



Nickel Outlook for 2007

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NICKEL -:

Nickel is the main alloying metal used to produce certain types of stainless steels from the past many years. The lifespan and the durability of the products built with Stainless steel is better than some of the similar products built from not stainless steel material.

Applications –

Nickel's 65% primary use is in the manufacturing of stainless steels, 20% of it is used in the production of other steel and non-ferrous alloys which is inclusive of super alloys. Other key usage of nickel is in the field of electroplating which constitutes 9%. It is also being used in manufacturing coin, which constitute 6% and to make certain chemicals. The demand for stainless steel increased in the mid 80's. Industries in the field of chemical engineering; paper and food processing have a huge demand for stainless steel due to its capacity to withstand heat and to increase resistance to corrosion and oxidation. Nickel is used in the manufacturing of super alloys, which have extensive usage in aerospace industries. Nickel along with cadmium and other alloys of nickels are used to make lightweight long lasting batteries and thus its usage in the electronic industry is also significant. This however is declining in significance due to the superiority of Lithium batteries.

NICKEL PRODUCING REGIONS -

Continent	Share
Europe	37 %
America	24 %
Asia	19 %
Oceania	15 %
Africa	05 %

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FUNDAMENTALS:

Nickel prices have dual folded in the past seven months. The increase in prices in the last week of January came after workers at Xstrata's nickel operations in Sudbury, Ontario, gave union leaders a strike mandate. Adding to this were delays in projects in Australia and New Caledonia added the supply problems. Statistics released by the General Administration of Customs say that the imports from China for Nickel Ore were 3.78 million last year, which is 6.8 times higher than the previous year. China's imports of Nickel Ore from Philippines have increased by 11.6% compared to 2005. The growing Stainless Steel production industry in China has increased the demand for Nickel being one of the raw materials.

In the immediate future we could see rise in prices backed by low inventories compared to increased demand. Supplies increasingly influence the Nickel market. A short fall of supply is likely to be expected due to challenges faced by new projects, which will take time to resolve. So the difference between the demand and supply is likely to remain in 2007. Nickel is so pricey that it has raised the cost of stainless steel to nearly double what it cost a year ago. China is now the biggest consumer of nickel and demand is driving the business and with the increases in the demand in the stainless steel the demand for nickel is also increasing. The non stainless steel business is also showing strong growth in china and the increasing use of nickel in this industry has increased the demand for nickel further.

The consumption of nickel in non stainless steel industry is expected to grow at the rate of +4.9% PA according to the report published by XSTRATA. So in near time the prices are expected to rise further with the lack of supply. In addition to the increase in demand of nickel in the Chinese market, increasing demand in the local markets in BRIC countries is also significant. With the new projects still having considerable time for completion the problem of lack of supply will drive prices of nickel still higher.

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TECHNICALS:

Support is seen at 36390 a break of this could see prices testing 34700 levels, which is important channel support. Break of this level could see prices making new lows. Resistance is seen at 39500 a break of this could see prices making new highs, as it is the channel resistance.



Price Outlook – Nickel currently has favorable fundamentals. Shortage in the supply and increasing strong demand added with limited new projects are expected to keep prices higher. However, we must realize that risks at current prices are equally high. Copper and Zinc, which faced exactly similar fundamentals, have recently shown as that markets generally tend to overestimate bullish scenarios (as they do the same in bear market). While Nickel fundamentals remain strong (as shown by available data), price of Nickel may have already factored in much more than that.

Nickel prices have nearly tripled in the last 1.5 years and over the last decade, they have appreciated 10 fold. This is an indicator for caution.

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