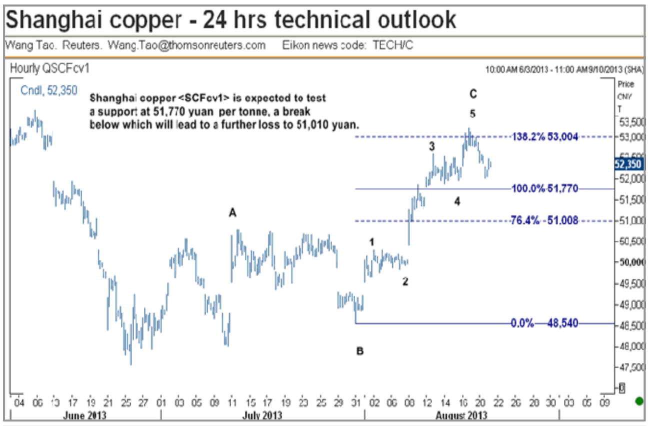
INSIDE METALS

Wednesday, August 21, 2013

CHART OF THE DAY

Click on the chart for full-size image



Click here for LME charts

TRADING PLACES

LME offers CEO job to Triland Metals exec Martin Pratt-sources

GENERAL NEWS

- Glencore seeks fresh start with $7.7 bln hit to Xstrata
- African Barrick Gold names Bradley A Gordon as new CEO
- Hochschild suspends payout in fight against falling metal prices
- India poised for gold scrap supply surge as import curbs bite

MARKET NEWS

NICKEL/STEEL:

- Global steel output up in July on US, Chinese increases
- IABr sees Brazil steel output, sales down as economy slows
- Nickel market in 74,200 T surplus in Jan-June '13- INSG
- BHP says seeing China economy in relatively good health

FEATURE

COLUMN-Embattled aluminium producers wield the knife

The London Metal Exchange (LME) may officially still be in consultation mode on proposed changes to the way its warehousing system operates but aluminium producers, it seems, are already starting to react.

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

Click here to read more..

TODAY'S MARKETS

BASE METALS: London copper drifted lower ahead of the release of minutes from the July Federal Reserve meeting, with uncertainty over the timing of a scale-back of U.S. monetary stimulus and its impact on global markets making investors cautious.

Metals prices have been buffeted by a lack of clarity on the outlook for the commodities-friendly U.S. stimulus, but supported by signs over summer that growth in top consumer China has stabilised after contracting for more than two years.

"I think we will get a reaction out of that (Fed minutes) which might see copper under pressure," said Jonathan Barratt, chief executive of Sydney based commodity research firm Barratt's Bulletin, who expected the Fed to basically stick to what it has said in the past.

PRECIOUS METALS: Gold traded slightly low as traders awaited more clarity from the U.S. Federal Reserve on whether it would begin curbing its commodities-friendly economic stimulus from next month.

Sentiment towards the precious metal among investors and traders seems to be more positive now than what it was earlier this year as many believe the worst is over and have begun injecting money again into gold-backed funds.

"Certainly they are not bearish on gold any more. We now think the downside pressure (on gold prices) is very limited."

FOREX: The dollar edged higher versus the yen, but hovered near a six-month low against the euro as investors awaited minutes of the U.S. Federal Reserve's latest meeting for clues on its policy outlook.

"We expect the minutes of the July FOMC meeting to show that committee members viewed the improvement in labour markets and reduced downside risk as sufficient to signal that many on the committee stand ready to reduce the pace of purchases in September, should current trends continue," strategists at Barclays wrote in a note to clients.

FEATURE

COLUMN-Embattled aluminium producers wield the knife

By Andy Home

LONDON, Aug 20 (Reuters) - The London Metal Exchange (LME) may officially still be in consultation mode on proposed changes to the way its warehousing system operates but aluminium producers, it seems, are already starting to react.

Non-China aluminium output dropped by an annualised 146,000 tonnes over the course of July, bringing the cumulative decline to almost 300,000 tonnes since March.

Production growth has turned negative despite the continued ramp-up of new capacity in the Middle East Gulf region, where output of the light metal is still accelerating at a rate close to 10 percent a year.

Just about everywhere else, though, it's starting to fall and it will fall further as the latest round of capacity curtailments builds momentum.

LOSING THE PREMIUM, GAINING THE STOCKS

The LME rule change is designed to kill the load-out queues for aluminium at good-delivery locations such as Detroit and Vlissingen.

Or, if not kill them outright, at least reduce them to a maximum 100 calendar days, the pivot point around which the load-in and load-out rates will be calculated.

Other metals may be affected but this has always been first and foremost a problem for the aluminium market, simply because there is so much of the stuff lying around.

Cap the queues, the LME hopes, and you will at the very least cap the physical premiums, which have caused so much wailing and gnashing of teeth among manufacturers.

Cap or reduce the premiums, however, and you take away what has been a key financial life-line for many margin-compressed aluminium smelters.

No-one knows exactly how this will pan out, But the collective betting is that premiums will indeed fall. By how much largely depends on what happens to all those stocks-financing deals out there.

While the current LME forward curve makes more financing deals profitable, there is the issue of how many existing deals have the high premiums embedded into their book valuations.

