INSIDE METALS

Tuesday, December 4, 2012

CHART OF THE DAY

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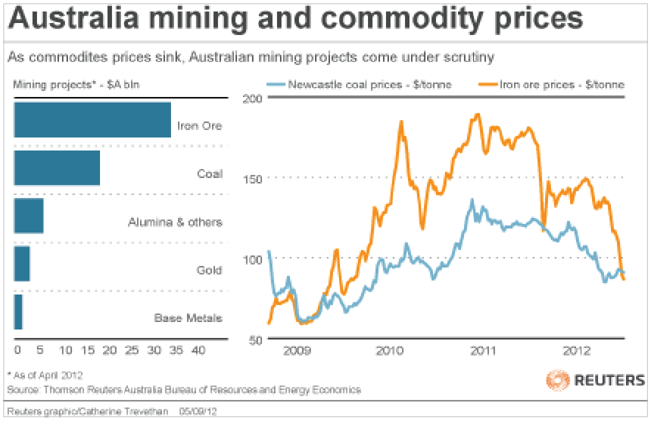

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FEATURE

COLUMN- Iron ore may outperform copper on price-ratio analysis

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

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Do stock levels affect metal prices? Specifically, do London Metal Exchange (LME) prices have any statistical relationship to the amount of metal stored in the LME warehouse network?

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

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TODAY'S MARKETS

BASE METALS: London copper fell for the first time in four sessions pulling away from six-week highs hit in the prior session, as U.S. economic and fiscal worries countered optimism that top copper user China is on the road to recovery.

"Copper is expensive from a valuation point of view and China is really just stabilising and gathering a bit of strength," said Dominic Schnider, head of commodity research at UBS Wealth Management.

PRECIOUS METALS: Gold fell about 1 percent to its lowest in nearly a month on technical selling after prices broke below key support levels, but the dip may lure bargain hunters who expect the gloomy global economy to keep gold buoyant.

"The break probably will not last long," said a Sydney-based trader. "Funds are happy to buy on dips, and so will the central banks and the Chinese."

FOREX: The euro rose to a six-week high against the dollar extending the previous day's rise on positive news on Greece and Spain, with traders reporting real money accounts buying the currency.

The euro rose to \$1.3077, just above the previous day's high of \$1.3076 and its highest since Oct. 22, according to trading platform EBS. Traders reported stop loss buy orders above \$1.3100.

THOMSON REUTERS

FEATURE

COLUMN-Iron ore may outperform copper on price-ratio analysis

By Clyde Russell

LAUNCESTON, Australia, Dec 4 (Reuters) - Copper and iron ore demand and prices both stand to rise, given the improvement in both of China's purchasing managers' surveys, but the steel-making ingredient may have scope for bigger gains.

While there are fundamental reasons why iron ore may outperform copper, perhaps the most convincing analysis is looking at the price ratio between the two.

Benchmark three-month Shanghai Futures Exchange copper futures , converted to U.S. dollars, currently trade about 80 times the price per tonne of spot iron ore.

While this is down from the 101 times recorded on Sept. 4, it's still near the highest since iron ore swaps started trading in Singapore in 2008.

Looking at the ratio between the two over the past four years, there have been about three periods when the ratio has reached levels above 80 for a sustained period before the current occurrence.

In March 2009, the ratio was about 83 times, in September of the same year it was above 95 and in October last year it was 81.

Each time the ratio has reached these levels, it has subsequently moved lower.

For example, by mid-August 2009 it was down to 68, by April 2010 it fell to 47 and in November 2011 it was 59.

What is common to the three examples above is that every time the ratio was high, it moved lower by iron ore rallying harder than copper.

Likewise, every time the ratio widened again it was because iron ore fell faster than copper.

In the current situation the ratio has narrowed from the 101 seen in September, but given it's still as high as 80, there would appear to be scope for it narrow even further.

This analysis also shows that the iron ore market appears to be more volatile and tends to overshoot to both the top and the bottom of each pricing cycle.

Graphic of Shanghai copper vs. spot iron ore:

http://link.reuters.com/qup44t

It's apparent now that iron ore's third-quarter slump to a low of $86.70 a tonne, the weakest price in three years, was worse than justified even by the slowing of growth in major buyer China.

At the time iron ore was crashing, Shanghai copper was relatively stable in dollar terms, and iron ore's subsequent rally to current levels around $115 a tonne still leaves plenty of room for the ratio to the copper price to narrow further.

It would take an iron ore surge to above $150 a tonne to bring the ratio back to 60 times, a level historically associated with times when iron ore starts to once again underperform copper.

It's also worth pointing out that just because the ratio has narrowed in the past due to iron ore rallying, this doesn't mean this will necessarily happen again.

It could be that this time copper declines while iron ore remains relatively stable, and certainly there are a few reasons to believe the red metal may struggle.

Rising mine supply in 2013, anecdotes of elevated levels of unreported stockpiles in China and an uneven economic recovery may weigh on copper.

The official China Purchasing Managers' Index, which rose to a seven-month high of 50.6 in November, also shows growth is being led by the state sector, with large enterprises undertaking infrastructure spending.

