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Friday, August 9, 2013

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Every day brings a fresh reminder of surplus in the nickel market.

It comes in the form of the London Metal Exchange (LME) stocks report. Exchange inventories currently stand at 204,198 tonnes, up 65,000 tonnes since the start of the year.

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

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TODAY'S MARKETS

BASE METALS: London copper was treading water near its highest level in two months on signs of steadying growth in top metals consumer China, while investors await fresh China data later in the session.

"The numbers out of China suggest that things are getting better...Base metals are getting a good lead with that and if we can maintain these levels we could be in for a good run," said Jonathan Barratt, chief executive of Sydney-based commodity research firm Barratt's Bulletin.

PRECIOUS METALS: Gold rose for a third session eking out a small gain for the week and pulling further away from a three-week trough, as a softer U.S. dollar offset fears of a tapering in stimulus measures next month.

"The weakness in the dollar is causing some short-covering in gold," said Ronald Leung at dealer and refiner Lee Cheong Gold Dealers in Hong Kong.

FOREX: The dollar traded higher though it held a seven-week low against a basket of currencies, following losses over five straight days while the Australian dollar advanced on upbeat factory data from China.

Traders say the dollar's precipitous fall reflected uncertainty over how soon the Federal Reserve will start reducing its stimulus, as well as signs of improvement in other economies, such as China and Europe.

"Essentially, the dollar has been falling after the payrolls numbers were weaker than expected. But I think the dollar is just testing the lower end of its range rather than entering a fresh downtrend. Sentiment may change if upcoming U.S. data, such as retail sales, shows strength," said Minori Uchida, chief FX analyst at the Bank of Tokyo-Mitsubishi UFJ.

FEATURE

COLUMN-New projects still a key variable for nickel

By Andy Home

LONDON, Aug 8 (Reuters) - Every day brings a fresh reminder of surplus in the nickel market.

It comes in the form of the London Metal Exchange (LME) stocks report. Exchange inventories currently stand at 204,198 tonnes, up 65,000 tonnes since the start of the year.

The price of LME three-month metal is languishing around $14,000 per tonne, a level not seen since the darkest days of the global financial crisis back in 2009.

At current prices, according to Brazil's Vale , a major producer of the stainless steel input, "a significant part of the global industry capacity is cash negative, a situation requiring large shutdowns".

All eyes are on China's nickel pig iron (NPI) sector, because it, or at least parts of it, are thought to have the highest production costs.

The problem is that China's NPI producers are also the least transparent part of the global supply chain. Analysts aren't even sure how much is produced, let alone at what cost, although everyone now accepts that costs are falling.

THE HPAL FACTOR

Outside China, it seems, no one is prepared to bite the bullet and reduce production.

Indeed, a cluster of new projects is in the process of ramping up in a classic commodity example of bad timing.

Having committed billions of dollars in investment, the owners of these projects have no choice but to forge ahead, adding more units to an oversupplied market.

The kink in this story, though, is that four of these projects are using the relatively new high pressure acid leach (HPAL) technology, a production method that has proved to be operationally challenging to say the least.

All four enjoyed a remarkably smooth first-quarter performance, leading most analysts to lift their 2013 supply estimates and, therefore, their market surplus assessments.

Things, however, have not gone quite so smoothly in the second quarter, underlining to what extent these projects remain a key variable in terms of determining the scale of expected supply surplus in the nickel market.

RAVENSTHORPE AND RAMU

Only one HPAL project has reached anywhere close to what might be called steady-state operations.

First Quantum bought the Ravensthorpe mine in Australia from BHP Billiton after the major gave up on the project in 2008.

Ravensthorpe produced 25,350 tonnes of payable nickel in hydroxide last year and output was 13,800 tonnes in the first half of this year.

A 14-day planned maintenance shutdown of the acid plant was successfully completed in April and the company has kept its 2013 guidance unchanged at 31,000-35,000 tonnes.

The only other constraint on Q2 output was lower recovery due to the type of ore being mined, but "it is not expected that this will continue as other mining areas are accessed", First Quantum said.

The Ramu project in Papua New Guinea is also a hydroxide producer. Commissioning started last year.

Second-quarter output of 2,631 tonnes of nickel contained represented only a marginal improvement on Q1 output of 2,285 tonnes, according to minority shareholder Highlands Pacific's quarterly update.

The plant is operating at just over 30 percent of capacity, where it was at the end of the first quarter.

"To date mining activities and the wet season have been a major reason for the lower production rates," according to Highlands Pacific.

The Chinese operator is evidently still tweaking the production process, with new filters due to be installed later this year and an improved ore crushing system early next year.

Official guidance is for output to reach 15,500 tonnes of nickel this year, representing 50 percent of name-plate capacity, and 25,000 tonnes next year.

GORO STILL STRUGGLING

Vale's Goro project, now renamed Vale New Caledonia (VNC), has come to epitomise the problems with HPAL technology.

Over budget and years late by the time it started commissioning in 2011, production last year was just 4,300 tonnes of nickel contained, compared with original guidance of 22,000 tonnes. A sustained acid plant outage caused that setback.

Headline Q2 production of 6,600 tonnes was a quarterly record but slightly misleading because of the nature of Vale's internal materials flow chain.

Goro produces nickel oxide and hydroxide with the former being further refined into utility nickel, primarily at the company's Dalian plant in China. The headline figure denotes final saleable product after that refining stage.

