INSIDE METALS

Wednesday, April 04, 2012

CHART OF THE DAY

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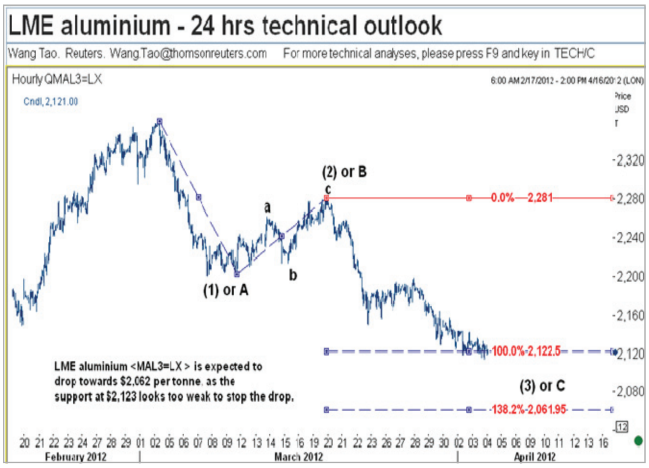

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COLUMN-Displacement, denial, and metals dislocation (Part I)

Looking ahead to what the second quarter might hold in store for the industrial metal markets, it is worth recalling a seemingly minor incident from a couple of weeks ago.

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

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TODAY'S MARKETS

BASE METALS: London copper fell for a second day on Wednesday, pulling away from near two-month highs, as fading hopes for more stimulus measures from the U.S. Federal Reserve cut investors' appetite for risky assets.

"This is just a general readjustment of expectations and if the U.S. economic recovery happens to be more sustainable, prices of riskier assets would go up again," said Thomas Lam, economist at DMG & Partners Securities.

PRECIOUS METALS: Gold struggled to regain lost ground on Wednesday after tumbling nearly 2 percent in the previous session, as the minutes of the U.S. Federal Reserve's last policy meeting showed diminishing appetite for further monetary stimulus.

"Everything is linked through the phenomenon of massive cash supply from central banks," said a Singapore-based trader. "The minutes seem to support a view that the Fed is not going to pump more and more cash into the markets."

FOREX: The dollar hit a one-week high against a basket of currencies on Wednesday, getting a boost as the Australian dollar dropped to an 11-week low after Australia posted a surprise trade deficit.

"It looks like the market wants to make a try for the upside in dollar/Asia pairs and to test the downside in the Aussie as well as the Kiwi," he said.

FEATURE

COLUMN

Displacement, denial, and metals dislocation (Part I)

By Andy Home

LONDON, April 3 (Reuters) - Looking ahead to what the second quarter might hold in store for the industrial metal markets, it is worth recalling a seemingly minor incident from a couple of weeks ago.

An unexpected insight into the collective market psyche came on Mar. 20 courtesy of Ian Ashby, outgoing head of BHP Billiton's mammoth iron ore division.

Mr Ashby's presentation to the Global Iron Ore & Steel Forecast Conference in Perth was a reiteration of the company's long-term bullish view of China's demand for iron ore.

Indeed, most of it concerned progress on the Outer Harbour project at Port Hedland, a key component of BHP Billiton's aggressive expansion of its Western Australian iron ore business.

But one unscripted comment, that steel growth rates in China were "flattening", generated a minor global risk-off panic with everything from equities to the Aussie dollar to copper briefly swooning.

Tellingly, the iron ore price didn't flinch.

After all, Ashby's comments would hardly have surprised delegates at the conference.

Chinese steel production growth had already "flattened" over the closing months of 2011, not entirely surprisingly given Beijing's attempt to engineer a slowdown in its overheating property sector.

Nor would any have been shocked to hear that the days of breakneck double-digit steel growth may be numbered, if not already gone. This is the expected consequence of China's proposed re-tooling of its economy from investment-driven to consumer-driven.

Single-digit growth in steel production and single-digit growth in Chinese iron ore imports will do the Australian iron ore sector just fine.

So why did just about every other risk asset have a nervous wobble? What repressed fears had Mr Ashby inadvertently summoned up with the "f" word?

HOW WOULD YOU LIKE YOUR LANDING?

At first sight the markets' reaction might simply have reflected anxiety about the Chinese economy.

Specifically, the hard landing/soft landing debate has been exercising the collective mind ever since Beijing decided to pop its urban property bubble.

In truth, most in the industrial metal markets would like the landing to be a bit on the rough side, not hard enough to trigger meltdown but bumpy enough for the authorities to loosen the monetary screws and even unleash a bit of that good old revitalising infrastructure spend.

What they are getting is just boring old soft.

Industrial production growth is moderating, manufacturing activity is both accelerating and decelerating, depending on your choice of purchasing manufacturing index, and, as intended, urban property prices are falling.

From a Chinese policy-maker's perspective, things are going pretty much according to plan, predicated as it is on the lowering of this year's official growth target to 7.5 percent.

China should not really be causing the markets palpitations, not on the current readings at any rate.

Or, put another way, a slowing Chinese economy is only a source of anxiety if the markets' real fear lurks elsewhere.

In psychoanalytic theory, this would be called displacement, the transfer of anxiety from its true origins to an emotionally safer alternative. Graphic on Global manufacturing: http://link.reuters.com/byv24s Graphic on the euro zone crisis: http://r.reuters.com/hyb65p Graphic on the Spanish economy: http://link.reuters.com/quf25s

CRISIS OVER! (VIRTUALLY)

Now, what could be the real source of market anxiety? Surely not still the euro zone?

Not after the European Central Bank has just pumped one trillion euros into the region's banking sector? Not after Euro finance ministers have just agreed to pump 500 million euros of new money into their financial firewall?

After all, as Italian Prime Minister Mario Monti, told reporters, tellingly just after meeting with Chinese leaders last Saturday, the euro zone crisis is "virtually over."

"Virtually"? As in virtual reality?