A worst-case scenario would entail a cascade effect of falling premiums triggering a forced unwinding of financing deals, deluging the physical market with more metal and accelerating the premium decline.

This is the apocalyptic end-game that has been hanging over the market for a long time. Most producers are hoping for more of a drip-feed effect over time, to use a phrase from Russian producer UC Rusal's Q2 results presentation.

But either way the company and fellow producers are finally waking up to the fact that it is all very well and good trimming supply to match current demand but that does not deal with the huge stocks overhang burdening this market.

Five million tonnes of it you can see every morning in the LME's daily stocks reports. There's a lot more you can't see. Don't worry about the elephant in the room. Worry about the bigger elephant lurking just outside.

COUNTING THE CUTS

All of which explains why a new round of production curtailments is currently building momentum over and above the 1.1 million tonnes removed from the market over the course of 2011 and 2012.

Based on announcements to date, some 760,000 tonnes of operating capacity is going to be either mothballed or closed permanently this year.

That figure does not include Alcoa's permanent closure of its Fusina smelter in Italy, which had already been shuttered last year. Nor does it include the 190,000 tonnes of capacity Alcoa has under active review.

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

Diversified miners' short-term challenges at odds with long -term views

By Clyde Russell

LAUNCESTON, Australia, Aug 21 (Reuters) - The world's top diversified mining companies are starting to resemble choir boys singing the same hymn about cutting projects and costs.

The recent financial results of BHP Billiton , Rio Tinto , Glencore Xstrata and Anglo American were remarkably similar, as were the accompanying comments by their chief executives.

All reported lower earnings, but not dramatically so, which may be a bit of a surprise given weaker commodity prices in the first half of 2013 and widespread concern of worse conditions to come.

And all four also repeated the mantra of cost cutting and slashing capital expenditure, while at the same time trying to give equity investors more of what they want in the form of dividends and higher share prices.

The question is whether this unanimity is the right path or whether the diversified miners are going too far in a bid to boost share prices.

The financial results are interesting from a commodity markets perspective as they show that conditions in the first half of 2013 were tough, but nowhere near as bad as the doom and gloom

FEATURE *(Continued)*

stories about falling Chinese demand growth would have led an observer to believe.

BHP's attributable profit excluding one-offs fell to $6.12 billion in the six months to June, down from $7.18 billion a year earlier and also below the analysts' consensus forecast of $7.16 billion.

A 15 percent decline in profit doesn't look too bad when commodity prices were struggling.

BHP, the world's largest diversified miner, also gets about 30 percent of its earnings from oil and gas, thus making the S&P GSCI index a good benchmark.

The S&P GSCI declined 11.6 percent from its 2013 peak in February to a low in April, from where it has gained 7.5 percent.

In contrast, BHP's Australian-listed shares dropped 21.4 percent between their year high in February to the April low, before rallying 16.1 percent to trade around A$35.65 at midday Wednesday in Sydney.

What this shows is that BHP's share price fell harder when commodity prices were declining, but equally rallied more when prices started to recover.

The same dynamic isn't quite at work with Rio Tinto, which garners the bulk of its earnings from iron ore.

Rio's share price slipped 30 percent between its 2013 high in February and the low in June, exactly matching the decline in the Asian spot iron ore.

Iron ore has since rallied 26 percent while Rio's stock has gained only 18 percent, although the gap in relative performance may be explained by other issues facing Rio, such as its dispute with the Mongolian government over the financing of a $5 billion expansion of the giant Oyu Tolgoi copper mine.

AUSTRALIAN DOLLAR MASKS WEAKNESS

Another factor worth considering when looking at the share prices of the Anglo-Australian miners is the depreciation of the Australian dollar, which is masking some underperformance.

The Australian currency lost about 18 percent against the U.S. dollar between its 2013 peak in January and low earlier this month.

This alone should be boosting the Australian dollar share prices of BHP and Rio, given they earn in U.S. dollars but spend mainly in other currencies, and like the Australian dollar, many of these have also dropped against the U.S. currency.

What becomes clear is that the share prices of BHP and Rio are still underperforming the prices of the commodities they produce.

This indicates that equity investors haven't yet fully bought into the promises of capital discipline and cost cuts, or that they believe commodity prices are more likely to weaken than rise in the coming months, or a combination of both.

Given that the big miners only shifted their emphasis to cost-cutting and lowering capital expenditure in the second half of last year, it's probably too early for the fruits to have shown up in these latest results.

Certainly, the focus remains and it's no coincidence that BHP, Rio and Anglo American all changed chief executives last year, and in all three cases dealmakers and champions of new projects were replaced with leaders with reputations built on running tight operations.

The exception, perhaps, is Glencore Xstrata, but even here the CEO of the combined entity, Glencore's Ivan Glasenberg, has made a virtue out of trying to convince his rivals to stop building mines in a bid to change the market concern from looming oversupply of commodities to one of possible shortages in a few years.

Glasenberg may yet succeed as the winding back of capital expenditure has been relentless, especially for commodities where prices have been weak, such as coal and nickel.