The actual performance of VNC in the second quarter was less impressive with output falling to 3,400 tonnes contained metal from 5,100 tonnes in the first quarter.

The cause was the rescheduling of maintenance on the acid plant originally due in August.

Operations "were normalized in June", according to Vale, but still seem a long, long way from nameplate capacity of 58,000 tonnes of nickel in oxide per year.

FEATURE *(Continued)*

AMBATOVY DOWNGRADE

The Ambatovy project in Madagascar is the most ambitious of the four, designed to produce refined metal, both nickel and cobalt.

Sherritt International , 40 percent shareholder and project operator, has just cut its full-year guidance by 4,000 tonnes to 31,000 tonnes of nickel due to "lower-than-expected production" in the first half of the year.

Actual output in the January-June period totalled 13,000 tonnes.

But average ore throughput in the second quarter fell to 41 percent of nameplate capacity from 43 percent in Q1 "as a result of both acid plants being taken off line to perform maintenance work," Sherritt said.

It is still confident that commercial production, defined as 70 percent of nameplate capacity over a 30-day period, will come this year.

KEY VARIABLE

Given that Sherritt is one of the most experienced operators with HPAL, based on its Cuban joint venture, its guidance downgrade underlines the challenges of working with this new technology.

A common theme seems to be issues connected with the acid plants and the resulting requirement to adjust maintenance schedules.

All these projects have long ramp-up schedules but with combined capacity of 185,000 tonnes, their collective progress remains a key variable in the nickel supply picture.

It didn't look that way after a collectively solid first-quarter performance. But last quarter's result serves as a reminder that HPAL remains troublesome.

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

GENERAL NEWS

China July inflation steady, policy seen neutral

BEIJING, Aug 9 (Reuters) - China's consumer inflation steadied in July although factory-gate deflation persisted for a 17th month, official data showed on Friday, pointing to monetary policy on hold as Beijing tries to arrest a slowdown that has run for more than two years.

The data came a day after surprisingly strong trade figures, and analysts said while the world's second-largest economy may be showing signs of stabilising it was too early to conclude it had started to turn around.

The central bank was hawkish on inflation in a report published last week, and so the data is unlikely to lead to a change in its policy rates despite calls from some economists for a rate cut to help struggling companies.

The National Bureau of Statistics said consumer prices rose an annual 2.7 percent last month, the same as in June. Producer prices fell 2.3 percent from a year earlier, narrowing from a fall of 2.7 percent in June.

Economists polled by Reuters had expected consumer inflation of 2.8 percent and factory-gate prices to fall 2.2 percent.

"I still advocate a cut in interest rates to help companies as factory-gate deflation persists," said Jianguang Shen, chief China economist with Mizuho Securities Asia in Hong Kong.

"But the central bank remains hawkish on inflation and might need more evidence as it is worried that a rate cut would be taken by the markets as a sign of stimulus."

Consumer prices were up 0.1 percent in July from June.

China has rolled out a number of measures since mid-year to help small firms and exporters as officials try to generate momentum in economy that has slowed in nine of the past 10 quarters, though large-scale stimulus has been ruled out.

Top leaders in Beijing have said they will accept a slowdown as they rebalance the economy to become more consumption-driven, but have indicated that annual growth should not be allowed to slip below 7 percent.

RECOVERY

The slowdown in the rate of deflation was taken as further evidence of a possible stabilisation of the economy, with analysts looking to data later in the day on investment and industrial output for more signs of a bottoming out in activity.

"The easing PPI drop also implies signs of stabilising of the industrial sector," said Xu Dongshi, an economist at Galaxy Securities in Beijing.

"But it's still too early to say that China's economy is on the track of rebounding, as it takes time to resolve economic structural problems," he added.

Thursday's trade data showed exports rose 5.1 percent in July from a year ago, a smart turnaround from their first fall in 17 months in June, and imports jumped 10.9 percent as China shipped home record amounts of commodities.

The trade figures were seen as a positive precursor for industrial output, with economists expecting production to show an annual rise of 9 percent in July.

GENERAL NEWS *(Continued)*

Fixed asset investment is forecast to have risen 20 percent in the first seven months of the year, in line with growth in the first six months.

"Data this afternoon will show more signs of stabilisation in the economy. We need August data to confirm a recovery," said Mizuho's Shen.

Vale may change accounting to curb forex impact on profit

RIO DE JANEIRO, Aug 8 (Reuters) - Brazilian miner Vale SA may adopt so called "hedge-accounting" rules to smooth out the impact of currency fluctuations like those that slammed its second-quarter earnings, Chief Executive Murilo Ferreira said on Thursday.

Under hedge accounting, companies set aside some dollar-denominated export proceeds to compensate for the impact of exchange-rate moves on the local-currency value of debt, spreading currency gains and losses over several years. The practice is allowed under the International Financial Reporting Standards of the IFRS Foundation, the accounting rule-book used by Vale and other Brazilian companies.

As Brazil's currency, the real, has weakened, companies have seen the local currency value of dollar debts soar and the cost of servicing the debt rise. State-run oil company Petroleo Brasileiro SA, Brazil's largest company by revenue, last month said it had begun to use hedge accounting in May.

"We had a strong financial performance in a challenging environment," Ferreira said on a conference call with analysts and journalists. "The financial impact of forex does not reflect our true operations."

If studies show the change to be beneficial it could be implemented in 2014, Chief Financial Officer Luciano Siani said on the call.