True, a European banking rout has been averted. And true, also, the immediate threat of sovereign debt contagion from Greece to the likes of, well, first and foremost Italy, has been lifted.

But it is now Spain's turn to face down the bond market vigilantes. Hence the deep budget cuts announced at the end of last week, accompanied by what is now the usual popular reaction of a general strike and outbreaks of violence.

Quite how austerity is going to help a Spanish economy that is already shrinking and weighed down by high unemployment remains to be seen. Probably as much as it has helped Greece, now in its fifth year of recession.

And this, remember, is Europe's equivalent of a soft landing, a prolonged period of economic pain and contraction.

FEATURE

Monday's manufacturing PMIs should dispel any hope that this is just a peripheral problem. Even in Germany, the undoubted powerhouse of the region, the PMI dropped into contraction territory in March.

Euro meltdown may be off the agenda, although it's noticeable that European banks are still hedging their bets with close to 800 billion in overnight deposits with the European Central Bank.

But recession is most certainly not.

FEELING BETTER? MORE MEDICINE?

At least the U.S. economy is still growing. The only problem is not very fast and not fast enough to bring down persistently high employment.

That, at any rate, is the opinion of the man who probably spends more time than anyone else thinking about the U.S. economy, namely Ben Bernanke, chairman of the Federal Reserve.

And the markets would seem to agree, since despite a strong Q1 equities rally and a correspondingly low fear gauge they are still holding out for any hint of another round of central bank largesse in the form of QE3.

This is a very curious state of affairs, equivalent to the patient telling the doctor he's better but craving more medicine anyway.

A doctor might suspect addiction. A psychoanalyst would call it denial.

What the markets are going to get is not QE3, not for now at any rate, just a soft, stop-start sort of recovery, ambivalent enough to keep bulls and bears debating the toss.

And super-low interest rates for at least another year, under the most bullish of current scenarios. A lot longer, if the recovery becomes more stop than start.

DISLOCATION

Near-zero interest rates are a symptom of the current extraordinary economic and financial landscape, even in the one major Western economy that does seem to be on a path, however haphazard, out of the Great Contraction of 2008-2009.

As evidence, consider the 1.66 million tonnes of aluminium waiting to be taken out of London Metal Exchange warehouses to be used, not by any manufacturer, but as a financing tool.

The 1,500 tonnes of metal that is being daily shunted up a Dutch motorway between a warehouse in Vlissingen and a warehouse in Rotterdam is a reminder that what the markets have become used to as the new normal is anything but.

In this through-the-looking-glass world investment demand has become as important a driver as manufacturing demand for base metals price behaviour.

That in turn leads to dislocation. Geographical dislocation (copper), physical premium dislocation (aluminium and zinc) and stocks/price dislocation (just about everything).

Such dislocation is the bread-and-butter of arbitrageurs and relative value players. Individual metals can see rapid shifts in fortune, depending on micro drivers, more of which in Part II of this column.

But slowing Chinese growth, insipid U.S. recovery and incipient euro zone recession do not make for a conducive background to a sustained bull market.

There is too much that could potentially go wrong, not least a stubbornly high oil price, to allow a resolution of the underlying anxieties.

But deep down the markets know that. It just takes one unscripted comment, innocuous in itself, to penetrate the blanket of denial and reveal the inner demons within.

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

COLUMN

Displacement, denial, and metals dislocation (Part II)

By Andy Home

LONDON, April 3 (Reuters) - The suite of industrial metals traded on the London Metal Exchange (LME) has largely trod water for the best part of two months as the market tries to disentangle the conflicting signals coming from Chinese slowdown, insipid U.S. recovery and incipient euro zone recession. (See Part 1 of this column.)

The LME index closed the first quarter up 8 percent but it actually peaked early in February, at which stage it was up 15.6 percent on the start of the year.

Individual price performance was much more varied, ranging from tin (up almost 19 percent) to nickel (down almost 5 percent).

Exchange stocks movements were again a poor signal for price with the exception of copper (stocks down, price up) and nickel (stocks up, price down) and even the former comes with a heavy caveat.

The second quarter of any year is normally a good one for metals demand but the macro backdrop is far from normal, suggesting divergence between metals will continue to be as important a price driver as macro push.

As ever all bets are off if central banks dish out more free money. All boats will get lifted, even those that would otherwise sink.

Barring this scenario, here's some pointers to what to look out for in terms of specific base metals.

Graphic on relative price performance in Q1:

http://r.reuters.com/byv47s

Graphic on relationship between stocks and price:

http://r.reuters.com/cyv47s

FEATURE

The LME minnow was the star performer during Q1, just as it was this time last year. And just like last year higher prices came despite rising LME inventory.

Does that mean it risks the same sort of price implosion that took place in Q2 last year?

Outright price levels are not nearly as stretched. The current trading range of $22,000-$24,000 per tonne is a full $10,000 below last year's peaks.

Moreover, every analyst out there calculates this market is in underlying supply-demand deficit, to the tune of 10,000 tonnes, according to UK industry specialists ITRI.

Commercial market balance, however, is another thing altogether, reflecting two key swing drivers, Indonesian exports and Chinese imports. Both have been running strong in the last few months.

Their interaction over the coming period will determine whether the market gets the signals it is looking for to justify current price levels and, potentially, much higher ones.

Graphic on Indonesian exports/Chinese imports:

http://r.reuters.com/zuv47s

COPPER

The second best performer in the first quarter thanks to falling LME stocks and resulting front-month tightness.

Neither is a true signal since everyone knows there has been a massive offsetting build in Chinese inventory, much of it sitting in the statistical black hole that is the bonded warehouse zone in Shanghai.

This geographic dislocation has depressed physical premiums in the Chinese market and caused them to spike in Europe.

How will it be resolved? By Chinese mainland buyers returning to the spot market or metal shifting to the LME system?

Probably a bit of both. The devil will be in the balance and what is currently a trickle of inflow at key LME locations in South Korea will bear close scrutiny in the coming period.

