INSIDE METALS

Tuesday, August 21, 2012

CHART OF THE DAY

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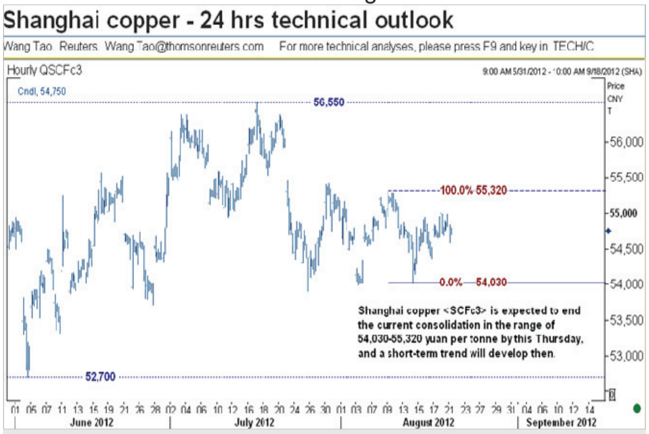

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COLUMN-Aluminium still needs more production cuts

The aluminium price briefly touched a three-year low of $1,827.25 per tonne on the London Metal Exchange (LME) last week.

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

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TODAY'S MARKETS

BASE METALS: London copper inched up on a slightly weaker dollar and a rise in Asian equities, although prices look set to stay in a tight range as investors wait for more trading cues.

"For now, with no clear trading direction, LME copper will be stuck within a range of $7,200-$7,800. But downside risks will increase over the longer term as Chinese consumer demand remains weak with no sign of improvement in global economics," said Andy Du, derivatives director at Orient Futures.

PRECIOUS METALS: Platinum inched down, sliding from a two-month peak hit in the previous session on heightened supply worries in top producer South Africa, while expectations for easing monetary policy buoyed gold.

"Ongoing expectations for further monetary easing globally are keeping gold lifted," said Li Ning, an analyst at Shanghai CIFCO Futures.

"Physical demand is likely to pick up in September, and that gives hope to gold bugs too."

FOREX: The euro held steady but appeared increasingly vulnerable to a reverse amid doubts whether policymakers could agree a viable plan of action by next month to take some of the pressure off debt-stricken euro zone countries.

"The market has been recently cherry-picking only positive factors (for the euro), but I expect a reversal in the next couple of days," said Daisuke Uno, chief strategist at Sumitomo Mitsui Banking Corp.

FEATURE

COLUMN-Aluminium still needs more production cuts

By Andy Home

LONDON, Aug 20 (Reuters) - The aluminium price briefly touched a three-year low of $1,827.25 per tonne on the London Metal Exchange (LME) last week.

It managed to avoid falling off a technical cliff, just, but the pressure is still on, three-month metal already trading as low as $1,830 this morning.

Analysts are near unanimous in their collective view that a significant price recovery will need more producer cutbacks to rebalance supply with demand.

Superficially at least, they will be heartened by the latest set of global production figures released on Monday by the International Aluminium Institute (IAI).

These showed global run-rates falling by an annualised 940,000 tonnes in July relative to June.

However, there is still little evidence that producers either in China or the rest of the world are yet ready to bite the collective bullet in a way that would satisfy the market.

DOWN BUT NOT OUT

It's important to put last month's drop in global output into context, following as it did all-time record production of 45.2 million tonnes annualised in June.

Moreover, most of the July fall in production came from China, where annualised run-rates fell by 826,000 tonnes, as shown in the next graphic: http://link.reuters.com/gaj22t

It was the first decline in the country's output since March and follows a cumulative 2.1-million tonne increase over the course of April, May and June.

There's no denying the pain being felt by local producers. The country's largest, Aluminum Corp of China (Chalco), has just flagged a first-half net loss of 3.25 billion yuan ($510.8m).

But whether that pain is now translating into producer discipline is another issue.

Chinese production of the light metal has fallen in July relative to June in three of the last four years. That suggests that the latest decline could be primarily seasonal rather than structural.

Proof either way will only come with the next couple of months' figures.

But the underlying issue is that market forces, namely the low price, are being counteracted by non-market forces, namely government subsidy.

Analysts at AZ China, for example, estimate that provincial governments are propping up around a quarter of domestic production, something like five million tonnes annualised, through power subsidies.

Moreover, the idea of central government support is back on the agenda, smelters lobbying for a revival of a scheme to buy up surplus metal.

The last time this was done in 2009, the State Reserves Bureau bought 590,000 tonnes of metal at above-market prices via auctions open to only a handful of state "favourites."

The message, now as then, is that the Chinese state will not contemplate mass closures in a sector viewed as strategically important.

The price can fall further. But whether Chinese production will be allowed to fall with it is quite another matter.

NO NEWS IS NOT GOOD NEWS

Outside of China aluminium production has been on a gently declining path for several months, as shown in the next graphic: http://link.reuters.com/faj22t

Production in July slipped by another 110,000 tonnes to 24.6 million tonnes annualised, bringing the cumulative drop to 1.3 million tonnes since October 2011, when the aluminium price first started moving into cost-curve territory.

That cumulative figure is higher than the one million tonnes of announced cutbacks because it includes involuntary cuts at Rio Tinto's Alma plant in Canada (union lock-out) and at BHP Billiton's Hillside plant in South Africa (technical problems).

Both will ramp back up over the coming period.

As they do so, the impact of other production cuts, most of them announced in the early part of the year, will fade.

What is frustrating aluminium bulls is the lack of new "news" about production cuts.

There have only been two developments over the last month and neither of them is going to set the aluminium world on fire.

In Bosnia Aluminij Mostar said it will cut output by 12.5 percent, or by around 16,000 tonnes annualised.