While both Rio and BHP remain on track to significantly increase their iron ore output at mines in Western Australia state, Rio CEO Sam Walsh was careful to say not all 70 million tonnes of new capacity has to come on line.

BHP was cautious, but optimistic, on China's demand, a view that is becoming the market consensus amid some early signs of renewed momentum in the world's largest commodity consumer, as it ramps up infrastructure spending.

It seems that the diversified miners are caught between the competing demands of the short-term challenge to cut costs and return more profits to investors and their longer-term belief that China-led demand growth will remain positive, if not at the levels of the past few years.

The more they cater to the first demand, the less well-placed they will be if the latter view proves accurate.

Disclosure: At the time of publication Clyde Russell owned shares in BHP Billiton and Rio Tinto as an investor in a fund, and may own other shares mentioned in this article as an investor in a fund.

--Clyde Russell is a Reuters market analyst. The views expressed are his own.--

GENERAL NEWS

Glencore seeks fresh start with $7.7 bln hit to Xstrata

By Clara Ferreira-Marques

LONDON, Aug 20 (Reuters) - Glencore Xstrata took a $7.7 billion hit on mining assets acquired in its takeover of Xstrata, drastically reducing the value of projects in the early stages of development.

The diversified trader and miner announced the writedown as it posted a 9 percent drop in core first-half profit in its first results since completion of a 16-month acquisition that coincided with falling commodity prices across the industry.

Miners have been pummelled by billions of dollars in writedowns since the start of 2013, with cooling mineral prices and demand prospects denting the value of mining projects and boom-year deals.

In absorbing the impact of a weaker market, Glencore wiped out all the goodwill value it had provisionally allocated to Xstrata's mines at the time of the merger.

"We just had to value the business with a blank sheet of paper," Chief Financial Officer Steven Kalmin said, adding that the group had taken a "fairly conservative approach".

Glencore did not break down the impairment, but much of the hit is expected have been down to early-stage projects and so-called greenfield operations - mines built from scratch, which have long been unpopular with Glencore management. These include the $5 billion nickel operation Koniambo in New Caledonia.

The company dismissed the idea that the writedown demonstrated poor timing or an excessive price paid in the all-paper deal for the Xstrata shares it did not already own.

"We took a decision at the time to pay that ratio based on what we knew on that day, and we were happy with it," Chief Executive Ivan Glasenberg said. "We do believe we are going to get it back in time and we do feel comfortable with the deal."

NICKEL PAIN

Glencore itself was not immune to falling nickel prices and took a $452 million hit on its legacy Murrin Murrin operation in Australia. Nickel, used in stainless steel, is trading at almost a quarter of pre-crisis highs hit in 2007.

"Equity markets have already de-rated the value of mining assets - share prices are down by a lot since last year, and the book value of Xstrata did not reflect that," Jefferies analyst Chris LaFemina said.

"Other companies had taken writedowns, but Xstrata had not done that yet. It is really just catching up with the industry."

Asset sales are also expected to come out of Glencore's review of Xstrata's assets, but Glasenberg said he was in no rush to sell even the unpopular greenfield projects.

Glencore has already flagged the start of a sale process for $5 billion-plus Peruvian copper mine Las Bambas - demanded by Chinese antitrust regulators - and said on Tuesday that interest was "very strong", mostly from Chinese suitors.

Glencore hopes to close that sale by the end of the year.

Shares in Glencore were down 1.4 percent at 1340 GMT, underperforming a 0.8 percent drop in the wider sector, as metal prices fell and miner BHP Billiton missed its forecasts.

Glencore was hit by weaker prices in the first half, with adjusted core profit - earnings before interest, tax, depreciation and amortisation (EBITDA) - down 9 percent at $6 billion, at the higher end of analyst estimates.

OUTPUT UPLIFT

Improved output from mining operations in copper and coal helped to cushion the full impact of weaker prices, which took $2.2 billion off Glencore's operating profit.

It also benefited from profit from its trading arm, with adjusted operating profit for marketing alone rising 6 percent to $1.2 billion as metals and profits from trading oil and coal offset the impact of a weaker agricultural contribution.

There was a 39 percent drop at its industrial arm, which includes the group's mines.

Net earnings came in at a little more than $2 billion, down 39 percent on the same period last year.

Glencore's completion of the Xstrata takeover three months ago ended a marathon deal for Glasenberg, whose team now faces the challenge of digesting its biggest acquisition.

The company said that progress on integration was exceeding expectations, with achievable cost savings likely to be "materially" above previous guidance of $500 million a year.

It is still seeking a new chairman, a role currently held by former BP boss Tony Hayward in an interim capacity. Glasenberg said Hayward was a candidate, but Glencore will struggle to appoint the chief executive of a listed company - Hayward is head of oil firm Genel - to that full-time role.

Glasenberg brushed off questions over his own future at Glencore, where he is also the largest single investor, telling analysts he was "not going anywhere".

Glencore is expected to update the market on the integration, progress and associated cost-savings on Sept. 10.

African Barrick Gold names Bradley A Gordon as new CEO

LONDON, Aug 20 (Reuters) - Tanzania-focused miner African Barrick Gold on Wednesday named industry veteran Bradley A Gordon as its new chief executive, succeeding Greg Hawkins who has resigned to pursue other opportunities.

