# INSIDE METALS

Tuesday, April 16, 2013

## CHART OF THE DAY

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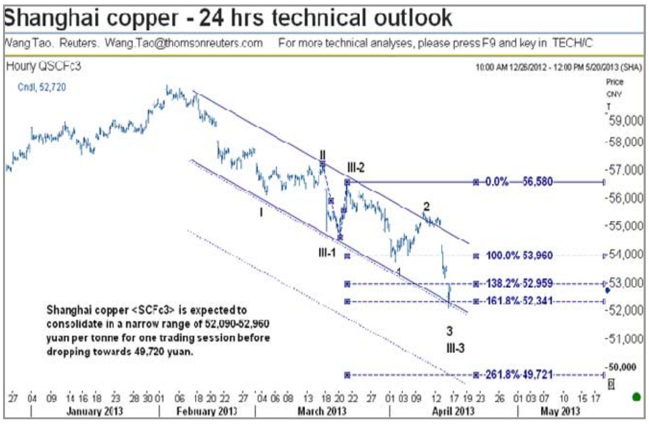


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## GENERAL NEWS

- Gold miners face new challenge in plummeting gold price
- South Africa mine wage talks may be toughest yet
- India's Jan-March gold imports down nearly 24 pct, April continues slide-trade body

## MARKET NEWS

**ALUMINIUM**:

- China's new smelters set to swamp effort to dam aluminium flood

**COPPER**:

- Bonded copper stocks in Shanghai fall to 7-month lows, imports eyed

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- Rio Tinto CEO setting fresh cost cuts as new mine projects go ahead

## FEATURE

**COLUMN-Copper supply; just when you thought it was safe**

Why did so few Chinese delegates attend last week's CESCO copper gathering in Chile? Was it simply because there will be a second event in China itself later this year, building on CESCO's first foray into the world's largest copper buyer last year?

*Andy Home is a Reuters columnist. The opinions expressed are his own*

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## TODAY'S MARKETS

**BASE METALS**: London copper staged a U-turn to climb nearly half a percent as prices hit pockets of short-covering, although investors remained cautious ahead of data from Europe and the U.S. that could fuel global growth worries.

"The market has reacted quite negatively towards the Chinese growth figures, which have raised concern about the pace of economic recovery," said economist Alexandra Knight at National Australia Bank in Melbourne.

**PRECIOUS METALS:** Gold rose 1 percent after a drop to a 2-year low earlier in the session ignited physical buying, but investors frustrated by the metal's lacklustre performance remained cautious amid fears of central bank sales and global growth.

"The scale of the down move is such that whenever we get any signs of stabilisation or any official sign of interest to buy, it's going to cause something in the order of a 1.5 to 2 percent rebound. It's only to be expected," said Tim Riddell, head of ANZ Global Markets Research, Asia.

**FOREX:** The dollar recovered from two-week lows against the yen the back of bargain-hunting but traders remained wary of a further rout in gold prices that could spur demand for the safe haven Japanese currency.

"For those who have been looking for a chance to buy the dollar, it was a blessed dip indeed," said a trader at an western bank in Tokyo.

# FEATURE

**COLUMN-Copper supply; just when you thought it was safe**

By Andy Home

LONDON, April 15 (Reuters) - Why did so few Chinese delegates attend last week's CESCO copper gathering in Chile?

Was it simply because there will be a second event in China itself later this year, building on CESCO's first foray into the world's largest copper buyer last year?

Or was it somehow symbolic of the changed dynamics of the global copper market, which has apparently shifted from deficit to surplus in double-quick time?

After all, exchange stocks of copper are now back at levels last seen in 2003 with another huge tranche of metal sitting in Shanghai's bonded warehouse zone.

Buyers no longer have to chase this market and maybe Chinese buyers simply took the view that the market, or at least the Chilean copper producers, will come and see them later this year.

## FUTURE SUPPLY STRESS

The collective absence of buyers in Santiago last week meant that the focus of the meeting, even more so than usual, was about the problems of supply.

And, given the location, specifically about the problems of Chilean supply.

Which are plentiful and we're not just talking about the 24-mining strike which formed a backdrop to the CESCO meeting.

It's election year in Chile and the unions made sure that no one should be in any doubt about what that might mean for labour unrest.

Chile's problems go much deeper than that, quite literally in the case of some of the ageing mines that form the backbone of the country's copper production.

Cost inflation in Chile's mining sector is rampant, running at twice the global average of 30 percent over the last five years, according to a presentation by CRU.

Permitting new projects is a nightmare. One nice snippet from the meeting, picked up by researchers at Macquarie Bank, was the fact that Antofagasta's new Antucoya mine needed 240 permits from 12 separate government agencies before coming on line.

Power infrastructure is a ticking time-bomb. Electricity costs are already high and a lack of planned capacity expansion means that even if new mining projects can be launched, there may not be the power to run them.

