INSIDE METALS

Monday, August 20, 2012

CHART OF THE DAY

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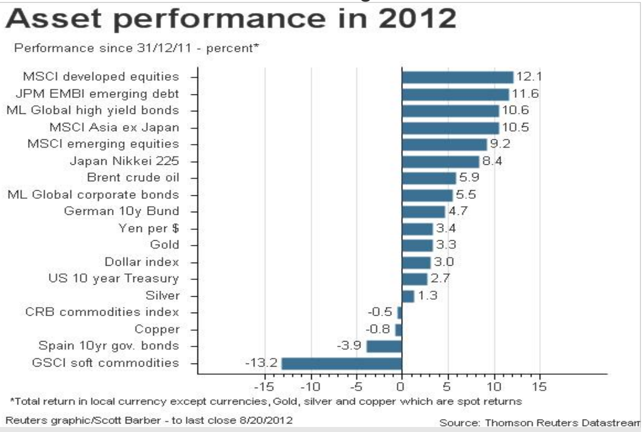

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FEATURE

COLUMN- LME stocks break with seasonal patterns; why?

Here we are in the middle of August, a month characterised by reduced manufacturing activity across the Northern Hemisphere and summery trading activity on the London Metal Exchange (LME).

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

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INSIGHT-Workers to warriors: union war batters S.Africa mines

South Africa's platinum promise of prosperity has turned into a heap of broken dreams for Vusimuzi Mathosi, one of 2,000 workers laid off by Aquarius Platinum at its Everest Mine.

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TODAY'S MARKETS

BASE METALS: Copper fell after last week's optimism over prospects for the euro zone flagged, leading investors to step back from buying riskier assets as they gauge the impact of the bloc's ongoing crisis on global economic growth and demand for metals.

"Base metals prices fell due to a lack of positive news over the week-end - no Chinese bank reserve ratio cut, no fresh policies out of the euro zone, nothing to cheer about," said CIFCO Futures analyst Zhou Jie. "And with macroeconomics looking so bad, fundamentals looking so weak and equities down, base metal prices slip."

PRECIOUS METALS: Platinum stretched its gains into a third session as supply worries lingered after violence at a major mine in South Africa, the world's top platinum producing country, while gold was steady amid continued uncertainty over monetary policy.

"If things in South Africa calm down, we may see the gold-platinum spread widen again, because the demand for platinum group metals is not good," said Peter Fung, head of dealing at Wing Fung Precious Metals in Hong Kong.

FOREX: The yen dozed at five-week lows versus the dollar after a surge in U.S. bond yields last week, while the euro was sluggish versus the dollar in subdued trade where the ebb and flow of euro zone optimism was seen continuing to drive markets.

"We think U.S. yields are likely to rise further in the near term. The 10-year is likely to hit 2.1 percent if all short-term long positions are unwound," said Junya Tanase, chief FX strategist at JPMorgan Chase.

"Based on the correlation so far this month, the dollar/ yen rate in line with that yield would be 79.98 yen," he added.

FEATURE

COLUMN-LME stocks break with seasonal patterns; why?

By Andy Home

LONDON, Aug 17 (Reuters) - Here we are in the middle of August, a month characterised by reduced manufacturing activity across the Northern Hemisphere and summery trading activity on the London Metal Exchange (LME).

Europe is teetering on the brink of renewed full-blown recession. The U.S. is doing no more than puttering along. And China, the engine of metals demand growth, is struggling to regain momentum against the twin headwinds of falling export demand and continued slowdown in the all-important construction sector.

The combination of seasonal and structural demand weakness is why prices are bombed-out across the board to the point that metals such as aluminium, nickel and tin are currently eating into the cost curve.

Yet LME stocks appear to be telling a different story.

Cancelled stocks, whether expressed in outright tonnage terms or as a ratio of total stocks, are extraordinarily high by any previous year's seasonal standard, as shown in this graphic: http://link.reuters.com/ned22t

The amount of LME metal earmarked for physical drawdown should, in theory at least, be an indicator of spot demand for what is stored in the market of last resort, a lightning rod for physical market dynamics.

Which normally means cancelled tonnage is ultra low during the dog days of Northern Hemisphere summer.

Not this year, though. So what is going on?

BULL SIGNAL?

In a couple of cases it is possible that high cancelled stock levels are providing an accurate signal of what is happening in the world beyond the LME.

Take tin, for example.

Cancelled stocks today stand at 6,055 tonnes, representing 52 percent of total registered stocks.

It's the highest ratio of any of the LME base metals. It's also the highest level seen in the tin market in at least 10 years, both in tonnage and in ratio terms.

This unprecedented call on LME metal, though, is not without rationale.

Supply from Indonesia, the world's largest exporter of the soldering and plating metal, is looking increasingly problematic as local producers trim both production and sales in reaction to the current low price environment.

China, meanwhile, is said to be stepping up purchases with a view to lifting imports.

The country is both the world's largest producer and consumer of tin but at current low prices importing metal may be a lower-cost option than actually making the stuff for some of the country's smelters.

Similarly with lead, a market that is close to market balance and where a relatively high amount of global inventory is located in LME sheds after a sequence of cash date squeezes over the course of 2011.

The ratio of cancelled lead tonnage is high at 17 percent relative to the last four years. But it's not overly high by comparison with the last few months and fits in with a broader trend of stocks relocation between on-market and off-market.

DISTORTED SIGNAL

Things get a bit trickier to explain with metals such as nickel and copper but here one-off factors may be at work such that the signalling power of LME cancelled stocks is distorted.

