INSIDE METALS

Thursday, December 13, 2012

CHART OF THE DAY

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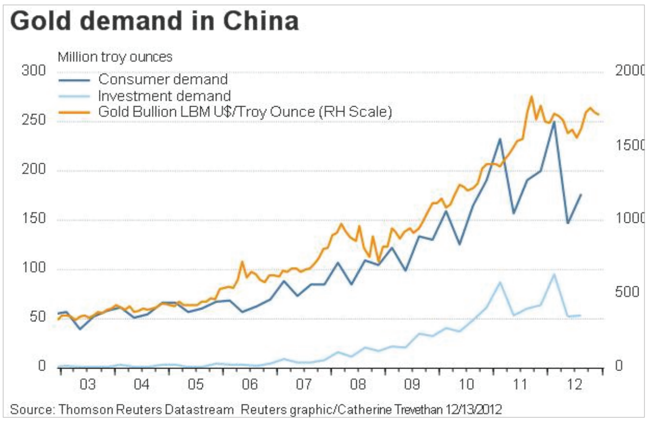

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COLUMN- Gold analysts ignore 40 pct of the market. No wonder they're puzzled

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Clyde Russell is a Reuters columnist. The opinions expressed are his own

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TODAY'S MARKETS

BASE METALS: London copper slipped bruised by the struggles of U.S. lawmakers to resolve their fiscal troubles and on profit-taking after November's strong run-up based on expectations for the U.S. Federal Reserve to extend easing measures.

"The key thing here is the ongoing fiscal negotiation. Until they have some resolution, I think that is a dampener for the market," said Thomas Lam, chief economist at DMG & Partners Securities.

PRECIOUS METALS: Gold dropped about 1 percent after the Federal Reserve linked its monetary policy to unemployment, raising concerns that future economic stimulus could be limited.

"This announcement is a bit confusing to gold investors as it linked policy to unemployment, etc.," said a Tokyo-based trader.

FOREX: The dollar was on defensive after the U.S. Federal Reserve unveiled a fresh bond-buying stimulus programme but the yen languished at nine-month lows against the U.S. currency on expectations of more money printing in Japan.

"We still hold the view that the Fed has fully delivered, and that the numerical targets set a high threshold for the eventual Fed policy exit, which still remains in a very distant future," said Vassili Serebriakov, a strategist at BNP Paribas.

FEATURE

COLUMN-Gold analysts ignore 40 pct of the market. No wonder they're puzzled

By Clyde Russell

LAUNCESTON, Australia, Dec 13 (Reuters) - Take seven recent research reports on the outlook for gold from top-ranked investment banks and consultants and you'll find one thing in common: Virtually no mention of China and India.

This is astonishing when you consider that those two nations account for 40 percent of the physical gold market.

Any oil analyst who ignored demand in the four biggest importers, namely the United States, China, Japan and India, when writing about the crude outlook would struggle to be taken seriously.

Yet that's exactly what gold analysts are doing when assessing the market and trying to determine the direction of prices.

Of the seven reports read for this column, which included among others articles from Goldman Sachs, Morgan Stanley, Deutsche Bank, Barclays and ANZ Banking Group, five didn't contain the words China and India, one mentioned China but not India and only one talked a little about both nations.

Not one thought that demand in either, or both, of these nations was a key driver of the gold price, rather when mentioned it was as a supporting factor.

Instead all focused heavily on the quantitative easing in the United States, and the prospect for more in 2013.

The potential impact of solving, or not, the so-called U.S. "fiscal cliff" of tax increases and spending cuts was also a major theme, as was the ongoing sovereign debt crisis in Europe.

Yet there is fairly solid evidence that in 2012 the price of gold has been influenced significantly by the physical market, and this largely means India and China.

Gold started the year around $1,565 an ounce, climbed to $1,785 by February, meandered lower to around $1,530 by the middle of the year, before climbing again to around $1,790 by October and then easing to current levels around $1,700.

In other words, the price has largely been range-bound, getting a lift from of the U.S. Federal Reserve's announcement of a third round of quantitative easing, but this wasn't sustained.

Looser U.S. monetary policy hasn't been the only positive for gold this year, central bank buying has continued, albeit at a slower pace than in 2011, and holdings in exchange-traded funds have increased 10 percent since the beginning of the year.

ETF holdings are at the equivalent of 2,156 tonnes, after a strong net inflow of 136 tonnes in the third quarter.

But these positive factors, which also tend to be the major focus of investment bank analysts, have had to swim against the tide of weaker demand from India and China.

Graphic of Chinese gold demand:

http://link.reuters.com/bat34t

Graphic of Indian gold demand:

http://link.reuters.com/qaq34t

India, which is still clinging to its top spot in gold demand, has witnessed a recent pick up in buying after a weak first half of the year. But demand in the South Asian nation was still down 28 percent in the year ended September, which equates to a massive 305.9 tonnes, according to calculations using World Gold Council data.