These are a combustible mix of issues for Chile's mining sector and its future competitiveness.

Given the importance of the country in copper's global mine supply picture, they are also a potentially combustible mix for the future price of the red metal as well.

Just not now.

Right now, Chinese buying appetite is lukewarm.

Stocks are high and, in the case of the London Metal Exchange (LME), up another whopping 17,525 tonnes in this morning's report.

And the price is currently bombing again, three-month metal on the LME touching a morning low of $7,085 per tonne, a level last seen in Q4 2011.

## PRESENT SUPPLY HIT

Almost inevitably then, this being copper, along comes a big bona fide, completely unexpected supply hit.

Just as delegates at CESCO's meeting were heading back to the airport in sombre mood, Rio Tinto announced its Bingham Canyon mine in Utah had experienced a major wall collapse.

Bingham Canyon, part of the Kennecott integrated mine-smelter-refinery operations, is a big producer with output last year of 163,000 tonnes of contained copper in concentrates.

Note, however, that 2012 was an outlier production year due to low grades at the mine. The mine regularly produced in excess of 200,000 tonnes before 2011, a more useful ball-park figure when assessing likely impact this year.

And impact there certainly will be.

The landslide measured 2.4 at a University of Utah seismograph station and although there was sufficient warning that something was going to happen for Rio to take some mediating action, the scale of the collapse was far worse than feared.

The company has still not received the green light even to send experts in to evaluate the damage.

A lengthy closure or at least part-closure looks inevitable.

Kennecott has some leeway to carry on producing refined metal using stockpiled raw materials but, most analysts concur, only for a limited number of days.

## A "KNOWN UNKNOWN"

Given the scale of what has happened at Bingham Canyon, the market's lack of price reaction might seem surprising.

There are two considerations here, though.

Firstly, world copper mine production has recently been running remarkably smooth by the standards of this accident-prone market.

Analysts had up to now little to enter into their "production disruption allowance," a copper-specific calculation devised to calibrate actual mine performance against projected mine performance.

Thus, for example, UBS researchers, assessing 171,000 tonnes of potential loss at Bingham Canyon, note that they still have 442,000 tonnes of potential disruption allowance "before our forecast 2013 surplus of 139,000 tonnes is at risk."

## FEATURE *(Continued)*

Macquarie Bank was using an 800,000-tonne disruption allowance for this year and its view is that "we expect the market to be able to cope with this lost tonnage."

In other words, the sort of event experienced at Bingham Canyon is a "known unknown" and one that was already factored into everyone's supply-demand calculations this year.

TESTING THE SURPLUS

Secondly, there is the not-so-small issue of those not-so-small copper stocks.

High stocks mean any supply-side event is diminished in market impact.

But those high LME stocks are misleading.

This is not a like-for-like repeat of previous down cycles for the copper price because the LME warehousing system has changed so much in the interim.

The reason so much metal has been arriving in the LME warehouse system is because it is being pulled in by warehouser incentives, currently running at $100 or above per tonne.

It is being pulled in to maximise warehouse rentals and physical premiums. Both drivers mean that getting metal out of the LME system may prove a lot harder than in previous cycles.

The forced downtime at India's Tuticorin smelter has already raised questions as to how much metal is really available to smooth out geographical dislocations to metal flow.

Those questions are going to be amplified by the likely impact on Kennecott's operations.

So, while the global market may indeed be able to "cope with" the outright loss of production resulting from the Bingham Canyon mine collapse, it remains to be seen whether this surplus market really has sufficient surplus to adjust.

Oh. And one other thing.

Everyone's production disruption allowance has just been dramatically reduced. Just as long as there are no further copper supply surprises, eh?

--Andy Home is a Reuters columnist. The opinions expressed are his own--

### COLUMN-Gold plunge ripples across other commodity markets

By John Kemp

LONDON, April 15 (Reuters) - Plunging gold prices have initiated a cross-commodity sell-off that has spread across energy and industrial metals.

But so far the most dramatic declines have been concentrated in gold. By 14:49 GMT, front-month futures  had fallen more than 8 percent compared with Friday's close, more than 6 standard deviations (Chart 1).

Gold is among the deepest and most liquid commodity markets, trading more like a currency or a financial asset than an industrial raw material, so such large movements are highly unusual.

If daily price changes followed a normal distribution, a move of 6 standard deviations or more would only occur roughly once in every 500 million trading days, about once every 2 million years.

In practice, price changes for gold, like those for other commodities and financial assets, do not follow a normal distribution.

Daily price changes exhibit "fat tails" (excess kurtosis) with many more small changes, and quite a few more very large moves, with fewer intermediate ones, than the normal distribution allows.

The market shifts abruptly from "mild" to "wild" trading states and back again, as French mathematician Benoit Mandelbrot first observed in cotton prices and then explained in a book on "The (mis)behaviour of markets" in 2004.

