# INSIDE METALS

Monday, April 30, 2012

## CHART OF THE DAY

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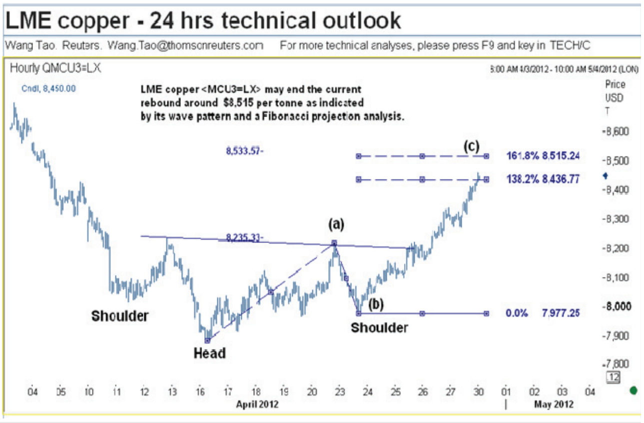


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*Andy Home is a Reuters columnist. The opinions expressed are his own*

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## TODAY'S MARKETS

**BASE METALS**: Copper rose to its highest level in nearly a month on Monday as falling stockpiles signalled improving demand conditions although trading volumes were lean with markets in top copper consumer China shut for a public holiday.

"We expect copper price to go through $4 per lb ($8,800 per tonne) over the next couple of weeks while we see continued resilience in demand and moderate supply growth.

**PRECIOUS METALS:** Gold held near a 2-week high on Monday on prospects of more safe haven buying, with the dollar under pressure from weaker-than-expected U.S. economic data and speculation the Federal Reserve could ease policy further to boost growth.

"In the short run, you can have one or two weeks for the market to get excited about QE. It's fair enough. I am still going to call for a lower gold price," said Dominic Schnider, head of commodity research at UBS Wealth Management in Singapore.

**FOREX:** The dollar hit a fresh two-month low versus the yen and eight-month trough against sterling on Monday, staying under pressure after data last week showed disappointing first-quarter U.S economic growth.

"A flavour of QE is back in the air, driving the USD lower and risky assets higher," said Sebastien Galy, strategist at Societe Generale.

## FEATURE

**COLUMN**

**LME warehousing; time to think the unthinkable?**

By Andy Home

LONDON, April 27 (Reuters) - The London Metal Exchange announced on Wednesday two significant changes to its deliverability rules.

Firstly, at the instigation of its copper committee, it will delist the Dutch port of Vlissingen as a good delivery point for its Grade A copper contract, effective July 25, 2012.

Secondly, it will, subject to consultation with its registered warehouse operators, introduce a minimum daily load-out requirement for its tin and nickel contracts.

The requirement to deliver 60 tonnes of tin or nickel or a combination of the two will be in addition to the minimum load-out rates introduced in April this year.

These apparently unrelated changes to three of the LME's base metals contracts are all remedies to cure the same problem, that of long queues to get aluminium out of the exchange's warehouse system.

FORTRESS VLISSINGEN

As of Thursday's stocks report there were 1,650,275 tonnes of aluminium awaiting physical load-out from the LME's warehouse system.

The amount of cancelled tonnage across all the other core base metal contracts, by contrast, stands at just 206,750 tonnes.

The aluminium queues started in Detroit and they are still there. There are 613,375 tonnes of metal awaiting load-out in the city.

But the Motown Blues for Midwest aluminium consumers have been eclipsed by developments at Vlissingen, which currently has 856,350 tonnes of cancelled tonnage.

At the current "minimum" (read "maximum") load-out rate of 3,000 tonnes per day, metal cancelled today at Vlissingen will take 287 working days, or 57 weeks, to get onto a truck.

That assumes that total registered tonnage at Vlissingen stays above 900,000 tonnes. If it drops below that level, the minimum load-out rate will also drop, initially to 2,500 tonnes per day.

There seems little danger of that happening. What leaves daily is simply being replaced by fresh arrivals. Total registered tonnage is almost unchanged since the start of the year despite the daily outflow.

Vlissingen is dominated by one warehouse operator, Pacorini. It operates 27 out of 29 LME-registered sheds in the city.

Pacorini is owned by Swiss trade power-house Glencore , which can access a seemingly endless supply of the light metal thanks to its mega-tonnage off-take deal with the world's largest producer UC RUSAL .

What has all this aluminium got to do with the LME's copper contract?

There is only a relatively small amount of copper, 2,175 tonnes, registered in Vlissingen.

But it is to all extents and purposes inaccessible. Because if anyone wanted to buy it and take physical delivery they would have to join the back of the aluminium queue.

It doesn't take a leap of the imagination to envisage a future scenario, under which Glencore, by its own admission the world's largest-volume copper merchant, channels copper units into Fortress Vlissingen, where the metal is insulated from physical delivery by a wall of aluminium.

The LME copper committee, as ever articulating the views of the powerful European copper fabricator lobby group, appears to have envisaged just such a scenario and decided to take preemptive action.

And maybe it's done so just in time, given that someone has just cancelled 15,250 tonnes of copper at Rotterdam and 8,100 tonnes at Livorno in Italy, effectively snapping up most of the available LME tonnage elsewhere in Europe.

Graphic on aluminium stocks at Vlissingen:

http://r.reuters.com/guh87s

Graphic on queuing time at Vlissingen:

http://r.reuters.com/fuh87s

Graphic on aluminium stocks at Johor:

http://r.reuters.com/huh87s

Graphic on aluminium stocks at Detroit:

http://r.reuters.com/juh87s

CONTAMINATION

Fall-out from the aluminium market onto the other LME-traded metals is also why the LME is considering introducing separate load-out rates for tin and nickel.