Supply-side constraint is still a short-term positive for bulls, but sharply higher planned production by Japanese smelters may be a sign of things to come.

Beware the siren calls of the bulls. Most market balance forecasts for this year, whether of deficit or surplus, are small enough to be a rounding error.

In other words, the roulette wheel spins again.

ALUMINIUM

The most dislocated of all metals in terms of price signals thanks to the stocks financing game. LME stocks movements are meaningless. What you see is most certainly not what you get, nor an indicator of true inventory overhang.

With aluminium prices drifting lower, cost support will once again be the defining feature of this market in the coming period.

A sustained bull run is not going to happen without more producer restraint. And while the West cuts production, China ramps it up.

Output trends in both hold the key to price performance.

And watch out for China's imports of bauxite from Indonesia. The latter's drive to stop exports of unprocessed minerals risks exposing the Achilles heel of China's giant smelter sector.

China imported almost 36 million tonnes of Indonesian bauxite last year, equivalent to between 6 and 9 million tonnes of aluminium.

Confusion about the timing of an Indonesian export ban is already lifting Chinese alumina prices. How long before the impact feeds through to aluminium prices?

Graphic of aluminium production in China and the Rest of the World:

http://link.reuters.com/vav27s

NICKEL

The worst performer of the LME metals and the only one to close the first quarter down on the year-start.

This makes it an obvious pick for contrarians and relative value players going forwards.

They may find fundamental ammunition from both demand and supply drivers in the next couple of months.

Falling nickel prices have caused destocking by the metal's biggest users, stainless steel mills. They will restock into any price strength.

Cost curve dynamics, particularly those of China's disparate nickel pig iron (NPI) producers, suggest downside cushioning at current price levels.

The real wild card, though, is the NPI sector's reliance on imports of ore from Indonesia, given the latter's determination to start turning the screws on exports of unprocessed minerals.

Either way, a key price signal in the coming period will be the flow of ore to China.

Graphic on China's nickel ore imports:

http://link.reuters.com/taj37s

ZINC/LEAD

The divergence between the "ugly" sisters was one of the most interesting dislocations during the first quarter.

It culminated in the LME zinc price moving to a premium over lead towards the end of March, the first time this had happened since November 2010.

The sharp jump in the lead price on Mar. 30, lifting it into net positive territory for the quarter, has restored the status quo. It's also a sign that the contrarians have already reacted to what was widely seen as a grotesque anomaly.

Both metals are now prey to front-month tightness, a sign that financing deals may be restricting metal availability in the LME warehouse system.

FEATURE

If this tightness persists, it will be an interesting test of each metal's underlying dynamics. Right now the betting is that there is a whole lot more zinc "out there" than there is lead.

Metal flows into LME warehouse will provide the answer and determine whether the Q1 price divergence persists or reverses.

GENERAL NEWS

Strong U.S. job growth expected for March

By Lucia Mutikani

WASHINGTON, April 3 (Reuters) - The U.S. economy likely notched up a fourth month of solid job growth in March, which would lower the need for the Federal Reserve to offer additional monetary stimulus to spur faster economic growth.

Businesses outside the farm sector are expected to have added 203,000 jobs last month, according to a Reuters survey, after nonfarm payrolls rose 227,000 in February.

The unemployment rate is seen holding at a three-year low of 8.3 percent for a third straight month.

That would mark the longest stretch of nonfarm employment gains topping 200,000 since 1999. The Labor Department will release its closely watched employment report on Friday at 8:30 a.m. EST (1230 GMT).

The employment report will come on the heels of minutes of the U.S. central bank's March meeting which showed policymakers less inclined to launch a third round of bond purchases or quantitative easing to further stimulate the economy.

Hopes of more policy easing had been fanned by Fed Chairman Ben Bernanke's comments last week, expressing doubts recent gains in the labor market that pushed the jobless rate down by 0.8 percent point since August could be sustained as this was achieved against the backdrop of weak economic growth.

"We are going to have a good report in March, that could weaken a little bit as we move into the rest of the year," said Paul Edelstein, a senior U.S. economist at IHS Global Insight in Lexington Massachusetts.

A fourth successive month of hefty employment gains could bring a smile for President Barack Obama who faces a tough re-election in November.

Employment creation has accelerated in recent months, with the three-month average in February exceeding 200,000 jobs for the second consecutive month, the first time this has happened since April 2006.

ESCAPE VELOCITY REACHED

If the March report does print 200,000 or more jobs, analysts said it will show that the labor market has vaulted to a higher plain and economic growth is firming.

"It suggests that the jobs recovery has finally achieved 'escape velocity' and if the recent three-month average pace is sustained, employment will regain its pre-recession level early in 2014," said Patrick O'Keefe, head of economic research at J.H. Cohn in Roseland, New Jersey.

The jobs market has received some lift from an unusually mild winter, which is expected to unwind in the coming months. There are already signs of slowing momentum, with new applications for jobless benefits not declining by as much as early in the year.

The employment report will be scrutinized for signs that would validate Bernanke's theory that a large portion of the joblessness is due to insufficient demand rather than a mismatch of skills, as most private economists argue.

"An important amount of unemployment we are now facing is indeed structural. There is a bias. If Bernanke admits that the structural component of unemployment is important he loses reason to act with monetary policy," said Adolfo Laurenti, deputy chief economist, Mesirow Financial in Chicago.

"He does not want to do that, he wants to continue to support to the economy."

Economists say evidence of structural unemployment can be seen in the high 8.3 percent unemployment rate and the proportion of Americans who have been out of work for more than six months. The latter remains above 40 percent.

The jobless rate also could stay above 8 percent throughout this year, if Americans who had given up the search for work are encouraged by better numbers and resume their hunt.

Part of the decline in the unemployment rate has been due to a fall in the labor force participation rate - the percentage of working-age Americans either with a job or looking for one - to near 29-year lows.

The labor force participation rate rate rose in February by the most since April 2010.