This is probably more supportive of iron ore, given that building infrastructure such as railways tends to be more steel- than copper-intensive.

In the present environment of a modest recovery in China, being led by state capital expenditure, it seems that iron ore is a better bet than copper.

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

COLUMN-Dr Copper's blind spot claims another victim

By Andy Home

LONDON, Dec 03 (Reuters) - Do stock levels affect metal prices? Specifically, do London Metal Exchange (LME) prices have any statistical relationship to the amount of metal stored in the LME warehouse network?

This is not a trick question about aluminium or zinc. Both metals are carrying high levels of legacy stocks and both are still widely assessed as being in underlying supply-demand surplus, factors which combine to mute any stocks-specific price signals.

So, for example, when another 35,925 tonnes of zinc are delivered into LME warehouses in New Orleans, as was the case in this morning's stocks report, does it really matter?

There were already 1.2 million tonnes of the galvanising metal in the LME system. Does another 36,000 tonnes tell us anything more about the state of the market? The zinc price reaction this morning suggests not.

Nor is it a question about the "warehouse wars" that have afflicted the LME storage network over the last couple of years. The tug-of-war for metal between warehouse operators and between stocks financiers and manufacturers generates so much "noise" that any signal about the state of metals demand is drowned out.

FEATURE

Huge clips of metal are cancelled and moved out of the LME system even as more huge clips of metal enter it, making any read-through to the "real" market impossible.

But again, the "wars" can only rage when there are sufficient amounts of surplus metal to make the stocks financiers a profitable turn on their trade and to entice warehouse operators to seek extra storage revenue.

THE COPPER QUESTION

So what of a market such as copper that has been in underlying deficit for many years and which, as a result, is carrying historically low stocks? Intuitively, most analysts would argue that there must be some sort of linkage between inventory levels and price in such a market dynamic.

Not, however, according to U.S. regulator the Securities and Exchange Commission (SEC). The SEC has conducted a regressive analysis looking for a correlation between LME stocks of copper and the price of the red metal and has concluded "there is not a strong statistical relationship" between the two.

The study was occasioned by industry complaints about the potential market impact of two copper exchange-traded funds (ETF) backed by physical metal, namely the J.P. Morgan Copper Trust and the rival iShares Copper Trust.

Between them the two ETFs could suck in up to 180,000 tonnes of physical copper, a prospect that has alarmed copper fabricators. They understandably fear that the potential removal of the equivalent of 70 percent of current LME warehouse stocks might just have some impact on price.

Link to the SEC report:

http://www.sec.gov/comments/sr-nysearca-2012-28/nysearca201228-19.pdf

THE MISSING LINK

The SEC's rebuttal of these concerns is bad news for opponents of the proposed ETFs but is also so counter-intuitive that it merits a closer look. The first test conducted by the SEC was to look for a daily link between LME copper stock changes, with one day's lag, and the LME settlement price. It found no statistical relationship.

Now, this is not really surprising. There was a time when the release of the LME stocks report could indeed have an almost immediate price impact. But you'd have to go back many years to the time when the LME only released its warehouse reports twice a week.

That gave the reports a rarity value, reinforced by the fact that net changes could often be surprising because they aggregated several days' worth of warehouse movement.

The twice-weekly snapshot on the underlying market was eagerly anticipated with trading desks often holding in-house sweepstakes on the likely numbers. It was also often a key price signal, capable of setting the trading tone for the rest of the day.

The LME's shift to daily stocks reporting, however, reduced this rarity value. The market started to look beyond daily stock movements to focus more on underlying trends. But it was the second innovation by the LME, also in the 1990s, that really broke for good any linear relationship between headline stocks and price, whether real-time or one-day lagged.

The addition of a cancelled warrant total in the reports introduced what was in effect a leading indicator of "out" side activity, the most important part of the stocks equation in a deficit market such as copper. Actual draw rates from the system could be guess-timated from the preceding days' rate of cancellation. Not a perfectly symmetrical relationship, true, but strong enough to mitigate any real surprises in terms of daily outflow.

It's a shame that the SEC didn't specifically look at this aspect of the LME reporting system but if it had, it probably wouldn't have found much linkage either since metal can be cancelled several days, if not weeks, ahead of actual drawdown and the impact on price is often cumulative.

One 5,000-tonne cancellation may not excite the market but a daily string of similar-sized cancellations can start to alter market perceptions because it is a strong trending signal, albeit one that probably defies simple statistical calculation of the sort tried by the SEC.

A MORE COMPLEX RELATIONSHIP

What the SEC did do was to search for potential deeper, longer-term relationship trends. It did this by looking at monthly changes in LME copper prices against the previous month's change in both LME stocks and in "total" stocks over the January 2002-June 2012 period.

Here the results were far more ambiguous. While it could still find no correlation between LME stocks and price, it did find a relationship between "total" stocks and price.