There are 3,216 tonnes of LME-registered nickel in Vlissingen but there hasn't been tin stored there in many years.

Just about all the tin in the LME system, 12,105 tonnes out of total stocks of 13,890 tonnes, is located in Johor.

The Malaysian location has its own aluminium load-out queue with 103,900 tonnes in the cancelled "departure lounge".

What was once a localised problem in Detroit has gone global. And what was just an aluminium problem has started to undermine the functioning of at least three other LME contracts.

The LME's failure to devise a system-wide way of handling this unprecedented demand for unprecedented amounts of metal has left it fighting a growing number of fires. Copper in Vlissingen. Tin in Johor. Nickel in both.

But where does it end?

Should the LME lead committee also remove Vlissingen as a good delivery point? It currently holds 12,300 tonnes of the heavy metal and, as with copper, the last few days have seen heavy cancellations of LME lead stocks in other European locations, particularly Bilbao in Spain.

## FEATURE *(Continued)*

Or what about the 93,150 tonnes of zinc "trapped" behind the aluminium queues in Detroit?

The permutations are almost endless, because the underlying problem is so moveable, quite literally in the form of the 3,000 tonnes of aluminium that is daily moving by truck out of Vlissingen.

Will the LME end up with a matrix of deliverability options, depending on metal, location and warehouse operator?

Because that's the way it's shaping up unless the exchange is prepared to rethink its whole approach to its warehousing function.

BREAKING THE DELIVERABILITY TABOO

There is another option, though.

If aluminium is the root cause of spreading deliverability problems across a growing number of locations and a growing list of other metals, why not rethink the aluminium contract?

Specifically, why not make it a non-deliverable contract? Cue, or maybe that should that be "queue", gasps of collective horror.

Deliverability after all is hard-wired into the LME trading system. The exchange's tradition, and one that is strongly supported by the current executive, is that if a commodity can be physically delivered, a futures contract should be deliverable.

But not to the point, presumably, of undermining the functioning of the rest of the LME market.

Aluminium doesn't have to be stored in LME warehouses. Indeed, the queues at Detroit, Vlissingen and Johor speak to the collective urge to move metal to cheaper rental sites, maximising the return on a stocks financing deal.

It's worth considering what would happen if the LME raised the minimum load-out rate exponentially higher, as some have called for. How much aluminium would actually be left in LME warehouses? Any of it?

The aluminium market is almost totally financialised in a way that none of the other LME metals yet is.

Movements of LME aluminium stocks have long ago ceased to signal anything about industrial use of the metal. Rather, they reflect no more than the variables of the cost of storing surplus.

Anyone who thinks that the LME warehouse function is creating an efficient arbitrage between aluminium futures and physical markets hasn't been looking at premiums over the last year or so.

And is there really any aluminium fabricator who thinks that the LME can act as a market of last resort? If you need top-up metal fast, the LME is not the place for you.

All of this is predicated on the fact that the aluminium market is in structural surplus and has been for a long time.

Unlike the other base metals traded on the LME, there is no hard-rock mining constraint on aluminium production. Bauxite is plentiful and getting it out of the ground is more quarrying than mining.

The only limit on supply is the availability of cheap power and producers' tolerance of wafer-thin margins.

It is a market prone to systemic over-production and that is reflected in the wide contango along the forward curve. Without that the business of financing stock to create a synthetic, metallic bond would not be profitable.

Those characteristics differentiate it from metals such as copper and tin.

These markets are in deficit, making the LME's role as market of last resort a vital one in the supply chain.

It's a role, though, that is being steadily eroded by those aluminium queues.

Either the LME should re-open the whole warehousing debate, something which seems highly unlikely, or it should start thinking the unthinkable about its aluminium contract.

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

## GENERAL NEWS

**Geithner: U.S. can withstand any Europe stresses**

WASHINGTON, April 27 (Reuters) - U.S. Treasury Secretary Timothy Geithner said on Friday that if Europe mismanages its crisis it could slow U.S. growth but said the U.S. financial system could handle any resulting pressures.

"The U.S. financial system is in a very strong position to withstand the foreseeable pressures we might face from Europe," he said in an interview on American Public Media's Marketplace program.

Geithner said that, on balance, Europe was making headway in efforts to deal with its sovereign debt crisis.

"I think they've made a lot of progress in the last few months in trying to bring back a measure of calm to their financial markets," Geithner said.

Concern about spillover from Europe's crisis led member countries of the International Monetary Fund to agree last weekend to pledge an additional $430 billion to strengthen its war chest in case other countries are adversely affected.

Geithner, who heads to Beijing with Secretary of State Hillary Clinton next week for the latest round of Strategic and Economic Dialogue talks between the two countries, was cautious when asked to assess relations between the two countries.

## GENERAL NEWS *(Continued)*

"Better. Better than it was," he said, noting that a 13 percent real appreciation in the yuan's value was "pretty good for us" since it reduces the competitive price advantage that Chinese-made goods hold over U.S. products.

Geithner and Clinton will discuss a full range of issues, potentially anything from cooperation on efforts to curb Iran's nuclear ambitions to currency values in two days of talks May 3-4. He cited progress in several areas.

"There's better protection for intellectual property rights in China, less piracy against U.S. firms, and China is gradually dismantling a range of the subsidies that their firms enjoy which gives them an unfair advantage," he said.

There was still work to do, Geithner added, but "the basic direction of reforms in China is fundamentally in our interest."

**UK targets autumn for new moves against metal theft**

LONDON, April 27 (Reuters) - The British government said new proposals aimed at clamping down on costly metal theft, which has damaged power lines and railways, could come into force by autumn this year but that policing the measures was unlikely to require fresh funding.