The private sector is expected to account for all the job gains in March, adding 218,000 new positions. Government is expected to see a seventh straight month of employment losses, but the pace is slowing.

Manufacturing is expected to report another month of strong job gains, thanks to stepped-up auto production as carmakers try to meet pent-up demand for motor vehicles.

Construction payrolls, which had benefited from the warm winter weather, before dropping in February is a wild card. Elsewhere, gains are expected in healthcare and temporary help categories, in line with recent trends.

Average hourly earnings are seen rising 0.2 percent, but the workweek is seen steady at a 3-1/2 year high of 34.5 hours for a fourth straight month.

TRADING PLACES

Indonesia mine export tax aimed at curbing output boom

JAKARTA, April 4 (Reuters) - Indonesia's government is considering a hefty tax this year on mining exports to curb a production boom as miners are trying to overexploit resources before a 2014 law that will require raw ore to be upgraded, a senior government official said on Wednesday.

"Ever since we issued a mining law in 2009, miners have reacted by increasing their production multiple times, exploiting and exporting everything they've got...This is dangerous and we need to curb that," Thamrin Sihite, director general for coal and minerals at the mining industry, told Reuters.

Indonesia plans to impose a 25 percent export tax on coal and base metals this year, jumping to 50 percent in 2013, another industry ministry official told Reuters on Tuesday, one of a raft of regulations aimed at increasing government revenues that have worried global mining companies.

"We issued a ministerial regulation in February to ban unprocessed mineral ores and this new export tax regulation...We hope the tax will reduce the export rush further. But I can't tell you when it will be issued," Sihite added.

Peru implements law to calm mining, oil disputes

LIMA, April 3 (Reuters) - Peru implemented a new law on Tuesday that aims to calm debilitating social conflicts over natural resources in the top global metals exporter, and the new rules could cover indigenous and peasant communities in much of the country.

The "law on prior consultation" was a key campaign pledge of President Ollanta Humala, who took office in July promising to end disputes over mining and oil that threaten to delay $50 billion in projects companies have planned for the next decade.

Protests against new mining, logging and oil projects frequently turned violent during the term of Humala's predecessor, Alan Garcia. More than 100 people died in protests on his watch.

The regulations of the law, published in Peru's official gazette, require companies and communities to sit down and negotiate in detail over natural resource extraction projects and how they will affect the environment and water supplies.

But the law does not give communities veto power, which the state has said would potentially thwart projects needed to keep Peru's bustling economy growing.

Companies in general view the law as one that could make project planning more rigorous, but say it also may help them win approvals for projects and avert drawn-out disputes like one over the stalled $4.8 billion Conga gold mine of U.S.-based miner Newmont .

The law brings Peru into compliance with the U.N.'s Indigenous and Tribal Peoples Convention, which the country ratified in 1994. Indigenous rights groups have pressured the government for years to approve the law.

MARKET NEWS

Xstrata, Origin see $3.6 bln capex for Chile hydro

By Anthony Esposito

SANTIAGO, April 3 (Reuters) - Energia Austral, owned by global miner Xstrata Copper and Australia's biggest energy retailer, Origin Energy, sees its Chilean hydroelectric power projects and transmission line requiring capital expenditures of up to $3.6 billion, company executives told Reuters in an interview on Tuesday.

Capital expenditures were upwardly revised from a previous estimate of between $3 billion and $3.2 billion.

The three generation units, which will have an installed capacity of over 1,000 megawatts, are seen coming online in 2020 or 2021 instead of 2019 as previously planned, said Adam Favero, Chile country manager for Origin .

Earlier on Tuesday, Origin acquired a 51 percent interest in Energia Austral from Xstrata . Favero was referring to the Cuervo, Blanco and Condor generation units planned in Chile's southern Aysen region.

"Given the high energy demand growth of Chile over the next years .... We believe Chile offers many opportunities among its natural renewable resources, and hydropower is a very important component of that," said Favero.

Chile, the world's top copper producer, is suffering from years of underinvestment in its shaky energy grid, and desperately needs to reform electric transmission lines and energy generation to keep up with growing demand.

The government estimates that to keep up with rising energy demand, some 8,000 megawatts of new installed capacity will need to be added to the current 17,000 megawatts in the nation's power matrix.

Chilean environmental groups and residents have gone to court to challenge many energy projects, from hydroelectric plants to coal-fired thermoelectric ones.

Energia Austral expects all three generation units to have their environmental permits by the end of 2014 and to hand in the environmental impact study for the transmission line during the first half of 2013 and have approval 15 to 18 months later. A feasibility study, which will include a definitive capital expenditure figure, will be ready by 2016.

Energia Austral's general manager Alberto Quinones said that the company also expects additional benefits from its agreement with the HidroAysen mega hydropower project to share land for planned transmission lines in southern Chile.

Around half of Energia Austral's capital expenditures will be spent on the nearly 800 kilometer (497 miles) transmission line, Quinones said, adding "synergies with HidroAysen will be considered."

The $3.5 billion HidroAysen project, a joint venture between leading generator Endesa Chile and partner Colbun , has been the target of massive protests on concern over its effects on the country's pristine Patagonia region.

Favero believes Energia Austral will help spur economic activity in the remote Aysen region, which has seen a recent spate of protests as residents complain of high energy prices and seek a bigger slice of Chile's economic success.

"We have been monitoring the situation very closely," Favero said. "We believe the project offers a lot of benefits for the region, specifically job-creation opportunities."

EU debt, MidEast unrest squeeze Turkey steel mills

By Silvia Antonioli

LONDON, April 3 (Reuters) - Slower economic growth in the European Union, unrest in Syria and tightening sanctions against Iran will keep margins slim in 2012 for Turkish steelmakers, an executive at producer Colakoglu Metalurji said.

Turkey is the world's largest exporter of reinforcing bar (rebar), a long steel product mainly used for construction, and is one of the fastest growing of the top steel-producing countries.

It will be forced to look further away to sell its products this year, however, due to a demand decline in its traditional export markets in Europe, North Africa and the Middle East.