U.S. producer Ormet, meanwhile, has said it intends to close one of its six potlines, representing around 44,000 tonnes of capacity. The fate of the other five are dependent on power price negotiations with local supplier American Electric Power.

There is still the suggestion by Russian giant UC Rusal that it might shutter 300,000-600,000 tonnes of capacity later this year but the prospect has been around for so many months that any confirmation could hardly be viewed as news.

FINANCIERS TO THE RESCUE

Outside of China aluminium producers are being kept afloat not by government subsidy, although there are specific examples, but by investment demand for metal.

Stocks financiers still seem to have an almost unlimited appetite for buying short-dated aluminium to earn the contango on the forward curve.

The positive impact on producers is twofold.

FEATURE *(Continued)*

Firstly, by soaking up surplus units investment demand is preventing the sort of sales volume collapse experienced by the aluminium production sector in 2008-2009.

Secondly, investment demand is translating into historically high physical premiums, both directly by quarantining large amounts of surplus metal from the physical market and, indirectly, by incentivising warehouse operators to bid directly for more metal to store.

Physical premiums just about everywhere are either at or close to record highs, providing an important financial lifeline to margin-compressed smelters the world over.

As analysts at Barclays Capital point out, even assuming an individual smelter only receives part, say 50 percent, of the realised premium, that would still be enough to pull 3.4 million tonnes of a price-challenged 10.5 million tonnes of global capacity back into positive margin territory.

MORE PAIN

All of which helps explains why the LME aluminium price has been bumping along the bottom of a $1,830-1,930 range for the last month or so.

In theory it's the sort of price level that should generate a global producer reaction.

In practice, government intervention (China) and investment demand (everywhere else) are helping cushion the impact of price.

Yet, it seems very unlikely, bar an unexpected rebound in global manufacturing activity, that the aluminium price can stage any sustained upside move without a more fundamental realignment of fundamentals.

It's a precarious status quo but one that could be sustained for several more months yet, or, as BarCap puts it, at least until "the mounting pressure from a third consecutive quarter of poor results in the sector (leads to) more aggressive decision-making by Q4 this year."

The producer pain, in other words, is going to continue and will likely get worse before it gets better.

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

GENERAL NEWS

Brazil to resolve Vale royalties issues by October-minister

RIO DE JANEIRO, Aug 20 (Reuters) - Brazil's government expects to resolve a royalties dispute with Vale SA, the world's second-largest mining company, either this month or by the end of September, Edison Lobao, Brazil's mines and energy minister told reporters in Brasilia on Monday.

Lobao also said the government expects to resolve a legal dispute that has stopped work on the Belo Monte Hydroelectric dam in the country's Amazon region "soon."

Workers strike at Areva's Somair uranium mine in Niger-Union

NIAMEY, Aug 20 (Reuters) - Workers at Areva's Somair uranium mine in Niger started an open-ended strike on Monday over labour conditions, a union official said.

"Our strike is open ended and will continue until the management improves our living and working conditions," spokesman Mounkaila Abass told a local television broadcaster.

The Somair mine in the northern Niger mining area of Arlit produces some 2,650 tonnes of uranium per year. Niger is the top supplier of uranium to France's nuclear power sector.

An official from Areva, which also produces some 1,600 tonnes of uranium annually from its separate Cominak mining operation in northern Niger, was not immediately available.

Anglo faces Chilean test as investors vent frustration

By Clara Ferreira-Marques and Sinead Cruise

LONDON, Aug 20 (Reuters) - Anglo American, wrestling institutional investors frustrated with a battered mining sector, faces a major test this week in the shape of a deal to end a bruising, 10 month-long row with Chilean copper giant Codelco.

Sources familiar with the matter have said an agreement is expected in days, with Anglo preparing to sell Codelco a 24.5 percent stake in its coveted Anglo American Sur properties in Chile - which include the Los Bronces copper mine, potentially one of the world's largest - ending their legal battle.

Depending on price and the depth of the conciliatory discount offered, a deal could offer breathing space for Anglo's bosses, under pressure over low returns, trouble with its Brazil iron ore project and in South African platinum - where violent clashes over the past week have added to the woes of an industry squeezed between feeble prices and sky-high costs.

An imperfect Chile deal, though, could revive criticism of the miner's diplomatic abilities and its decision to invest $2.8 billion in Los Bronces before securing full ownership.

"If we see a situation where they resolve with Codelco, and they have still got a better price than they would have got through the (original) option, you would say Anglo has won something," analyst Des Kilalea at RBC Capital Markets said.

GENERAL NEWS *(Continued)*

For Anglo, a perceived victory in the battle over Chilean copper is key, as fund managers, facing criticism from their own investors, begin to lose patience with the sector.

After years of investing as miners ploughed cash into growth, investors find returns are now hampered by a worsening economy.

Anglo, led by Chief Executive Cynthia Carroll, has been at the sharp end of criticism, not least because of a return on equity which fell in the first half of the year to the worst level since the 1930s, according to Citi analysts.

"Frustration is the best word for shareholder feelings on Anglo," said one of the company's top 15 investors, who requested anonymity.

"Like other shareholders, we are looking to open a dialogue with the chairman and senior independent director to explore whether the company's strategy is on the right lines."

Others said they were fretting over Anglo's capital allocation. The company, set to see free cash flow rise as investment eases, has spent some $7 billion in deals over the past 12 months, including two in the past month.

"While we are not gunning for Cynthia's head, we do have serious concerns about Anglo," another top 15 investor said.

"Reliance on South Africa is a definite concern, and their attempt to diversify with their major project in Brazil - Minas Rio - has showed far from perfect execution."