The government said on Friday it has put forward amendments to a bill that prohibits cash payments for the purchase of scrap metal, requires records to be kept of payment recipients, and increases maximum fines for offences.

"If the Bill is enacted, it is envisaged that these provisions would come into effect in autumn 2012," it said in a response to a report by the transport committee of the House of Commons, the lower house of parliament.

"This would provide a direct means of tracking the financial audit trail for sales of scrap metal, and hence go a substantial way towards enabling the identification of the sellers of stolen material."

But it said further funding, advocated by the parliamentary committee, was not likely to be needed to beef up the British Transport Police's metal theft unit beyond 5 million pounds already allocated.

Thefts of items such as copper cable have led to widespread communications and rail network disruptions in Britain and across Europe while criminals stripping lead off church roofs and from other historic buildings have badly damaged heritage sites.

They cost the domestic economy upwards of 770 million pounds ($1.26 billion) according to figures from the UK's Association of Chief Police Officers in July.

Prices of metals such as copper shed 21 percent of their value last year, but their resale value remained high enough to lead to about 16 incidents of metal theft a day against energy networks, according to the Energy Networks Association (ENA), which represents telecoms provider BT and Network Rail.

About 1.5 billion pounds of Britain's 5 billion pound-a-year scrap metal industry is cash-based, making it ideal for making money quickly without leaving a paper trail.

"The fact that they have done that is very encouraging. I would anticipate that the cashless scheme will take full effect in a few months," said Tony Glover, head of press and public affairs at the ENA.

"In many ways I liken the cashless regime as the jewel in the crown. They will now have to use cheques, bank transfers and cards so it's all traceable."

Around 15,000 tonnes of metal is stolen annually, according to the British Metals Recycling Association (BMRA). The UK recycles about 13 million tonnes of metal every year.

"Metal theft rates have fallen quite drastically in some parts of the country because the police have done a very good job in clamping down on this crime," said BMRA director general Ian Hetherington.

"The 5 million pounds originally allocated has had some impact and we would like to have seen an extension of that as it continues to provide the sort of intelligence coordination which we think this needs."

In England's North East, which police say is the epicentre of railway metal theft, police started trials of a system this year under which scrap sellers must prove their identity so that stolen metal can be traced.

## TRADING PLACES

**Specs trim gold, silver net longs, raise copper-CFTC**

April 27 (Reuters) - Money managers in gold futures and options cut net long positions in the week ended April 24 for their third decline in four weeks, as the precious metal's price failed to break out of a narrow range.

Speculators trimmed their bullish gold bets by 4,675 contracts to 107,600 contracts, data from the Commodity Futures Trading Commission (CFTC) showed on Friday.

"The speculative fervor is out of gold for now, which is reflected by the slower retail demand in coins and other products," said Bill O'Neill, partner of commodity investment firm LOGIC Advisors.

During the period covered by the report, the yellow metal had failed to break above resistance at $1,650 an ounce, as a strong run of U.S. economic data dashed hopes of further U.S. monetary easing.

## TRADING PLACES *(Continued)*

The group also trimmed their bullish bets in silver, cutting their length in silver by 2,635 contracts to 10,756 contracts, the lowest level since the first week of January.

However, speculators raised copper length by 14 contracts to 2,217 lots, as the decrease in short positions in managed money slightly offset the decline in bullish bets in that category, CFTC data showed.

Still, the net length in copper was near the lowest level since Jan. 17, as renewed European sovereign debt fears triggered economic worries, pressuring demand for key industrial metal copper.

**China to deliver copper to LME-Jiangxi Copper unit**

HONG KONG, April 30 (Reuters) - Large Chinese copper smelters and trading firms have agreed to deliver refined copper cathodes to the London Metal Exchange in the coming two months in an effort to boost the availability of copper in the global market, Jiangxi Copper International Trading Co Ltd said.

The joint action means thousands of tonnes of refined copper will likely be shipped to LME warehouses, helping to ease tightness in copper stocks, which has driven spot prices to a steep premium over prices further out.

This causes losses for Chinese smelters that receive regular term imports of raw material concentrate priced on nearby LME months, and then sell refined copper later. It also dampens demand by discouraging end-users from buying spot copper.

In a statement received by Reuters late Sunday, Jiangxi Copper International, a subsidiary of China's top producer Jiangxi Copper Company Ltd , said the smelters included members of China Smelters Purchase Team (CSPT) and Xiangguang Copper Co Ltd.

CSPT members and Xiangguang make up the top ten copper producers in China and produce the bulk of the country's refined copper.

Firms participating in the joint action would export "enough" refined copper to improve availability in the domestic and international markets, the statement said. No figure was cited.

"Chinese trading companies and main smelters will jointly export big amounts of copper in the next 2 months. The copper will be seen in LME warehouses in Asia," a trade manager at Jiangxi Copper International told Reuters late Sunday, without providing the amount.

The move comes as copper in bonded warehouses in China has soared due to weak domestic demand and an increase in the use of copper as a financing tool for other markets.

The statement said copper in bonded warehouses had reached a record high, but did not give a figure.

At the same time, copper in LME-registered warehouses fell to its lowest level since 2008 on Friday at just over 250,000 tonnes.

The benchmark cash-to-three-months backwardation - the premium for cash copper against three-month delivery on the world's biggest metal marketplace - hit its highest since August 2008 on Friday at $149 per tonne.

China was estimated to have near-record commercial stocks of over one million tonnes of refined copper in late March. A trading manager at a large Chinese smelter estimated the stocks at about 1.4 million tonnes last week, excluding the stockpile of the State Reserves Bureau.

High cash LME prices have already prompted owners of bonded copper stocks in Shanghai to re-export some stocks in April.