GENERAL NEWS *(Continued)*

African Barrick was under pressure even before a gold price rout began in April, hit by illegal mining, power generation problems and strikes, issues which forced it to warn in February that output would shrink for a fifth straight year.

Gordon, who has worked in the gold mining industry for 30 years, was previously CEO of Intrepid Mines , the Canadian and Australian listed precious metals exploration and development company with primary operations in Indonesia.

African Barrick initiated a review of its operations earlier this year after its parent company, Barrick Gold , failed to sell it.

Hochschild suspends payout in fight against falling metal prices

LONDON, Aug 21 (Reuters) - Latin American miner Hochschild suspended its interim dividend after falls in the prices of precious metals hit its half-year profits by 46 percent.

"In light of the very difficult financial results caused by the precious metals price falls, the Board has decided not to pay an interim dividend," the company's chairman Eduardo Hochschild said in a statement on Wednesday.

The suspension of the dividend is the company's latest move in the battle against falling silver and gold prices after it reduced the size of its board and cut directors' salaries in July.

The company posted core adjusted earnings (EBITDA) of $90.4 million in the six months to June 30, compared to $168.4 million in the year-earlier period.

India poised for gold scrap supply surge as import curbs bite

By Siddesh Mayenkar

MUMBAI, Aug 20 (Reuters) - Scrap gold supply in India could race to at least 300 tonnes - topping flows seen in recent years - two major industry bodies said on Tuesday, as government moves to curb bullion imports lead to a jump in premiums on fast shrinking supplies.

Rising incentives could help mobilise sales of an estimated 20,000 tonnes stored in Indian households, and minimise the impact of the 80/20 imports principle, which effectively puts an upper cap on shipments.

Harmesh Arora, director with the Bombay Bullion Association, said scrap gold supply could reach 300-400 tonnes this year. Estimates of the amount of gold recycled last year vary.

Bachhraj Bamalwa, director of the All India Gems and Jewellery Trade Federation, also saw supply of recycled gold in India rising to 300 tonnes this year compared to an average of 200 tonnes per annum.

"(Jewellers) will need more gold to manufacture jewellery, as imports have been heavily restricted," Bamalwa said. "If I sell today and (am) not in a position to replenish my stocks, then I'll have a problem and then I'll have to source gold from somewhere else."

"Jewellers will have to offer incentives to get old jewellery," he said. "If jewellers offer incentives, people will bring in their old jewellery more and more." These could include discounts on fashioning old pieces into new ones, he said.

India has long been the world's biggest gold consumer, with fabrication demand of 736 tonnes last year, according to GFMS.

In the domestic market, gold surged 10 percent from the start of the month to 30,820 rupees ($490) on Tuesday to trade near its highest level in eight months, helped by a weaker rupee.

Kumar Jain, vice-chairman of the Mumbai Jewellers Association, which groups more than 7,000 members, said he had seen a marked increase in customers exchanging old gold jewellery for new.

"People are getting old gold jewellery and taking new instead (for) the last 25-30 days," he said.

This trend for scrap supply is expected to be sustained until government eases restrictions and give "relief to people" on its imports policy, he said.

The Indian government has been on the offensive to curb shipments to contain a record trade deficit, that has triggered record weakness in the rupee.

On August 14, the federal government also hiked import duty on gold for a third time in 2013 to 10 percent.

"As gold prices have surged we expect good quantities to come in at current levels. People might sell out at these levels, and cover up at a later stage, when the rates come down," Harmesh Arora said.

TRADING PLACES

LME offers CEO job to Triland Metals exec Martin Pratt-sources

By Josephine Mason and Susan Thomas

NEW YORK, Aug 20 (Reuters) - The London Metal Exchange has offered the job of chief executive to Martin Pratt, two sources familiar with the matter said on Tuesday, picking a veteran broker to lead the bourse through the most tumultuous period in its 136-year history.

The 42-year-old Pratt, now chief operating office at Triland Metals Ltd, a non-ferrous metals futures broker owned by Japan's Mitsubishi Corp , was chosen over the exchange's own chief operating officer, Diarmuid O'Hegarty, and Garry Jones, a former CEO of NYSE Liffe, the sources said.

In Pratt, the LME is tapping an experienced metals trader who has both the knowledge of its complex trading structure and sufficient distance from the crisis over warehousing that has engulfed the exchange. He would replace outgoing chief Martin Abbott, who announced plans to leave in June.

The LME declined to comment.

Picking a market insider over an exchange industry executive may reflect the unique challenges ahead for the new CEO, arguably the most important job in global metals trading.

Pratt has spent his career trading commodities and working for LME ring dealers, firms that can trade in the exchange's open-outcry trading floor known as the ring. Before stepping into the COO job at Triland in January 2007 he worked for well-known brokers Natixis and Sucden.

While Triland is one of the LME's 11 ring-dealing members, it doesn't own any of the warehouses at the center of a controversy over the rules governing metal storage going back to 2009.

The exchange has been damaged by prolonged and scathing criticism over its handling of its warehousing policy, which some consumers say has contributed to record high physical price premiums for aluminum and long wait times to take delivery.