Minas Rio, like several other large projects in Brazil, has been beset by delays, cost overruns and hitches over permits.

"Investors in general are biased against mining equities and with Anglo there are a lot of problems people can point to," analyst Chris LaFemina at Jefferies said.

Solving Chile would tick at least one problem off the list.

CHILEAN SOLUTION

Anglo and the world's top copper producer have been at loggerheads since last October, when Codelco said it would exercise its option to buy a 49 percent stake in AAS in January.

Just weeks later, Anglo surprised markets with the pre-emptive sale of a 24.5 percent stake in AAS to Mitsubishi with a $5.4 billion deal - almost double the value of the same stake under the original option terms. That dented Codelco's ambitions but, Anglo said, it secured better value for its own investors.

Many Anglo investors welcomed what they said was an active defence of shareholders' interests, while others fretted over an aggressive stance that irked the host country and was partly borne of the company's failure to understand Codelco's intentions.

Codelco, for its part, said Anglo had violated the Chilean legal principle of "good faith" by selling pre-emptively. Both Anglo and Codelco sued each other for violation of contract.

An agreement this week is set to see Anglo retaining a 51 percent majority in AAS, Mitsubishi yielding a small percentage - roughly five percent according to two sources familiar with the matter - to Mitsui, which had agreed to finance Codelco.

Codelco would then get the remaining 24.5 percent at a "compromise" discount to the option value of around $2.8 billion - below an earlier $3 billion value due to weaker copper prices. It is also set to get land, the sources said.

"In monetary terms, this isn't going to be a loss compared with exclusively selling to Codelco, it will be a profit," Gustavo Lagos, a professor at Universidad Catolica's Mining Center in Santiago. "But in terms of image, I don't know."

Codelco declined to comment. Anglo said the two sides were still negotiating and declined to comment further.

Lonmin workers trickle back to mine after 44 killed

By Peroshni Govender and Ed Stoddard

MARIKANA, South Africa, Aug 20 (Reuters) - About a third of the workforce returned on Monday to South Africa's Marikana platinum mine, resuming operations at the site where police shot dead 34 striking miners in clashes that evoked memories of apartheid-era violence.

Mine owner Lonmin has threatened about 3,000 striking workers with dismissal if they do not show up at Marikana, 100 kilometres (60 miles) northwest of Johannesburg, where miners armed with spears, machetes and handguns died on Thursday in a hail of police fire.

Ten people were also killed prior to the police shooting, including a shop steward from the country's biggest union, the National Union of Mineworkers (NUM), who was hacked to death, as a dispute between mining unions turned deadly.

Striking workers gathered on Monday near the garbage-strewn fields and the barren hill where they assembled a week ago, with many saying they were not ready to go back into the shafts.

"You work so very hard for very little pay. It is almost like death," said a striking miner who asked to be identified only by his first name, Thulani.

Lonmin said it did not yet have enough workers at their posts to produce ore, and officials from the small Solidarity union of highly skilled workers said at least 80 percent of the workforce is needed to bring platinum out of the shafts.

The violence was sparked by a spreading battle for membership between the NUM and the upstart Association of Mineworkers and Construction Union, which has accused its rival of caring more about politics and personal enrichment than workers.

Lonmin said in a statement that operations had resumed and it had extended to Tuesday from Monday its deadline for the strikers at the mine, which employs 28,000, to return to work.

GENERAL NEWS *(Continued)*

A spokesman for President Jacob Zuma, who has declared a week of mourning, said a ministerial committee appointed by the president had arrived on the scene to assist families and the community affected by the troubles.

MURDER CHARGES

More than 250 people began appearing in court near the mine to face charges including murder, attempted murder and assault related to the deadliest security incident since the end of apartheid in 1994.

About 100 women appeared outside court to appeal for leniency for the men inside who are often the sole breadwinners for extended families trying to make ends meet on their meagre mining salaries.

NUM has said its feud with the militant AMCU union, seen as behind the Lonmin strike, could spread, threatening a setback for labour relations in South Africa.

This could in turn feed into lower levels of investment, possibly lower growth, and a deteriorating fiscal balance for Africa's largest economy.

Hundreds of police have camped out at the mine, patrolling in small convoys of vehicles and conducting aerial surveillance by helicopter.

Flags flew at half-mast to remember the dead, who included miners and police.

"What has happened here has been a tragedy, and the pain and anger it has led to will take time to heal," said Mark Munroe, Lonmin's executive vice president for mining.

Members of parliament from all political parties, together with leaders from various churches, are expected to hold a memorial service in Parliament's Old Assembly Chamber tomorrow in honour of the victims of the violent protests, a top ANC official said.

London-based Lonmin, which accounts for 12 percent of global platinum output, was forced last week to freeze mining as a result of the violence, but essential services such as ventilation were maintained so the mines could quickly restart production.

Lonmin's already battered shares tumbled further on Monday, losing nearly 4 percent in late-afternoon trade in Johannesburg.

The stoppage has driven platinum prices to six-week highs over $1,460 an ounce, but much of the industry remains unprofitable at a time when it is grappling with a wave of labour unrest.

Lonmin had already slashed spending plans before the latest flare-up of violence and may miss its annual production target of 750,000 ounces.

South African junior miner Royal Bafokeng Platinum is the latest miner in the sector to signal cutbacks. It reported a 60 percent drop in first-half earnings on Monday, hit by the slump in platinum prices and reduced production, and said it would accelerate its cost cuts.

Harry Winston sees Diavik mine's net present value at C$2.6 billion

Aug 20 (Reuters) - Harry Winston Diamond Corp said the Diavik mine in Canada's Northwest Territories is expected to remain in production until 2023 and estimated the net present value of the mine at C$2.6 billion.