Chinese demand has also disappointed, falling to 176.8 tonnes in the third quarter, a drop of 8 percent from the same quarter a year ago and a bare 1 percent rise in year-on-year terms.

On balance, it appears the gold price has vacillated between its competing positive and negative influences. This range-bound outcome has confused some of the analysts, with one report saying gold's lacklustre year came despite it having the "perfect set-up" for gains.

Needless to say this was one of the reports that didn't mention China or India, or indeed physical demand.

It seems that monetary loosening in the United States, central bank buying and investor interest in ETFs isn't enough to spur a new gold rally.

Fresh buying interest from China and India would certainly help, and ironically, lower prices may just be the impetus needed.

Indian gold demand appears sensitive to prices, having slumped when the rupee price reached a record and having recovered recently as the gold softened and the rupee stabilised.

Chinese investors appear to prefer buying gold into a rising trend, or when they are worried about domestic inflation.

Neither is occurring presently, but if gold can cobble together a few months of gains and stronger economic growth raises Chinese inflation concerns, this could be a renewed area of support for the precious metal.

And of our seven gold reports, where do they see prices moving? Six of the seven see prices higher, albeit most are for modest gains over the next year, with targets clustered around $1,800 an ounce.

There is one notable ultra-bull, but this forecaster has been consistently wrong for an extended period, and their expectation of gold at $2,000 an ounce will require the U.S. and European monetary debasement disaster they predict.

One of the seven forecasts gold to decline modestly over 2013, but not collapse. This bank was the only one to mention both China and India as a factor in the price.

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

GENERAL NEWS

Fed ties rates to jobs recovery, adds to stimulus

WASHINGTON, Dec 12 (Reuters) - The U.S. Federal Reserve, announcing a new round of monetary stimulus, took the unprecedented step on Wednesday of indicating interest rates would remain near zero until unemployment falls to at least 6.5 percent.

It was the latest in a series of unorthodox measures taken by central banks around the world to battle erratic, sub-par recoveries from the financial crisis and recession of 2007-2009.

The Fed expects to hold rates steady until its new threshold on unemployment was reached as long as inflation does not threaten to break above 2.5 percent and inflation expectations are contained. It also replaced an expiring stimulus program with a fresh round of Treasury debt purchases.

The central bank previously said it expected to hold rates near zero through at least mid-2015, but policymakers were uncomfortable making a pledge based on the calendar rather than the economic goals they hope to achieve.

"By tying future monetary policy more explicitly to economic conditions, this formulation of our policy guidance should ... make monetary policy more transparent and predictable to the public," Fed Chairman Ben Bernanke told a news conference.

Importantly, in the eyes of Fed officials, the new framework should help financial markets assess incoming data in a way that helps them better guess were monetary policy is heading.

Right now, the Fed is engaged in an open-ended program of asset purchases, which it bolstered on Wednesday.

Officials committed to buy $45 billion in longer-term Treasuries each month on top of the $40 billion per month in mortgage-backed bonds they started purchasing in September. They repeated a pledge to keep pumping money into the economy until the outlook for the labor market improves "substantially."

"The committee remains concerned that, without sufficient policy accommodation, economic growth might not be strong enough to generate sustained improvement in labor market conditions," the Fed's policy-setting panel said after a two-day meeting.

Graphic on Fed rate projections: http://link.reuters.com/muh64t

BALANCE SHEET ACTION

The Fed will fund the new Treasury purchases with an expansion of its $2.8 trillion balance sheet. Under the expiring "Operation Twist" program, the Fed bought an identical amount, but paid for them with proceeds from sales and redemptions of short-term debt.

Some policymakers view actions that expand the Fed's balance sheet as economically more potent than actions that do not. However, Bernanke said the dose of stimulus would remain about the same, given that the central bank is still purchasing a combined $85 billion per month in longer-term securities.

"They see an anemic economy, and they're doing all they can to get any economic progress," said Alan Lancz, president of Alan B. Lancz & Associates in Toledo, Ohio.

The Fed's decision initially gave a small lift to U.S. stock prices, but the major indexes closed mostly unchanged, while government bond prices fell. Oil prices rose and the dollar weakened against the euro.

Fed policymakers voted 11-1 to back the new plan. Jeffrey Lacker, president of the Richmond Federal Reserve Bank, dissented, as he has at every meeting this year, expressing opposition both to the bond buying and the new economic thresholds.

SWEATING A WEAK RECOVERY

The newly unveiled numerical policy guidelines offered the most specific suggestion yet that the Fed is willing to tolerate slightly higher inflation as it tries to juice up a moribund economy and spur stronger job growth.

A drop in the unemployment rate to 7.7 percent in November from 7.9 percent in October was driven by workers exiting the labor force, and therefore did not come close to satisfying the condition the Fed has set for trimming its stimulus.

In response to the financial crisis and recession, the Fed slashed overnight rates to zero almost exactly four years ago and bought some $2.4 trillion in mortgage and Treasury securities to keep long-term rates down.