Alongside Goldman Sachs and other banks and traders that now own many of the world's biggest warehousing companies, the LME is facing several class action lawsuits alleging "anticompetitive behavior" in aluminum warehousing.

The exchange's new owner, Hong Kong Exchanges and Clearing Ltd (HKEx) , has said the suits are without merit and the LME will contest it vigorously.

It was not clear if Pratt will accept the job.

"Nothing's been confirmed," one of the sources said.

RESTORING CONFIDENCE

Restoring confidence among industrial users, who say outgoing CEO Abbott was too slow to tackle the warehousing issue, will be one of the biggest challenges for his successor.

Abbott has maintained that stockpiles and high physical prices are due to low interest rates and a market structure known as contango that make it profitable to sell metal forward and store it for months or years at a time.

Sweeping changes to rules which will sharply increase the rate at which metal will be delivered out of warehouses, announced by the LME last month, will go some way to placating irate users. Beyond warehousing and lawsuits, the new chief will also need to navigate increased regulation of financial markets and growing competition from Shanghai Futures Exchange (ShFE) and CME Group's COMEX copper contract.

Choosing a candidate with a strong background in metals broking marks a break from the LME's prior two picks.

Abbott, who netted more than 7 million pounds ($11 million) from the sale of the LME, was hired as CEO from top trade magazine Metal Bulletin where he was publisher. His predecessor, Simon Heale, was a former accountant with Price Waterhouse and a director at Cathay Pacific Airways.

After paying over $2 billion for the LME in November, HKEx's Chief Executive Charles Li will be looking for big returns on the exchange's investment. He said last year the warehousing debacle almost derailed the takeover.

MARKET NEWS *(Continued)*

Global steel output up in July on US, Chinese increases

LONDON, Aug 20 (Reuters) - Global crude steel production rose in July as a recent price upturn helped boost output in top producer China and in the United States, while suffering European steelmakers continued to curb volumes.

World production rose 2.7 percent to 132 million tonnes in July from the same month a year ago, figures from industry body the World Steel Association showed on Tuesday.

A recent rise in steel prices has encouraged an increase in production, even while overcapacity continues to afflict the sector.

China, which produces half of the world's steel supply and is also its top consumer, posted a 6.2 percent increase in output to 65.5 million tonnes and helped drive Asian production almost 5 percent higher.

"Chinese output remains high," said Jeremy Platt, an analyst at steel consultancy Meps.

"Scheduled maintenance and environmental programmes have had limited impact, and price rises usually encourage Chinese mills to increase output. Oversupply pressures remain."

MARKET NEWS *(Continued)*

Speeches made by high-ranking officials recently indicate that China's cabinet is considering deeper structural reforms to bloated, inefficient and debt-laden sectors such as steel.

Market players say, however, it will take a long time before such reforms will be effective in cutting China's surplus capacity, estimated at around 300 million tonnes, or the equivalent to nearly twice the output of the European Union last year.

Elsewhere in Asia, output in Japan, the world's third-largest producer, increased 0.5 percent in July from the same month a year before to 9.3 million tonnes, the data showed.

India, another major Asian producer posted 4.3 percent growth in steel output in July to 6.7 million tonnes, while South Korea registered a 5.8 percent contraction year-on-year to 5.6 million.

PRICE REVIVAL HELPS

The United States, another large producer, registered a 3.3 percent output increase in July to 7.6 million tonnes.

Improved demand and rising steel prices have encouraged producers to boost output after a contraction in the first six months of this year.

Production in the European Union shrank by 6 percent to 13.4 million tonnes, with output contracting at the region's top producers Germany and Italy by 5.4 percent and 8.5 percent, respectively.

Steelmakers in Europe have been hit harder than those in other regions by a weak economy, higher costs and excess supply.

"Crude steel production discipline seems to be getting better in the EU, moving in line with the demand outlook," said Kashaan Kamal, a research analyst at brokerage Sucden Financial.

"Although overcapacity is still an issue in the region, economic indicators are pointing towards a gradual recovery."

Steel production in the CIS (Commonwealth of Independent States) was down 0.2 percent to 9.2 million tonnes in July from a year ago.

Output in Turkey, a major supplier to the Mediterranean and the Middle East, fell by more than 10 percent to 2.8 million in July, curtailed by strike action at one of its main producers.

Iran posted production growth of 16.1 percent to 1.3 million tonnes. The Islamic Republic has vowed to boost domestic steel production and is targeting self-sufficiency after imports dropped dramatically due to western trade sanctions.

IABr sees Brazil steel output, sales down as economy slows

RIO DE JANEIRO, Aug 20 (Reuters) - Brazil's largest steel industry lobbying group on Tuesday cut its estimate for output and sales this year, a sign that mills are grappling with weak domestic demand and the impact of a currency slump on costs.

Mills are unlikely to see raw steel output grow this year, and sales are expected to rise at a slower pace than previously thought, Instituto Aço Brasil said. The group, also known by its acronym of IABr, now expects sales to rise 5.3 percent in 2013, with no expansion of output.