## MARKET NEWS

**Alcoa finds gold in its engineering segment**

By Carole Vaporean

NEW YORK, April 27 (Reuters) - Alcoa Inc. aims to offset the impact of low aluminum prices on its earnings by growing its downstream and engineering businesses, with a focus on the booming aerospace industry, said global primary aluminum business president Chris Ayers.

Ayers, who manages the company's upstream businesses, said Alcoa plans to offset the sluggish-at-best aluminum and alumina prices by finding more efficient means of output and moving down the cost curve. Its recent decisions to cut capacity at some high-cost aluminum smelters and alumina refineries was directly related to this goal, he said.

With aluminum prices down 12 percent so far this year, a big source of Alcoa's future growth will be its engineered products and solutions (EPS) division, which engineers and makes aerospace components and other finished aluminum products.

The engineered products division reported record profit margins in the first quarter and is expected to generate revenue of $6.2 billion by next year, up $1 billion, or 17 percent, from 2011.

Most of that additional revenue will come from new products and market share gains. Broader industry growth will generate the rest, particularly aerospace, which already accounts for almost half of the division's revenue.

"Boeing Co's order book is fantastic," he said. "It's at an all-time high for both companies (including EADS unit Airbus).

"We feel very comfortable that we're well positioned in the platforms where they see growth, whether (Boeing) 737s, (Airbus) A320 - the workhorses of the airline industry," said Ayers.

## MARKET NEWS *(Continued)*

Because aluminum is a huge component in those airplanes, he added, Alcoa plans near and medium-term to accommodate the plane makers' build rates.

As the airline industry evolves over the next eight to 10 years with more advanced designs, he said, Alcoa plans to deploy new components and alloys such as its aluminum lithium which makes airframes lighter, stronger and less corrosive.

"In the aerospace market, we're going to have a presence in virtually every frame that's out there," Ayers said.

Engineered products revenues are growing much faster than targeted, with 11 percent revenue growth year-on-year in the first quarter, and 44 percent of the its three-year revenue growth target in the first year, due largely to productivity gains but also from growing demand in the aerospace industry.

Besides the revenue growth, its business is profitable, Engineered products group contributed 52 percent to total after-tax operating income. It turned in record margin of 19.2 percent in the first quarter.

In its first-quarter earnings, Alcoa raised its 2012 aerospace demand growth forecast by 3 percentage points to 13 to 14 percent. That rate of growth is double the company's 7-percent estimate for global aluminum demand growth this year.

Potential growth for engineered products is great because the aerospace industry's order backlog is as high as seven to eight years, Ayers said, noting that order books at Boeing Co. and EADS unit Airbus are at all-time highs.

The Pittsburgh-based company's investment in its downstream operations paid off in the first quarter when its surprise profit was largely attributed to the strong performance of its downstream business.

"Not only has that business got strong topline growth (...), whether it's in the casting business or forgings or wheels business, these are very strong investments made in past years that we really start to see coming into the market right now in a very strong way," Ayers told Reuters in an interview.

And the division's profit margins will improve further this year, analysts said.

"(Alcoa's) earnings beat was driven by record margins in the downstream segments, part of which came from unusually strong productivity improvements. We don't expect the company to achieve this pace every quarter. However, we do expect record margins to get better in 2012," said Lloyd O'Carroll equity and aluminum market analyst at Davenport & Co.

Aluminum price:

http://link.reuters.com/bur87s

Alcoa's results:

http://link.reuters.com/zus57s

Estimated profit growth (sector):

http://r.reuters.com/qes57s

For 2012, Alcoa sees healthy demand growth for aluminum wheels and fasteners in North America and for airfoils in industrial turbines, but expects declines in European wheel and fastener markets, and commercial construction in both regions.

Because of the low aluminum prices, Alcoa implemented an efficiency program, with output cuts at high-cost aluminum and alumina operations already this year, to lower costs.

### Russia's RUSAL output unhurt after strike in Guinea

MOSCOW, April 27 (Reuters) - UC RUSAL , the world's largest producer of aluminium, said on Friday its output was not affected by an employees strike at its Friguia alumina refinery in Guinea, now suspended.

The strike paralysed operations at the refinery in early April but RUSAL compensated the shortfall in alumina from its reserve fund, the company said in a statement.

Employees at Friguia, a 630,000-tonnes-per-year plant and the only refinery in the world's no. 1 bauxite exporter Guinea, demanded a minimum wage of $400 per month and the payment of employees' medical costs.

"The trade unions informed Friguia complex management that the strike was only suspended on the order of Guinean President Alpha Conde until his further orders," RUSAL said in a statement.

The company produced about 4 million tonnes of aluminium and 8 million tonnes of alumina last year.

### Zambia aims to tighten grip on share of mining profits

By Clara Ferreira-Marques and Adrian Croft

LONDON, April 27 (Reuters) - Zambia, Africa's top copper producer, plans to tighten its grip on the government's share of profits made at the country's mines, boosting tax revenue and ensuring a more level playing field for Chinese and other investors.

Investors in miners operating in Zambia, which include Glencore , Indian miner Vedanta and Canadian-listed First Quantum , have fretted over possible increases in taxes under a government elected last year, against the backdrop of a surge of resource nationalism across Africa.

But Vice-President Guy Scott said there were no plans to change the tax code, and that making sure mining companies complied with the existing rules would boost income.

"We are very happy with the formula at the moment. We are not arguing about the taxation formula ... That's not where the concern is. The concern is compliance," he said, speaking at an event hosted by Thomson Reuters on Friday.

## MARKET NEWS *(Continued)*

"There are all these countries that are known as offshore banking or financial services centres. They get their money from somewhere, and we suspect some of it may be coming from Zambia," said Scott, one of the highest-ranking white officials in sub-Saharan Africa.