Despite its unconventional and aggressive efforts, U.S. economic growth remains tepid. Gross domestic product grew at a 2.7 percent annual rate in the third quarter, but a Reuters poll published on Wednesday showed economists expect it to expand at just a 1.2 percent pace in the current quarter.

Businesses have hunkered down, fearful of a tightening of fiscal policy as politicians in Washington wrangle over ways to avoid a $600 billion mix of spending reductions and expiring tax cuts set to take hold at the start of 2013.

Bernanke has warned that running over this "fiscal cliff" would lead to a new recession. He told reporters the Fed could ramp up its bond buying "a bit," but emphasized that monetary policy has limits and could not fully offset the impact.

NEW TACK ON RATES

He said the central bank would look at a range of indicators, not just the rates of unemployment and inflation, in determining when to finally push overnight borrowing costs higher, adding that the Fed was not on "auto pilot."

"Reaching the thresholds will not immediately trigger a reduction in policy accommodation," Bernanke said. "No single indicator provides a complete assessment of the state of the labor market."

GENERAL NEWS *(Continued)*

Bernanke said the new framework was consistent with the earlier calendar guidance, because officials do not expect the jobless rate to reach 6.5 percent until sometime in 2015.

Indeed, a fresh set of economic projections from the Fed put the rate in a 6 percent to 6.6 percent range in the fourth quarter of 2015. At the same time, the projections showed that at no point over that forecast horizon does the central bank see inflation topping its 2 percent target.

Officials held to their assessment that they could eventually push the unemployment rate down to a 5.2 percent to 6 percent range without sparking inflation, although Bernanke cautioned that policy would have to start tightening before it fell so low. In its statement, the Fed said its long-term asset purchase program would end well before any rate increase.

Fed policymakers see GDP expanding between 2.3 percent and 3.0 percent next year. That is down from the 2.5 percent to 3.0 percent they forecast in September, but is still a bit more optimistic than most private forecasters. The Reuters poll of economists found a median U.S. growth estimate of 2.1 percent for next year.

As boom fades, Australia miners put brakes on gravy train

CANBERRA/SYDNEY, Dec 13 (Reuters) - Suddenly strapped for cash and forced to penny pinch as Australia's decade-long mining boom fades, resources companies are sending a new message to staff: The gravy train is over.

Gone are free fruit baskets, weekly barbecues and the Australian "smoko", or unscheduled work breaks, at some sites.

Frantic demand from China for commodities over the last decade shielded Australia from the global downturn and prompted $400 billion in investment. Desperate to retain staff, six-figure salaries and elaborate extras for everyone from truck drivers to kitchen help became commonplace.

Private suites with daily linen changes and cable television replaced pre-boom bunk beds and gang showers.

"I loved my time working in the nickel mine," said Eloise Martin, who quit a job as a florist to work as a geologist's assistant just long enough to put together a down payment on a house.

"In my off hours at the mine, I learned French, took computer classes and became an expert in four-wheel drives, all paid for."

But with the boom past its peak, companies are cutting out many perks, a move they say is needed to offset lower returns and the high cost of doing business in Australia.

Fortescue Metals Group , an iron ore miner whose stock split 10-for 1 in 2007 and made a multi-billionaire out of its founder, has scrapped weekly staff barbecues. Gone too, is free coffee and ketchup from the canteens, according to a staff memo.

In the past week, a contracting company overseeing work on Chevron's $52 billion Gorgon gas project, even banned sitting during working hours in a bid to keep productivity up.

The contractor's leaked memo, published by the Australian Financial Review, was criticised by Australia's Workplace Relations Minister, Bill Shorten, a former union official.

"Presumably the person who typed up that communication has got be sitting down when they said it," Shorten said.

UNION CONCERNS

The resources industry is full of anecdotes of how firms are penny-pinching: A coal mine that no longer provides free fruit in its canteen. Or the chief executive who insists on personally approving purchases of new office supplies and equipment.

Labour unions complain the actions undermine staff morale and are really designed to tell workers they need to curb expectations of what employers will provide outside of a salary.

The Construction, Forestry, Mining and Energy Union (CFMEU) said management at one Outback mine warned staff if they got sick over Christmas they would have to fund their own flight home.

"Some of the cuts might seem silly, but it is the companies firing a warning shot, letting workers know they are looking for more productivity," a CFMEU spokesman said.

In September, Australia's richest woman, Gina Rinehart, complained about the cost of mining in Australia, contrasting it with the jobs market in Africa, where she said workers could be hired for under $2 a day.

Some jobs have vanished altogether. Rio Tinto has spent more than $500 million on driverless trains to cart iron ore from its mines and is experimenting with 150 driverless trucks.

HIGH COSTS

Australia is already the biggest producer of iron ore and coking coal and aims to soon overtake Qatar as the world's top exporter of liquefied natural gas.

But cost overruns are now threatening the viability of that target.

A report by the Minerals Council of Australia, an industry-backed association, showed high labour, transport and energy costs meant iron ore projects were 30 percent more expensive in Australia compared to the global average, while thermal coal projects were 66 percent more expensive.