"Local demand really disappointed us. Its performance was worse than we imagined, but we remain hopeful things will get better at some point," Marco Polo de Mello Lopes, president of IABr, said at a news conference in Rio de Janeiro.

The new estimates underpin growing concerns among industry leaders over the government's ambiguous stance on the sector, which has been showing signs of recovery from its worst crisis in years. Previously, IABr had expected increases of 5.8 percent in output and 7.6 percent in sales.

President Dilma Rousseff's administration recently forewent extending tax surcharges on imported steel - a move that the IABr said could hamper local mills. According to the group, the government's argument that a weaker currency could help offset the impact of the end to the surcharges is unlikely to aid the industry and discourage imports.

During 2009 and 2010, steelmakers significantly expanded installed capacity on expectations that Brazil would undertake the largest infrastructure investment plan in its history. But most of that plan failed to materialize.

A slowdown in overall economic activity has deepened the problems of an industry reeling with high raw materials and labor costs and the threat of cheap imports. Most economists have in recent weeks cut their economic growth estimates for this year to somewhere close to 2.1 percent, from about 2.5 percent earlier this year.

IABr sees apparent consumption of steel in Brazil's domestic market, a measure of local output sold locally plus imports, growing 3.2 percent this year, down from a prior estimate of 4.2 percent. Apparent consumption is seen up 3.8 percent next year to 27 million tonnes.

Exports are expected to slump 13 percent this year, compared with a prior estimate of 8.8 percent, the group added.

Shares of steelmakers Gerdau SA , Usinas Siderurgicas de Minas Gerais SA , or Usiminas, and Cia Siderurgica Nacional , or CSN, all fell on Tuesday, reversing two straight sessions of gains.

Nickel market in 74,200 T surplus in Jan-June '13- INSG

LONDON, Aug 20 (Reuters) - The global nickel market was in surplus by 74,200 tonnes in the first six months of the year, a monthly bulletin from the Lisbon-based International Nickel Study Group (INSG) showed on Tuesday.

It showed world primary nickel consumption totalled 874,200 tonnes in January to June, while primary nickel output was

MARKET NEWS *(Continued)*

948,400 tonnes for the period. Nickel mine production in January to June totalled 1,085.8 million tonnes.

Latest figures showed nickel stocks held by producers were at 87,200 tonnes in May, down from 88,700 tonnes in April.

BHP says seeing China economy in relatively good health

MELBOURNE, Aug 20 (Reuters) - Top global miner BHP Billiton's marketing chief said on Thursday steel production in China was running above where the company thought it would be at this time of year and saw that as a positive sign for the economy.

"When I was there a few weeks ago, there was a quiet confidence on the part of customers," BHP's marketing president Mike Henry told analysts.

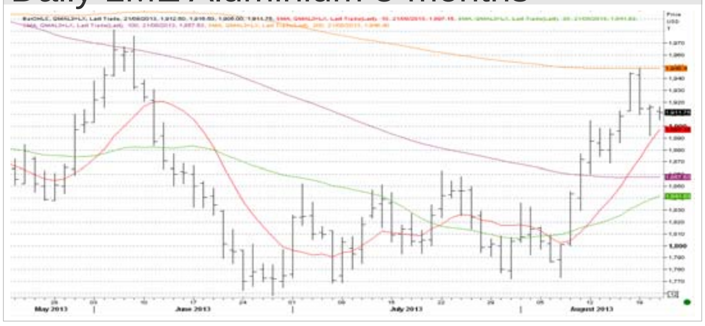
"So what we're seeing there right now is an indication of relative health in the Chinese economy and much less concern around the potential for a hard landing now than there would have been a few months ago."

Henry said iron ore prices were being supported in part by constraints on domestic Chinese supply.

"We're not forecasting that that's going to continue on ad infinitum," he said.

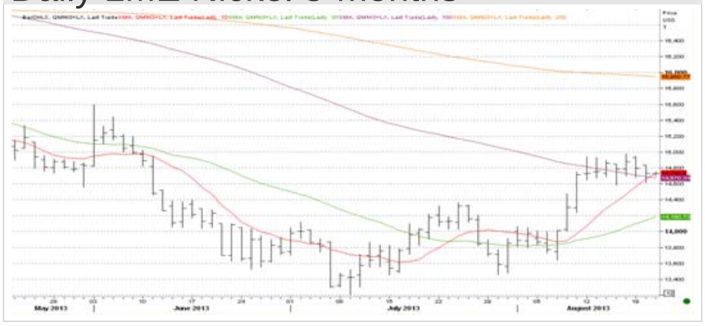
ANALYTIC CHARTS *(Click on the charts for full-size image)*