Cancelled stocks of nickel hit a multi-year high of 15,630 tonnes on Monday (reported Tuesday) and although that figure has come down to 14,184 tonnes in this morning's stocks report, they are still extremely high by any historical yardstick.

Yet this is a market that just about every analyst agrees is in structural oversupply with little prospect of that changing any time soon given weakness in the key stainless steel end-usage sector.

The high cancelled tonnage figure, though, results first and foremost from the mass cancellation of 5,412 tonnes of bagged briquettes earlier this week.

This is a premium form of nickel. Much of the rest of the LME inventory is in the form of commodity-grade full-plate cathode.

It may well be that the hit on LME stocks is therefore less of a signal of market shortfall and more of a strategic premium play. The very high cancelled ratio of bagged briquettes, currently at 48 percent, would seem to be strong supporting evidence.

Copper has historically seen very pronounced seasonality, such that the International Copper Study Group seasonally adjusts its market balance estimates, unlike any of its sister statistical organisations.

Between 2008 and 2012 the ratio of cancelled tonnage in the middle of August never exceeded 7 percent but right now it stands at 16 percent.

But as with lead, this is part of a broader pattern.

Cancellation activity has been in full flow since the start of July and LME inventory has been steadily dwindling over the same time period.

Here the distortion comes from the default flow of free units into Shanghai's bonded warehouse zone, bypassing the LME system en route.

There are no hard numbers for what is in Shanghai "limbo" but the latest anecdotal reports suggest as much as 600,000 tonnes, more than twice total LME levels.

FEATURE *(Continued)*

In a market still struggling to reverse historical deficit, the Shanghai suction effect has served to reduce availability just about everywhere else, translating into low LME stocks and continued demand for what is in the LME system.

FALSE SIGNAL

The relationship between physical demand for units and high cancelled tonnage figures breaks down almost completely with both zinc and aluminium, both markets suffering from high historical inventory and structural production surplus.

Cancelled zinc tonnage stands at 130,400 tonnes, equivalent to 13 percent of total stocks. It is the only metal which has a history of large cancelled stocks in the middle of August, although the ratio of 13 percent this year is still higher than in the previous four years.

And zinc wasn't in supply-demand deficit in any of those years either.

But then as now stocks were concentrated in just one location, New Orleans, a focal point for the competition between warehouse operators for surplus metal and the rental revenue that flows from it.

The foremost battleground for such "warehouse wars" is of course the aluminium market.

Cancelled stocks of the light metal currently total 1.7 million tonnes, off the scale relative to the last four years and literally off the scale of the tonnage component of the graphic above.

Financing demand and warehouse competition are the twin drivers of high cancelled stocks. Manufacturing demand comes in a poor third place.

The result is the infamous load-out queues at locations such as Detroit and Vlissingen in the Netherlands.

CHANGING PATTERNS

The question is whether aggressive warehouse behaviour in the likes of aluminium and zinc is now affecting other metals and forcing "normal" behaviour patterns to change.

Tin, again, is a very interesting example.

Even accepting there is a convincing narrative for why so much metal is in the cancelled category, are people preemptively cancelling metal because of load-out concerns?

Most of the tin in the LME system is concentrated in Johor in Malaysia, an LME location which has also seen its fair share of "warehouse wars" and which currently has 46,400 tonnes of aluminium and 23,375 tonnes of lead in the load-out queue.

The LME will introduce separate load-out rates for nickel and tin, but only next year. Until then, if you think you need LME units in a couple of months' time, might it not be prudent to cancel the metal early?

And if this is the case with tin, is it also the case with metals such as copper and lead?

Such shifting behaviour patterns would certainly explain why cancelled stocks of all LME metals are so unseasonably high.

Or then again, maybe high cancelled tonnage levels really are signalling strong demand and tightness across all base metal markets.

Really? You think?

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

INSIGHT-Workers to warriors: union war batters S.Africa mines

By Ed Stoddard

LYDENBURG, South Africa, Aug 19 (Reuters) - South Africa's platinum promise of prosperity has turned into a heap of broken dreams for Vusimuzi Mathosi, one of 2,000 workers laid off by Aquarius Platinum at its Everest Mine.

"This place can only be sustained with platinum. What can we do now?," he told Reuters near the one-room box he and his family call home in a dilapidated township on the outskirts of Lydenburg, 300 km (180 miles) east of Johannesburg.

He belongs to the Association of Mineworkers and Construction Union (AMCU), whose bloody turf war for members with the dominant National Union of Mineworkers (NUM) was the backdrop to Thursday's killing of 34 striking platinum miners by police at the Marikana mine.

When Aquarius, the world's 4th largest producer of the precious metal, closed production at Everest, it cited worsening industrial relations stemming from the AMCU/NUM battle which has turned workers into warriors across the platinum sector.

The country's ruling African National Congress is in a governing alliance with the NUM-affiliated national union confederation COSATU, and a perception has filtered down the shafts that the rank and file are not getting a fair deal because NUM is in bed with companies and the ANC.

This has been a common refrain among several AMCU workers Reuters has interviewed in recent weeks, from Lydenburg to the main platinum belt where police on Thursday opened fire on striking workers employed by Lonmin at its Marikana operations northwest of Johannesburg.

"The NUM, they have shares in the companies," said Fannie Bhengu, an AMCU branch chairman in Lydenburg.

Past NUM leaders who are ANC heavyweights include Cyril Ramaphosa, a business tycoon who sits on Lonmin's board. In his labour days, he led a strike 25 years ago that saw 11 mineworkers gunned down by police.