"Within highly competitive markets for thermal coal, coking coal, copper and nickel, more than half of Australia's mines have costs above global averages," Minerals Council chief executive Mitch Hooke told Reuters.

"The cause is increased labour, energy and transport costs, and a high exchange rate. Even in iron ore, we have lost our operating cost advantage for all but established Pilbara projects."

Rio Tinto is believed to be the lowest cost iron ore producer in Australia with a cash cost for the first half of 2012 of around $24.50 a tonne. Iron ore sells for around $120 a tonne but has fallen as low as $90 during the year.

GENERAL NEWS *(Continued)*

Mining costs only represent the average expense of mining a tonne of iron ore. Additional costs, such as spending on exploration and equipment and royalties, need to be covered before a mining company can make a profit.

In thermal coal, six years ago 63 percent of Australia's mines fell within the cheaper half of the global cost curve.

By 2012, this has fallen to 28 percent, according to sector consultants Jackson Partners said.

In copper and nickel, an already-weak cost position shows no sign of improvement. In both metals, nearly half of Australia's production is now in the most expensive 25 percent of mines globally, the firm's research shows.

Centamin says to suspend operations at only producing mine

Dec 13 (Reuters) - Gold miner Centamin Plc said it would suspend operations at its only producing mine, located in Egypt, due to a short-fall in working capital and the inadequate availability of diesel at the mine.

Centamin said in a statement that fuel supplies to its Sukari gold mine had reached critical levels.

The company said it received a claim from Egyptian General Petroleum Corp for about $65 million for diesel supplied between December 2009 and January 2012, and that it would not be supplied additional diesel until the payment was made.

Last month, the company said a gold shipment was required "shortly" to meet working capital commitments.

Centamin subsequently suspended gold exports pending a ruling on its appeal in an Egyptian court, which declared its rights to operate the Sukari mine as illegal.

The company said on Thursday that it had obtained clearances from the Egyptian Mineral Resources Authority, but a request from customs officials for prior approval by the Minister of Finance halted the shipment.

"This approval has been urgently sought, but has not yet been forthcoming," Centamin said.

Centamin shares have nearly halved in value since late October when the Egyptian court questioned the company's right to mine gold in the country. The stock closed at 52.7 pence on Wednesday, valuing the company at about 579 million pounds.

Levy on gold could be budget windfall, US lawmakers say

WASHINGTON, Dec 12 (Reuters) - Revising a 19th-century U.S. law that governs the mining of gold and other precious metals could add billions of dollars to federal coffers at a time of tight budgets, according to some Democratic lawmakers and a government study released on Wednesday.

Taxpayers receive no royalties on metals pulled from federal land, and officials drew a blank when they tried to find out how much gold, silver, copper and other valuable metal is sold.

"Federal agencies generally do not collect data from hardrock mine operators," said the report from the nonpartisan Government Accountability Office, which looked at the market in 2010 and 2011.

But applying a metals levy of 12.5 percent - the benchmark government share for other resources - could deliver hundreds of millions of dollars a year to taxpayers, according to independent studies and U.S. Representative Raul Grijalva, who sought the report and other data from the mining industry.

"As we face these fiscal challenges, these are the pennies that we should pinch," said Grijalva, the leading Democrat on the panel that oversees public lands.

Grijalva, of Arizona, and Senator Tom Udall of New Mexico, who jointly called for the GAO report, say taxpayers should also benefit from a gold price surge that has boosted the bottom line for miners.

Applying Grijalva's royalty formula on the 1.1 million ounces of yellow metal pulled last year from Goldstrike mine in Nevada, the largest in North America, could have yielded $150 million to taxpayers, according to a Reuters tally of industry data.

Barrick Gold Corp , the mine operator, said only a fraction of Goldstrike is on federal land, and the company's taxes have already quadrupled in the five years of climbing gold prices.

Taxpayers are entitled to a royalty from metal sales nevertheless, lawmakers said.

Under Grijalva's proposed formula, Freeport-McMoRan Copper & Gold Inc's reserves of copper and molybdenum, which is used to toughen steel, would return about $700 million to taxpayers over the life of the mines, according to a Reuters tabulation of company data.

NO-ROYALTY RULE

The 1872 mining law that drove prospectors into western states such as California still governs much of the industry.

But this no-royalty law is a costly anachronism when mining giants can stake a claim on federal land for a few dollars an acre, Udall said. The coal, oil and gas industries, by comparison, have no such exemption.

"We are giving our gold and silver for free and don't even know how much we are giving," said Udall, whose father, Stewart, was secretary of the Interior during the 1960s and called mining law reform his great unfinished work.

Lawmakers who have occasionally tried to reform the mining rules have never cleared all the hurdles to pass new laws, as the industry has strong political allies.

Senate Majority Leader Harry Reid, a Democrat, counts on mining support in his home state of Nevada, and lawmakers say it will be difficult to persuade him to take a bite out of the industry.

