

20 July 2009



INVESTMENT CALL

NICKEL: approx. 12% RISE FORESEEABLE

LME Nickel surged enormously by 67.46% in Q2 of current year 2009, while MCX Nickel gained 42.53%. This sudden rally in prices was well supported by the inventory de-stocking. The economic revival measures kept the market sentiment upbeat and attracted bargain hunting. The inventory in the London Metal Exchange gained marginally by 2.38% or 1,974 tonnes last quarter to 1, 06,698 tonnes. This further suggests that stockpiling of 36.11% in Q1 this year had dramatically impacted the prices with a drastic fall of 15.81%. String of better-than-expected economic data combined with further spending of trillions of dollars by U.S. and G20 nations helped restoring the investor's confidence to the larger extent. Demand revitalizing and economy to post better numbers than expected, prices found they way out to rally high.

As we move forward to the third quarter, hopes build up with economic outlook improvising. Production cuts have bottomed out with no further scope in price cuts expected. Already prices have come off their lows, after a steep fall from the pinnacles it touched a year back.

VALUE ADDITIONS

- ❖ **Dwindling Dollar:** The fall in dollar index would act as an icing on the cake for prices to shake the barriers and move ahead. Dollar is expected to move lower by around 4 %, in a broad range of 76-77 from the current levels of 79.25. This would in turn upgrade the value of currency denominated commodities like bullions, crude oil and Base Metals.
- ❖ **Destocking:** The market balance of Nickel i.e. the difference between the production and consumption is anticipated to contract to 9 thousand tonnes as compared to 99 thousand tonnes that existed in 2008.
- ❖ **Ease in Chinese Monetary policy:** Chinese easing out its monetary policy suggests the economic stimulus being put into correct use and results drawn. The \$586 Billion dollar stimulus package declared in the initial years has now begun to show results and reap benefits for the largest metal consuming nation.
- ❖ **Growth in Steel sector:** Nickel majorly finds its place in the production of Stainless steel followed by its usage in consumer, industrial, military, transportation, marine and architectural applications. Stainless steel industry being the single largest user of Nickel, consume almost 65% of the total nickel production, thus fortune of nickel is directly dependent upon the steel and its allied industries whose demand and production declined from the middle of the year 2008.

- ❖ **Mine work restoration:** With prices to gain strong momentum in market, miners are re-thinking on their production cut plans and began to soon start operation as followed by China's Jinchuan Group, the country's largest producer of nickel.

RISK CONCERNS

- ❖ **Erratic Rupee:** The pace at which the Indian currency is showcasing its moves is worth considering as it counts in the parity calculation. So far after touching the highs of 51 in Feb. start, currency has gained close to 6% in last six months. In the recent past rupee appreciated to 46.50 and currently hovering around 48.50 levels. The strong reverberations in the partially convertible currency has jolted the prices and helped to grab some good gains. We expect Indian rupee to move in the range of 48-49 range in the near term.