On Wednesday, Vale said second-quarter profit plunged 84 percent due to a $2.78 billion charge related to foreign exchange losses on currency derivatives and debt. Still, Vale shares rose on Thursday, a sign that many investors consider its efforts to control costs in a tight world-commodities market more important than a weak bottom line caused by non-cash financial losses.

Vale's preferred shares, the company's most-traded class of stock, rose 2.99 percent to the highest close since June 4. Common shares rose 3.69 percent to their highest close since May 13.

Without the extraordinary charges, Vale said underlying profit was $3.29 billion. Hedge accounting would approximate that result, Vale said, allowing investors to judge it on its mining operations rather than often unavoidable and temporary swings in the value of assets and liabilities caused by the exchange rate.

Vale said the declines in the real against the dollar that led to the financial charges on derivatives and debt will likely help it in the third quarter as a stronger dollar will make buying Brazilian goods and services cheaper.

Nearly all of Vale's revenue is in U.S. dollars and most of its expenses in Brazilian reais.

RAIL-UNIT SALE EXPECTED

Vale also said the planned sale of a stake in its VLI general cargo railway and port transportation unit is close to completion and that the board has authorized final negotiations with three suitors, two foreign and one Brazilian.

The company is Brazil's largest railway operator and largest non-government owner of ports.

Vale also said it plans to hold onto its 27 percent stake in the CSA joint-venture steel mill with Germany's ThyssenKrupp for the time being. ThyssenKrupp is trying to sell its 83 percent stake in the money-losing mill outside of Rio de Janeiro.

"We've done all we intend to do to get the CSA mill started," Ferreira said. "We will maintain our stake."

Ferreira also said that Anglo Australian mining rival Rio Tinto Ltd has not contacted Vale about the possibility of buying its stake in the Simandou iron ore deposit in the West African nation of Guinea. Earlier on Thursday, Rio Tinto said it might be interested in increasing its share of projects in the area, one of the world's largest untapped high-grade iron ore deposits.

NO CHINA INSOMNIA

Vale expects iron ore prices , which fell an average of nearly 12 percent in the second quarter compared with a year ago, to rebound in the third quarter, the company's iron ore chief, Jose Carlos Martins, said on the call.

Iron ore will have a hard time falling below $110 a tonne over the long term he said, saying that price level shows "strong resistance."

Iron ore imports in China, the world's largest market for the raw material used to make steel, rose 17 percent in July from June to 73.41 million tonnes, a record monthly amount.

Vale should be able to recover from lower iron ore output caused by weaker world demand and seasonal rains and meet its target of producing 306 million tonnes by the end of the year, Martins said. The goal will be helped as Chinese steelmakers and dealers increase their stockpiles of iron ore going forward, he added.

"I don't lose sleep worrying about China," Martins said adding that steel demand will grow 2 to 3 percent this year.

Vale said it is moving ahead with plans to focus more on its core iron ore business and improve the return from money-losing nickel and copper mines.

GENERAL NEWS *(Continued)*

Nearly all the engineering design and 70 percent of the contracting for the $19.5 billion Serra Sul iron ore mine being built in Brazil's Amazon is complete, increasing the chance that the project will be delivered on time and on budget, Ferreira said.

Vale also said it expects to cut "hundreds of millions of dollars" of losses from its Goro nickel mine in New Caledonia this year and turn the $8 billion project "cash-flow positive" for the first time in 2014.

Rio says could be interested in larger Guinea presence

By Clara Ferreira-Marques

LONDON, Aug 8 (Reuters) - Miner Rio Tinto , which is developing the southern half of the Simandou iron ore deposit in Guinea, said on Thursday the company could be interested in a larger footprint, including additional blocks held by rivals.

Rio had initially held the whole of the Simandou, one of the world's largest iron ore deposits. But in 2008 it was accused of moving too slowly and was stripped of the northern half by the then president, Lansana Conte, who died months later.

The northern half - blocks 1 and 2 - is held by the mining arm of Israeli billionaire Beny Steinmetz's conglomerate, BSG Resources, and Brazilian partner Vale . But that licence is being reviewed by the Guinean government, and all work on those blocks has stopped.

"It could be attractive, depending on how it was offered," Rio Chief Executive Sam Walsh said when asked about his interest in blocks 1 and 2 of Simandou. He said these could be offered via a tender process, should they become available.

Rio, the world's second-largest producer of iron ore, had worked on the northern half before its licence was revoked, Walsh said, and had told the government it would "like to get a return on this work". But he said a review of the ownership of the northern half was in the hands of the Guinean bureaucracy, specifically a technical committee.

Vale CEO Murilo Ferreira told reporters later on Thursday that the miner had not been contacted by Rio on the subject.

BSGR, however, said Rio had been "legally" stripped of blocks 1 and 2 after failing to make progress, adding that Rio's existing project was not commercially viable.

"Rio is not interested in developing these assets, they want to prevent others from doing so in order to maintain a competitive advantage," said BSGR President Asher Avidan.

Rio's path to first production on the southern half of Simandou has not been smooth, and progress has slowed as the miner comes under pressure from investors to slash costs and cut back on riskier, costly projects.

Rio and the government have for months been debating how to combine a 2011 settlement deal, which ended the dispute after Rio was ejected from the northern portion in 2008, with an original investment agreement, while weighing up technical studies and the issue of financing - particularly for Guinea's stake in the project's costly infrastructure.

The so-called framework agreement could now be resolved by the end of the year, while a new deal will likely see infrastructure owned and operated by a third party, Walsh said.