Daily LME Aluminium 3-months



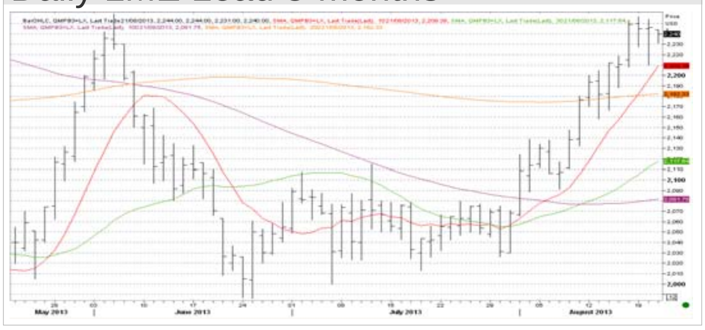
Daily LME Copper 3-months

Daily LME Nickel 3-months

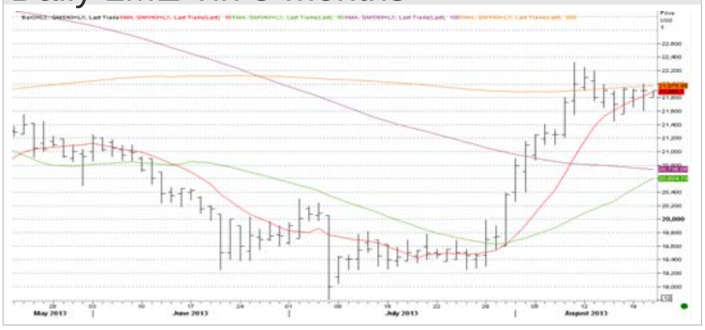


Daily LME Zinc 3-months

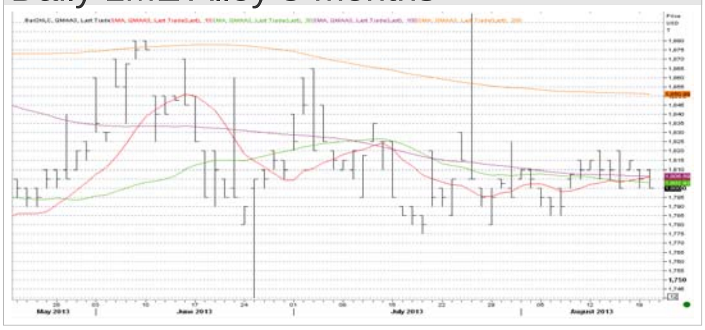
Daily LME Lead 3-months



Daily LME Tin 3-months



Daily LME Alloy 3-months



Daily LME Nasaac 3-months

MARKET REVIEW

METALS-Copper slips on caution ahead of Fed minutes

By Melanie Burton

SINGAPORE, Aug 21 (Reuters) - London copper drifted lower ahead of the release of minutes from the July Federal Reserve meeting, with uncertainty over the timing of a scale-back of U.S. monetary stimulus and its impact on global markets making investors cautious.

Metals prices have been buffeted by a lack of clarity on the outlook for the commodities-friendly U.S. stimulus, but supported by signs over summer that growth in top consumer China has stabilised after contracting for more than two years.

Investors everywhere are hunkered down for minutes of the U.S. Federal Reserve's policy meeting due later in the session,

though some feared they might only sow more confusion.

"I think we will get a reaction out of that (Fed minutes) which might see copper under pressure," said Jonathan Barratt, chief executive of Sydney based commodity research firm Barratt's Bulletin, who expected the Fed to basically stick to what it has said in the past.

Turmoil in emerging markets deepened on Tuesday in anticipation of reduced U.S. monetary stimulus.

Still, further signs of revival in China's economy could act as a buffer for prices, said Barratt. HSBC's flash China PMI for August is due on Thursday.

"If the PMI from the world's top consumer starts to look a little more rosy then people will start to feel a bit more confident. From copper's lows we have a 10 percent rally, so let's consolidate that before it goes higher," he added.

Three-month copper on the London Metal Exchange edged down by 0.4 percent to $7,293.50 a tonne by 0254 GMT.

Copper prices hit their highest in more than 10 weeks on Friday at $7,420 a tonne, recovering from three-year lows of $6,602 plumbed in late June. Prices are still down by 8 percent so far this year.

The most-traded December copper contract on the Shanghai Futures Exchange was flat at 52,340 yuan ($8,500) a tonne.

In other metals, the global nickel market was in surplus by 74,200 tonnes in the first six months of the year, a monthly bulletin from the Lisbon-based International Nickel Study Group (INSG) showed on Tuesday.

Surplus nickel has weighed on miners' balance sheets as they take writedowns and ramp up production to cut costs.

Glencore Xstrata took a $7.7 billion hit on mining assets acquired in its takeover of Xstrata, drastically reducing the value of projects in the early stages of development.

It did not break down the impairment but it includes the $5 billion nickel operation Koniambo in New Caledonia. It also took a $452 million hit on its legacy Murrin Murrin operation in Australia.

Nickel, used in stainless steel, is trading at almost a quarter of pre-crisis highs hit in 2007. It was down 0.3 percent on Wednesday.

In other news, the LME has offered the job of chief executive to Martin Pratt, two sources familiar with the matter said on Tuesday, picking a veteran broker to lead the bourse.

PRECIOUS-Gold traded slightly lower, awaits Fed minutes for clues on stimulus

By A. Ananthalakshmi

SINGAPORE, Aug 21 (Reuters) - Gold traded slightly low as traders awaited more clarity from the U.S. Federal Reserve on whether it would begin curbing its commodities-friendly economic stimulus from next month.