GENERAL NEWS *(Continued)*

But on Wednesday, the two top senators on the Energy and Natural Resources Committee said they were open to considering reform.

"There's been agreement for a long time that the 1872 Mining Law should be updated to include a royalty" and reduce paperwork, said Senator Lisa Murkowski, the panel's top Republican.

Ron Wyden, the incoming Democratic chairman of the committee, also believes the matter is due for review.

"This is one of a growing number of issues that Senator Wyden plans to look at in the next Congress," said spokesman Keith Chu.

Whether or not mining reform can become law, some lawmakers are ready to target the hundreds of millions of dollars in tax breaks the mining industry claims each year, which they see as an easier political gambit.

"There are a lot of write-offs, and this is an issue we can bring to the coming debate about tax reform," Grijalva said.

Those allowances also benefit the oil and gas industry, the GAO report says, with the federal take on energy exploration running billions of dollars below target.

The offshore oil fields that were supposed to deliver a 12.5 percent royalty to taxpayers brought about 8 percent in 2010 and 2011, according to the report.

One explanation for the shortfall, the report says, is industry allowances for the cost of transporting fuel and incentives meant to encourage some exploration.

"We need to always be looking back and seeing if there is a good reason to continue with exemptions," said Udall. "That's something we're not very good at in government - ending the exemptions when they're no longer needed."

State and local governments often catch a windfall from mining revenue, and Udall said Republican lawmakers from the West might be persuaded to increase the federal take.

"Everyone agrees we need a balanced package to find new revenue," he said, "and this seems like the right time for reform."

Vale starts payment of royalty debt - report

SAO PAULO, Dec 12 (Reuters) - Brazilian group Vale SA , the world's No. 2 mining company, has started paying the government 1.4 billion real ($674 million) in a dispute over royalties, financial newspaper Valor Economico reported on Wednesday.

Vale agreed to pay three installments of 100 million reais this year and a single payment of 1.1 billion reais in 2013. The first installment has already been paid, Valor said, citing unnamed sources.

Vale was not available to comment.

The amount Vale agreed to pay is less than a third of the 4 billion reais demanded by Brazil's mining and minerals agency DNPM. The company set aside 1.41 billion reais in September, hitting third-quarter results.

As royalty costs rise, Vale has been facing a decline in iron ore prices, rising costs in Brazil, and pressure from the government to invest in low-return projects such as steel mills. Earlier this month, it cut estimated 2013 capital spending by a quarter.

MARKET NEWS

Global aluminium makers switch to quarterly pricing in Asia

HONG KONG/SINGAPORE, Dec 12 (Reuters) - Global producers of aluminium ingots are turning away yearly premiums in favour of quarterly pricing for 2013 term shipments to Asia, to take advantage of spot premiums that scaled records this year, traders said on Wednesday.

Global producers required buyers in Asia to pay premiums, or a surcharge to secure physical metal over the cash London Metal Exchange aluminium price, based on the quarterly main Japan ports (MJP) premium.

The move will make the MJP premium, seen as the Asian benchmark, and which typically reflects spot premiums, more important than previous years.

"The aluminium market premiums have been pushed up so much they are now a significant part of the price that is unhedgeable. For both producers and consumers there is significant uncertainty over where premiums will go," said analyst Nic Brown of Natixis in London.

"It doesn't surprise me at all that they would move to quarterly prices, because you can be a lot more confident you are not going to get destroyed to the upside or the downside than if you set terms for a year," he added.

Some Japanese buyers agreed a term premium of $240 per tonne with Rio Tinto Alcan for delivery in January to March 2013, down from a record benchmark $254 to $255 for the current quarter. The $240 premium is still more than double the $112 for January to March this year.

International trading houses offered yearly premiums for 2013 shipments at about $230 to $250 per tonne for delivery to Hong Kong and mainland China, traders said.

Global producers in previous years offered yearly and half-yearly premiums for term shipments to buyers in Asia. The yearly premiums were at around $98 to $110 to Hong Kong and mainland China this year and about $100 to $110 in 2011.

But premiums in the spot market in Asia reached a record above $260 per tonne in the second half of this year because of low availability of physical metal.

RISK OF MISSING OUT ON SPOT GAINS

A source at a global producer said the company did not want to risk setting annual premiums too low, missing out if the spot market shot higher.

"We did not offer yearly and mid-year premiums for 2013 term shipments. This is the first time as far as I remember," said the source who declined to be identified as he is not authorised to speak to the media.

Most producers wanted contracts on a floating basis and would sign long term frame contracts based on quarterly MJP for Asia, a trader at an international trading house in Singapore said.

"Even the Russians want to move towards a floating basis. But you can still find some suppliers, mostly trading houses, willing to do fixed," he said.

The world's largest producer, Russia's Rusal , expects to shift all its aluminium supply contracts for 2013 to floating premiums, an official said in October.

The quarterly premium looked acceptable because few buyers were willing to lock in record premiums for one year, given sluggish prospects for global growth, traders said.