The NUM denied it had shares in mining companies, or that it had too cosy a relationship with the management of those companies.

FEATURE *(Continued)*

AMCU and other upstart unions have however been drilling into a growing seam of discontent and poaching NUM members or picking up the unorganised at Lonmin, Aquarius and at the world's largest platinum mine run by Impala Platinum, which shut for 6 weeks early this year amid labour blood-letting.

The groundswell of revolt against the NUM is tapping into the same popular anger with poor government delivery of services that is confronting the ANC, marked by frequent riots in poor townships and squatter camps.

"It is not incidental that the challenge to the historically dominant union NUM, affiliated with the ANC, is taking place within a context of growing grass-root contestation to the performance of government," said Claude Baissac, managing director of mining consultancy Eunomix.

More mine shafts across the industry may be forced to shut as it faces union militancy, soaring costs and low prices linked to the sluggish global auto industry as platinum is the key ingredient used for emissions-capping catalytic converters.

The gold sector also embarked on a painful process of restructuring over a decade ago as the price of bullion slumped, leading to tens of thousands of job losses and South Africa's fall from world No. 1 gold producer to 4th place.

"I think the platinum guys are just starting to work out what the gold industry has been through. So they have some hard decisions they have to make," Mark Cutifani, chief executive of AngloGold Ashanti, told Reuters.

WHEN PLATINUM WAS KING

But the path blazed by gold, which has made the South African industry lean, mean and profitable, will not be an easy one for platinum to follow in this highly charged new era of social discontent, union rivalry and global economic woes.

Geology is also an obstacle as big South African gold miners such as AngloGold and Gold Fields now get half or more of their output from outside the country. But about 80 percent of the world's known platinum reserves are in South Africa.

South African gold companies aggressively trimmed their payrolls while the pro-market Thabo Mbeki was president, giving them political space to cut a labour force that numbered 300,000 in 1996 but is now down to around 130,000.

Those were the heady days that followed the demise of white apartheid rule. Almost two decades after Nelson Mandela became South Africa's first black president, that optimism has faded into frustration as many miners still toil in harsh and dangerous conditions for as little as 4,000 rand ($480) a month.

Average gross monthly earnings in mining are around 14,000 rand, according to government data. This is slightly above average but the median figure for mining masks stark differences across the pay scale.

Social conditions for mining communities in the platinum belt have also not improved, according to a report released this week by the Bench Marks Foundation, an NGO backed by churches.

In harsh criticism of most of the principal mining companies, the report faulted Lonmin's operations for "high levels of fatalities, very poor living conditions for workers, community demands for employment opportunities and negative impacts of mining on commercial farming".

Platinum presents a tempting target for an upstart union on a recruiting drive like AMCU because much of its labour force lives in the communities around mines on the platinum belt.

By contrast the gold sector still houses much of its workforce in mine hostels and so can keep agitators at bay.

When platinum was king it also laid the groundwork for the current troubles by keeping out of the collective bargaining arrangements that define union talks in gold and coal.

Platinum sector companies felt no need for a unified front. In 1999 gold languished at a 20-year low just above $250 an ounce and platinum was trading $118 higher.

Gold is now trading between $150 and $200 above platinum and many platinum shafts are not making money.

MUSCLING IN

But the sector is exposed to unions like AMCU, which can go company-to-company and persuade workers they can achieve new deals for them. Pay disparities exist between companies for workers of similar jobs, fueling resentment.

In a recurring pattern, AMCU will recruit among rock drill operators who have one of the toughest and most dangerous jobs in mining, promising it can extract big pay hikes for them.

At Implats earlier this year and Lonmin now, these workers then launched a strike deemed illegal because they did not follow the lawful steps or because agreements remained in force.

In the case of Implats this led to dismissals and then a wave of violence but when the smoke cleared, AMCU had muscled in and now claims it represents half of the 30,000 strong labour force centered around the city of Rustenburg.

AMCU denies accusations by NUM and mine company managers that it is stirring up violence. AMCU President Joseph Mathunjwa said after the Marikana killings that his union had been "set up by management and the NUM to take the blame".

NUM General Secretary Frans Baleni repeated his union's accusation that militant unions like AMCU were using violence and intimidation as a tool of recruitment.

"There are trade unions desperate for power who mislead and use workers for cannon fodder," he said, speaking on Sunday on a national television show called "The Justice Factor".

Anger over the Marikana killings could worsen the union war and trigger "retaliatory violence against NUM members and police at other platinum mines, raising risk of violent and protracted strike action over the next month at platinum mines in

FEATURE *(Continued)*

South Africa," London-based Exclusive Analysis Ltd said in a note.

AMCU also has gold firmly on its radar screen.

AMCU's General Secretary Jeff Mphahlehle told Reuters it was recruiting at the Evander mine that Harmony Gold is in the process of selling to Pan African Resources.

Evander is a target because while Harmony bargains collectively, Pan African does not, so AMCU can go use the tactics it has deployed in the platinum sector. AMCU also has members in the country's coal mines that supply Europe and Asia.

HOSTILE HEADWINDS

Amid the volatile labour environment, the platinum sector already faces many obstacles.

The 3 biggest platinum producers - Anglo American Platinum, Implats and Lonmin - employ about 135,000 people among them in South Africa, which is grappling with an official jobless rate of close to 25 percent and glaring income disparities.

The mining sector has for years been dishing out above-inflation pay agreements but this has failed to quell wage demands because the lower-paid workers come off such a low base and often have many dependents.