The luxury jeweler and watchmaker had been holding off on releasing the full life-of-mine plan for Diavik following partner Rio Tinto Plc's decision to review its diamond business.

The mine, in production since 2003, is expected to have a total capital cost of C$955 million ($966.4 million) until the end of its life, Harry Winston said in a statement.

A mining company can be evaluated on basis of the net present value of potential future cash flow, discounted at an appropriate rate.

Rio Tinto is the operator and 60 percent owner of the mine that produced 6.7 million carats of diamonds in 2011. Harry Winston owns the rest.

Franco-Nevada, Inmet in $1 billion funding deal for Panama project

Aug 20 (Reuters) - Gold-focused royalty company Franco-Nevada Corp said it will provide $1 billion to Inmet Mining Corp for the development of its Cobre Panama copper-gold project in Panama.

Franco-Nevada pays miners upfront cash in exchange for future royalties and holds interests in precious metal, base metal, and oil and gas projects around the world.

The company, based in Toronto, will get about 86 percent of precious metals output from Inmet's share of production from the mine under the deal.

Inmet holds an 80 percent stake in the Cobre Panama project. The remaining interest is owned by a Korean consortium that includes Korea Resources Corp nd LS-Nikko Copper Inc.

Toronto-based Inmet said in July it was in talks to sell a portion of future precious metal production from the mine to help finance its 80 percent share of development costs.

Inmet has secured $4.2 billion out of the estimated $6.2 billion capital required for the project.

TRADING PLACES

Weighty miners will see FTSE lag Europe in 2012

By Atul Prakash

LONDON, Aug 20 (Reuters) - Britain's top share index is likely to lag major European peers in 2012 as its heavyweight mining companies suffer due to poor earnings, faltering growth and depressed commodity prices.

The mining-heavy FTSE 100 is up just 5 percent this year, against a 10.4 percent rise for France's CAC, 19.4 percent jump for Germany's DAX and an 11.6 percent gain for the STOXX Europe 600.

The DAX and the CAC include only one mining company each while the FTSE 100 includes 12. Their weighting, at 10 percent, is second only to that of the oil and gas sector on the index.

With the outlook for miners gloomy, analysts say their underperformance is likely to last for the rest of the year at least, even if, as many in markets expect, central banks take stems to stimulate the global economy later in 2012.

"The heavyweight element of the UK mining sector has made the FTSE 100 index underperform this year. With the outlook for miners still being bleak, we could see the continuation of the trend for the time being, which will mean that the British benchmark index lags behind other indices," Chris Beauchamp, analyst at IG Index, said.

The mining index has lost nearly 7 percent this year, with Rio Tinto down 3 percent, Vedanta Resources 6 percent and Kazakhmys 20 percent.

Of the 12 miners on the FTSE 100, only BHP Billiton, up 4.8 percent in 2012, has gained this year.

Lonmin is down 38 percent, tracking the general weakness but also hammered by a week of violence at a South African mine in which 44 people were killed.

Lonmin shares slid for a sixth day and were down 2.7 percent on Monday as investors fretted over the prospect of a cash call to shore up its balance sheet.

Charts showed the mining index could struggle to rise significantly and was still close to the top of a trading range that has held since mid-May.

Technical analysts said the index faced strong resistance at around 19,300 points, the 38.2 percent Fibonacci retracement of a fall from a February high to a low in early June. The index was down 0.9 percent at around 18,054 points on Monday.

Mining firms are struggling with lower profit margins as metals prices weaken but costs stay high. Demand from China, the world's second-biggest economy and their biggest market, is softening and showing few signs of reviving.

Analysts said that while the sector's longer-term outlook remained positive as demand for metals was expected to grow to meet global infrastructure needs, the underperformance was likely to last at least until the end of 2012.

"People don't have confidence that we are currently in a period of sustained metals demand and that commodity prices are going to rise for a prolonged period of time," Asa Bridle, mining analyst at Seymour Pierce, said.

"It's difficult to see things changing in the coming months. However, the longer-term story is still intact as the urbanisation argument has not gone away."

Copper prices have fallen 2 percent this year, aluminium is down 8.6 percent and nickel has dropped 17 percent on demand concerns as global growth falters.

A Reuters poll published last month showed that average copper prices in 2012 were likely to fall more than 9 percent from the previous year on a slowdown in global growth and sluggish demand from China.

"I don't expect the mining sector to be racing ahead for some time. We are not advising our clients to pile into the sector," Tom Gidley-Kitchin, analyst at Charles Stanley, said, adding he remained positive on the sector's long-term outlook.

PRESSURE ON SHARES

Analysts said diversified miners such as BHP Billiton and Rio Tinto, which have high sustainable dividend yields and strong balance sheets, were likely to perform relatively better.

But their earnings outlook is seen limiting any substantial gain in stocks. Earnings per share (EPS) estimates for both Rio and BHP are seen down more than 26 percent this year, according to smart estimates from Thomson Reuters StarMine, which puts more weight on top-rated analysts and recent updates.

ENRC's EPS is likely to fall 51.5 percent this year over 2011, according to StarMine's smart estimates, while Kazakhmys's EPS is likely to fall 35.6 percent.

Second-quarter results have generally been poor. earnings for metals and mining companies on the STOXX Europe 600 reporting so far have been 18.3 percent lower than estimates.

One factor that could mitigate the underperformance of the relatively volatile mining sector would be if central banks across the world launch further stimulus measures to tackle a slowdown in global economic growth.

"If you believe that you will have a better couple of months (this year) i n the stock market on the back of some stimulus support from central banks, then the mining sector will not perform too badly," Philippe Gijsels, head of research at BNP Paribas Fortis Global Markets in Brussels, said.