Profit margins at Turkish companies are likely to narrow to around 3 to 5 percent, squeezed between high raw material costs and slow demand, according to Ugur Delbeler, chief executive of Colakoglu Metalurji, one of Turkey's largest steelmakers.

"Margins will remain slim in 2012 because Europe is an important trade partner for Turkey, and we certainly feel the effect of the slowdown," Delbeler told Reuters on the sidelines of the Steel Orbis IREPAS steel conference late on Monday.

Demand for steel fell last year in the euro zone as construction and manufacturing activity slowed in the midst of a sovereign debt crisis, which led to economic contraction in a number of countries.

Demand for rebar by southern European countries such as Spain and Greece, in particular, has fallen by up to 75 percent from 2008, and the situation is not expected to improve any time soon as governments implement tough austerity plans.

Political developments in Northern Africa and the Middle East have also been depressing some countries' imports of steel.

"What is happening in Iran, Iraq and Syria is disturbing our exports, and until these areas settle down we will have some difficulties," said Delbeler, who is also the vice chairman of the Turkish producers association and a board member of the Turkish exporters association.

"Now we are exploring different markets. We are going further east to southeast Asia and to South and North America, but we are not able to obtain the same margins there that we can obtain in closer regions."

REGIONAL INSTABILITY

The worsening violence in Syria has hit Turkish steel exports for several reasons.

"Syria is almost dead. It was a reasonable market for Turkey," Delbeler said.

"Syria was also playing an important role because some of the material was discharged in Latakia to go to Iraq. Now that way is also closed, so we that's limiting the quantities we can send to Iraq."

MARKET NEWS *(Continued)*

Syria's principal port city, Latakia, was handling most of its maritime trade before the fights disrupted activity. Many Turkish exporters also had been using the port to send goods to Iraq but now have to rely on ground transportation.

Tightening U.S. and EU sanctions to discourage Iran's nuclear programme have reduced steel exports to another key buyer in the Middle East.

Russian producers in particular were selling construction steel to Iran, but with the implementation of tighter sanctions, a lot of this material has been redirected to the Black Sea, creating a glut of supply.

Delbeler said, however, he expected the steel market to be more stable in 2012 compared with high volatility in 2011.

He forecast rebar prices would average $680 to $690 free-on-board (fob) Turkey in 2012, while billet would be around $630 to $640 fob and hot-rolled-coil $700 fob, all similar to the average prices last year.

STEEL DERIVATIVES

The CEO of Colakoglu, which is one of the brands registered for delivery in warehouses monitored by the London Metal Exchange, said the company was mainly trading derivatives over the counter rather than on the exchange.

He explained that the relatively low liquidity levels were making it hard for steelmakers to participate more actively in the paper market.

"We still do look at derivatives but not to the extent that we were hoping too. We do some, not on the LME exactly. We do over-the-counter business using the LME prices and other indices as well," Delbeler said.

A deadlock with the Turkish government over the tax status of the LME's two locations in the country has been preventing Turkish mills from delivering steel to the local warehouses.

"In Turkey we are still trying to overcome that problem. We continue to discuss with the authorities. We cannot accept any different terms compared with other locations around the world," Delbeler said.

Freight and transport costs have also discouraged Turkish steelmakers from delivering material instead to LME-registered warehouses such as Ravenna, in Italy, he added.

Italy steel exports up, imports down in Jan

MILAN, April 3 (Reuters) - Steel exports from Italy, the European Union's second-biggest producer after Germany, rose 10.9 percent to 1.387 million tonnes in January, while imports dropped 32.5 percent, according to data from industry body Federacciai.

Steel imports, about 57 percent of which came from other EU countries in January, fell to 1.063 million tonnes in the first month of 2012, data published on Federacciai's website showed. (www.federacciai.it)

Italy's steel exports to its main markets in other EU countries rose 7.5 percent to 987,000 tonnes in January, while imports from the EU dropped 16 percent to 606,000 tonnes.

In trade with countries outside the 27-nation bloc, Italy's steel exports jumped 19.8 percent to 400,000 tonnes, while imports plunged 47.1 percent to 453,000 tonnes, the data showed.

In the first two months of 2012, exports to countries outside the EU jumped 19.6 percent to 865,000 tonnes while imports sank 49.1 percent to 860,000 tonnes, Federacciai said. It did not give EU figures for the January-February period.

Celsa cuts steel rebar production in Spain

By Silvia Antonioli

LONDON, April 3 (Reuters) - Celsa Group has cut steel rebar production at its Spanish plants in the last six months on weaker demand and expects market conditions to worsen as Spain implements austerity measures, an executive said.

Privately owned Celsa has cut utilisation at the plants from about 70-75 percent six months ago to 65-70 percent currently, commercial director Kim Marti Subirana told Reuters on the sidelines of the Steel Orbis Irepas conference late on Monday.

Spain's top construction steelmaker and Europe's fifth largest steel producer, Celsa is now considering whether to cut further production for steel rebar, a finished steel product used mainly in construction, or even close some plants in Spain.

"It's a reality that the Spanish market is oversupplied and things are going to get worse," Marti Subirana said, noting government austerity measures would likely hit infrastructure and construction spending.

Spain's steel rebar demand has plummeted to 1.5 million tonnes in the last few years from about 6 million tonnes in 2008, he said, adding that had led to very high overcapacity.

ArcelorMittal, the world's largest steel producer, has extended closures at some of its Spanish plants.

Marti Subirana said things were looking better in the UK and Poland, where Celsa's plants were working at 85 percent of their capacity, a similar level to six months ago.

"Things in the UK in particular are better after the Thamesteel situation," he said.

Thamesteel, a UK steelmaker who used to be one of Celsa's main competitors in the region, entered administration earlier this year.

Aquila to sell stakes in coal mines to fund iron ore push

By James Regan

SYDNEY, April 3 (Reuters) - Aquila Resources plans to sell stakes in two Australian coal mines part-owned by Vale to help fund an iron ore project in the country's Pilbara district, as it aims to become one of the world's top 10 producers.