Sticking to the current tax regime was a "firm promise", he said. "We have backed off a windfall tax which at one stage was brought in ... We have a higher royalty, and a progressive profits tax and the interest is not to change the formula but ... to enforce compliance," he said.

The new Zambian government is trying to juggle the competing priorities of unions demanding better pay for mineworkers with demands for more stable conditions from mining firms.

Scott said the government would look at under-reporting and possible transfer mispricing by mining companies, but said there was an issue with raising tax-collecting capacity.

"You get between 45 and 50 percent of the profit in tax. If you get it, there is no problem," he said in an interview later.

LEVEL PLAYING FIELD

Ensuring they collect their share of mining profits is a huge concern for resource-rich African countries like Zambia.

Many countries and pressure groups fear abuse of transfer pricing rules - governing how companies sell goods between subsidiaries - means they are losing billions of dollars to tax havens.

Transfer mispricing happens when a company's unit in Zambia, for example, sells goods to a second unit at a cut-down price to ensure it records most profits in a low-tax jurisdiction.

Scott said Chinese miners, with whom relations have not always been smooth, would be treated like anyone else but would no longer get the favoured treatment he said they had enjoyed under the previous administration.

President Michael Sata has toned down his past accusations that Chinese companies, which have sunk $2 billion into Zambia to secure a share of its mineral wealth, had created slave labour conditions in Zambia with scant regard for safety.

"We don't give them any leeway in terms of 'You're special, we want you, you don't have to pay tax or you don't have to comply with the labour laws'," Scott said about Chinese firms.

"They have great interest in our natural resources ... We are not frightened they are going to turn around and go. They are obviously not. So they need to be treated on an equal basis," he said.

Scott said he expected the Zambian economy to grow by eight percent this year, after 6.6 percent growth in 2011, and inflation to stay around its current level of 6.5 percent. "If it increases a bit, I don't see what the problem is," he said.

Scott said his aim in coming to London was to convince investors that "we do speak your language" but he took aim at rating agency Fitch over its decision in March to revise Zambia's outlook to negative.

"In some senses, this is a kind of Fitch correction visit ... We get down-rated or up-rated according to maybe what some 25-year-old thinks is the case from various gossip that he's heard in Zambia, and I'm here to correct it," he said.

### Vale presents guarantee for disputed tax payment

RIO DE JANEIRO, April 27 (Reuters) - Iron ore miner Vale said on Friday it had presented to the Brazilian courts a 1.7-billion-reais ($902 million) bond, guaranteeing payment to the government should the company lose a fight against a set of tax bills on earnings abroad.

"The posting of the bond does not represent a defeat for Vale in the judicial proceedings. Vale remains confident in its positions and will continue to pursue all appropriate legal actions," the Brazilian company said in a statement.

Vale is fighting four bills issued by the federal tax authority, totaling 30.5 billion reais, on its earnings from foreign operations. Vale said they amount to double taxation as it paid taxes on the income to foreign governments. The case will be heard at the supreme court, Brazil's highest tribunal.

A Vale spokesperson said the much smaller sum presented in the bond was the amount requested by the judge as a guarantee.

The government is also seeking $3 billion in additional royalty payments from Vale, saying the company understated the value of its production. The government and Vale used different calculations to arrive at the sum they believe should be paid.

Vale said on Thursday that it expected its average tax bill to rise in coming years because of pressure from the Brazilian government.

### Chinese steelmakers lose cutting edge

By Ruby Lian and Kazunori Takada

SHANGHAI, April 27 (Reuters) - Tepid demand dented first-quarter profit at Chinese steelmakers, which are responsible for half of global output, while a slowing economy suggests business will remain tough in coming months.

Baoshan Iron & Steel Co Ltd (Baosteel) , China's top listed steelmaker and which mainly makes high-end flat steel products, late on Friday posted a 60 percent fall in first-quarter net profit to 1.22 billion yuan ($193 million).

Wuhan Iron & Steel Co , the country's third-largest steelmaker, posted a 93 percent profit decline during the period and forecast first-half profit would more than halve from a year earlier.

The sixth-largest steelmaker, Beijing Shougang , lost 151 million yuan and expects to swing to a loss of between 250 million and 350 million yuan in the first half from a profit of 306 million yuan a year ago.

## MARKET NEWS *(Continued)*

Chinese steel companies swung to a loss of about 1 billion yuan in the first quarter from a profit of 25.8 billion yuan a year earlier, an industry body said last week.

Their decline came as the world's second-biggest economy grew at its weakest pace in nearly three years in the first three months, slowing demand for the ferrous metal used in construction, cars and ships.

"Although infrastructure and railway construction remain good drivers for steel demand, new home building isn't strong, while the shipbuilding and house appliance sectors remain weak," said Wang Chongyang, an analyst with Masterlink Securities Investment Advisory in Shanghai.

Any second-quarter recovery will be limited, she added.

Baosteel said the sale of its loss-making stainless steel and special steel assets to parent Baosteel Group would help it grow first-half profit by between 80 and 100 percent, but that demand for its main products would remain weak.

"Flat steel products remain under downward pressure as demand remains sluggish amid an absence of a solid recovery in the manufacturing sector," it said in a statement to the Shanghai Stock Exchange.

The steel companies, particularly state-owned mills, have seen profit diminish because a seasonal demand recovery in March after the winter lull failed to make up for huge losses in the first two months.

An ongoing nudge-up in demand and credit easing expectations are likely to provide some support in the second quarter.

Yet Chinese steelmakers have shrugged off the slower-than-expected recovery in demand and high inventories, and raced to record production, which may further weigh on the market.

"We'll see downward pressures in May as the massive steel production in April floods the market," said Hu Yanping, an analyst with industry consultancy Custeel.com.

China's daily crude steel output remained above 2 million tonnes in the first 20 days of April, suggesting annualised output of 740 million-750 million tonnes, up around 9 percent from last year.