TRADING PLACES *(Continued)*

China's fund houses gear up for gold ETFs - sources

By Rujun Shen and David Lin

SINGAPORE/SHANGHAI, Aug 20 (Reuters) - A number of Chinese fund managers are gearing up to launch gold exchange-traded funds (ETFs) to meet a growing domestic demand for alternative investment channels.

Guotai Asset Management, Bosera Asset Management and E Fund Management have got permission to develop gold ETFs with Shanghai Stock Exchange and Shenzhen Stock Exchange, company sources said.

China, the world's largest gold producer, is on its way to overtake India as the top gold consumer this year. China's gold investment demand more than doubled between 2009 and 2011, contributing to a 70 percent jump in overall gold demand, according to the World Gold Council.

Spot gold surged 43 percent during the period. So far this year, bullion has gained about 3 percent though prices are down 16 percent from a peak above $1,920 hit last year.

Fund houses said they are confident their products will appeal to investors looking for alternative choices as other investment channels, especially stock and property markets, have been lacklustre. The benchmark Shanghai Composite index is down about 4 percent so far this year.

"We believe the retracement in gold prices (from record levels) is good for investors in the medium to long term," a company official at Guotai Asset Management told Reuters on the phone, who declined to be named.

Gold ETFs are easier to trade than gold coins and bars, and require less capital than trading futures or spot contracts.

Hua An Asset Management is also among the fund houses preparing for gold ETFs, local media reported, but the company declined to comment.

Graphic: China's consumer gold demand

http://link.reuters.com/qah22t

Graphic: Global gold demand vs. gold prices

http://link.reuters.com/new99s

PHYSICALLY BACKED?

Physically backed gold ETFs could boost demand for the precious metal in China, but the fund houses declined to give details on whether their planned products will be backed by physical gold.

"The product is still under development and we don't know for sure yet," said the Guotai official, adding that the fund will track the performance of the spot gold contract on the Shanghai Gold Exchange.

The holdings of SPDR Gold Trust, the world's biggest gold ETF, rose from 8.09 tonnes at inception in November 2004 to nearly 1,275 tonnes by Aug. 17. Major gold ETFs in the world hold over 2,200 tonnes of gold.

SPDR Gold Trust, which has attracted heavy-weight investors including John Paulson and George Soros, is the sixth largest gold holder in the world, after France that held 2,435.4 tonnes and before China that claims to have 1,054.1 tonnes in its reserve, data from the WGC showed.

Shanghai Stock Exchange and Shenzhen Stock Exchange have not replied to enquiries from Reuters.

MARKET NEWS

Daily aluminium output drops in July- IAI

By Charlotte East

LONDON, Aug 20 (Reuters) - Daily average primary aluminium output for July dropped to 67,400 tonnes from 67,700 in June, figures from the International Aluminium Institute (IAI) showed on Monday, while analysts warned of the potential for further reductions.

Total production in July was 2.088 million tonnes, compared with 2.030 million in June.

In China, July's average daily output dropped to 53,900 tonnes from 56,100 tonnes in June, while total production fell to 1.67 million tonnes from 1.684 million tonnes in June, the IAI figures showed.

Aluminium prices have also been under pressure as an slowing global economy hits demand for the metal, which is used in packaging and transport.

Benchmark aluminium on the London Metal Exchange fell to a three-year low at $1,827.25 on Friday and is down by close to 9 percent for the year to date.

"The market is clearly signalling to the industry that there does need to be further production cuts. We are looking at a market that is in surplus this year, where inventories are high and there isn't any big demand push," said Gayle Berry, an analyst at Barclays Capital.

She said the market was looking for signs of more production cuts in China to prop up aluminium prices.

"There have been production cuts (in China), but these are now being reversed by government intervention through power subsidies," Berry said.

Global daily output between January and July dropped to 68,200 tonnes from 69,800 in the same period a year earlier, the IAI said.

Total production between January and July 2012 was 14.526 million tonnes, compared with 14.803 million.

MARKET NEWS *(Continued)*

EU copper stocks looking tight - Aurubis

HAMBURG, Aug 20 (Reuters) - European copper stocks are tight despite slack demand because of the summer holiday season and Europe's uncertain economic outlook, Aurubis, Europe's biggest copper smelter, said on Monday.

"There are only 15,000 tonnes of copper in European LME (London Metal Exchange) warehouses, hardly any of which is available for prompt delivery," Aurubis said in a market report. "South American producers have redirected their copper shipments to North American in some cases.

"If demand is revived again after the summer break...this could strain the European market, even if the economic situation does not look positive."

Aurubis had on Aug. 14 raised its full-year profit outlook while reporting better-than-expected nine-month operating profit thanks to robust global demand.

Aurubis Chief Executive Peter Willbrandt told Reuters this month that he expected results to remain stable this year as a recovery of copper demand in China offsets the impact of the euro zone debt crisis.

Many European copper consumers have reduced buying activities during the holiday season, Aurubis said on Tuesday. Market participants are awaiting to see how trends develop as full work resumes in September.

Meanwhile, generally firm copper prices staying in recent ranges were keeping European copper scrap supplies good, Aurubis said.

Italian court confirms production halt at steel plant

ROME, Aug 20 (Reuters) - An Italian court said steel plant ILVA would have to clean up pollution caused by noxious emissions before it could resume production, according to documents on Monday which explained a ruling placing parts of the site under special administration.

Managers at the ILVA plant in Taranto in southern Italy had argued that the original court ruling on Aug. 7 would allow it to continue operations while upgrades were carried out.