Headed by Executive Chairman Tony Poli, a former accountant who made billions riding Australia's mining boom, Aquila has agreed to sell its 50 percent interest in the Isaac Plains coal mine to Sumitomo Corp subsidiary Ocean Coal Mining for A$430 million ($447 million).

The sale is subject to Brazil-based Vale not exercising a 60-day pre-emptive right to buy Aquila's stake, Aquila said.

MARKET NEWS *(Continued)*

The Isaac Plains mine is Aquila's only cash generating asset and Aquila is banking on the funds from a sale to help pay for its estimated A$3 billion share of development costs for the West Australian Pilbara iron ore project.

Mine workers in Australia have come to refer to iron ore as red gold for the riches it brings, despite it being the second most abundant metal on the earth after aluminium.

Aquila hopes to be shipping 30 million tonnes of yearly ore by mid-decade, making it one of the world's top 10 producers.

Aquila holds a 50 percent interest in the iron ore project, called Australian Premium Iron Joint Venture. Private mining investment and trading group American Metals and Coal International holds the other 50 percent.

Aquila needs about A$1 billion in equity to fund its share.

CHINESE, KOREAN INTEREST

China's largest steel company, Baoshan Iron & Steel , owns 15 percent of Aquila and has applied to foreign ownership regulators in Australia to increase its stake to 19.9 percent. South Korean steel producer Posco has also invested directly in the project.

"All the stakeholders are keen to see the project move forward," said Martin Alciaturi, Aquila's general manager, finance and corporate.

Aquila is already in negotiations to sell Vale its 24.5 percent stake in another coal mine not yet developed.

China Development Bank has taken a lead role in building a funding package for the iron ore project and is said to be anxious to see Aquila raise the funds it needs to shoulder its side of the investment.

Analysts have speculated that Vale could eventually launch a takeover of Aquila to provide a foothold in Australian iron ore. Vale has said it had no designs on acquiring Aquila.

Vale is already the world's biggest producer of iron ore. But most of its ore is mined at home, placing it at a freight disadvantage to Australian rivals Rio Tinto   and BHP Billiton BLT.L>, who enjoy closer proximity to the China market.

The promise of ready buyers from Asia's burgeoning steel industries has created a stampede for iron ore in Australia to rival the nation's gold rush of the early 20th Century and the nickel boom of the 1960s.

Yet to be developed iron ore mines increasingly dotting the Australia outback are seen by large foreign suitors as less costly to invest in than established operators.

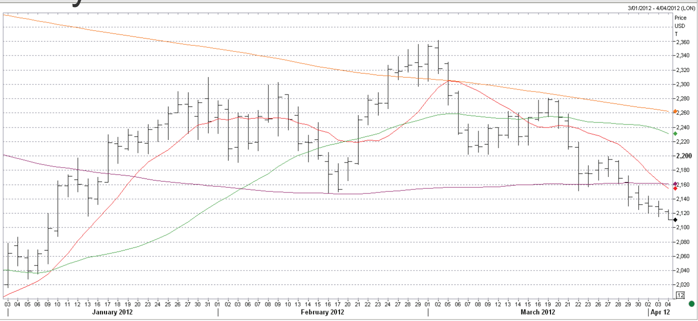
Centrex Metals last month signed a joint venture agreement with Wuhan Iron and Steel Co over joint construction of a new iron ore export port after earlier forming a partnership to co-develop iron ore mines

Magnitogorsk Iron & Steel Works , Russia's third largest steelmaker, is offering A$554 million to acquire of iron ore explorer Flinders Mines .

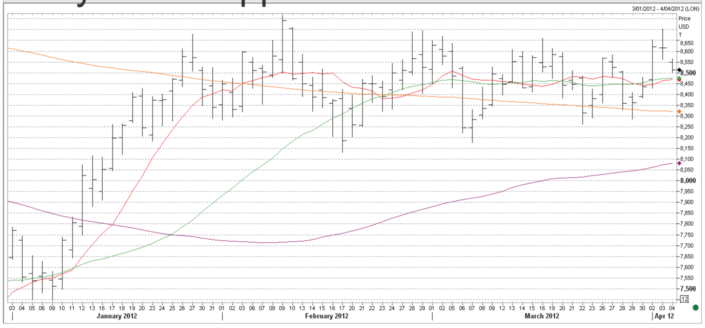
Commodities forecasters are divided on whether a surge in supply coinciding with a Chinese economic cool-off will finally push the global seaborne market for iron ore into oversupply. China accounts for about 60 percent of world trade in iron ore.