"The government and the shareholders are talking to a range of infrastructure organizations as to what is the best option to physically take it forward," he said.

A 2015 target for first production, long considered unrealistic by industry analysts and insiders, will be hard to achieve, Walsh conceded. Guinea's mines minister has also said the date is likely to be missed.

Hecla to hedge precious metal shipments after surprise loss

Aug 8 (Reuters) - Hecla Mining Co said it has started to hedge its precious metal shipments after a drastic fall in spot prices pushed the company to report a surprise loss.

Shares of the company rose as much as 7 percent on the New York Stock Exchange on Thursday.

The No.2 U.S. silver miner by output said it sold 40 percent of its silver production of 2.2 million ounces only in June and at prices much below the average price for the quarter.

This magnified the lower realized price, Chief Financial Officer James Sabala said on a post-earnings conference call with analysts.

Realized silver prices fell 40 percent to $16.27 per ounce for the company, while the broader spot market prices fell about 21 percent to average $23.17 per ounce.

Bigger rival Coeur, the largest U.S. silver miner by output, said realized price fell about 23 percent to $22.86 per ounce.

Hecla also said it had a negative $15.1 million provisional price adjustment due to the time lag between shipping the concentrates for processing and actual sale of the metal.

"It takes about 4-6 weeks for (concentrates) to get processed. The reality is that the metal prices were a lot lower 4-6 weeks into the second quarter," BMO Capital Markets Canada analyst Andrew Caip said.

"So you are getting dinged for the differential."

Hecla currently hedges base metals such as lead and zinc that it mines as a by-product of silver production.

The company cut its annual capital spending budget to $129 million from the $145 million it forecast in May for its Greens Creek mine in Alaska and Lucky Friday mine in Idaho.

GENERAL NEWS *(Continued)*

Coeur, which also posted a loss, lowered its capital spending by 18 percent to $100 million-$110 million for 2013 and expects to spend less than $80 million next year.

Miners around the world are under intense pressure to reduce capital spending and operating costs due to volatile commodity prices and lower-grade ores.

Excluding one-time items, Hecla posted a loss of 3 cents per share, while analysts on average had expected earnings of 1 cent per share, according to Thomson Reuters I/B/E/S.

Coeur posted a net loss of $35 million, or 35 cents per share, compared with a profit of $23 million, or 26 cents per share, a year earlier.

Metal sales at Coeur declined about 20 percent, while it rose 27 percent at Hecla.

South Africa June mine output falls after labour strife

By Sherilee Lakmidas

JOHANNESBURG, Aug 8 (Reuters) - South African mining production contracted 6.2 percent in June due to the lingering effects of labour unrest and slowed growth in Africa's largest economy, data showed on Thursday.

Although the world's biggest platinum mining firms reached deals last year to end violent strikes that halted operations, output has flagged due to low worker productivity and maintenance on troubled shafts.

Production of platinum group metals fell 18.9 percent in June in the world's largest producer of the precious metal, while gold output dropped 14.1 percent, Statistics South Africa said.

"The disappointing June mining production numbers do not spell great news for what this sector is likely to contribute to second quarter, production-side GDP growth," Paribas Cadiz Securities Economist Jeffrey Schultz said in a note to clients.

A major current risk for mining, which has traditionally accounted for 4 to 6 percent of South Africa's GDP, is wage talks in the gold sector. The talks that started about a month ago are now before a government-affiliated mediator.

Two unions in a pitched turf war are at the forefront of the negotiations with mining houses, seeking huge concessions to attract members by showing that they can drive a harder bargain then their labour rival.

Gold mining firms have said they have little room to offer higher wages. They are being squeezed by falling spot prices and rising costs for extracting ore in South Africa, which has some of the world's deepest and costliest shafts.

AngloGold Ashanti on Wednesday pledged to cut more costs after it swung to a second-quarter loss, dragged lower by a plunging gold price that has forced it to reduce staff and scrap its quarterly dividend.

The battle for membership between the established National Union of Mineworkers (NUM) and the surging Association of Mineworkers and Construction Union (AMCU) has left more than 50 people dead over the past year, including 34 workers shot dead by police a year ago at Lonmin's Marikana platinum mine.

Labour strife has been citied as a factor by global credit ratings agencies in their downgrades of South Africa's sovereign ratings in the past year. The National Treasury said the labour conflict has been a factor that has slowed growth.

ENRC directors tell investors to "seriously consider" bid

LONDON, Aug 8 (Reuters) - ENRC's independent directors said on Thursday that a lack of alternatives and an imminent delisting meant shareholders should "seriously consider" an offer from its founders, despite a price they said undervalued the Kazakh mining company.

A group including ENRC's three founders and the Kazakh government has made a bid for the 46 percent of ENRC it does not already control, hoping to take it private and focus on its Kazakh core, ending six turbulent years as a listed company.

ENRC's minority shareholders have until Aug. 28 to accept the offer, and the $4.6 billion bid is widely expected to succeed after shareholders at rival Kazakhmys , ENRC's top shareholder, backed the offer last week, taking support for the buyout to more than 75 percent.

The offer, $2.65 in cash plus 0.23 of a Kazakhmys share for every ENRC share, is worth about 231 pence per share at current prices, marginally above ENRC's current value of 223 pence.

The independent directors have long argued the offer undervalues ENRC, and said on Thursday that the bidders' intention to review the company's international portfolio could mean sales that generate income were not reflected in the offer.

