

- [Home](#)
- [News](#)
- [Technology](#)
- [Markets](#)
- [Personal Journal](#)
- [Opinion](#)
- [Leisure/Weekend](#)

- In Today's Paper
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- E-Mail Setup
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- Discussions
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Bullish Base-Metals Outlooks Hinge On China, India

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DOW JONES NEWSWIRES

TORONTO -- The world may be entering a "new era" for base metals as robust economic growth in India and China spur consumption, Patricia Mohr, an economist at Bank of Nova Scotia, said Sunday.

Prices for nickel and uranium have soared, and a number of other base metals have recently hit or approached their cyclical highs, she noted at the opening session of the Prospectors & Developers Association of Canada convention.

Industrial expansion in China is very metals-intensive, while India's economic growth is tied more to the service sector, Mohr said. Improving household incomes will boost consumption of big-ticket items like appliances and cars, which is positive for base-metal demand, she noted.

Scotiabank sees nickel averaging US\$6.50 to \$7.00/pound in 2004-2005. Copper, which has risen as high as \$1.39/pound as inventories plunge, is expected to average \$1.27/pound in 2004, and between US\$1.30-\$1.35 in 2005, Mohr said.

The bank also expects zinc to rise to 50-55 U.S. cents/pound in 2004.

Bob Sippel, president of Noranda Inc.'s (NRD) zinc and magnesium businesses, agreed that China is having a profound impact on all metals markets. He predicted global zinc demand growth of more than 3% in the next few years, assuming continued strong demand from China and other Asian countries. World zinc demand grew 3.8% in 2003, he said.

Although miners are taking a "wait and see approach" to developing new zinc projects, Sippel said new mines won't be able to offset pending closures in the coming years. Noranda sees a potential zinc supply shortage of 600 tons by 2010, so new projects will be needed to fill the gap, Sippel said. His company projections "fall in the range" of 48-55 U.S. cents/pound in 2004-2005.

Greg Barnes, mining analyst at Canaccord Capital, said there's still room for copper

move higher in the next six months, despite a 91% gain since January 2003.

London Metal Exchange copper inventories have fallen 68% since January 2003, and tightness is reflected in rising copper premiums, Barnes noted.

The supply of copper should increase in the second half of 2004 as Freeport-McM & Gold Inc. (FCX) resumes production at its giant Grasberg copper-gold mine in Indonesia and the owners of the Antamina mine in Peru start mining ore with higher grades of copper. "The copper market could have some tense moments" this summer if the Grasberg ramp up smoothly, Barnes said.

There are copper mine projects being developed in Zambia and Brazil, but none is potential copper mines under consideration in South America and Mongolia are miles away from production, Barnes said at the conference.

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