"Unless the premium is below $200, we would not sign any yearly premium contracts," said a buyer in China's southern province of Guangdong.

Spot premiums rose to records this year as much of the metal in the global market remains locked up in financial deals, making it difficult for manufacturers to get physical supplies.

Typically in such financial deals, traders buy physical metal and simultaneously sell forward at a profit, while striking a warehouse deal to store it cheaply in the interim.

LME stockpiles reached a record 5.207 million tonnes last month. The figure was reported at 5.168 million tonnes on Wednesday, but most of the metal is stuck in long queues at warehouses because some firms take in more metal than they move out.

Italian government may decree return of steel seized from Ilva

ROME, Dec 12 (Reuters) - The Italian government may amend a decree aimed at rescuing Europe's biggest steel factory ILVA in order to release 1 billion euros ($1.3 billion) worth of steel production seized by magistrates, a junior minister said on Wednesday.

On Tuesday a court ruled that finished and semi-finished products confiscated as part of an environmental damage case should not be given back, a decision ILVA said would force a chain of plants to close in Italy, France, Greece and Tunisia and threaten 3,900 jobs.

Industry Minister Undersecretary Claudio De Vincenti said the government was considering extending the decree, designed to return the troubled plant to the control of its management, to also cover the confiscated steel products.

"One of the options in consideration is an interpretative clarification", so that the decree covers steel products as well as buildings and plant assets, which have already been given back to factory owners, he said in a television interview on Wednesday.

The government, which is battling a prolonged recession, intervened to save the factory after owners said they would be forced to shut one of the last remaining large industrial employers in Italy's underdeveloped south, affecting 20,000 jobs and potentially causing knock-on damage to automakers and other industries.

MARKET NEWS *(Continued)*

The November decree, which came into effect immediately, must be passed by parliament within 60 days to become permanent. If not passed it will become invalid.

The government has less time to consider the decree since Prime Minister Mario Monti announced he would resign after the 2013 budget is passed. But Angelino Alfano, the secretary of the centre-right People of Freedom (PDL) party that forced Monti's resignation, has said the PDL will ensure the ILVA decree is passed by the government.

The steel products were seized as part as an investigation into corruption in November. Factory assets including a blast furnace were taken into court administration in July in a parallel investigation into an alleged environmental disaster.

The court says toxic emissions from the plant have driven up deaths from cancer and respiratory diseases in the surrounding city of Taranto. The government decree forces the company to spend 3 billion euros to reduce emissions, raising questions over the group's already strained finances. Uncertainty over ILVA has sent up prices in the south European coil market, according to Platts SBB.

Posco not interested in Italian ThyssenKrupp plant

SEOUL/LONDON, Dec 12 (Reuters) - Steelmaker POSCO has denied it is interested in buying the ThyssenKrupp stainless steel plant in Terni, Italy, rejecting market speculation that the South Korean producer could buy the plant to increase its presence in Europe.

"POSCO is not interested in the ThyssenKrupp Terni planty," a spokeswoman for the company said.

She declined to comment on whether POSCO had taken a look at buying the plant or was never interested.

Finnish group Outokumpu has committed to selling the Acciai Speciali Terni plant to gain regulatory approval for buying ThyssenKrupp's Inoxum unit.

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

Daily LME Aluminium 3-months

Daily LME Copper 3-months

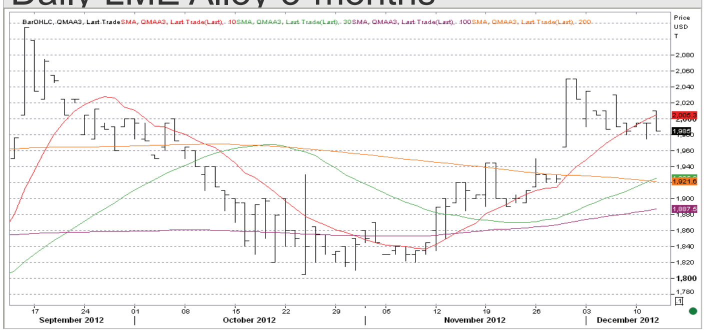
Daily LME Nickel 3-months

Daily LME Zinc 3-months

Daily LME Lead 3-months

Daily LME Tin 3-months

Daily LME Alloy 3-months



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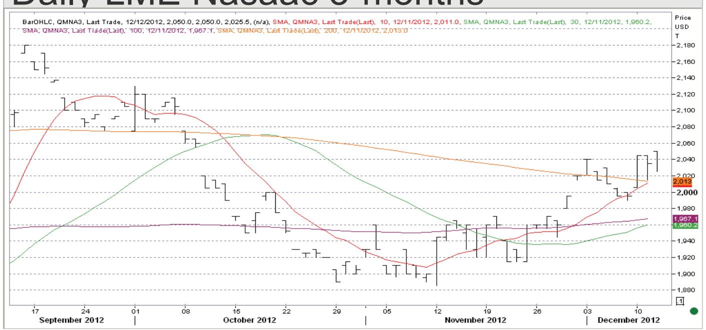

MARKET REVIEW

METALS-LME copper falls after Fed; fiscal cliff worries drag

SINGAPORE, Dec 13 (Reuters) - London copper slipped bruised by the struggles of U.S. lawmakers to resolve their fiscal troubles and on profit-taking after November's strong run-up based on expectations for the U.S. Federal Reserve to extend easing measures.