But the court, in a 124-page explanation of its earlier ruling, ordered the privately owned Riva group which controls ILVA to take immediate steps to rectify systems which allowed high emissions of dioxins and other noxious chemicals.

It said the serious health emergency created by the pollution required "the immediate adoption of preventive sequestration -- without the right of use" of core parts of the plant, including coking, blast furnaces and steelworks.

However the ruling opened the way to a resumption of production once the necessary steps had been taken to repair the environmental damage at Italy's biggest steel plant, which accounts for around a third of national output.

"The objective to be pursued is the single one of achieving as quickly as possible an environmental clean-up and the end to polluting activities," it said.

Production could be authorised only once all the necessary technical steps had been taken to clean up the site and end pollution, the document said.

ILVA chief executive Bruno Ferrante said the explanation clarified the original ruling and indicated "a reasonable and common sense course of action."

He said the ruling allowed ILVA not to close the plant permanently, and he pledged to step up investment in technological improvements and reducing pollution. ILVA employs some 12,000 workers in a region of high unemployment.

With Italy sinking deeper into recession, the government of Prime Minister Mario Monti is having to balance the need to maintain one of the small number of industrial sites in the poor and underdeveloped south with a longstanding health emergency.

According to a health ministry report, deaths from cancer in the region run at 15 percent above the national average, with lung cancer death rates as much as 30 percent higher.

The explanation of the court's ruling comes after Industry Minister Corrado Passera and Environment Minister Corrado Clini visited Taranto on Friday and said they were dropping plans to challenge the prosecutors' ruling in the constitutional court.

ILVA has pledged to invest 146 million euros to repair the environmental damage caused at the site.

Ukraine to reduce steel output in Aug, Sept - agency

KIEV, Aug 20 (Reuters) - Ukraine is likely to reduce its steel output to 2.68 million tonnes in August from 2.87 million tonnes in July, Ukrainian specialist news agency UGMK reported on Monday.

The agency quoted local steel producers' union Metalurgprom as saying Ukraine was likely to produce 2.64 million tonnes of steel in September.

Ukraine, among the 10 largest steelmakers in the world, raised steel production by 6 percent in 2011 to 34.69 million tonnes.

The former Soviet republic is likely to produce 33.5 million tonnes of steel this year, according to Metalurgprom.

MARKET NEWS *(Continued)*

Japan crude steel output rises 1.2 pct in July

TOKYO, Aug 21 (Reuters) - Japan's crude steel output rose in July to its highest in four months, as Nippon Steel Corp and other producers scrambled to meet demand from construction companies and automakers rebounding from last year's earthquake and tsunami.

Crude steel output in July rose 1.2 percent from a year earlier to 9.26 million tonnes, the highest since March when more than 9.3 million tonnes was produced, according to the Japan Iron and Steel Federation on Tuesday.

Japan's worst earthquake on record sparked a tsunami that set off the Fukushima nuclear crisis in March 2011, wreaking havoc on the world's third-largest economy. About 19,000 people were left dead or missing from the quake and tsunami.

Japan's trade ministry estimates crude steel output in the July-September quarter will rise 0.6 percent to 27.1 million tonnes, supported by construction demand.

For July, production from electric furnaces, which produce construction steel, rose 4.1 percent to 2.03 million tonnes, according to the industry federation's figures.

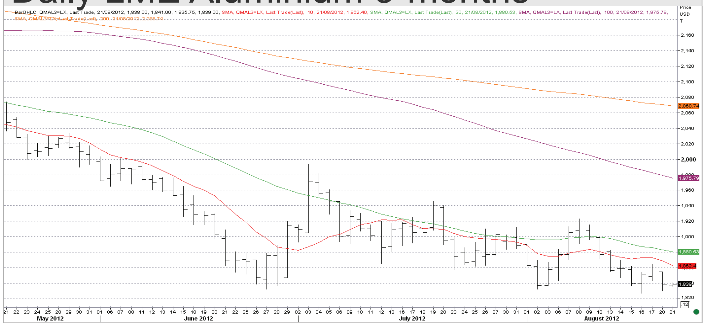
Overall output, which is not seasonally adjusted, increased 0.70 percent from June.

Steelmakers are also benefiting from strong auto sales this year as domestic car production surges from the lows last year after the disaster, buoyed by government subsidies for environmentally friendly cars.

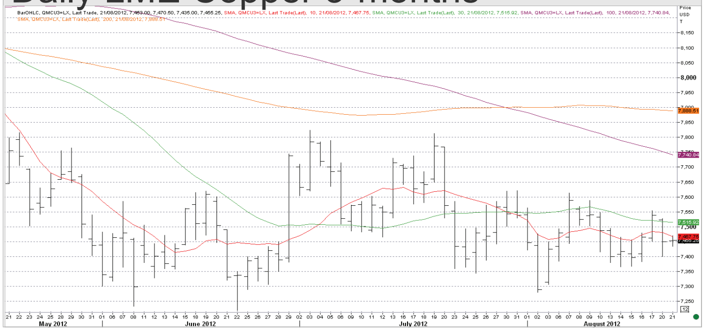
New car sales in Japan rose 37.5 percent in July from a year earlier to 513,125 units, according to industry figures. They were up 36.6 percent in the first seven months of 2012, compared with a year earlier.