Citigroup has estimated South Africa's platinum group metal reserves are worth over $2 trillion and the sector was supposed to replace gold as the jewel in the country's mining crown.

But high costs and low prices are squeezing it. Power and labour costs have been soaring and are far higher than they were a decade ago when the gold sector was slashing jobs on its path back to healthy profits.

Platinum's price spiked over 5 percent this week because of the unrest at Lonmin which accounts for 12 percent of global supply, but it has generally been wallowing near $1,400 or less an ounce, a level that makes many shafts unprofitable.

Platinum is heavily exposed to the diesel-focused sluggish European car market, whose vehicles use a higher loading of platinum than the petrol engines favoured elsewhere.

"We are forecasting a 12 2,000 ounce surplus this year," said Citigroup analyst David Wilson. "Lonmin do 60,000 ounces a month so if they were out for two months, that would bring the market back to a balance."

That might push the price up but would not help Lonmin.

AMCU members retrenched by Aquarius reject the link between global prices and their circumstances.

"There is no reason to close the mine, they are lying about the price of platinum. They did not retrench people in other mines. I think that it is part of capitalism," said Moses Malapane, 29, a fitting assistant.

GRAPHIC-Gold/platinum ratio: http://link.reuters.com/xez92s

GENERAL NEWS

Striking Lonmin workers face Monday deadline to return

By Jon Herskovitz

JOHANNESBURG, Aug 19 (Reuters) - Striking workers at the world's No. 3 platinum producer Lonmin, where 44 people have been killed in a week of violence, face possible dismissal if they do not return to work on Monday, a company spokeswoman said.

Last week, 34 people were gunned down by police in a hail of bullets from automatic weapons when authorities moved in against 3,000 striking workers armed with machetes, spears and handguns who were camped on a hill at Lonmin's Marikana mine, about 100 km (60 miles) northwest of Johannesburg.

"The final ultimatum has been extended to Monday, the 20th following Thursday's events," spokeswoman Gillian Findlay said on Sunday.

"Employees may be dismissed if they fail to heed the final ultimatum," she said.

London-based Lonmin accounts for 12 percent of global platinum output. It is already struggling with low prices, weak demand and may miss its annual production target of 75 0,000 ounces as the quarter to the end of September is typically its best.

The strike was sparked by a turf war between the powerful National Union of Mineworkers and the upstart Association of Mineworkers and Construction Union, which has accused NUM of caring more about politics than workers in mine shafts.

NUM has been a breeding ground of leaders for the ruling African National Congress party and one of the union's former top officials now sits on Lonmin's board as a non-executive director.

Ten people were killed prior to the police shooting, including a NUM shop steward who was hacked to death.

NUM General Secretary Frans Baleni, on a nationally televised talk show, said on Sunday he was not sure if the miners would return to work.

The deadly protest could also hurt the ANC and its long-standing labour allies by laying bare workers' anger over enduring inequalities in Africa's biggest economy.

Ousted ANC youth leader Julius Malema turned up the heat on his rival President Jacob Zuma at the weekend by telling a group of cheering miners at Marikana that Zuma was more interested in protecting mine owners than workers.

Platinum sells for about $1,440 an ounce but a worker drilling underground at tonnes of rock face to extract it makes less than $500 a month.

GENERAL NEWS *(Continued)*

Zuma has called the killings "shocking" and called for a commission of inquiry to look into the matter.

Zuma has declared a week-long period of mourning from Monday to commemorate the lives of South Africans who have died violently, including those killed at the Lonmin mine.

Quebec opposition parties take aim at foreign mining firms

By David Ljunggren

Aug 19 (Reuters) - Quebec's two main opposition parties, seeking to replace the struggling Liberal government in a Sept 4 election, said on Sunday that foreign mining firms should pay more for the right to operate in the resource-rich Canadian province.

Polls show the separatist Parti Quebecois is well ahead of Premier Jean Charest's Liberals, who are almost neck-and-neck with the right-leaning Coalition for the Future of Quebec (CAQ).

The government last year launched a C$ 80 billion ($81 billion) plan to develop Quebec's frozen northern regions, which it says has big deposits of nickel, cobalt, platinum group metals, zinc, iron ore, gold, lithium, vanadium and rare-earth metals.

Parti Quebecois leader Pauline Marois, appearing in a televised debate with Charest and CAQ leader Francois Legault, said if she won the election she would raise royalty rates to stop natural resources being sold off at a discount.

"We will really create wealth and share it for all the population, not only for a few mining firms," she said.

"I am for the development of the North, but not for development of the North which will let a few foreign mining firms enrich themselves."

Foreign firms already mining in Quebec or interested in taking part in mining projects include Cliffs Natural Resources Inc, Tata Steel Ltd, ArcelorMittal, Xstrata Plc and a unit of Wuhan Iron and Steel (Group) Corp

The Parti Quebecois - which wants to win power and then hold a referendum on breaking away from Canada - says it would impose a minimum 5 percent royalty rate on the gross value of all mining output.

It would also slap a 30 percent additional tax on all mining profits which exceeded a certain unspecified level.

Marois, noting that 10 of the 19 mining companies operating in Quebec currently pay no royalties at all, said she wanted half the royalties from all resource extraction to go towards paying down the province's large debt.

The Liberals say that hiking royalty rates too far would deter foreign companies from operating in Quebec.

"We're in a good space when it comes to royalties and taxes," Charest said during the debate.

Legault's newly created CAQ, which has yet to contest an election, is promising to set up a C$5 billion natural resources fund that would be used to take minority stakes in mining projects. This, says the party, would allow Quebecers to benefit directly from natural resource extraction.