Hebei Iron & Steel Co Ltd  said in its 2011 financial results that China's steel sector will face a more severe outlook this year.

Baosteel's shares have gained 3 percent this year, while Wuhan Steel is up just 1.4 percent, both underperforming a 9 percent gain in the Shanghai composite index.

### Russia's Norilsk Q1 nickel output up 7 pct y/y

MOSCOW, April 27 (Reuters) - Russia's Norilsk Nickel's , the world's largest nickel and palladium miner, said on Friday its first-quarter 2012 nickel output rose, year-on-year, while production of other its core metals fell.

Nickel output rose thanks to increased output from the Russian divisions, the launch of Australian operation Lake Johnston, and increased an loading rate at Norilsk Nickel's Harjavalta refinery in Finland.  Output of nickel rose by 7 percent to 75,824 tonnes in the first quarter, while copper production reached 88,456 tonnes and was down 6 percent.

The Arctic mining giant attributed a reduction in copper production to a scheduled decrease in output from the Russian divisions.  In platinum group metals, palladium output fell by 5 percent to 649,000 troy ounces and platinum production decreased by 2 percent to 166,000 ounces.

"Reduction of palladium output reflects technical decrease of production from Russian Divisions due to accumulation of unfinished stockpile," Norilsk said, adding that it was partially compensated by the growth of metal production at Harjavalta.

Norilsk shares in Moscow rose by 1.97 percent by 1450 GMT, while its GDRs in London added 2.249 percent.

### Russian coal firm Mechel renegotiates debt covenants

MOSCOW, April 27 (Reuters) - Russian steel and coking coal producer Mechel  has  reached an agreement with lenders on new debt covenants on its loans, it said on Friday, the second time in as many years it has been forced to renegotiate borrowing terms.

"Lenders confirmed their agreement to waivers on a number of credit facilities ... including a significant structural change to financial covenants," the company said in a statement.

Analysts had earlier cited a report by DebtWire that Mechel renegotiated the covenants on a $2 billion syndicated loan, increasing the net debt/EBITDA ratio to 5.5 for 2012, 4.4 for 2013 and 3.75 for 2014.

"The news is very positive for Mechel and was a long-awaited event for the market," Uralsib analyst Dmitry Smolin said.

"We note that with new debt covenants Mechel is unlikely to have any difficulties with financial discipline over the next two to three years (based on our financial model)."

Mechel's New York-listed shares were up 0.2 percent at $8.96 at 1357 GMT. The stock has taken a battering amid the company's debt woes, falling nearly 70 percent over the past year.

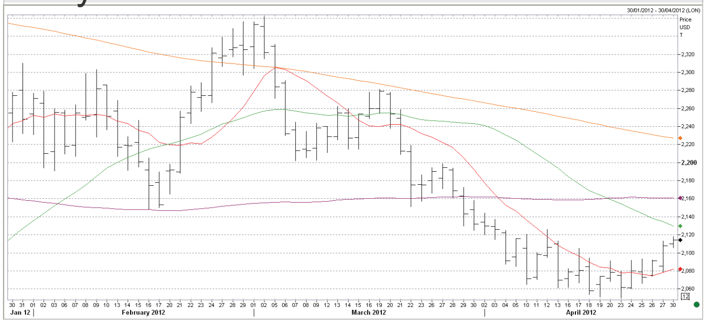
Burgeoning debt forced the company to renegotiate covenants with lenders last year when banks agreed to raise the net debt/EBITDA ratio to 3.5 from 3.0.

In March it said it had entered into talks with banks to renegotiate these agreements once again because of weak market conditions.

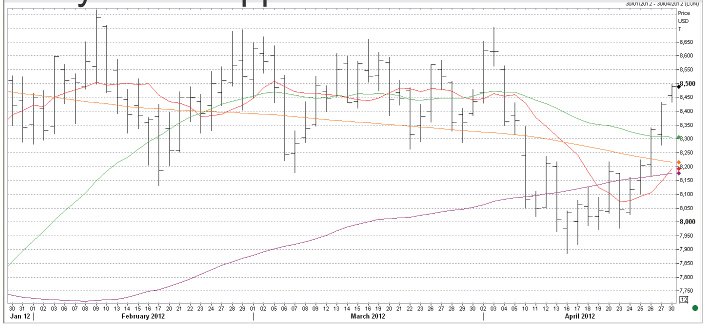
The company, which had total debts of $9.5 billion as of Sept 30, has invested heavily in the $2.8 billion Elga coking coal mining and railway project in Russia's remote Yakutia region, while also continuing an aggressive policy on acquisitions.