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

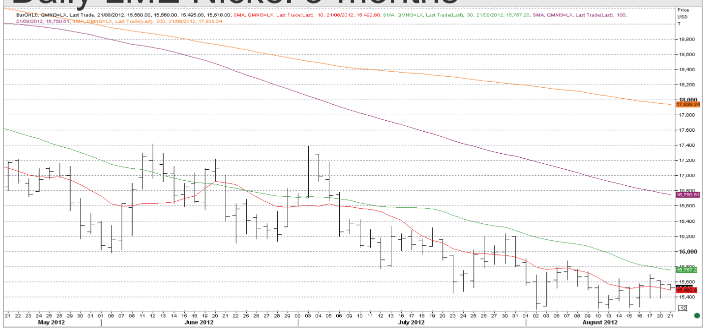
Daily LME Aluminium 3-months



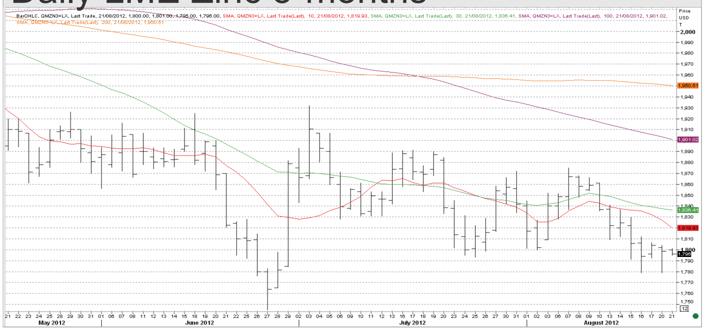
Daily LME Copper 3-months



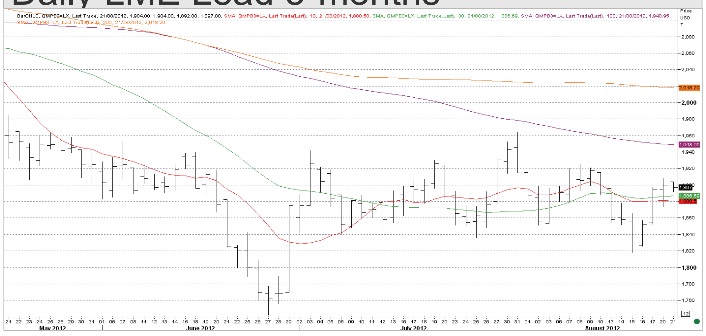
Daily LME Nickel 3-months



Daily LME Zinc 3-months

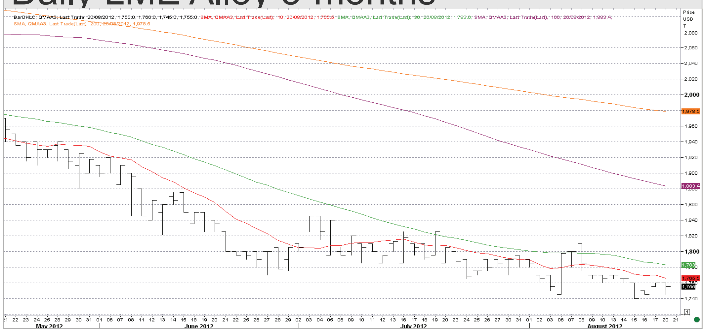


Daily LME Lead 3-months

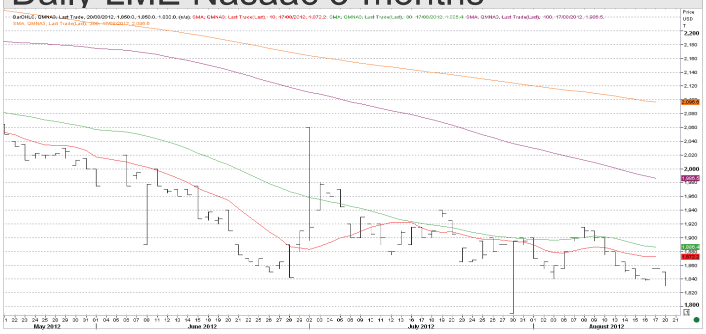


Daily LME Tin 3-months

Daily LME Alloy 3-months



Daily LME Nasaac 3-months



MARKET REVIEW

METALS-LME copper inches up on weak dlr, rise in Asian equities

By Carrie Ho

SHANGHAI, Aug 21 (Reuters) - London copper inched up on a slightly weaker dollar and a rise in Asian equities, although prices look set to stay in a tight range as investors wait for more trading cues.

Any gains are likely to be limited by nagging worries over the global economy, as the euro zone debt crisis continues to ferment, growth slows in top metal consumer China, and recovery stutters in the United States, the world's largest economy.

Shares rose on Tuesday while the euro steadied against the dollar as investors held on to hopes the European Central Bank can trim borrowing costs and help restore confidence in the euro bloc, even as officials denied a report about the shape of its planned bond buying strategy.

Three-month copper on the London Metal Exchange had edged up $2.25 to $7,458.75 per tonne by 0417 GMT, after dropping 1.1 percent in the previous session.

"For now, with no clear trading direction, LME copper will be stuck within a range of $7,200-$7,800. But downside risks will increase over the longer term as Chinese consumer demand remains weak with no sign of improvement in global economics," said Andy Du, derivatives director at Orient Futures.

The most active December copper contract on the Shanghai Futures Exchange edged down 0.1 percent to 54,570 yuan ($8,600) per tonne by its midday close, after ending Monday's session 0.1 percent lower.

Shanghai's prompt September copper is trading at a premium to forward months, with traders reporting some tightness in the spot markets.

"Some people are buying up copper in anticipation of Chinese smelters exporting to take advantage of the new export tax incentives. But copper's outlook looks bearish as downstream industries are still not doing well," Du added.

Leaders of Germany, France, the Euro zone and Greece are meeting bilaterally this week, with German Chancellor Angela Merkel and Greek Prime Minister Antonis Samaras holding a dialogue on Friday over Greece's rescue plans.

"The euro zone crisis is not going away and we've known that for quite a while. I doubt these meetings will produce any resolutions that will decisively lift base metals' bearish outlook," said an analyst with an international trading house.