"We need ... to stop giving our natural resources to foreign companies," Legault said during the debate. He said the CAQ wanted all royalties from non-renewable resource extraction to go towards paying down the debt.

During the two-hour televised debate - an often noisy and confusing affair that also included the leader of a smaller opposition party - Marois and Legault accused Charest of not standing up for Quebec enough.

Both the Parti Quebecois and the CAQ say they will do more to fight foreign takeovers of firms based in Quebec, such as the recent attempt by U.S. home-improvement retailer Lowe's Cos Inc to buy Rona Inc.

Managed money trims gold longs, ups silver bets

Aug 17 (Reuters) - Hedge funds and money managers cut their net long position in U.S. gold futures and options for a second consecutive week, as investors reduced their bullish bets because of doubts over more monetary stimulus by the Federal Reserve.

The group, commonly referred to as speculators, raised their net longs - essentially bullish bets - to their highest level since early May, while specs increased its copper shorts for a second straight week, data from the Commodity Futures Trading Commission's (CFTC) Commitments of Traders showed.

(CFTC graphics package: http://r.reuters.com/buv87r)

However, analysts said that the magnitude of the changes for all three metals were too small to indicate significant trend changes, as investors largely stayed on the sidelines waiting for news whether the Fed will use a new round of bond buyback to boost the economy.

"You're actually seeing some drawdown in terms of copper and silver stocks, but it's all still wait-and-see, light summer technical trading," said Frank McGhee, head precious metals trader at Integrated Brokerage Services LLC.

Chances that the Fed will launch a third round of money printing have risen slightly over the past month to 60 percent, according to a Reuters poll that also showed economists lowering economic growth expectations.

Managed money trimmed their net longs in gold by 3,454 to 82,056 lots in the week up to Aug. 14.

The group increased their net longs in silver by 1,252 to 10,575 contracts, the highest level since the week up to May 1. Speculators also increased their net shorts in copper by 2,572 to 10,775 contracts.

GENERAL NEWS *(Continued)*

Ghana's gold output up 6 pct in first half of 2012

ACCRA, Aug 17 (Reuters) - Ghana's gold production rose 6 percent in the first half of 2012 to 1,616,501 ounces from 1,523,037 ounces a year ago, according to data from the chamber of mines on Friday.

Gold revenues in Africa's second biggest producer behind South Africa, rose during the same period by 20 percent to $2.69 billion from $2.23 billion.

However, quarter-on-quarter production fell marginally in the second quarter to 805,604 ounces from 810,898 ounces in the previous quarter, the chamber of mines said in the statement without giving further details.

Ivory Coast gold output rises 19.7 pct -treasury

ABIDJAN, Aug 17 (Reuters) - Ivory Coast gold production surged 19.7 percent to 4,829.1 kg in the year to May, compared with the same period a year ago, the west African nation's treasury said on Friday, helped by high gold prices and favourable government policy.

The world's top cocoa-producing nation aims to diversify its economy away from cocoa, but a decade-long political conflict had slowed the development of its potentially substantial mineral resources. It produced 12 tonnes of gold last year despite a violent four-month post-election standoff, up from 7 tonnes in 2010. The government has forecast annual output at about 25 tonnes by 2015 as new mines come on stream.

Record-breaking gold prices have rekindled interest in West African gold, and the Ivorian government has said it is keen to harness the sector's potential earning power.

West Africa-focused Randgold Resources, Australia's Newcrest Mining and Toronto-listed La Mancha Resources all operate mines in the country. Earlier in August, the government granted production permits to Canada's Endeavour Mining Corp and Occidental Gold, a unit of Australia's Perseus Mining Limited.

India gold demand stays weak as prices rise

MUMBAI, Aug 17 (Reuters) - Demand for gold in India, the world's biggest consumer, stayed subdued on Friday after prices moved higher tracking a similar trend overseas and as poor monsoon rainfall slashed purchases in key southern markets.

The most active gold for October delivery on the Multi Commodity Exchange (MCX) was up 0.24 percent at 30,172 rupees per 10 grams by 0927 GMT, not far from a record high of 30,428 rupees hit in June.

Gains were capped by a rise in rupee, which determines the landed cost of imported gold.

"Unless we see significant correction in prices, demand is likely to remain sluggish," said a Mumbai-based bullion dealer with a private bank.

"Retail sales of coins and bars are very weak. Interest of investors is eroding as they are not expecting significant rise in prices."

International spot gold extended gains from the previous session, when it rose the most in two weeks on German Chancellor Angela Merkel's support for more action by the European Central Bank to fight the bloc's debt crisis.

Gold demand in India is likely to fall by a fifth in the second half of 2012 from a year ago on higher prices and as weak monsoon rains hurt incomes of rural households, a senior World Gold Council (WGC) official said on Thursday. India is facing its second drought in just four years, which can drive up food prices and erode spending power, crimping demand for goods from tractors to gold. More than half the population relies on the rural economy. Investment and jewellery demand from Indian consumers plummeted 38 percent to 181.3 tonnes in the second quarter of 2012. Festival season began last week in India and will peak in November. The wedding season will also unfold during the period.

TRADING PLACES

CME plans to launch U.S. scrap contract in September

NEW YORK, Aug 17 (Reuters) - CME Group Inc said on Friday it will launch its U.S. scrap futures contract on Sept. 10, as the Chicago exchange expands its reach in ferrous derivative products. The company announced plans for the contract, its 13th steel and steel raw materials derivative product and its second scrap contract, in June. The launch is subject to regulatory approvals. The exchange believes there is growing interest in hedging among recyclers, mini mills which use scrap as raw material, and construction companies who buy long steel products produced from steel scrap.