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

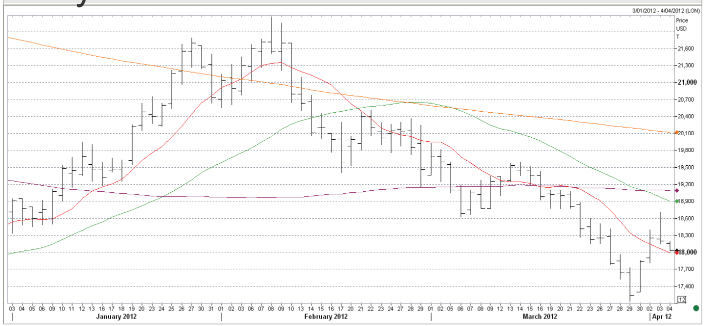
Daily LME Aluminium 3-months



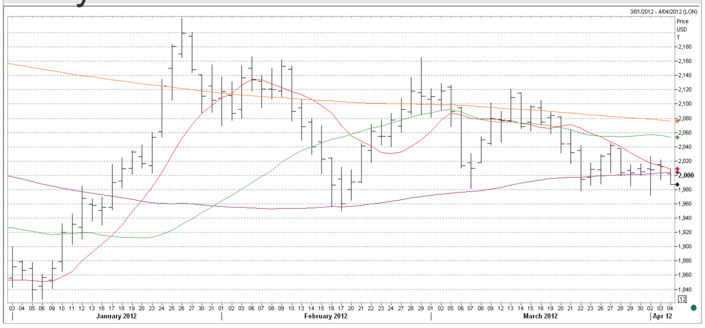
Daily LME Copper 3-months



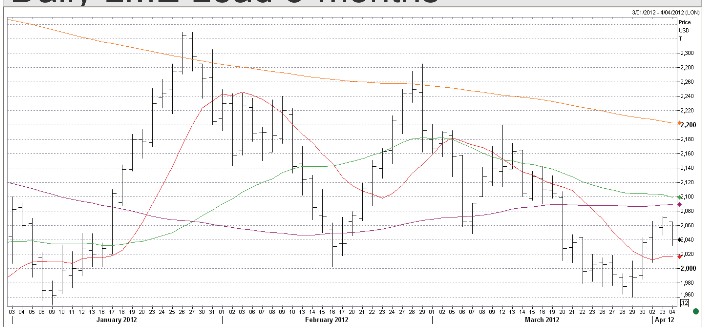
Daily LME Nickel 3-months



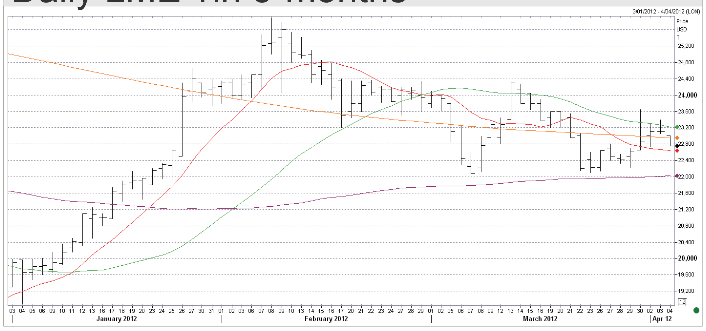
Daily LME Zinc 3-months



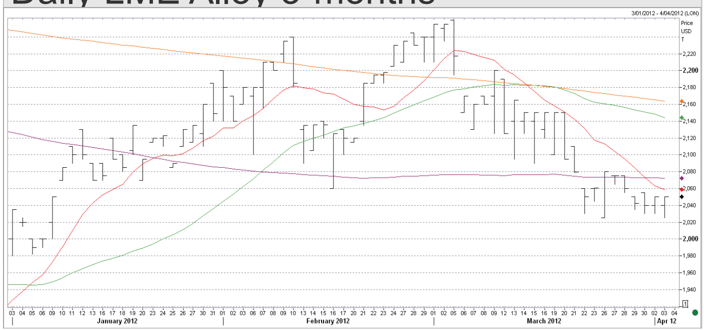
Daily LME Lead 3-months



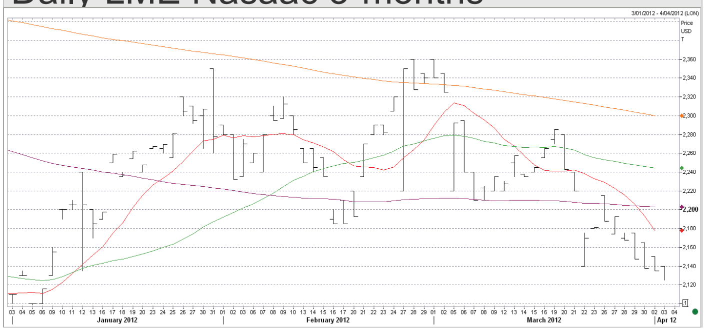
Daily LME Tin 3-months



Daily LME Alloy 3-months



Daily LME Nasaac 3-months



MARKET REVIEW

METALS-Copper hovers near 2-week high in slow trade

By Manolo Serapio Jr

SINGAPORE, April 3 (Reuters) - Copper held near two-week peaks on Tuesday as positive manufacturing data in the United States and China kept investors' upbeat mood mostly intact in slow trading in Asia.

Copper rose more than 2 percent on Monday, its biggest single-day gain since February, although thin trading volumes - with China shut for a public holiday - made it difficult for the industrial metal to extend the rally.

Three-month copper on the London Metal Exchange slipped 0.4 percent to $8,610 a tonne by 0357 GMT, its first loss in four sessions.

But the session's high of $8,623 was in striking distance of a two-week high of $8,653 touched on Monday.

Prices need to fall at least 5 percent to encourage more buying, said Dominic Schnider, executive director for wealth management research at UBS.

The combination of data showing Chinese manufacturing activity at an 11-month high and a forecast-beating U.S. ISM factory activity index fueled Monday's rally.

But Schnider said it may be too early to say both the U.S. and Chinese economies have turned the corner.

"The Chinese PMI data is so volatile so I would be rather cautious and U.S. construction spending, which is a real, hard number compared to ISM, remains weak," he said.

The U.S. ISM data also showed some hints of weakness. The indices for new orders and exports slipped, while inventories rose, pointing to softening demand.

Technical charts also suggest copper is facing resistance at $8,655.

Trading volume was an extremely lean 604 lots on LME Select, with Chinese financial markets shut for a three-day public holiday through Wednesday. Shanghai reopens on Thursday.

Upbeat U.S. and Chinese manufacturing numbers helped counter data in the euro zone where factory activity shrank for an eighth straight month, underscoring the uneven pace of global economic growth.

But copper's modest losses on Tuesday suggest investors may be ready to bid up prices again, given a brighter economic outlook and still tight global supplies. Copper has gained more than 13 percent so far this year, but had held a fairly tight range for the past two months.

The LME cash-to-three month spread has been in backwardation since early March, meaning prices for nearby delivery are higher than for further forward months, with cash copper at a $21 premium over three-month material on Monday. The backwardation narrows but extends through May-June, pointing to tightness in immediate supplies.