But they also recognised that, given the bidders' more than 50 percent holding, they had found no viable alternatives.

"Given the risks and uncertainties ... the independent committee has concluded that relevant ENRC shareholders should seriously consider the offer, despite the independent Committee's firm view that it materially undervalues ENRC," the directors said.

The independent directors - who mainly represent the interests of minority shareholders, or ENRC's freefloat of under 20 percent - also said they would resign from ENRC once the offer becomes unconditional.

GENERAL NEWS *(Continued)*

Avocet boosted by mine cost-cutting plan

By Sarah Young

LONDON, Aug 8 (Reuters) - Africa-focused Avocet Mining Plc said a new plan for its Inata mine in Burkina Faso would cut costs, better positioning it to deal with plunging gold prices and raising hopes it will be able to refinance a loan.

Avocet shares, down 91 percent over the last 12 months on the falling gold price and the company's warning that reserves at Inata were smaller than previously thought, soared more than 30 percent in early trading.

Precious metal miners are under pressure to cut costs after a 20 percent slump in gold this year to a near three-year low of about $1,180 an ounce in June.

Avocet, under particular scrutiny as it needs to refinance a $15 million loan by the end of the year, said it was in discussions with banks regarding a refinancing by the end of the year.

"The ... plan today will certainly assist that (refinancing process) because it is a strong cash-generative plan," Finance Director Mike Norris said in an interview.

The company also said the new mining plan, which is fully financed and which hinges on a different processing method known as a carbon blinding circuit, would lead to higher output and would cut the total cash cost of production to $906 per ounce.

"We believe the new (plan) ... is vastly superior to its predecessor and it should increase confidence over the company's ability to successfully refinance its debt positions at the end of the year," Westhouse Securities analyst Rob Broke said.

Avocet, which also has projects in Guinea, said it had slumped to a pretax loss of $21 million in the three months to June 30 from a profit of $2.5 million a year earlier.

Its bottom line was hit by a 9 percent lower realised price of gold and after its total cash costs of production came in at $1,238 per ounce, 23 percent higher than the same period last year.

Spot gold traded up 0.5 percent at $1,287.47 an ounce early on Thursday.

Avocet, which maintained its target of producing 135,000 ounces of gold in 2013, said the new mine plan would also enable it to produce over a third more gold from Inata.

After taking account of the lower gold price, Avocet said it would take an impairment charge of $73.3 million, which it said would be partially compensated by a $60.8 million reduction in its hedge liability.

TRADING PLACES

Lawsuits to air London Metal Exchange's dirty laundry

By Susan Thomas and Josephine Mason

LONDON, Aug 8 (Reuters) - Lawsuits alleging aluminium price fixing by big banks will shine an uncomfortable light on the role played by the London Metal Exchange, suggesting that the murky world of metal trading is likely to attract more attention from the authorities.

Even if it successfully defends itself from class action lawsuits by aluminium manufacturers, the LME may have to accept greater external oversight into a trade that until now flourished with little external supervision.

The LME, which was sold last year by its member bank owners to the operator of the Hong Kong Stock Exchange, is a defendant in lawsuits which accuse Goldman Sachs , JP Morgan and Glencore-Xstrata of rigging the aluminium market.

The lawsuits, brought by small aluminium manufacturers in the United States, accuse the banks and traders of hoarding metal in warehouses, driving up the prices of industrial products from soft-drink cans to aeroplanes.

Plaintiffs argue that the LME abetted the scam by writing rules that made it possible and ignoring calls to change.

Although the LME insists its rules were made independently, at the time the actions took place Goldman and JP Morgan were its two biggest shareholders, with JP Morgan owning 10.8 percent and Goldman owning 9.5 percent.

Goldman and JP Morgan have dismissed the lawsuits against them as without merit. Glencore declined to comment.

Hong Kong Exchanges and Clearing Ltd , the LME's new owners, also said the lawsuits were without merit and the LME would contest them vigorously.

The lawsuits coincide with a preliminary probe by the U.S. Department of Justice into the metals warehousing industry.

LONG TIME COMING

Those who watch the trade say it is no surprise that lawyers have finally been summoned. Reuters first revealed in a special report in 2011 that Goldman and others were earning large profits from LME-registered aluminium warehouses that take in far more metal than they release.

"The suits have been a long time coming," Societe Generale analyst Robin Bhar said.

Since 2010, companies including Goldman, JPMorgan, Glencore-Xstrata and trade house Trafigura have run a lucrative business building up big aluminium stocks, charging rent to store the metal and delivering it only at a limited rate.

The LME's industrial clients have long blamed the exchange for letting long queues build up for material. The delays mean extra costs added on to the price of the metal.

TRADING PLACES *(Continued)*

HISTORY

The LME was set up 135 years ago to provide a venue for trade conducted for centuries among metal merchants in the British capital. Before it was set up, traders met in London coffee houses with a circle drawn on the floor in chalk.

It is still one of the last "open outcry" trading exchanges in the world. Sessions take place in a trading ring with red padded seats. Only 12 firms have access to the ring, arranged in fixed positions in a circle. Traders juggle telephones and communicate in archaic hand signals.

Those quaint proceedings belie a vast mechanism for allocating the supply of industrial raw materials.

To even out fluctuations in the price with rising and ebbing demand, the LME certifies a network of storage warehouses from Baltimore to Johor, and sets rules for their operation.