Financial players, including U.S. bank JP Morgan, have also shown interest in the contract.

The CME contract could benefit from declining interest in the four-year old steel physically backed billet futures offered by the London Metal Exchange. While the contract, which will be cash settled against an index price set by U.S. metals trade publication AMM, is focused on the United States, the exchange said it hopes its price will become a global benchmark. The United States is the industry's biggest scrap exporter. CME is also working on launching ferrous contracts in China, which is the world's largest steel producer and consumer and has a growing investor base, as liquidity in its U.S. hot-rolled-coil contract increases.

MARKET NEWS

India's aluminium export to rise 5 pct -Vedanta

By Deepak Sharma and Jatindra Dash

MUMBAI, Aug 17 (Reuters) - India's aluminium exports could rise 5 percent in the current fiscal year to 325,000 tonnes, despite a slowdown in global demand, a senior industry official said, as falling prices have led rival global producers to cut production.

Declining aluminium prices have forced major players such as Alcoa and Norsk Hydro to cut output and have prompted China, the world's largest consumer of the metal, and Japan to ramp up purchases.

"Due to the sudden closure of some of the smelters in the U.S.A., the export demand has slightly improved," Mukesh Kumar, president of Vedanta Aluminium Ltd, India's largest aluminium producer, said in an interview.

Vedanta Aluminium, a part of billionaire Anil Agarwal-controlled Vedanta Group, produces about 40 percent of the South Asian nation's total output.

India exported 310,000 tonnes of aluminium in 2011/12, he said.

Aluminium prices have fallen this year alongside other metals as the global economy has cooled. The benchmark three-month LME aluminium contract on Friday, at $1,846.25 per tonne, was down 22 percent from its year-high in March.

Indian aluminium exports to South Korea, Japan and China are currently priced at a premium of $223-$230 per tonne above the LME benchmark, lower than the $240-$260 premium from other countries, traders said.

Low costs and availability of better grades of inputs such as bauxite give Indian smelters an edge over other suppliers, but bureaucratic and environmental delays have limited the availability of coal, a major fuel for aluminium production.

"The capital expenditures and operating costs in India's plants are nearly 70 to 80 percent of the world average cost due to high-quality bauxite, rich coal deposits and low labour costs," Kumar said.

"India is blessed with high quality bauxite and coal but the delay in processing of applications (for allotting mines) is the main cause of concerns," he added.

India produces around 1.6 million tonnes of aluminium and consumes about 1.3 million tonnes annually.

Its domestic demand is poised to grow by 7 to 8 percent a year, led by its power transmission, construction and automobile sectors.

Tajik aluminium smelter eyes output growth from August

By Roman Kozhevnikov

DUSHANBE, Aug 17 (Reuters) - Tajikistan's state-owned aluminium smelter, the largest in former Soviet Central Asia, expects to restore production growth this month after an extensive plant revamp, a source close to the company's management said on Friday.

Tajikistan Aluminium Company, or TALCO, produced 2.2 percent less aluminium in the first seven months of the year than in the same period of 2011 as it ramped up output following a modernisation programme completed at the end of last year.

A 15-day stoppage of Uzbek gas supplies also hit output in April.

But the year-on-year production decline has narrowed from a 14.2 percent drop in the first quarter of 2012. In January to July 2012, TALCO produced 167,251 tonnes of aluminium versus 171,067 tonnes in the same period of last year.

"We will restore production growth in August and the rate will grow throughout the autumn," said the source, who declined to be named because the production data is not public.

TALCO plans to produce 332,500 tonnes of aluminium in 2012, a target that would restore production approximately to 2010 levels after a 20 percent decline to 277,584 tonnes in 2011.

The smelter's production is crucial to the economy of Tajikistan, the poorest of 15 former Soviet republics. Aluminium accounts for slightly less than half of Tajikistan's entire export revenues.

World No.1 copper mine Escondida H1 output up 18 pct

SANTIAGO, Aug 17 (Reuters) - Output from the world's largest copper mine, Chile's Escondida, jumped 18 percent in the first half of the year compared with the same period of 2011, to 533,242 tonnes on higher ore grades, mine activity and cathode output, the mine said on Friday.

Escondida, which is majority-owned by global miner BHP Billiton and extracts about 7 percent of the world's copper, this year has increased its copper output every month compared to the previous month, according to Chile's state copper commission Cochilco.

"This increase is due to better grades, a higher level of activity in the mines and a better performance of the cathode production plants," Escondida said in a statement.

MARKET NEWS *(Continued)*

The mine said it produced 366,205 tonnes of copper concentrate and 167,037 tonnes of copper cathodes.

The mine's copper output plummeted 24.6 percent in 2011 to 819,261 tonnes, its lowest level in nearly a decade, on sinking ore grades and a two-week strike. BHP and Rio Tinto, which owns 30 percent of the mine, have approved plans for a $4.5 billion expansion of Escondida to boost output.

A new 152,000-tonnes-a-day concentrator plant and new mineral handling system will boost production to more than 1.3 million tonnes a year by June 2015.

BHP said in July that its copper production in the June quarter rose 15 percent from a year earlier to 312,500 tonnes, compared with a forecast of 311,200 tonnes from UBS.

Cochilco earlier on Friday reported Escondida had produced 533,200 tonnes of copper in the first half of the year, up 18.3 percent year on year.