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

## Daily LME Aluminium 3-months

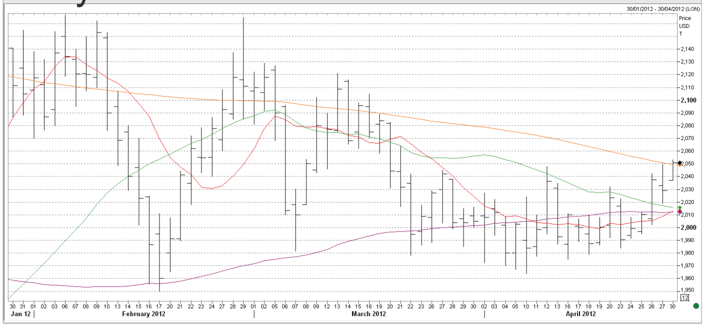


## Daily LME Copper 3-months

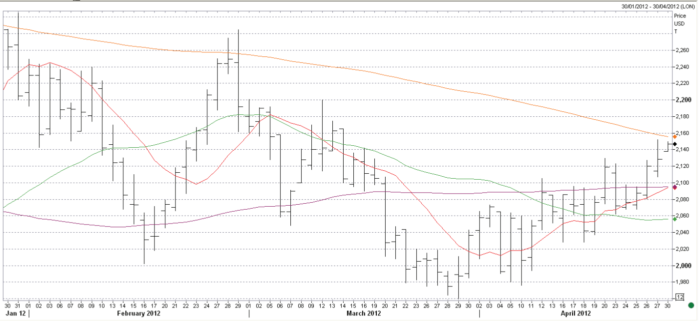


## Daily LME Nickel 3-months

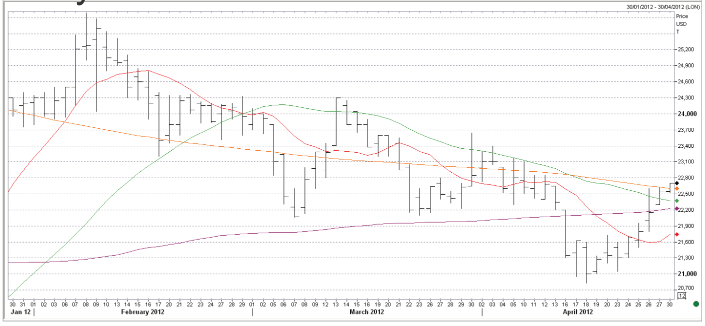
## Daily LME Zinc 3-months



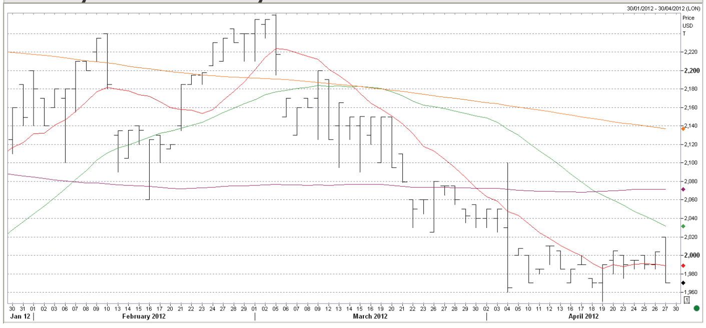
## Daily LME Lead 3-months



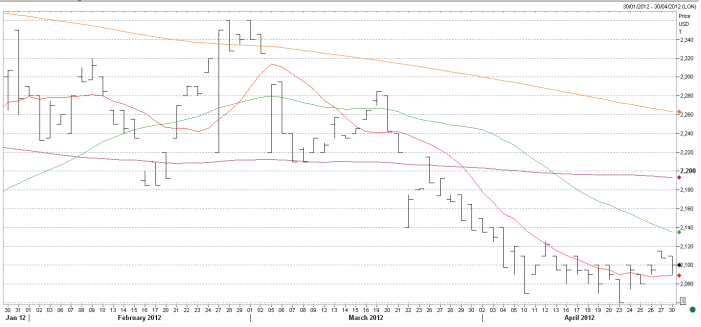
## Daily LME Tin 3-months



## Daily LME Alloy 3-months



## Daily LME Nasaac 3-months



# MARKET REVIEW

**METALS-Copper hits near 1-month top in holiday-thinned trade**

By Manolo Serapio Jr

SINGAPORE, April 30 (Reuters) - Copper rose to its highest level in nearly a month on Monday as falling stockpiles signalled improving demand conditions although trading volumes were lean with markets in top copper consumer China shut for a public holiday.

Copper gained nearly 3 percent last week, supported by a drop in London Metal Exchange inventories to the lowest level since November 2008, helping the metal erase early losses this month and could end April firmer if it sustains its upturn during the day.

The decline in LME stocks point to firm demand, said Matt Fusarelli, analyst at Australia-based consultancy AME Group, who sees a mending U.S. construction sector adding to global copper demand this year.

"We expect copper price to go through $4 per lb ($8,800 per tonne) over the next couple of weeks while we see continued resilience in demand and moderate supply growth.

"With the additional delays in a lot of the new supply we expect copper price for the remainder of the second quarter and the third quarter to be higher," he said.

Three-month copper on the London Metal Exchange gained $25.75 to $8,440.75 a tonne by 0313 GMT, after rising as high as $8,462, its loftiest since April 4. Copper is nearly flat for the month.

Traded volume on LME Select was a slim 747 lots. Financial markets in China will only reopen on Wednesday.

Copper stockpiles on LME warehouses stood at 251,825 tonnes on Friday, the lowest level since November 2008, with cancelled warrants, or those tagged for delivery, at nearly 40 percent of total inventories.

Reflecting tightness in immediate supplies, the premium of LME cash copper over three-month material shot up to $149 a tonne on Friday, the biggest since early August 2008. By Monday, the backwardation had eased to $37.50.

SHANGHAI INVENTORIES FALL

Bulk of the copper that left LME this year was believed to have been shipped to China, where stockpiles surged to their highest in nearly a decade in March amid slower-than-expected demand.

But on Friday, data from the Shanghai Futures Exchange showed inventories at its warehouses fell to the lowest since early February, at 204,762 tonnes.

The drop in copper stocks at Shanghai warehouses along with product inventories at Chinese fabricators suggest demand from China is on the rebound, investment bank Macquarie said.

"We believe the copper stock build in China has come to an end and refined copper inventory will decline over the next quarter as a result of improving demand from China," Macquarie Commodities Research said in a note.

Macquarie said an improvement in the Chinese economy as well as strength in property sales should lead to "reduction in the inventory overhang in China over the next two months, and increase the likelihood of China increasing copper purchases again in the second half of the year."