Until last year, its rules required warehouse operators to ship out 1,500 tonnes of aluminium per day from any city where they hold the metal.

By owning many large warehouses in the same city, operators could easily meet that target while allowing only a fraction of the aluminium they take in to ever reach consumers.

Goldman's vast warehousing subsidiary in Detroit now holds more than a quarter of the total global LME stocks of around 5.5 million tonnes.

Last year the LME increased the shipping requirement to 3,000 tonnes per day, but buyers say that is still a fraction of the amount needed to bring stocks to market. The LME last month announced sweeping proposals to change its warehousing policy aimed at easing wait times and placating irate industrial users.

SUCCESS?

Opinions vary on how viable the lawsuits are, and pinning blame on the LME will be difficult.

But win or lose, analysts and metals industry participants say the reputation of the LME has been seriously undermined, and the murky, self-regulated world of commodities trading is likely to face heavier scrutiny from the authorities in the future.

Defending itself will be a big financial burden just nine months after Hong Kong Exchanges and Clearing bought the LME for $2.2 billion.

"Legally, the LME might be doing nothing wrong, but ethically and morally you could lay a lot of charges against the LME," Societe Generale's Bhar said. "Arguably you could say this is the biggest crisis since Sumitomo."

In 1995, Japanese trade house Sumitomo Corp's head trader Yasuo Hamanaka racked up $2.6 billion in unauthorized losses after he allegedly tried to corner the entire world's copper market.

The incident plunged the copper market and the LME into crisis, triggering a massive overhaul of the LME's rule book, which introduced limits on traders' positions. It still ranks among the highest trading losses in financial history.

But even in that case, the LME was never itself accused of wrongdoing on its own behalf. The new lawsuits allege the exchange conspired with Goldman to inflate prices, restrict supply and violate anti-trust laws.

Because Goldman and JP Morgan were both big shareholders in the exchange, and because the LME itself earns revenue on the warehousing industry, it is harder to make the case that it was nothing but a neutral market maker for independent traders.

"Hamanaka was operating secretly, but he didn't own 10 percent of the LME," said Christopher Lovell, the lawyer who brought a case last week against Goldman and the LME on behalf of aluminium user Superior Extrusion Inc.

LUCRATIVE INCENTIVES AND RENT

A Goldman representative was a member of the LME's board before the Hong Kond takeover. The warehousing units of Goldman, JP Morgan, Glencore and Trafigura all remain members of the LME's warehousing committee.

"The LME had, at that time, an incentive to accommodate Goldman and other large shareholders of the LME, and also brought customers to the LME," Lovell's suit states.

It alleges that the LME-approved rules empowered Goldman to push prices up and restrain aluminium supplies.

Michigan-based Superior Extrusion, which makes aluminium tubes, bars and shapes for cars, pipelines, railings and furniture, says it was damaged by being forced to buy aluminium at an inflated premium despite global oversupply of the metal.

"Far from dissociating itself from Goldman's anti-competitive conduct, the LME has, notwithstanding repeated public complaints that the Goldman/LME conduct was inflating aluminium prices, continued to make and perform agreements with Goldman," the lawsuit says.

Before Goldman bought its Metro warehousing subsidiary in Detroit in 2010, it took six weeks to get metal from it. The current wait time is around 18 months. While the metal is kept in the warehouse, Goldman earns rent.

The brought revenue directly to the LME, which collects a levy of 1.1 percent of the daily rent.

Rents for LME aluminium have risen almost 50 percent to a median 47 cents per tonne since 2007/2008, according to Reuters calculations. Meanwhile, premiums that buyers in the spot market have to pay to get their hands on metal now have risen from $115 per tonne to as high as $250 per tonne.

"Goldman has said it was operating according to the LME rules. Until it was sold, the LME wasn't doing anything about it," Lovell told Reuters.

MARKET NEWS

China's daily steel output dips in July

BEIJING, Aug 9 (Reuters) - Chinese daily crude steel output fell slightly in July, despite record-breaking imports of raw material iron ore over the month, as producers responded to slower seasonal demand, government data showed on Friday.

Total production edged up 1.3 percent from the previous month to reach 65.47 million tonnes, but the daily rate eased to 2.11 million tonnes, down from 2.155 million tonnes in the previous month, according to Reuters calculations.

Average daily output was still 6 percent higher than the same period of last year.

China imported a record 73.14 million tonnes of iron ore in July, up 17 percent on the month, with traders and end-users seeking to replenish dwindling stockpiles.

Steel production over the first seven months reached 455.8 million tonnes or 2.15 million tonnes per day, up 7.1 percent on the same period last year, with mills defying bleak industry sentiment to maintain daily runs at close to record levels.

China's economic watchdog said this month it expected steel output to rise 9 percent over the whole of 2013 to a record high of about 780 million tonnes, despite demand growth remaining relatively weak in the second half due to a slower economy.

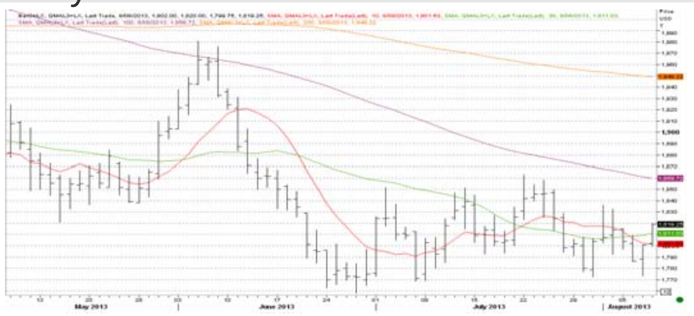
However, some analysts expect low profitability and uncertain economic growth to force steel mills to slow down run rates in the second half.