Today is definitely a wild day. The sudden plunge in gold prices comes on the heels of a price drop of more than 4 percent, more than 3 standard deviations, on Friday, suggesting the market has entered a phase transition to high volatility trading, which is likely to continue for the next few sessions.

The abrupt upsurge in volatility is doubly surprising because gold is normally one of the "better behaved" commodities.

Gold price moves have somewhat fatter tails than the normal distribution, with a kurtosis of about 11 points higher than the normal distribution.

But gold is much less wild than WTI (with an excess kurtosis equal to 13), Brent (16) let alone gasoil (22) and lean hogs (46), according to an analysis of futures price movements between 1990 and 2011 (Chart 2).

The collapse in gold has been much more pronounced than for other commodities such as Brent and WTI. While Brent prices have fallen almost 3 percent today, that is only a little over 1 standard deviation, so a comparatively small move.

While a violent shock has hit most commodity markets in the past couple of trading sessions, it is clear that it started and has been concentrated in gold and then propagated across to the rest.

--John Kemp is a Reuters market analyst. The views expressed are his own--

### BREAKINGVIEWS-Gold is the canary in the financial mine

By Ian Campbell

LONDON, April 15 (Reuters Breakingviews) - Gold is a canary in the mine for financial markets. Its burst bubble warns of the huge dangers lurking for bonds, commodities and stocks. Those dangers may be at a safe distance now, but they are real.

## FEATURE *(Continued)*

When it popped, quantitative easing debased the dollar and ultra-low interest rates reduced the opportunity cost of holding gold. A U.S. recovery, however weak, and a rising dollar were the writing on the wall. The smart money has already been heading out. The tipping point had to come, and has. In markets other than gold and silver the danger of large corrections is there - but the tipping point isn't here yet. Fears about U.S. and global growth, and the risk of earnings shocks, are the issues for stocks and commodities. China's GDP growth slowed to 7.7 percent in the first quarter. The most recent U.S. retail sales and jobs data have disappointed.These growth fears are not bad enough to cause panic talk of enhanced bond buying by the U.S. Federal Reserve, expectations that would support riskier assets. They merely sustain the hope that easing won't taper off quickly. Yet U.S. stocks are at all-time highs and the Vix options volatility index trades close to its lowest since 2007. That complacency need be rattled only a little for stocks to beat a retreat. Rising U.S. Treasuries betray an expectation of no change on quantitative easing soon. The yield on the 10-year note is down from over 2 percent in March to 1.72 percent. Japan's easing may also be supportive of Treasuries. With money-printing and low growth still on their side, safe-haven bonds remain safe. The big problem for markets will come when growth fears recede and extreme U.S. monetary policy begins to end. Falls in stocks and commodities could be substantial, but also possibly mitigated to some extent by stronger economic fundamentals. Bonds are still more vulnerable. Like gold, they are a safe haven past their time.

## GENERAL NEWS

**Gold miners face new challenge in plummeting gold price**

By Allison Martell and Euan Rocha

TORONTO, April 15 (Reuters) - A steep drop in the price of gold will hit profits at mining companies that are already straining under rising costs, and could prompt some miners to rethink their capital spending.

Gold companies big and small sold off on Monday as the prospect of central bank gold sales and fears that the U.S. might reduce monetary stimulus tipped spot gold prices off a ledge, to below $1,400 per ounce.

While lower prices are not likely to wipe out the miners' profits, they will squeeze cash flows as companies are still feeling the impact of pricey acquisitions made at the height of the commodity cycle.

"Everybody was enjoying the high tide, and now that the tide is coming down you're seeing who's swimming naked, and the thing is, everybody's swimming naked," said Veritas Investment Research analyst Pawel Rajszel, who is broadly negative on the sector.

The S&P/TSX Global Gold index was down 8.0 percent by afternoon, after touching its lowest point since late 2008.

Barrick Gold Corp , which was forced to suspend construction on the Chilean side of its huge Pascua-Lama gold and silver mine last week over environmental concerns, dropped 10.4 percent to C$20.55 on the Toronto Stock Exchange.

But rival Goldcorp Inc  was down a comparatively modest 4.7 percent at C$28.66. The largest declines hit small and intermediate companies, which typically have less flexibility to focus exclusively on high-quality assets than major producers.

ANALYSTS SPLIT ON MAJORS

The bullion price drop comes as gold miners try to win back investors turned off by a series of disappointing acquisitions, vowing to clamp down on costs and focus on shareholder returns rather than on growth.

Morningstar analyst Elizabeth Collins said she estimates that many producers' costs are well below $1,400 per ounce. But investor pressure to maintain positive free cash flow may prompt some companies to slow down capital spending.

"It will just be a general sense of 'hey, we don't want to be free-cash-flow negative year after year'," she said. "'Even if this project makes economic sense ... we're just going to slow down our spending.'"

But others are more downbeat.

National Bank Financial analyst Paolo Lostritto said it is difficult to know for sure how much capital spending is discretionary, but he's not optimistic.