The U.S. central bank, announcing a new round of monetary stimulus, took the unprecedented step on Wednesday of indicating interest rates would remain near zero until unemployment falls to at least 6.5 percent.

It also committed to purchase $45 billion in longer-term Treasuries a month on top of the $40 billion in mortgage-backed bonds it started buying in September, designed to instill more confidence in the U.S. economy.

But talks to avoid the "fiscal cliff" are proving protracted, pinning back optimism in the country's 2013 growth outlook and paring commodities' year-end advance, said Thomas Lam, chief economist at DMG & Partners Securities.

"The key thing here is the ongoing fiscal negotiation. Until

they have some resolution, I think that is a dampener for the market," he said.

"Our baseline is expectation for some resolution to the fiscal cliff, but there will still be a drag on the economy."

Sharp differences remained on Wednesday between congressional Republicans and the White House in talks to avert the fiscal cliff of steep tax hikes and budget cuts, and negotiators warned the showdown could drag on past Christmas.

Three-month copper on the London Metal Exchange fell by 0.63 percent to $8,078 a tonne by 0723 GMT, reversing small gains seen in the previous session.

Prices have rallied more than 6 percent since mid-November and remain within reach of a near two-month high of $8,159 hit on Monday.

The most-traded March copper contract on the Shanghai Futures Exchange slipped 0.64 percent to close at 57,610 yuan ($9,200)a tonne.

The Fed also downgraded its growth projections slightly across the three years to 2015, which clouded the outlook for metals demand, Lam added.

Fed policymakers see GDP expanding between 2.3 percent and 3.0 percent next year. That is down from the 2.5 percent to 3.0 percent they forecast in September, but is still a bit more optimistic than most private forecasters.

Highlighting the slowdown in industrial metals demand elsewhere, euro zone factory output continued its steep fall in autumn, underscoring the feeble domestic demand that risks prolonging the bloc's recession.

LEAD FLIRTS WITH 15-MONTH HIGH

Lead supplies have eased since tightening over September, when consumers bought stocks to prepare for the peak winter season for battery replacement demand, so the current price move, built on fundamentals, is now moving more on technical signals, traders said.

LME lead hit $2,328.50 a tonne on Wednesday, its highest since Oct. 2, thwarted by chart-based resistance at $2,329 that also held twice in January.

"Given that there is no obvious tightness in the market right now and purchases today on the LME will not be delivered until March, when the peak demand season has mostly passed, this looks more like a speculative move," said senior strategist Nick Trevethan at ANZ in Singapore.

"We cleared resistance at around $2,250 a tonne just under a week ago and the market appears to be running a positive technical profile that is running into fairly stiff resistance at $2,329," he added.

PRECIOUS-Gold drops, Fed move raises concern on stimulus scope

SINGAPORE, Dec 13 (Reuters) - Gold dropped about 1 percent after the Federal Reserve linked its monetary policy to unemployment, raising concerns that future economic stimulus could be limited.

Gold benefits from easy monetary policy as it drives investors who fear diminishing value in fiat currencies to seek safety in hard assets such as bullion. Gold has risen nearly 9 percent so far this year.

The Fed said it plans to buy $45 billion in longer-term Treasuries each month on top of the $40 billion monthly purchase of mortgage-backed securities, as expected, but set unemployment and inflation thresholds for exit strategy.

"This announcement is a bit confusing to gold investors as it linked policy to unemployment, etc.," said a Tokyo-based trader. "Perhaps the market wanted unlimited QE."

Last month the U.S. unemployment rate dropped to a near four-year low of 7.7 percent, although the better number was the result of a lower number of job-seekers.

Spot gold dropped 1 percent to $1,693.80 an ounce earlier in the day, before paring some losses to stand at $1,699.20 by 0754 GMT. Fed's move to buy bonds had pushed up prices to a near two-week top of $1,723.01 on Wednesday.

When prices dropped below the 100-day moving average above $1,705, stop-loss selling was triggered, traders said.

The most-active U.S. gold futures contract lost as much as 1.3 percent to $1,695.5 an ounce, and recovered to $1,701.40. Nearly 38,000 lots already changed hands, higher than what normally would be traded in Asian hours.

MARKET REVIEW *(Continued)*

Physical gold buying demand is expected to pick up after prices fell below $1,700 level, traders said.

"Physical demand seems to be supportive, but can't offset all investor selling," said the Tokyo-based trader.

GOLD SEEN BOUND IN A RANGE

But gold is likely to remain rangebound, as many investors are closing books for the year, while the difficult U.S. budget talks keep them away from big bets.