"We expect that many inefficient Chinese steelmakers will need to reduce or suspend production in the second half of 2013 to stem the losses they are incurring," Moody's said in a research note.

Moody's also expected tougher environmental regulation and tighter bank lending to constrain production, although many mills will continue to produce at breakeven profit levels.

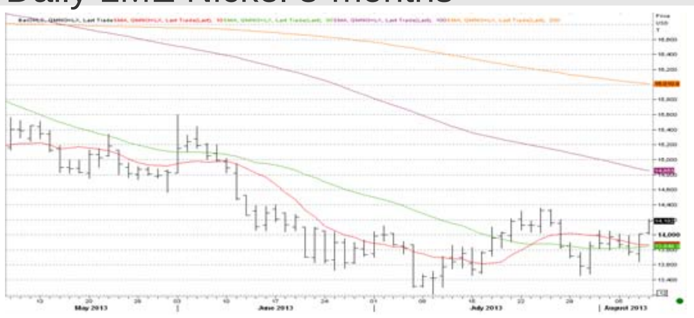
ANALYTIC CHARTS *(Click on the charts for full-size image)*

Daily LME Aluminium 3-months



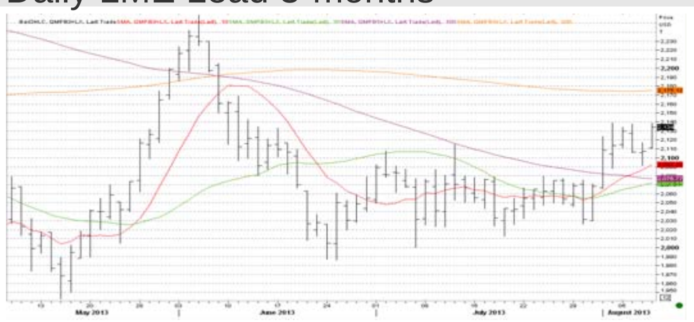
Daily LME Copper 3-months

Daily LME Nickel 3-months



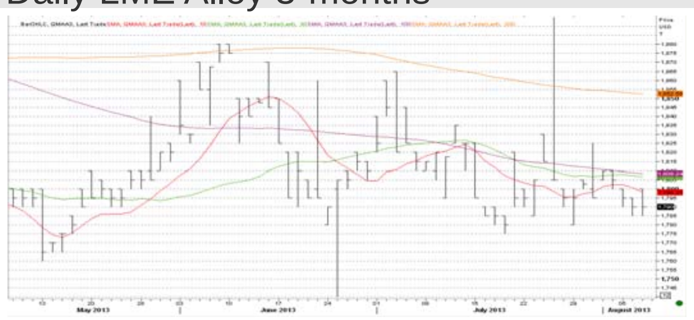
Daily LME Zinc 3-months

Daily LME Lead 3-months

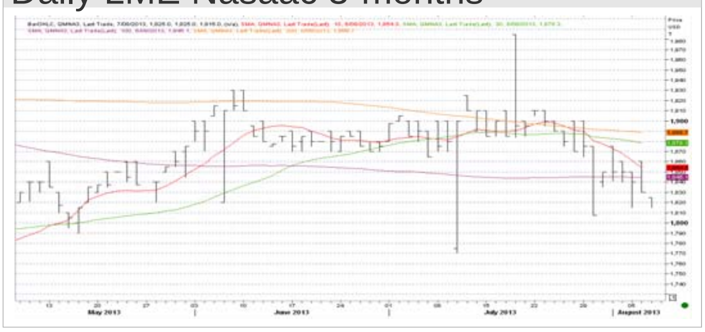


Daily LME Tin 3-months

Daily LME Alloy 3-months



Daily LME Nasaac 3-months



THOMSON REUTERS

MARKET REVIEW

METALS-London copper steady near 2-month top; eyes China data

By Melanie Burton

SINGAPORE, Aug 9 (Reuters) - London copper was treading water near its highest level in two months on signs of steadying growth in top metals consumer China, while investors await fresh China data later in the session.

Figures on Friday showed consumer inflation in the world's second-largest economy held steady in July from June, while producer price deflation eased, adding to signs China's economy may be stabilising after robust trade data on Thursday.

"The numbers out of China suggest that things are getting better...Base metals are getting a good lead with that and if we can maintain these levels we could be in for a good run," said Jonathan Barratt, chief executive of Sydney-based commodity research firm Barratt's Bulletin.

Barratt said a steadying growth picture in China has helped metals prices find a floor at higher levels, while a start by the U.S. Federal Reserve on tapering its huge bond buying stimulus will act as a greenlight for large corporates to spend, further shoring up metals demand.

"Confidence will get better and better," he said.

Three-month copper on the London Metal Exchange slipped by 0.4 percent to $7,155.25 a tonne by 0248 GMT from the previous session when it climbed 2.6 percent.

Copper prices were set to close the week up 2.5 percent to post their best weekly gain in a month.

The most-traded November copper contract on the Shanghai Futures Exchange climbed 0.8 percent to 51,530 yuan ($8,400) a tonne.

In a hopeful sign for the U.S. economy, a gauge of the trend in layoffs of American workers fell last week to its lowest since before the 2007-09 recession.