"We would argue that there's quite a few companies that are losing money at this gold price," he said.

Lower prices could also hit dividends, especially those paid by miners with policies that link payouts to the price of gold, like Newmont Mining Corp  and Eldorado Gold Corp . Newmont's last quarterly dividend was $0.425 a share, and Eldorado's last semi-annual dividend was C$0.07 a share.

JUNIORS TUMBLE

Many of the largest percentage stock price declines were among smaller players, like Gabriel Resources Ltd , which is waiting on permits for its Rosia Montana gold and silver project in Romania. Its shares slumped 23.4 percent to C$1.51.

Detour Gold Corp , which is ramping up its first mine, in north-eastern Ontario, dropped 21.9 percent to C$11.48.

Rajszel said intermediate producer Iamgold Corp  could also be hit particularly hard, as by his estimates their costs will be around $1,400 per ounce this year, but he noted that the company has plenty of cash. Iamgold's stock fell 7.2 percent to C$5.43.

## GENERAL NEWS *(Continued)*

**South Africa mine wage talks may be toughest yet**

By Ed Stoddard and Sherilee Lakmidas

JOHANNESBURG, April 15 (Reuters) - Wage talks across South Africa's mining sector starting in May will be among the toughest ever with strikes a certainty given inflation, worker militancy and shrinking company margins.

There is also real risk of a repeat of the labour violence and wildcat action that led to over 50 deaths last year, costing companies and the state billions of dollars in lost revenue.

Emboldened by the high settlements some received after the illegal 2012 strikes, labour militancy has spread from platinum to gold and coal. Some miners have downed tools even before talks start.

Their income is being devoured by rising prices but wages account for over 50 percent of company costs and they have paid above-inflation wage rises in recent years.

"The gold companies cannot afford anything above inflation," said David Davis, mining investment analyst at SBG Securities.

"Just escalate $1,150 by 12 percent per year and by 2015 the gold price will have to be around $2,000 an ounce for the producers to make a 20 percent margin," he said. Spot gold is currently at 2-year lows around $1,425 an ounce.

He said broadly, the all-in cash costs in South Africa for AngloGold Ashanti , Africa's top bullion producer, and smaller rivals Gold Fields and Harmony Gold were about $1,150 an ounce in 2012 and have been rising by 12 to 14 percent per annum over the last three years.

In the platinum sector, the situation is more dire, with about half of the shafts unprofitable at current prices.

There is limited upside for the price of metal used to make catalytic converters that cap emissions from automobiles. Supply concerns from South Africa, home to 80 percent of platinum reserves, could provide a boost but producers can hardly cash in on that if their mines are shut.

Last year's unrest was rooted in a turf war between the radical Association of Mineworkers (AMCU) and Construction Union and the National Union of Mineworkers (NUM).

AMCU won in platinum and now claims 105,000 members or a fifth of South Africa's mineworkers. Wage talks in South Africa's gold, coal and platinum sectors take place every two years, but this will be the first with AMCU in such a strong position.

UNREALISTIC

Wage talks are always tough and the last official round two years ago triggered limited strikes including a shut down of most of the country's gold mines for four days.

But last year's wave of illegal strikes, that closed mines for weeks at a time, have been a game changer.

Workers are relying on the unions to deliver deals such as the 11-to-22 percent pay hike platinum producer Lonmin's gave to illegal strikers after 34 of them were shot dead by police at its Marikana mine.

"We are extremely concerned about the abnormal environment where people can raise unrealistic expectations," said NUM General Secretary Frans Baleni.

Militancy is spreading. Diversified miner Exxaro had an illegal strike in March at five of its coal operations.

Exxaro chief executive Sipho Nkosi told the Reuters Africa Investment Summit last week the strikers had demanded a bonus even though they had not met their agreed targets.

"They said you made enough money, you declared a profit in your results. You made over 2 billion rand so you can afford it. So every employee must get 15,000 rand ($1,700)," he said.

But talk of shrinking profit margins can seem irrelevant if you work in dangerous conditions two kms (1.2 miles) or more underground for 4,000 rand ($440) a month with a family to feed.

The low wages and inequality that the mining sector was built on, and the demographic profile of your typical mineworker - rural background, male, with an average of eight dependents - mean that even above inflation wage increases have not gone far. Inflation reached almost 6 percent in February with food prices rising 6.1 percent.

This helps explain why the more radical AMCU has poached tens of thousands of former NUM members.

"Many of our workers are getting 5,000 rand a month and on this amount you must pay for food, accommodation, transport and your family," said Siphamandla Malchanya, an AMCU activist at Amplats' operations in the platinum-belt city of Rustenburg.

"But petrol prices and everything is going up each month so we won't even accept 10 percent this year."

Adding fuel to the fire, the world's top platinum producer Anglo American Platinum (Amplats) is in talks with the government and unions over its plans to mothball two Rustenburg mines and cut up to 14,000 jobs in a bid to restore profits.

