COMMODITY UPDATE

AS GOOD AS GOLD

BY ALBERTO MIGLIUCCI

Gold is shining in 2016 soaring 17% in the first quarter and thrashing returns in major stock and bond indices. Up until fairly recently it was hard to find an asset class more unloved than natural resources, with many of the major commodities, such as crude oil, iron ore, coal, copper, aluminum and even gold, trading near multi-year lows on the back of years-long losing streaks.

Global investors propelled money into the gold market, a traditional safe-haven investment, early in the year as equity markets crashed in a short-lived correction. Stocks have since recovered, but gold hung onto most of its gains, with spot prices rising 20% so far this year, something that's been achieved despite weakness in physical demand from top consumers China and India.

Western buyers have returned to the precious metal as concerns over the global economy have intensified, and given these probably have further to run, gold's rally may have more shine. Especially if Chinese consumers start buying as they worry about the depreciation of the yuan, and Indians demand more as their economy performs strongly.

However, gold equities have been even stronger performers than the yellow metal, with Newcrest Mining jumping 47% since the start of the year and Barrick Gold Corp up a stunning 125%. Those gold miners that have worked hard to cut costs and have high-grade operations should start to see rising profits, perhaps justifying loftier share valuations.

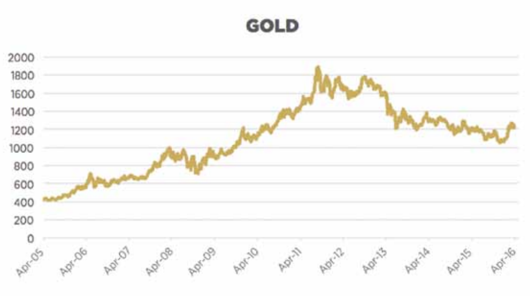
Is silver the next "gold"? The precious white metal is currently reigning near a 12 month high of $17.43 an ounce, its importance in a variety key industries such as semi-conductors and solar panels have resulted in a surge in demand for the white metal. With prospects of surging demand and plummeting supply, the stage is set for rising silver prices.

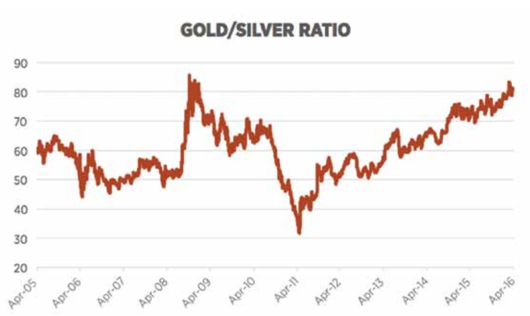
IS SILVER THE NEXT "GOLD"?

GLITTERING AGAIN

PRECIOUS METALS COULD BE ATTRACTIVE INVESTMENTS

Gold is down 35% from highs, and central banks have increased quantitative easing efforts, potentially leading to higher gold demand.





Source: Petra Commodities (Singapore)

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The gold/silver ratio is near all-time highs. The average historic gold/silver ratio is 47:1, as compared to the current gold/silver ratio of 81:1. This provides a potential investment opportunity in silver miners.

One commodity that is looking as good as gold is lithium, the lightest metal on earth and referred to as "white petroleum," is an essential component of modern batteries, which are expected to enjoy boom years ahead as electric cars become more commonplace.

Tesla CEO Elon Musk recently commented: "In order to produce half a million cars a year...we would basically need to absorb the entire world's lithium-ion production." Problem is, there isn't a traded market for lithium, unlike gold, or other key metals or commodities. Lithium doesn't have a spot market and isn't freely traded on an exchange. Prices are negotiated individually through contracts between buyers and sellers, and there are numerous grades of the metal as well, making it extremely hard to get direct exposure to its positive story.

One specialist metal service reports lithium carbonate, which is used in batteries, has risen almost 80% in the past year. But so far the main way to play lithium has been to look for the next big thing in mining, with junior miners enjoying spectacular gains just by mentioning lithium tenements in press releases. F

FINTECH INCLUSION

CAN FINTECH HELP TO ACHIEVE FINANCIAL INCLUSION IN INDONESIA?

BY WILL ONGKOWIDJAJA

The question of whether financial technology (FinTech) is a solution to help financial inclusion has been a hot topic globally, and the inaugural Indonesia FinTech Conference 2016 organized by Oliver Wyman and Modalku may provide some insights into this question. The event was opened by Dr. Muliaman Hadad, chairman of Otoritas Jasa Keuangan (OJK), Indonesia's financial regulator. Other guests and speakers included senior OJK team members, industry leaders from financial institutions and key stakeholders of the FinTech industry.

At the conference, I moderated a panel on the topic: "What role should regulators play in supporting the growth of FinTech in Indonesia and abroad?" The panel included Dr. Hendrikus Passagi, senior executive reseacher of OJK. As an Indonesian national, technology investor, and believer in FinTech's potential, I am encouraged by the ways in which the regulator is thinking about FinTech. Here are their three key insights:

(1) First, Muliaman states that it is important to "do the right things" to support FinTech companies, as FinTech can play a key role in helping Indonesia achieve financial inclusion. In Indonesia, financial inclusion is still a major issue since only 36% of the population has a bank account versus 69% for developing East Asia and Pacific countries.

Thus, a fresh approach is necessary to address this problem. FinTech can be a digital paradigm shift in the way of doing business in the financial services sector. For example, Modalku, Indonesia's pioneer peer-to-peer lending company, focuses on small and medium enterprises (SMEs) that are "feasible but not yet bankable," and currently provides a solution for these SMEs.

(2) The second insight is that regulation for FinTech companies will come, but it needs to be *pas* ("just right" in Bahasa Indonesia). Muliaman shared OJK's ongoing dialogue with regulators in different markets, such as Singapore, China and Australia, to learn about the various approaches those markets take and to determine what might be *pas* for Indonesia. Muliaman highlighted that regulation needs to allow for innovation, yet simultaneously create the right environment to manage risk, a view with which I agree. There have been case studies where different regulators take different approaches to regulating FinTech companies, ranging on a scale from rather relaxed (case study: China)

THE GOVERNMENT PLANS A COMPLETE OVERHAUL OF THE COUNTRY'S TAX SYSTEM, STARTING WITH A TAX AMNESTY PROGRAM.