



The Looming Trade War Is Bad News for This Miner

Description

The outlook for base metals continues to weaken because of fears that a [full-blown trade war](#) will erupt, which will cause global manufacturing activity to fall and crimp economic growth. This has had a deleterious effect on nickel, which has dipped in recent weeks because of deteriorating demand. These latest events are not good news for diversified nickel miner **Sheritt International Corp.** ([TSX:S](#)), which has seen its stock tumble by 10% over the last three months.

Now what?

A key plank of Trump's trade policy is his focus on reinvigorating the U.S. steel industry. That has seen his administration place tariffs on steel imported from China, the European Union, and Canada. It has also led to quotas being implemented for steel imports from other key allies, including Brazil and Australia.

This is bad news for Sheritt, because nickel is a key ingredient used in the fabrication of stainless steel. It was rising demand for stainless steel which was to be a powerful short- to medium-term tailwind for the miner, which derives around 70% of its revenue from nickel.

China is the single largest producer of stainless steel globally. There is every sign that tariffs would have a marked impact on the nation's manufacturing activity, leading to a drop in the consumption of stainless steel.

The likelihood of an industrial slowdown in China is high. This is because Trump has not only applied tariffs to steel imports, but he has placed a 25% tariff on US\$34 billion of Chinese imports and threatened to place a 10% tariff on an additional US\$200 billion of goods. If that were to occur, it would adversely affect China's manufacturing sector, which is highly dependent on accessing offshore markets to sell the goods it produces.

This isn't the only drag on China's economy. Beijing's monetary policy, which is focused on reining in excessive levels of credit, is causing economic growth to cool. That alone has led analysts to conclude that the next round of economic data to be released by Beijing will show that industrial activity is slowing.

These events have already caused copper to plummet by around 17% over the past month, and it is highly likely that other base metals, including nickel, will follow suit.

Despite Sherritt and nickel industry insiders talking up the growing acceptance of electric vehicles (EVs) as being a significant driver for greater nickel consumption, this trend could be some way off.

You see, in a recent report, oil industry consultancy Wood Mackenzie predicted that [peak demand](#) for oil would not occur until 2036. This is particularly important to note because the industry-leading consultancy expects the mainstream introduction of EVs to be the key catalyst to trigger peak oil demand.

These factors do not bode well for Sherritt's earnings outlook.

There are, however, some glimmers of hope for the company. Sherritt is a low-cost nickel producer, which will help to mitigate the impact of weaker nickel particularly in comparison to higher-cost peers. The miner also stands to benefit from firmer oil, because it is the largest independent oil producer in Cuba, having produced 3,916 net barrels of crude daily for the first quarter 2018. That — along with Sherritt's cobalt production — should help to offset the negative effect of lower nickel on 2018 earnings.

So what?

It has been tough ride for investors in Sherritt. The miner's share price has oscillated wildly over the last year, but earlier moves to bolster its balance sheet have removed much of the risk weighing on the company's outlook. While the looming trade war doesn't bode well for the short term, Sherritt's fundamentals remain intact, and the latest dip has created an opportunity for risk-tolerant investors to dip their toes in the water. If the trade war is not as severe as feared, Sherritt's prospects won't be as sharply affected, which should cause its stock to rally.

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