Much of South Africa's mining labour force is semi-literate and from rural areas, and so laid-off workers would have few other options and their plight will stoke already volatile social tensions at a time when wage talks need to take place.

Just getting them off the ground may not be easy. Impala Platinum says AMCU is now the majority union at its operations, representing over 50 percent of its workers, while Amplats says it claims 40 percent of its employees.

But neither company has been able to sign a "recognition agreement" with AMCU yet, needed to get talks rolling.

Another problem is structural. In platinum, negotiations are done company by company, while in gold and coal they take place collectively under the chamber of mines.

## GENERAL NEWS *(Continued)*

This is a key reason for AMCU's penetration into platinum, as it is easier to convince workers you can hammer out a new deal for them if they are not part of an industry-wide process.

The chamber on Monday is meeting with AMCU to see if it is willing to embrace industry-wide wage agreements in the platinum sector but the union has signaled it is not interested.

"Our members are not in favour," said AMCU national treasurer Jimmy Gama on Friday.

**India's Jan-March gold imports down nearly 24 pct, April continues slide-trade body**

MUMBAI, April 15 (Reuters) - India's gold imports have fallen nearly 24 percent in the first quarter and probably dropped at the same pace in April, the head of a major trade body said on Monday, as importers sit on stocks bought before global prices slumped towards two-year lows.

India is the world's biggest buyer of bullion and its government has raised import duty by 50 percent to curb imports, which helped push the current account deficit to a record 6.7 percent of gross domestic product in the December quarter.

India imported 200 tonnes of gold in January to March, down 23.67 percent from the same period of last year, Mohit Kamboj, president of the Bombay Bullion Association, told Reuters. Last month's imports will be 25 percent lower than the 71 tonnes shipped in April last year, he added.

Ahead of the tax increase in January, gold imports surged 23 percent year-on-year as buyers stocked up. But global and domestic prices have fallen as much as 15 percent since then, and gold sank to a two-year low on Monday.

"They are losing confidence in gold as prices have fallen to $1,439 (per ounce) from the top of $1,900 in the last one year," Kamboj said.

"With more and more countries reducing stocks the future of gold seems bleak," said Kamboj, referring to Cyprus and other countries in the European Union.

Internationally, investors have dumped gold and flocked to equity markets in recent weeks as Cyprus plans to sell gold reserves to raise around 400 million euros ($525 million). That has raised concerns that other indebted euro zone countries could follow suit.

Even escalating tensions on the Korean peninsula have failed to burnish gold's safe-haven appeal.

In India, buying has also been hit by a falling rupee, which makes domestic gold more expensive than its global counterpart, which is priced in dollars.

The rupee has eased about 1.5 percent against the dollar since Jan. 21 when the import duty was hiked to 6 percent.

"All jewellers are seeing there could be a further fall, so they are waiting for 25,000 rupees ($460) levels," said Kamboj, referring to the price per 10 grams.

Indian gold futures have not fallen below that level since September 2011, when they started a rally which took them to 2012's record highs. The level has become something of a psychological floor as a result.

Indian gold futures hit 27,100 rupees per 10 grams on Monday, their lowest level since Dec. 31, 2011 and about 17 percent down from their peak of 32,464 rupees struck in November last year.

## MARKET NEWS

**China's new smelters set to swamp effort to dam aluminium flood**

By Eric Onstad

LONDON, April 15 (Reuters) - Aluminium smelters are set to open in China at a faster pace than producers there and worldwide shut loss-making plants to tackle a glut that keeps the metal's prices weak.

So far this year, analysts estimate cutbacks in aluminium production have totalled as much as 700,000 tonnes in China, the world's biggest consumer and producer, after prices shed more than 10 percent since January.

That alone could bring an over-supplied market into balance - the global market surplus is forecast at 687,455 tonnes this year and 747,000 tonnes in 2014, according to analysts polled by Reuters.

Action has also been taken by Russia's United Company RUSAL Plc , the world's largest aluminium producer, which said last month it would cut output this year by 300,000 tonnes after posting a net loss.

But China is on course to add around 4 million tonnes of new capacity this year, much of it with lower cash costs by using cheap energy sources, according to Janet Kong, managing director of research at China International Capital Corp. in Hong Kong.

Analysts say there could be years more of market surpluses, although the industry is clearly under strain.

In late March, for example, China's top aluminium producer Chalco posted a worse than expected net annual loss of 8.2 billion yuan ($1.3 billion), hit by low aluminium prices and rising costs.

"The pain is definitely there," said Metals Strategist Michael Widmer at Bank of America/Merrill Lynch in London.

## MARKET NEWS *(Continued)*

"You're looking at companies like Chalco booking huge losses in the last quarter and the full year, so ultimately, something has to give. The industry is not in good shape."