CHINA PHYSICAL ALUMINIUM MARKET WEAK

Although the latest aluminium production figures point to falling daily output in China, physical traders said the market still feels sluggish.

"There have been some aluminium imports for financing deals recently after the spreads narrowed, lowering losses for importers," said a Shanghai-based trader.

"But the imports don't indicate improving consumer aluminium demand, which is still weak. Imported spot premia are about $230-$280, while in domestic trades, you get zero premium."

In industry news, major minerals exporter Peru said on Monday its copper, zinc and lead output rose more than 9 percent in June over the same month a year ago.

PRECIOUS-Platinum eases from 2-month high, gold steady

By Rujun Shen

SINGAPORE, Aug 21 (Reuters) - Platinum inched down, sliding from a two-month peak hit in the previous session on heightened supply worries in top producer South Africa, while expectations for easing monetary policy buoyed gold.

About a third of the workforce returned to Lonmin's Marikana platinum mine in South Africa, after violent clashes there killed 44 and fuelled worries about a supply shortfall, driving platinum prices up 5 percent last week.

Spot platinum was little changed at $1,486.49 an ounce by 0623 GMT, off a two-month high of $1,492.99 marked the day before.

The gold-platinum spread stood at $137 an ounce, after falling below $130 in the previous session, its narrowest since early July.

Gold traded near the top of the range in which it has been trapped since May, as sentiment was supported by expectations of further stimulus measures despite the European Central Bank's effort to squash speculation on its future bond buying programme.

"Ongoing expectations for further monetary easing globally are keeping gold lifted," said Li Ning, an analyst at Shanghai CIFCO Futures.

"Physical demand is likely to pick up in September, and that gives hope to gold bugs too."

Spot gold edged up 0.2 percent to a one-week high of 1,623.30 an ounce, on course for a fifth straight day of gains.

The U.S. gold futures contract for December delivery rose 0.2 percent to $1,625.50.

Reuters market analyst Wang Tao said that charts suggested spot gold might test resistance at $1,626.06, with any break through that level triggering a gain to $1,650.

SILVER SURPRISE

Spot silver jumped nearly 3 percent on Monday to a two-month high of $28.84, surprising traders and analysts. The move, helped by the rally in platinum prices, was the sharpest one-day

MARKET REVIEW *(Continued)*

rise in more than a month and pushed silver above its 100-day moving average for the first time since April.

Silver, with dual properties as both precious and industrial metal, was trading at $28.80.

"I think everyone is waiting for some action between September and December after a few months of directionless trade," said a Shanghai-based trader.

"If we see policymakers announce stimulus measures, and these measures meet expectations, prices will rally. If not, prices will retrace."

FOREX-Euro listless on ECB doubts, seen vulnerable

By Hideyuki Sano

TOKYO, Aug 21 (Reuters) - The euro held steady but appeared increasingly vulnerable to a reverse amid doubts whether policymakers could agree a viable plan of action by next month to take some of the pressure off debt-stricken euro zone countries.

"The market has been recently cherry-picking only positive factors (for the euro), but I expect a reversal in the next couple of days," said Daisuke Uno, chief strategist at Sumitomo Mitsui Banking Corp.

The euro stood little changed in Asian trade at $1.2358 , off its peak of $1.2440 hit on Aug. 6, just after European Central Bank President Mario Draghi signalled the bank would revive its bond buying scheme to lower borrowing costs of Italy and Spain.

Hopes that the ECB would start buying bonds of struggling euro zone members in September had underpinned the euro since late last month, but market players said a reality check was due.

On Monday, the European Central Bank brushed aside a report by German magazine Der Spiegel that it was considering setting yield thresholds for any moves to buy bonds, saying it was misleading to report on decisions that had not yet been taken

Germany's Bundesbank also stepped up its resistance on Monday to a ECB plan to buy billions of euros worth of Spanish and Italian government bonds.

It's not clear how quickly Spain will apply for external aid -- precondition for the ECB's buying, said Seiya Nakajima, chief economist at Itochu Corp.

"Considering the previous examples such as Greece, countries tend to drag their feet until things get really bad. Right now everyone is dreaming the midsummer night's dream of the ECB," Nakajima said, referring to William Shakespeare's comedy of fairies, jesters and donkeys' heads.

AFTER SUMMER LULL

SMBC's Uno said the market is likely to shift its focus back to the problems euro zone policymakers face reaching agreement as they resume talks after summer holidays.

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

Samaras is expected to lobby for a two-year extension of austerity measures to soften their negative economic impact, though he is unlikely to win major concessions.

"If Greece and the EU cannot reach an agreement, that could rekindle speculation about Greece's exit from the euro zone," SMBC's Uno added.

The dollar eased slightly against the yen to 79.29 yen , off a five-week high of 79.66 yen hit on Monday, with selling from Japanese exporters seen capping the currency for now.

On the other hand, the Australian dollar gained a tad after the minutes of the central bank's latest meeting gave no hint of further easing.

That helped the Aussie stay above a key channel line support just above $1.04.

It was changing hands at $1.0479 , up 0.3 percent on the day, and up further from its three-week low of $1.0411 hit last Friday.

Still, the Aussie has underperformed other risk-sensitive currencies in recent weeks, to stand 0.2 percent down so far this month, compared to a 1.5 percent gain in the Canadian dollar.

"One possible reason for the Aussie's underperformance is worries about a slowdown in China," said Masafumi Yamamoto, chief strategist at Barclays in Tokyo.

Shanghai shares hit 3 1/2-year low on Monday before rebounding slightly on Tuesday.

(Inside Metals is compiled by Shruthi G in Bangalore)

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