PRECIOUS-Gold edges up on dollar weakness; policy cues eyed

By Rujun Shen

SINGAPORE, April 3 (Reuters) - Gold edged up on Tuesday in holiday-thinned trade on the back of a weaker dollar but remained in a tight range as investors awaited cues on the outlook of the U.S. economy and potential policy moves in the world's largest economy.

Investors are looking for clues on policy direction from the minutes of the last U.S. Federal Reserve policy meeting, due on Tuesday, although Fed officials on Monday signalled little appetite for further monetary steps to stimulate U.S. growth in an economy that is gradually strengthening.

U.S. factory orders due later in the day, as well as a key U.S. employment market report scheduled for release later in the week, are expected to provide some indication on the well-being of the U.S. economy and the necessity for further monetary easing.

Investors were also digesting the disparity between the largely upbeat manufacturing data from the United States and China, and numbers showing a mild recession in the euro zone.

Bullion prices have been trapped between $1,630 and $1,700 since mid-March, as sluggish physical demand provided little momentum.

"People are watching for signs of possible monetary policy moves in the United States, as well as the moves in the currency market," said Ronald Leung, a dealer at Lee Cheong Gold Dealers in Hong Kong. The dollar index dropped to a one-month low earlier in the day, making dollar-priced commodities more attractive for buyers holding other currencies.

Spot gold edged up 0.1 percent to $1,679.09 an ounce by 0325 GMT. U.S. gold was little changed at $1,681.20.

Technical analysis suggested that gold could clear a resistance at $1,687 an ounce and rise towards $1,697 during the day, said Reuters market analyst Wang Tao.

Gold 24-hour technical outlook:

http://graphics.thomsonreuters.com/WT1/20120304093618.jpg

Q2 commodity, energy technical analyses:

http://link.reuters.com/tur47s

Little physical market activities were reported, as China's markets are still shut for a public holiday while India's ongoing strike among jewellers dampened gold imports.

Potentially supportive of platinum group metals, U.S. auto sales are expected to continue at a strong pace in March, capping the best quarter in four years for new vehicle purchases as the overall U.S. economy improved and new car buyers found easier financing. Platinum stood at a discount of about $20 below gold prices, after reversing to a premium in March.

"Physical demand for platinum is still weak as some uncertainties remain in the global economy," said a Tokyo-based trader.

Platinum and palladium are widely used in producing autocatalysts, and therefore prone to weakness in economic growth.

Spot platinum gained 1 percent to $1,660.99 an ounce. Prices have risen 19 percent so far this year, outstripping gold's 7-percent ascent.

Spot palladium rose 1.4 percent to $659.25.

MARKET REVIEW *(Continued)*

FOREX-Yen hits 3-wk high on stop-loss buying, short-covering

By Antoni Slodkowski

TOKYO, April 3 (Reuters) - The yen hit a three-week high on Tuesday on a flurry of stop-loss buying that kicked in after investors reduced massive short positions built in recent weeks, though the broad trend for a weakening Japanese currency remained intact.

The dollar tumbled from the previous day's peak of 83.31 yen to a session low of 81.55 after stop-loss trades were triggered in the 81.90-80 area, with traders citing sales by offshore leveraged funds and some Japanese investors.

The fall was prompted after traders rushed to cover short positions, which according to the Commodity Futures Trading Commission hit a 4-1/2 year high in the week ending March 27.

The greenback later recovered to trade flat at 82.06 yen, with investors saying it was simply taking a break after its February-March rally to 84.19 from 76.21.

"The yen has strengthened technically after this move, and while its long-term weakening trend remains intact we may see further correction on the dollar rally over the next few weeks," said Teppei Ino, a currency strategist at Bank of Tokyo-Mitsubishi UFJ in Tokyo.

He said that after the dollar broke support at the kijun line on Ichimoku charts and the five-day moving average pierced the 21-day moving average to form a "death cross", the greenback was poised to test support at the lower Bollinger band at 81.35.

Analysts, however, expect it to hold the level, and slowly drift higher supported by Japan institutions which usually launch fresh toushin investment trusts and make large purchases of foreign government bonds after the start of the fiscal year.

"Supported by these dynamics, the dollar will likely resume its slow march higher, targeting last year's high at 85.53," Ino said.

The yen also rose on the euro, hitting a two-week high at 108.70 , before shifting 0.2 percent lower on the day to 109.47.

The move confirmed strong resistance for the euro above 111.00 as it has failed to breach that point for three weeks in a row.

Global manufacturing PMIs: http://link.reuters.com/byv24s

US ISM manufacturing: http://link.reuters.com/bam86s

Total return on risk assets: http://link.reuters.com/nas47s

EASING BIAS

The Australian dollar pared its gains after the Reserve Bank of Australia kept interest rates unchanged at 4.25 percent as expected, but showed easing bias by adding growth was somewhat lower than estimated.

The central bank also said it would be prudent to wait for forthcoming inflation data before considering easing.

"It is a clear a message the Reserve Bank is ready to cut in May. They are just waiting for the Q1 inflation data and if that is benign then we will get a 25 basis point cut then," said Brian Redican, senior economist at Macquarie.

The Aussie initially surged around 30 pips to an intraday high of $1.0470, but then quickly gave back its gains and dipped to A session low of $1.0390. It last hovered at $1.0397 , down 0.1 percent from late New York levels.

The euro licked its wounds after dipping to this week's low of $1.3278 on Monday as data showed unemployment in the euro zone reached its highest in almost 15 years in February and manufacturing contracted for an eighth straight month in March.

It recouped some losses, gaining 0.1 percent to $1.3338 , inching back towards Monday's high of $1.3381. Since the mid- to late-March rally from $1.3000 to $1.3386 fizzled out, it has been drifting in a relatively thin $1.3250-3400 range.

The data from the euro zone was in contrast with the U.S. Institute for Supply Management's index of manufacturing activity, which rose to 53.4, exceeding forecasts. On Sunday, China's Purchasing Managers' Index hit an 11-month high.