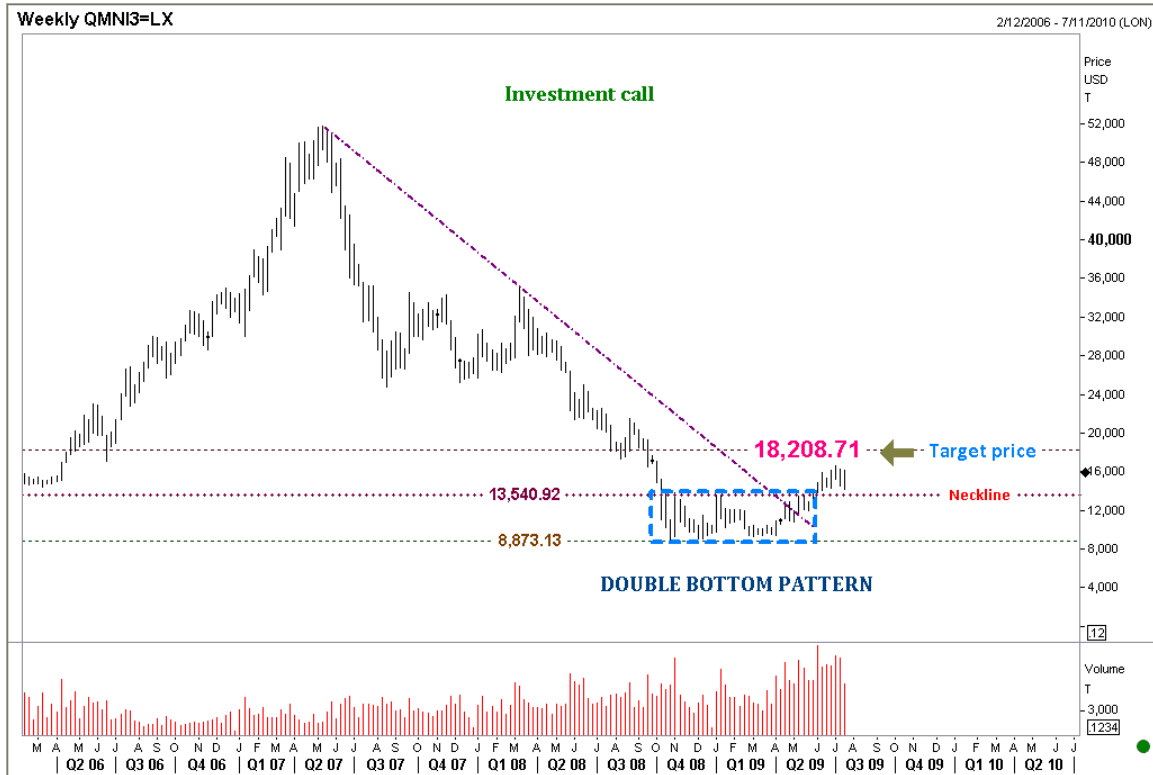
FUNDAMENTAL OUTLOOK

With demand of steel likely to grow in developing nations like China and India, prices would find major boost. Production cuts which are seen since last year are expected to show effect from this quarter onwards as across countries government is mooting on the infrastructural development raising speculation over demand build in the next few months. On promising outlook for burgeoning economy as worst of world's recession is soon to fade away, prices of this silvery white metal are due to find virtuous grasp and likely to extend gains in the third quarter.

Technical Analysis:

- ❖ Nickel prices dropped by 83.05% (-45.60%ann.) from its lifetime peak of \$51800 and witnessed a low of \$8850 and currently hovering around \$16125 levels
- ❖ The current surge has witnessed a **Double Bottom** pattern in the weekly chart, which has already breached its neckline resistance at \$13540-13550 levels
- ❖ Taking the above pattern into consideration, market has potential to move higher to test its pattern target of \$18210 levels
- ❖ Momentum indicator weekly RSI-14 is trading at 0.60 suggesting the upward trend has still potential to continue in the short run
- ❖ Elliot wave principle proves completion of CYCLE-2 in the long term chart and CYCLE-3 has just begun which has long way to go
- ❖ Volumes have rose in the recent past suggesting participation has increased and uptrend can be witnessed in the short to medium term
- ❖ To have a proper view for Nickel at MCX we need to look into the rupee factor as well. The USD/INR currency pair has been moving dramatically volatile in year 2009 and witnessed a major range of 51.50 to 46.50 and currently hovering around 48.50 levels

- ❖ The currency pair USD/INR is expected to move around 48 levels (average) for next few months.
- ❖ Keeping USD/INR at 48, Nickel prices may jump to 880-900 rupee per tonne



RECOMMENDATION:

NICKEL- INVESTMENT CALL						
LOT	BUYING RANGE	TARGET PRICE	PROFIT	STOP LOSS	LOSS	
1	780	890	110	680	-100	
2	750	890	140	680	-70	
3	730	890	160	680	-50	
			102500		-55000	

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