Benchmark three-month aluminium on the London Metal Exchange has given up about a third of its value since touching a high of $2,803 a tonne in May 2011 and is the weakest performing base metal on the exchange over the past four years.

CHINA BUILDS SMELTERS

Cutbacks in China are estimated at 500,000 tonnes of annual capacity, mostly among small and mid-sized smelters in Henan and South China, according Kong at China International Capital Corp.

Paul Adkins of Beijing-based aluminium consultancy AZ-China pegs the Chinese cutbacks higher, at 700,000 tonnes.

"Going forward we do expect more cutbacks ... and delays in new capacity construction if prices remain low. That said, we don't expect the market to tighten as there is no lack of (new) capacities," Kong said.

China may cut an additional 500,000 tonnes this year, but this would be cancelled out by the 4 million tonnes of new capacity, she added.

This will allow large Chinese producers to keep some older loss-making smelters in business because their new operations lower their average costs nationwide, she added.

Other loss-making smelters will continue to operate due to worries about unemployment and high shutdown costs.

"The net reality is that China's productive aluminium capacity continues to increase quite substantially, well beyond the rise in demand that the market requires," said analyst Duncan Hobbs at Macquarie in London.

Global producers are trying to work with Chinese firms on output cuts and some major ones held a meeting with large Chinese smelters in China two weeks ago, but failed to reach any agreement, a source with direct knowledge of the meeting said.

In the longer run, China's environmental protection efforts may help reduce capacity.

China plans to publish a list of aluminium smelters that meet its environmental standards, with firms selected receiving help in cutting costs, while those left off could be forced to curb output as they become less competitive, according to sources with direct knowledge of a separate closed-door meeting.

CUTBACKS IN EUROPE?

Some high-cost capacity may also be vulnerable in Europe, but operations in the United States are likely to benefit from lower energy costs due to the boom in shale gas production there, said analyst David Wilson at Citigroup in London.

"I suspect going forward that the U.S. smelters will not be facing the same kind of pressure that smelters in Europe are facing."

Last year, U.S. producer Alcoa announced plans to reduce operations at two Spanish smelters and one in Italy by a total of 240,000 tonnes.

Also propping up smelters globally are high premiums that consumers are forced to pay for metal for immediate delivery, above the LME cash price .

Even though LME aluminium stocks are hovering at record highs above 5 million tonnes, most of it is not accessible, tied up in financing deals or stuck in depot queues, sending premiums soaring in recent years.

In Europe, premiums for duty-paid aluminium surged to record highs of around $300 a tonne last year, although they have dipped this year to around $280-$295.

Wilson estimates that about three-quarters of European Union smelters are loss-making based on the LME price alone, but after adding in premiums, only a quarter are in the red.

"As long as you've got the financing deals and the high physical premiums in place, the smelters and the companies can at least survive, barely, but they can survive," said Widmer.

### Bonded copper stocks in Shanghai fall to 7-month lows, imports eyed

By Polly Yam

HONG KONG, April 16 (Reuters) - Copper stocks in bonded warehouses in Shanghai have fallen by about a fifth in the past month to a 7-month low following a rise in the price spread between the domestic market and the London Metal Exchange, fuelling hopes that Chinese importers will resume fresh orders soon.

Increased orders from China, the world's top copper consumer, could support international copper prices , which have fallen more than 9 percent so far this year, due partly to lower imports from China because of high bonded stocks.

The price differential for Shanghai cash copper over LME copper widened in mid-March, prompting investors and end-users to move bonded stocks into the domestic market. More than 150,000 tonnes of the metal have been moved in the past month, traders estimated.

A sharp decline in LME copper prices on Monday to their lowest in 1-1/2 years added to demand, and Chinese importers started seeking fresh spot forward shipments for the first time this year, traders said.

"Many people looked to buy copper on Monday, both for bonded stocks and forward imports," said a trader at an international trading house, who declined to be named because he was not authorised to talk to the media.

He added that some sellers of bonded stocks were holding off on selling all their metal because term shipments into China would fall in the coming month after port strikes in Chile.

## MARKET NEWS *(Continued)*

Most ports in Chile returned to normal operations in early April after an extended strike, which cut copper shipments from the world's top producer in March and early April.

The delayed shipments are expected to arrive in China between mid-May and June, traders said.

STOCKS

Bonded stocks were estimated by traders at about 600,000-700,000 tonnes late last week, the lowest since around September 2012.

The stocks were down around 20 percent from 850,000-870,000 tonnes in mid-March and down by a third from a record of about 1 million tonnes in late January. The decline in stock levels is expected to extend into May if demand stays strong, traders said.

The bulk of stocks moved into the domestic market in the past month had been sold to fabricators, which buy refined copper to produce semi-finished copper products, traders said.

Copper monitored by the Shanghai Futures Exchange last week fell 7.8 percent to 228,290 tonnes, from a record of 247,591 tonnes on March 29.

Premiums that buyers pay to secure physical bonded stocks have risen to about $110-$125 a tonne over the cash LME copper prices , the highest since January 2012, traders said.