Lawsuits alleging aluminium price fixing by big banks will shine an uncomfortable light on the role played by the London Metal Exchange, suggesting that the murky world of metal trading is likely to attract more attention from the authorities.

PRECIOUS-Gold up for third session on weaker dollar

By A. Ananthalakshmi

SINGAPORE, Aug 9 (Reuters) - Gold rose for a third session eking out a small gain for the week and pulling further away from a three-week trough, as a softer U.S. dollar offset fears of a tapering in stimulus measures next month.

With the dollar at seven-week lows, gold recovered about $45 an ounce from the low seen mid-week. It was also supported by strong data from China that suggested economic optimism and news of falling mine output in South Africa.

"The weakness in the dollar is causing some short-covering in gold," said Ronald Leung at dealer and refiner Lee Cheong Gold Dealers in Hong Kong.

The dollar was trading near seven-week lows on Friday after having fallen for five straight sessions, as risk-seeking investors abandoned the greenback after surprisingly strong trade figures from China.

"We are expecting more profit-taking if we trade above $1,320-$1,322," said a precious metals trader in Singapore. "The magic number from here to cross and hold above is $1,331."

Spot gold rose 0.2 percent to $1,314.11 an ounce by 0304 GMT. Earlier in the week, it fell to a three-week low of $1,272.64 on fears that the U.S. Federal Reserve will begin scaling back its $85 billion monthly bond purchases from next month.

The metal, which has gained 0.2 percent this week, has lost a fourth of its value this year as investors exit gold-backed exchange traded funds, seeing an end to easy central bank money.

The U.S. central bank is likely to begin cutting back on its massive bond-buying program next month, as long as economic data continues to improve, a top Fed official known for his opposition to the program said on Thursday.

A gauge of the trend in layoffs of American workers fell last week to its lowest since before the 2007-09 recession, a hopeful sign for the U.S. economy and supporting the case for a tapering.

SPDR Gold Trust , the world's largest gold-backed exchange-traded fund, said it saw outflows of 1.2 tonnes on Thursday bringing total holdings to 909.33 tonnes.

Outflows from gold ETFs this year have totalled $30.9 billion as of July, Blackrock said in a report earlier this week.

FOREX-Dollar traded slightly higher ,China factory data lifts Aussie

By Hideyuki Sano

TOKYO, Aug 9 (Reuters) - The dollar traded higher though it held a seven-week low against a basket of currencies, following losses over five straight days while the Australian dollar advanced on upbeat factory data from China.

Traders say the dollar's precipitous fall reflected uncertainty over how soon the Federal Reserve will start reducing its stimulus, as well as signs of improvement in other economies, such as China and Europe.

"Essentially, the dollar has been falling after the payrolls numbers were weaker than expected. But I think the dollar is just testing the lower end of its range rather than entering a fresh downtrend. Sentiment may change if upcoming U.S. data, such as retail sales, shows strength," said Minori Uchida, chief FX analyst at the Bank of Tokyo-Mitsubishi UFJ.

MARKET REVIEW *(Continued)*

The dollar index against a basket of six major currencies hit a low of 80.868 on Thursday and last stood at 81.04 , little changed on the day but within sight of its June low of 80.498.

The dollar index has few reasons to fall below the June low, many analysts say, as the Fed is expected to start reducing stimulus sooner or later.

Fed policymakers have suggested in recent weeks that it could start to scale back its monthly bond buying as soon as September, but this will depend on further improvement in the job market.

Thursday's weekly jobless claims data suggested the U.S. job market remains on the mend.

Yet, that alone was not enough to convince investors that the Fed will trim its bond buying of $85 billion a month next month after data last Friday showed U.S. employers slowed their pace of hiring in July.

BOOST FROM CHINA

The euro hit a seven-week high of $1.3401 on Thursday and last stood just below that level at $1.3380 , not even far from its June peak of $1.34175. The currency drew strength from an above-forecast German trade surplus and Wednesday's much stronger-than-expected German factory data.

The Australian dollar extended its recovery after China's industrial output beat market expectations, a day after the country's solid import figures boosted commodity currencies and risk assets.

"Chinese data seems to be holding up pretty well. Coupled with import numbers yesterday, it seems you don't have to worry about a sharp fall in Chinese output," said Ayako Sera, senior market economist at Sumitomo Mitsui Trust Bank.

The currency ticked up even after the country's central bank trimmed its economic growth outlook and said a further fall in the local currency would help the economy rebalance away from mining investment.

The Aussie rose 0.15 percent to $0.9115 , extending its 1.2 percent gain the previous day following stronger-than-expected Chinese data.

If current gains are maintained, the Aussie is on course to log its biggest weekly rise in more than a year and a half. But it is presently the worst performer among major currencies so far this year with a year-to-date loss of 12 percent.

Against the yen, the U.S. dollar slipped 0.1 percent to 96.47 yen , giving up some of overnight gains and edging towards a seven-week low of 95.81 yen hit on Thursday.

"A fall in risk/reversal spreads in the options market implies there is strong demand for dollar puts by short-term players. In terms of technicals, the dollar/yen has not recovered even to its five-day average," Osamu Takashima, chief FX strategist at Citigroup Securities in Tokyo, said in report.

The five-day average stood at 97.13 at the moment.

A potential target in the near term would be a 76.4 percent retracement of its rally from June to early July at 95.59, he added.

(Inside Metals is compiled by Pradip Kakoti in Bangalore)