Brazil raw steel output down 4.1 pct in July

Aug 17 (Reuters) - Brazil's raw steel production fell 4.1 percent in July from a year earlier to 3 million tonnes, according to Instituto Aço Brasil, the industry group representing steelmakers.

Rolled steel production grew 11.5 percent from a year before to 2.3 million tonnes.

Sales in the Brazilian market were unchanged from July 2011 at 1.8 million tonnes of steel products.

The country imported 337,000 tonnes of steel products in July and 2.3 million tonnes in the year to date, the group said, up 8.2 percent from the same period in 2011.

China daily steel output rises unexpectedly in early Aug

By Ruby Lian and Fayen Wong

SHANGHAI, Aug 17 (Reuters) - China's daily crude steel output rose 1.1 percent in early August from late July, belying expectations for a modest fall, as many steel mills resumed production after a round of brief maintenance in mid-July, industry sources said.

The persistent supply glut and swollen inventories will curb gains in steel prices in autumn when demand traditionally improves as construction projects pick up, putting further downward pressure on iron ore prices.

Daily crude steel output was 1.970 million tonnes in the first 10 days of August, up from 1.949 million over July 21 to 31, industry consultancy Custeel.com said on Friday, citing data from the China Iron & Steel Association (CISA).

"The only reason that comes to my mind is that steel mills have resumed production after this round of maintenance since mid-July," said Qiu Yuecheng, an analyst with Xiben New Line Co Ltd, a spot steel products trading platform in Shanghai.

"Amid fears of losing market share and urging by local governments to maintain economic growth as well as the rapid fall in iron ore prices, steel mills are reluctant to cut production in a big way," Qiu added.

Shanghai steel futures fell to record lows on Friday, hitting 3,614 yuan ($570) a tonne, and are heading for their fifth weekly loss in six, trapping iron ore, the key steelmaking raw material, at 2-1/2-year troughs.

CISA estimated the country's total production based on its members, which comprise more than 70 large steel mills that account for about 80 percent of China's total steel output.

Steel demand has remained weak since the start of this year as the world's second-largest economy grows at its slowest pace in more than three years.

"I haven't seen any signs that prices will stabilize yet, but there is still big downside pressure ahead," said a Beijing-based steel trader.

CISA said on Thursday steel prices were expected to stay weak in the next few months as a supply glut and high inventories will offset an expected increase in demand despite measures by Beijing to spur economic growth.

China produced 1.99 million tonnes of crude steel on a daily basis in July, down 0.8 percent from June.

Changes in daily output since the beginning of the year.

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 falls as euro zone optimism loses steam

By Carrie Ho

SHANGHAI, Aug 20 (Reuters) - Copper fell after last week's optimism over prospects for the euro zone flagged, leading investors to step back from buying riskier assets as they gauge the impact of the bloc's ongoing crisis on global economic growth and demand for metals.

Comments from German Chancellor Angela Merkel supporting European Central Bank efforts to address the euro zone crisis had helped lift risk sentiment on Friday, boosting prices of base metals.

But markets players said any optimism that came out of those comments faded when euro zone leaders failed to follow up with fresh policy action over the weekend, and amid weak consumer demand for most base metals in China.

"Base metals prices fell due to a lack of positive news over the weekend - no Chinese bank reserve ratio cut, no fresh policies out of the euro zone, nothing to cheer about," said CIFCO Futures analyst Zhou Jie. "And with macroeconomics looking so bad, fundamentals looking so weak and equities down, base metal prices slip."

Three-month copper on the London Metal Exchange was down 0.5 percent at $7,503 per tonne by 0425 GMT, after rising 1.2 percent in the prior session and snapping two sessions of gains.

The most active December copper contract on the Shanghai Futures Exchange edged down 10 yuan to 54,650 yuan ($8,600) per tonne by the midday close, after ending Friday 0.8 percent higher.

In the euro zone, recent comments by leaders highlighted concern over the bloc's ability to remain united while tackling its debt crisis.

European Central Bank policymaker Joerg Asmussen said a Greek exit from the euro zone would not be preferable but would be manageable, underscoring the possibility of the bloc breaking up.

While assuring markets that the end of Italy's economic crisis was in sight, Prime Minister Mario Monti warned that the euro zone must not let the single currency become a source of friction between the north and south in the bloc, underlining the dissenting voices that threaten to divide members.

Hedge funds and money managers raised their net short position in U.S. copper for a second straight week, data from the Commodity Futures Trading Commission's (CFTC) Commitments of Traders showed.

MORE INDIAN SUPPLY TO CAP LME ALUMINIUM GAINS

Aluminium producers outside of China, the world's largest producer of the metal, have been cutting production but traders said this may do little to bolster LME aluminium prices if other countries such as India seek to make up for the production shortfall this year.

India's aluminium exports could rise 5 percent in the current fiscal year to 325,000 tonnes despite a slowdown in global demand, a senior industry official said, as falling prices have led rival global producers to cut production.

"A production increase by India will cancel out the cuts by other aluminium producers and put further pressure on LME aluminium prices," said a Shanghai-based trader.

"India is one of the main sources of aluminium ingots nowadays whenever the arbitrage window in China is open. The premiums for Indian aluminium ingots are about $230-$240, whereas those from Australia and other Western suppliers are $260-$270 with very few deals closed," said Shanghai Metal Markets analyst Zhang Chenguang.

PRECIOUS-Platinum extends gains on Lonmin strike, gold steady

By Rujun Shen

SINGAPORE, Aug 20 (Reuters) - Platinum stretched its gains into a third session as supply worries lingered after violence at a major mine in South Africa, the world's top platinum producing country, while gold was steady amid continued uncertainty over monetary policy.