**Rio Tinto CEO setting fresh cost cuts as new mine projects go ahead**

SYDNEY, April 16 (Reuters) - Rio Tinto is setting fresh cost-cutting targets under its new chief executive as the global miner faces a sharp downturn in demand for industrial commodities.

"My streamlined executive committee structure is now in place and demanding targets for 2013, including for cash cost savings," Sam Walsh, who was named chief executive in January as part of a senior level shake up following a series of disastrous investments, said in a statement.

The world's second-biggest iron ore miner after Brazil's Vale said, in its quarterly production report, it was still on track to boost output capacity of the steelmaking material to 290 million tonnes this year under a multi-billion-dollar expansion plan.

The company said its copper mine in Utah, the second-biggest source of copper in the United States would see a drop in refined metal output by about 100,000 tonnes based on an early assessment of damage caused by a cave-in last Wednesday.

The loss due to the accident, in which no employees were reported injured, could help combat a mounting global supply glut of copper that was weighing on the metal's price, according to analysts.

The company was also hopeful it could commission its giant Oyu Tolgoi copper and gold mine in Mongolia by the end of June, pending resolution of outstanding issues with the Mongolian government over local employment and taxes.

## ANALYTIC CHARTS *(Click on the charts for full-size image)*

### Daily LME Aluminium 3-months

### Daily LME Copper 3-months

### Daily LME Nickel 3-months

### Daily LME Zinc 3-months

### Daily LME Lead 3-months

### Daily LME Tin 3-months

### Daily LME Alloy 3-months

### Daily LME Nasaac 3-months

# MARKET REVIEW

**METALS-LME copper climbs as shorts cover, growth worries cap gains**

By Melanie Burton

SINGAPORE, April 16 (Reuters) - London copper staged a U-turn to climb nearly half a percent as prices hit pockets of short-covering, although investors remained cautious ahead of data from Europe and the U.S. that could fuel global growth worries.

Shanghai copper fell to an 18-month trough, tracking overnight losses in benchmark London Metal Exchange copper, with slowing Chinese growth and fitful U.S. data casting a pall over the global economic recovery.

The most-traded August copper contract on the Shanghai Futures Exchange fell to 51,920 yuan ($8,400) a tonne, its lowest since October 2011, before paring losses to trade at 52,590 yuan ($8,500), down 1.76 percent from Monday's close.

Three month LME copper was trading up 0.36 percent at $7,228 a tonne by 0320 GMT. It had earlier dropped as far as $7,135.75 a tonne, extending losses from the previous session when it hit its lowest in a year and a half at $7,085 a tonne.

On the ShFE, contracts reached levels not seen since the depths of the 2008 credit crisis. Aluminium and zinc sank to their lowest in more than four years, while lead printed a contract low for the second consecutive day.

LME nickel hit a new eight-month trough, but other contracts held above Tuesday's multi-month lows, while LME aluminium recovered from a 3-1/2 year bottom of $1,818.

"The market has reacted quite negatively towards the Chinese growth figures, which have raised concern about the pace of economic recovery," said economist Alexandra Knight at National Australia Bank in Melbourne.

"Monthly updates have been a bit better and we are starting to see an improvement in exports, that's also why markets have been caught off guard. In the longer term, you've still got constraints on supply and that should keep a floor under prices."

A U.S. regional manufacturing report on Monday showed the pace of growth slowed, the latest evidence suggesting the world's biggest economy lost some steam heading into the second quarter.

The dour U.S. report followed data that showed the Chinese economy unexpectedly stumbled in the first three months of 2013.

Upcoming numbers that could sway sentiment for the session include German ZEW data for April, along with euro zone and U.S. inflation figures. U.S. March housing starts and March industrial output are also expected.

Given weak spot activity in China and prices that are still ahead of the cost curve, copper is still vulnerable to short term weakness, said Barclays Capital in a client note.

"We maintain our view that any Q2 rally in copper prices should be shorted," it said.

CHOPPY NERVOUS MARKETS

Traders said consumers would start purchases on dips below $7,100 a tonne, while buyers from China have shown modest interest.

"After weakness initially, we have seen short covering around through $7,185 and $7,230. We are now looking at the $7,280 area for a break or pull back," said a trader in Hong Kong.

Premiums for copper in Shanghai have climbed around $10 since last week, a Shanghai based trader said. "There is more interest locally, so the RMB premium is picking up a bit, but it's not a big move."

Copper stocks in bonded warehouses in Shanghai have fallen by about a fifth in the past month fanning hopes that Chinese importers will resume fresh orders soon.

**PRECIOUS-Gold scores modest rebound from 2-yr low; caution stays**

By Lewa Pardomuan

SINGAPORE, April 16 (Reuters) - Gold rose 1 percent after a drop to a 2-year low earlier in the session ignited physical buying, but investors frustrated by the metal's lacklustre performance remained cautious amid fears of central bank sales and global growth.

