data.

Nickel-ore shipments from Indonesia declined to 907,279 MT in March from 3.1mn MT in February, the customs data showed, due to delays in customs clearing.

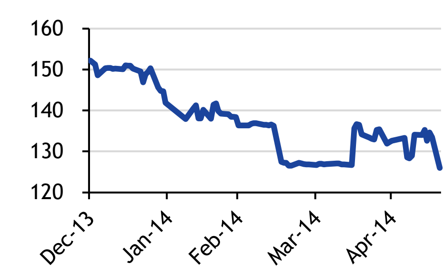
Japan, China shift to supply from the Philippines and New Caledonia. Buyers in Japan and China have begun to scour the globe for alternative supply sources for the material used to make stainless steel. Ore import costs have risen as companies shift to the Philippines and New Caledonia. As a result, ferro-nickel production is expected to fall as ore grade from the Philippines is lower than that from Indonesia.

Japan's nickel ore imports were 4.96mn MT in 2013, finance ministry data showed. Supplies from Indonesia accounted for 50.5%, followed by the Philippines with 27.3% and New Caledonia with 22.2%.

China's nickel ore imports were 71.2mn MT in 2013. Purchases from Indonesia accounted for 57.8%, followed by the Philippines with 41.5%. ▲

Iron Ore

Iron ore price/MT (USD)



Source: Bloomberg

Lifting of Indian iron ore ban might not bring the boom many expect. India's Supreme Court has lifted the ban on mining in Goa, after a year-and-a-half moratorium that has halted the state's exports and cut off more than 100mn MT of Indian iron ore exports according to the FT. Some 37mn MT of India's 208mn MT of iron ore production came from Goa in the year ending April 2011 but a ban in 2012, aimed at curbing illegal mining, halted exports from Goa and neighboring Karnataka, reducing India's 117mn MT exports in 2010 by 85% according to Reuters.

The Indian Supreme Court has capped exports at 20mn MT for now, in itself not enough to materially impact global supply but a minor addition to rising Australian and Brazilian output just as fears of slowing Chinese demand weigh on prices. The bearish arguments for further price drops are compelling as Reuters points out.

Competition still fierce. As Chinese GDP growth is slowing and the probability of a steel intensive stimulus is waning, BHP Billiton last week raised its full-year guidance by 5mn MT to 217mn MT, while Rio Tinto is boosting output to 300mn MT.

Australia's third-ranked producer, Fortescue Metals Group, is targeting 41.6mn MT in the current quarter, an increase of 10.1mn MT on the previous three-month period. Brazil's Vale is aiming for an annual output of 360mn MT, rising to 400mn in the longer-term. India's small 20mn MT, therefore, will not have a major impact particularly as the grade is of lower quality than Australian or Brazilian iron ore.

Grade is becoming the critical issue. With Beijing applying ever more stringent pollution limits on steels mills, the expense and pollution of sintering low grade iron ore is making domestic and probably Indian material much less attractive. This is probably why imports from Australia have held up even as steel production has struggled.

There has been a 19.4% increase in Chinese imports in the first quarter of 2014, some of which has been taken up in financing deals and is sitting in inventory but some will have been consumed by steel makers. As Reuters observes, Chinese domestic iron ore is increasingly expensive to mine and is suffering declining ore grades, with the average dropping to about 21.5% iron content from 31% just 10 years earlier.

Grade beats quantity. Australian and Brazilian ore, by contrast, averages closer to 57% iron, often more, and hence gives producers a major cost advantage and consumers a product that doesn't require pretreating. This probably explains why iron ore prices haven't fallen farther and faster than they already have, and why they may not fall as far as many are predicting even as supply continues to rise. The Indians, meanwhile, may struggle to find Chinese buyers for their lower grade ore and the Supreme Court's cap of 20mn MT may seem less a cap and more a tough target in the year ahead. ▲