**PRECIOUS-Gold near 2-week high on dollar, U.S. GDP data**

By Lewa Pardomuan

SINGAPORE, April 30 (Reuters) - Gold held near a 2-week high on Monday on prospects of more safe haven buying, with the dollar under pressure from weaker-than-expected U.S. economic data and speculation the Federal Reserve could ease policy further to boost growth.

Although the slowdown may not be bad enough to prompt the Fed to launch a third round of bond buying, or quantitative easing, expectations for such a move plus fears about the debt crisis in Europe could offer gold much-needed impetus to break free from the current range.

Money managers in gold futures and options had slashed net long positions in the week ended April 24 for a third decline in four weeks, after gold failed to break out of a narrow range.

Gold added $1.12 to $1,663.44 an ounce by 0301 GMT, but the metal was heading for its third monthly decline. Bullion had risen to $1,667.11 on Friday, its strongest since April 13, on disappointing U.S. growth and European debt jitters.

"In the short run, you can have one or two weeks for the market to get excited about QE. It's fair enough. I am still going to call for a lower gold price," said Dominic Schnider, head of commodity research at UBS Wealth Management in Singapore.

"The target is still $1,520. But that really goes in line with the view the economy is on a better footing. If there's no need for QE, then our call will be spot on. But if you look for QE, we are going to have a situation where prices will trend higher."

The U.S. economy, the world's largest, expanded at a 2.2 percent annual rate in the first three months of the year, below economists' expectations of a 2.5 percent pace, raising the prospect of further stimulus from the Fed.

Gold rallied to its highest level in 2012 around $1,790 in late February after the Fed at the time said it would keep interest rates near zero until at least the end of 2014.

For a 24-hour gold technical outlook:

http://graphics.thomsonreuters.com/WT1/20123004091859.jpg

The U.S. dollar held near its weakest since late February against the yen after the disappointing first-quarter U.S. economic growth data, while the euro was still stuck in a range because of the lingering debt crisis in Europe.

## MARKET REVIEW *(Continued)*

Spain, the euro zone's fourth largest economy and current focus of the debt crisis, will face a challenge selling bonds this week after a surprise two-notch credit rating downgrade pushed up yields on its debt. Standard & Poor's cut Spain to triple-B plus - three notches above "junk" - citing expectations government finances will deteriorate even more as the economy contracts and as a result of an ailing banking sector. Gold raced to a record of around $1,920 last September on fears the euro debt crisis could spiral out of control and stall global growth.

U.S. gold for June was little changed at $1,664.50 an ounce.

"We don't know whether there will be QE3, so we have to wait for more economic data to come out. If the economic performance continues to be good, then there will be a diminishing prospect for QE," said a physical dealer in Hong Kong.

"There's no support from the physical market for the time being. The festival season is coming in India but physical buying is not aggressive." Gold traders in India, the world's top buyer of the bullion, refrained from buying despite the peak of the wedding season, hit by a huge stock pile and high domestic prices.

Gold jewellery is an essential part of the dowry basket Indian parents give their daughters at weddings.

**FOREX-Dollar hits fresh 2-month low vs yen, U.S. GDP disappoints**

By Masayuki Kitano and Ian Chua

SINGAPORE/SYDNEY, April 30 (Reuters) - The dollar hit a fresh two-month low versus the yen and eight-month trough against sterling on Monday, staying under pressure after data last week showed disappointing first-quarter U.S economic growth.

The dollar fell to 80.08 yen at one point on trading platform EBS, its lowest level since late February, and last stood at 80.14 yen , down 0.2 percent from late U.S. trade on Friday.

The dollar has come under broad pressure after data on Friday showed U.S. economic growth cooled in the first quarter partly as businesses cut back on investment, bolstering the Federal Reserve's case that interest rates should be kept near zero at least through late 2014.

The slowdown also kept alive market speculation that the Fed may eventually launch another bond buying programme, or a third round of quantitative easing. "A flavour of QE is back in the air, driving the USD lower and risky assets higher," said Sebastien Galy, strategist at Societe Generale. That would go some way in explaining why sterling has outperformed the U.S. currency, despite Britain's double-dip recession. In fact, sterling's fortunes appeared to have turned a corner and currency speculators are now betting on further gains.

Sterling rose to $1.6289 at one point, its highest level since late August 2011. Sterling last stood at $1.6286, up 0.2 percent from late U.S. trade on Friday.

EYES ON U.S. DATA

The dollar is likely to take cues later this week from a batch of U.S. economic data, including the Institute for Supply Management's (ISM) gauges of the manufacturing and services sectors, as well as U.S. jobs data. "Clearly if we do get a weak ISM and a 125,000 (increase in payrolls), this dollar weakness is going to continue," said Rob Ryan, FX strategist at BNP Paribas in Singapore, adding that economists at BNP Paribas were predicting an increase of 125,000 U.S. jobs in April.

Such an outcome would be lower than the prevailing market expectation for an increase of 170,000 jobs. Market players said the dollar may drop further against the yen in the near term. "The chances of USD/JPY breaking 80 and continuing on a downtrend is quite large," Tohru Sasaki, head of Japan rates and FX research at JPMorgan Chase Bank in Tokyo, said in a research note.

The dollar has been under broad pressure recently due to a drop in U.S. Treasury yields, Sasaki said. On Friday, the 10-year Treasury yield dipped to as low as 1.884 percent , its lowest level in nearly three months.

Other factors that suggest the dollar may stay under pressure against the yen include the existence of sizeable short positions in the yen, a lack of interest in foreign bond investment among Japanese investors, and the low probability of yen-selling intervention, Sasaki said. The euro held steady at $1.3254 , having retreated from a three-week high around $1.3270 hit on Friday. Traders said a key test for the markets is the outcome of a Spanish bond sale on Thursday.

(Inside Metals is compiled by Richa Gour in Bangalore)

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