The violence at the Marikana mine of Lonmin, the world's No.3 platinum producer, has killed 44 people over the past week. Striking workers are facing the deadline of returning to work on Monday, otherwise they may be dismissed.

Spot platinum hit $1,474 an ounce, its highest since early July, before easing to $1,472 an ounce by 0243 GMT, after rallying more than 5 percent last week, fuelled by worries that the violence would disrupt supply from South Africa.

The gold-platinum premium dropped to below $150 an ounce, its lowest since early July, after hitting a record above $230 just last week as grim economic prospects weighed on platinum while gold remained supported by hopes for more monetary stimulus from central banks around the world.

"If things in South Africa calm down, we may see the gold-platinum spread widen again, because the demand for platinum group metals is not good," said Peter Fung, head of dealing at Wing Fung Precious Metals in Hong Kong.

As the gold-platinum spread shrank to a multi-week low, some investors may start to reverse their recent trading strategy of buying platinum and selling gold, he added.

GOLD AWAITS POLICY CLARITY

Spot gold gained 0.1 percent to $1,617.24 an ounce by 0243 GMT. U.S. gold futures contract for December delivery was little changed at $1,619.70.

MARKET REVIEW *(Continued)*

Gold investors are still waiting for clear signals from central banks on what they plan to do to shore up the fragile economies.

U.S. consumer sentiment improved in early August to the highest in three months, adding to the argument that the U.S. Federal Reserve may not need to launch another round of bond purchases any time soon as the economy has shown signs of stabilisation.

Hedge funds and money managers cut their net long position in U.S. gold futures and options for a second consecutive week, as investors reduced their bullish bets because of doubts over more monetary stimulus by the Federal Reserve.

But holdings of the SPDR Gold Trust , the world's largest gold-backed exchange-traded fund, rose 0.9 percent to 1,274.739 tonnes by Aug. 17, the highest since July 9.

FOREX-Yen hits 5-week low vs dollar, euro stuck for now

By Hideyuki Sano

TOKYO, Aug 20 (Reuters) - The yen dozed at five-week lows versus the dollar after a surge in U.S. bond yields last week, while the euro was sluggish versus the dollar in subdued trade where the ebb and flow of euro zone optimism was seen continuing to drive markets.

The dollar rose as high as 79.66 yen in early trade, its highest in over five weeks, drawing help from last week's rise in U.S. Treasury yields to three-month highs.

The dollar later eased to 79.49 yen , down slightly on the day due to selling from Japanese exporters coming back from their Obon summer holidays.

But model players are likely to buy on dips as the currency pair look supported on daily Ichimoku charts, breaking above the top of the cloud since April, traders also said.

The 10-year U.S. Treasury yield rose to 1.86 percent last week, bringing its yield advantage over Japanese bonds to nearly 1 percentage point for the first time in three months.

While some operators believe a yield gap of about 1 percentage point is too small to trigger a massive buildup of yen carry trade, the dollar/yen does tend to have strong correlation with U.S. yields.

"We think U.S. yields are likely to rise further in the near term. The 10-year is likely to hit 2.1 percent if all short-term long positions are unwound," said Junya Tanase, chief FX strategist at JPMorgan Chase.

"Based on the correlation so far this month, the dollar/yen rate in line with that yield would be 79.98 yen," he added.

Investors have been selling the yen so far this month, said Kimihiko Tomita, the head of forex at State Street Bank in Tokyo, citing the bank's monitoring of investor flows. He added that their flows may have dominated a holiday-thinned market.

The euro fetched 98.12 yen , not far from six-week high of 98.43 yen set on Friday.

SHUTTLE DIPLOMACY

Against the greenback, the euro was little changed at $1.2333 and seen stuck in a $1.2240-2450 range it has hugged in the past two weeks.

With the Northern Hemisphere in a summer lull and an absence of key data on Monday, traders expect little action until later in the week when euro zone purchasing managers' survey and minutes of Federal Reserve's July 31/Aug 1 policy meeting are released.

"If the minutes show that there was an active discussion on which measures should be used to provide additional stimulus, then this could be the first sign that the Fed may pull the trigger in September as our economists forecast," analysts at BNP Paribas wrote in a note.

"This would put the USD back under pressure and generate a rally in risky assets as expectations for quantitative easing rise."

The euro is likely to stay range-bound until there is more clarity on measures tackle the debt crisis, with some market players looking to shuttle diplomacy in the euro zone starting later this week.

French President Francois Hollande and German Chancellor Angela Merkel will meet on Thursday, a day before Greek Prime Minister Antonis Samaras arrives in Berlin.

Hopes are also high that the European Central Bank (ECB) will take concrete measures to tackle the euro zone debt crisis at its September meeting.

Germany's weekly Der Spiegel magazine reported on Sunday the ECB is considering setting yield thresholds for any purchases of a struggling euro zone country's bonds.

If true, this could be taken positively by markets, traders said , though the market has shown limited response so far.

The Australian dollar was at $1.0435 , near a three-week trough of $1.0411 plumbed on Friday. Immediate support is seen near $1.0400, the floor of an uptrend channel drawn from early June.

The Aussie had been unable to keep up with a general pick-up in risk appetite last week, which saw European stocks close at 13-month highs on Friday and U.S. stocks near four-year highs.

Traders said there was no driver apart from position adjustments amid persistent expectations that the Reserve Bank of Australia will cut interest rates at some stage.

(Inside Metals is compiled by Shruthi G in Bangalore)

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