Sentiment towards the precious metal among investors and traders seems to be more positive now than what it was earlier this year as many believe the worst is over and have begun injecting money again into gold-backed funds.

Bullion has lost nearly a fifth of its value this year on stimulus worries and outflows from exchange traded funds (ETFs). It fell to a three-year low of $1,180.71 an ounce in June but has since recovered about $200.

Spot gold inched up 0.1 percent to $1,372.24 by 0250 GMT and was near two-month highs.

"Our clients are tempted to add more exposure to gold," said Helen Lau, senior analyst for China's commodities sector at UOB-Kay Hian. "It's because of the recent gold price increase, U.S. dollar weakness and strong consumer demand in China."

"Certainly they are not bearish on gold any more. We now think the downside pressure (on gold prices) is very limited."

Several brokerages, including Goldman Sachs, have cut their price outlook for gold since the beginning of the year. But ANZ on Tuesday was one of the first to lift its forecast.

"We have revised our precious metal forecasts higher near-term as the rebound since the end of June has occurred earlier than we originally anticipated," ANZ analysts wrote. They raised their year-end price forecast to $1,380 from their earlier view of $1,300.

"The bounce in gold prices appears to be more sustainable - coinciding with a reversal of ETF outflows. We also see little downside to physical demand, with China continuing to buy strongly," the analysts wrote.

Demand from China and India is expected to hit 1,000 tonnes each this year, according to the World Gold Council.

SPDR Gold Trust , the world's largest gold-backed ETF, has seen about 400 tonnes in outflows so far this year. However, it has seen some inflows over the last two weeks.

MARKET REVIEW *(Continued)*

FED UNCERTAINTY

Markets are waiting for the release on Wednesday of minutes from the Fed's July policy meeting for clues on the timing of stimulus tapering.

The U.S. central bank has said that it would begin scaling back its $85 billion in monthly bond purchases this year if the economy recovers as expected. But Fed officials are not in consensus on whether they should cut back from September as expected by the markets.

FOREX -Dollar hovers near 6-mth low vs euro, Fed minutes awaited

By Masayuki Kitano and Lisa Twaronite

SINGAPORE/TOKYO, Aug 21 (Reuters) - The dollar edged higher versus the yen, but hovered near a six-month low against the euro as investors awaited minutes of the U.S. Federal Reserve's latest meeting for clues on its policy outlook.

Speculation that the U.S. central bank is poised to begin tapering its $85 billion a month in asset purchases as early as September is generally positive for the dollar, as it tends to lift U.S. Treasury yields. But it can also pressure equities and increase the appeal of perceived safe-haven currencies, such as the yen and Swiss franc.

"We expect the minutes of the July FOMC meeting to show that committee members viewed the improvement in labour markets and reduced downside risk as sufficient to signal that many on the committee stand ready to reduce the pace of purchases in September, should current trends continue," strategists at Barclays wrote in a note to clients.

"Overall, we expect the minutes to maintain the bifurcated message of recent Fed communications: sounding hawkish on tapering and dovish on rate hikes," they said.

The minutes of the Fed's July meeting are due to be released later on Wednesday.

The dollar rose 0.3 percent versus the yen to about 97.56 yen , edging away from a one-week low of 96.91 yen set on Tuesday on trading platform EBS.

Traders said the yen took its cues from moves in Japan's benchmark Nikkei share average. The dollar touched an intraday high of 97.68 yen in the Asian afternoon as the Nikkei pulled away from an intraday trough, which was its lowest since late June.

Stop-loss dollar-buying at levels above 97.60 yen also helped give the greenback some lift, said Jeffrey Halley, FX trader for Saxo Capital Markets in Singapore.

"Volumes have been incredibly light last few hours so not a lot is needed to move it around," Halley said.

The yen has been inversely correlated to moves in Tokyo shares in recent months, and currency traders have been looking to Japanese equities for direction hints on the yen.

The euro was steady at about $1.3415 . On Tuesday, the euro had set a six-month high of $1.3453 as the yield premium that 10-year U.S. Treasury notes offer over German Bunds narrowed.

The 10-year U.S. Treasury yield has come down from a two-year high of 2.90 percent set on Monday, as market expectations that the Fed may soon start scaling back its monetary stimulus roiled emerging markets and added a safe haven bid to U.S. debt. "I think that the overall move higher in the euro lacks conviction, especially given that the ECB has provided dovish forward guidance," said Sim Moh Siong, FX strategist for Bank of Singapore.

At its policy meeting in early August, the European Central Bank (ECB) had left interest rates at a record low of 0.5 percent and affirmed that they will remain there for some while to come and could yet fall further. In addition, if the strength in the euro were to hurt euro zone exports and the economy and put an end to upside surprises in European data, that could then dent the single currency, Bank of Singapore's Sim said.

The Australian and New Zealand dollars fell, dented by weakness in Asian equities.

The New Zealand dollar edged down 0.4 percent to $0.7933 , having fallen more than 1 percent in the previous session after the Reserve Bank of New Zealand announced home lending restrictions and said the kiwi dollar was overvalued.

(Inside Metals is compiled by Pradip Kakoti in Bangalore)