The negotiation could drag on past Christmas given sharp differences between congressional Republicans and the White House on how to avert steep tax hikes and budget cuts.

"The near term risk is a stronger dollar," said Jeremy Friesen, commodity strategist at Societe Generale in Hong Kong. "The 'fiscal cliff' is going right to the end, and that could support the dollar and take some shine off gold."

The dollar, seen as an ultimate safe haven, is likely to attract investors worried about the uncertainty in the U.S. fiscal situation. A stronger greenback pressures dollar-priced commodities by making them more expensive for buyers holding other currencies.

In other metals, U.S. silver fell more than 2 percent to $32.88 an ounce, before paring losses to stand at $33.06. Spot silver , which dropped nearly 2 percent to $32.79 earlier in the session, was down 1.4 percent at $32.96.

Spot platinum fell nearly 1 percent to $1,616.99, easing from $1,643.50 hit on Wednesday, its highest since Oct. 19. Spot palladium eased to a one-week low of $679.72.

FOREX-Dollar broadly soft after Fed, yen extends losses

TOKYO, Dec 13 (Reuters) - The dollar was on defensive after the U.S. Federal Reserve unveiled a fresh bond-buying stimulus programme but the yen languished at nine-month lows against the U.S. currency on expectations of more money printing in Japan.

The Fed surprised markets by explicitly linking its policy path to unemployment and inflation but that had little immediate impact because the Fed's latest economic projections suggested no change in its previous pledge to keep rates near zero until mid-2015.

"We still hold the view that the Fed has fully delivered, and that the numerical targets set a high threshold for the eventual Fed policy exit, which still remains in a very distant future," said Vassili Serebriakov, a strategist at BNP Paribas.

"This implies the Fed is on course to expand its balance sheet substantially, a regime consistent with a weak USD environment."

The dollar index slipped to one-week low of 79.711 after the Fed's decision on Wednesday and last stood at 79.891, flat from late U.S. levels, with a six-week low of 79.568 seen as an immediate support.

As expected, the Fed said it will keep buying $45 billion of government bonds each month after 'Operation Twist' programme expires this month, in addition to buying $40 billion a month in agency mortgage-backed securities.

These bond buying will be funded by essentially creating new money, so the Fed's $2.8 trillion balance sheet will likely increase by around 40 percent in a year.

While the spectre of printing more money weighs on the dollar, how much that stimulus will help the U.S. economy is an open question, with some market players expecting diminishing impact from the Fed's repeated quantitative easing.

"I can't remember shares falling on the day of announcement of previous QE. U.S. bonds also fell even though what the Fed will do is to improve the market's supply-demand dynamics," said Daisuke Uno, chief strategist at Sumitomo Mitsui Bank.

"The market's reaction raises concerns that the market may be becoming more worried about the policy's side effect, which includes deterioration in the Fed's balance sheet," he added.

U.S. shares ended flat, having erased earlier gains, while long-dated U.S. bond prices fell, with 30-year bond yield hitting a five-week high.

As the dollar wilted, the euro hit one-week high of $1.3098 on Wednesday and last stood at $1.3067, little changed on the day.

The euro had additional support after former Italian prime minister Silvio Berlusconi, who roiled the nation last week by abruptly withdrawing support for Prime Minister Mario Monti's technocrat government, offered to stand back and suggested Monti could become the centre-right's candidate.

The Australian dollar hit two-month high of $1.0585 on Wednesday and last stood at $1.0550, flat on the day, while the British pound also hit six-week high of $1.6173 before stabilising at around $1.6140 .

The yen, however, bucked the trend and weakened against the dollar, as market players ramped up selling ahead of potentially yen-negative events in coming days.

The dollar rose 0.5 percent to 83.59 percent , edging near its March high of 84.187 yen. The yen also fell to its weakest level in 1 1/2 years against sterling, which fetched 134.88 yen .

The Bank of Japan's Tankan survey is out on Friday and will likely show sentiment among manufacturers deteriorated in the three months to December, adding to calls for bolder action from the BOJ to stimulate the world's third biggest economy.

The BOJ meeting will take place after Sunday's election which looks set to see the opposition Liberal Democratic Party clinch a resounding victory. LDP leader Shinzo Abe has been pushing the BOJ for more powerful monetary stimulus.

MARKET REVIEW *(Continued)*

Part of the reason for the rise in dollar/yen was higher U.S. Treasury bond yields, which makes the dollar relatively more attractive against its low-yielding Japanese peer.

"Dollar/yen has been moving up for a little while now and you're seeing the trend continue. It gets moved a fair bit by U.S. yields and those moved up despite what the Fed did, shows you a bit of market positioning," said Joseph Capurso, a strategist at Commonwealth Bank.

Elsewhere, the Swiss central bank is expected to keep its cap on the franc at 1.20 franc per euro at its policy announcement at 0830 GMT.

(Inside Metals is compiled by Shruthi G in Bangalore)