Bullion posted its biggest ever daily drop in dollar terms in the previous session, catching many gold bulls and veteran investors by surprise. Gold has now fallen about 20 percent so far this year after an unbroken 12 years of gains.

The typically safe-haven asset has failed to capitalise on tensions in the Korean Peninsula even as Pyongyang made new threats of military action, and has been hit by uncertainty over the U.S. Federal Reserve's stimulus programme.

"The scale of the down move is such that whenever we get any signs of stabilisation or any official sign of interest to buy, it's going to cause something in the order of a 1.5 to 2 percent rebound. It's only to be expected," said Tim Riddell, head of ANZ Global Markets Research, Asia.

"Given the scale of the sell-off, I would say that the rebound is not that impressive. The fact the stock market is stable is helping, and it's not creating a further position liquidation mode."

Cash gold dropped to as low as $1,321.35 an ounce, but reversed losses to trade at $1,359.51 by 0547 GMT, up $6.76, with dealers noting buying interest from consumers in Asia. The metal is about $560 below a lifetime high around $1,920 an ounce hit in September 2011.

Platinum and palladium , which have also been hammered by heavy selling, regained strength after Japanese shares pared losses due to renewed weakness in the yen.

## MARKET REVIEW *(Continued)*

U.S. gold futures for June delivery fell more than 2 percent to the weakest in more than two years before rebounding slightly, while the most active bullion contract on the Tokyo Commodity Exchange sank as much as 10 percent.

Monday's drop of around $125 per ounce in cash gold eclipsed the rout on Jan. 22, 1980, a day after gold hit its then-record $850 on global panic over oil-led inflation due to Soviet intervention in Afghanistan and the Iranian revolution.

Reuters market analyst for commodities and energy technicals, Wang Tao, expects gold to fall further to $1,245 per ounce.

Gold hit an 11-month high in October last year after the U.S. Federal Reserve announced its third round of aggressive economic stimulus, raising fears the central bank's money-printing to buy assets would stoke inflation.

But the gain was erased by a rally in equities, talks the Fed could soon end its bullion-friendly bond buying programme, and concerns other indebted euro zone countries could follow Cyprus' plan to sell bullion reserves to raise cash.

Heavy outflows on global gold exchange-traded funds, which cut holdings to their lowest in more than a year, could also mark the end of a love affair between gold and investors.

"The fall in gold prices is reminiscent of some of the market capitulations seen during the global financial crisis when leveraged investors were required to sell assets to maintain balance sheets and preserve liquidity," said Ric Spooner chief market analyst at CMC Markets in Sydney.

**FOREX-Dollar recovers vs yen, market still nervous about commodities**

By Hideyuki Sano

TOKYO, April 16 (Reuters) - The dollar recovered from two-week lows against the yen the back of bargain-hunting but traders remained wary of a further rout in gold prices that could spur demand for the safe haven Japanese currency.

Commodity currencies such as the Australian dollar also found support after a tumble the previous day as gold recouped some losses after posting the biggest fall in about 30 years.

The dollar rose 0.8 percent in Asian trade to 97.46 yen , though it was still down about 2.5 percent from a four-year high of 99.95 yen hit last week following the Bank of Japan's big stimulus launch.

"For those who have been looking for a chance to buy the dollar, it was a blessed dip indeed," said a trader at an western bank in Tokyo.

Earlier on Tuesday, the U.S. currency had fallen as low as 95.67 yen, its lowest since April 4, hit by disappointing Chinese and U.S. data.

News of explosions in Boston, which a White House official said are being treated as an "act of terror", also prompted speculators to unwind their recent favourite trade of going long in risk assets and short in the yen.

Traders said investors will likely need to see a clearer sign commodity prices are stabilising before their risk appetite returns.

Disappointing Chinese data, talk of large-scale selling by a big fund, and news that the Central bank of Cyprus might sell gold reserves were cited as possible reasons, though traders are unsure exactly what has caused such a big slide.

Spot gold last stood at $1,366.0 per ounce, up 0.6 percent in Asia.

"When investors suffer a massive loss in one asset, they often have to make up for losses by unwinding trades that are still in the money. The dollar/yen and cross/yen should be one of the best candidates given their sharp gains in recent months," said another Japanese bank trader.

G20 IN FOCUS

Selling in the yen also lost momentum this week after the United States said late last week in its currency report it would watch Japan's policies to ensure Tokyo was not devaluing the yen to gain competitive advantage for exports.

"Many players had positioned themselves for the dollar's rise above 100 yen and now they were forced to dump the dollar. But looking at the U.S. currency report, you get the impression while the U.S. and other countries may accept the 90-95 yen range, they don't welcome 95-100 range," said Daisuke Uno, chief strategist at Sumitomo Mitsui Bank.

(Inside Metals is compiled by Pradip Kakoti in Bangalore)