"Total" stocks here is defined as inventory held on the LME, in the NYMEX warehouse system, in Shanghai Futures Exchange (SHFE) warehouses as well as non-exchange stocks. The latter input was taken from the monthly data generated by the International Copper Study Group (ICSG). Such a linkage suggests a far more nuanced, more complex relationship between LME price and inventory, with more weight given to signals from China, the single-biggest driver of copper and other metal demand patterns. That tallies better with the "intuitive" position that stocks and prices are related with the important caveat that the LME is now only a part not the totality of that relationship.

BLACK HOLE

However, the SEC's findings are still inherently flawed because the statistics it has based its analysis on are also inherently flawed.

What they don't capture, because the ICSG figures don't capture it, is the trend in Shanghai bonded stocks.

FEATURE *(Continued)*

Remember that these do not appear in the ICSG's statistical calculations because there is no statistical methodology for counting them. Copper arriving at Shanghai's bonded zone is counted as an "import" and goes towards the calculation of apparent demand in China.

This statistical "black hole" has plagued copper analysts for several years now but it has assumed ever greater importance over the last 12 months or so.

Consider, for example, the fact that combined exchange stocks of copper fell by 100,500 tonnes over the first 10 months of this year and the consensus estimate that Shanghai bonded stocks have increased by something like 400,000 tonnes to around 800,000 tonnes over the same time frame.

Quite evidently, the build in Shanghai bonded stocks has outweighed every individual component of the exchange stocks picture, including the LME, and indeed the cumulative trend.

LME stocks are still historically low at around 250,000 tonnes but any resulting price impact is lessened because the market "knows" that there is a lot of metal in Shanghai, some of which could easily be delivered to the LME system.

Dr Copper's blind spot, the Shanghai bonded warehouse zone, has, it seems, claimed another unwitting statistical victim.

Just because the Shanghai bonded stocks mountain can't be statistically calculated doesn't mean that it doesn't exert a major price influence.

Indeed, it might be argued that it is the invisible part of the global stocks picture that has become the most significant part in terms of price over the last year or so.

The SEC team charged with looking for stocks-price correlations in the copper market might have done better if it had remembered that old statistical maxim: "Not everything that counts can be counted, and not everything that can be counted counts."

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

GENERAL NEWS

Australia central bank cuts rates to record-matching lows

SYDNEY, Dec 4 (Reuters) - Australia's central bank cut interest rates a quarter point to a record-matching low on Tuesday, stepping up efforts to safeguard the rich world's most resilient economy from the risk of recession as a mining boom peaks.

The Reserve Bank of Australia (RBA) cut its main cash rate to 3.0 percent following its monthly policy meeting, bringing the easing since May to 125 basis points and matching the trough hit during the darkest days of the global financial crisis.

"While the full effects of earlier measures are yet to be observed, the Board judged at today's meeting that a further easing in the stance of monetary policy was appropriate now," said the central bank's governor, Glenn Stevens.

"Looking ahead, recent data confirm that the peak in resource investment is approaching. As it does, there will be more scope for some other areas of demand to strengthen."

Financial markets were almost fully priced for an easing given signs the seven-year old bonanza in mining investment is finally likely to crest next year, leaving a hole in growth that needs to be plugged by other sectors of the economy.

The move was so well discounted the local dollar actually firmed a quarter of a cent to $1.0445 on the news.

Yet, investors are still wagering official rates will have to go lower yet to truly stimulate demand among cautious consumers and a lacklustre housing market.

Interbank futures suggest the central bank rate could approach 2.5 percent by the middle of next year, while some economists think a floor of 2 percent is not impossible.

"I think the RBA realises it needs to do more to boost the non-mining parts of the economy," said Shane Oliver, chief economist at AMP Capital Investors in Sydney.

"What it doesn't do is to offer much guidance as to the future, but my feeling is they still have to cut further. They will probably do 25 (bps cut) in February and then 25 in April."

One reason for that is the stubborn strength of the Australian dollar.

In the global financial crisis, the currency tumbled by 30 U.S. cents, giving a big boost to exports. This time foreign demand for Australia's triple-A rated debt has helped it stay solidly above parity.

China has also played a part by accepting more moderate growth at home and thus restraining demand for Australia's commodity exports, leading top miners such as Rio Tinto and BHP Billiton to announce a slowdown in future expansion plans and job cuts.

The Asian giant is Australia's biggest trade market and the single largest buyer of iron ore. Graphic of global rates:

http://link.reuters.com/xyb96s

Terms of trade: http://link.reuters.com/tup69s

GDP real vs nominal: http://link.reuters.com/tyb96s

Cash rate vs terms of trade: http://link.reuters.com/tum92t

It helped Australia avoid recession during the global crisis by unveiling a 4 trillion yuan ($635 billion) stimulus package that led to a wave of infrastructure development and demand for resources.

GENERAL NEWS *(Continued)*

Australia's mining investment in the year to June 2013 is expected to total A$109 billion, or nearly 8 percent of GDP, way above the long-run average of 2 percent.

CONSUMER CAUTION, FISCAL TIGHTENING

Even after Tuesday's cut, Australian rates are still among the highest in the developed world.

With rates near zero in the United States, Japan and Britain, those countries have taken ever more exotic stimulus steps including buying massive amounts of government debt.

And, as yet, lower rates have had only a limited impact on consumers, with retail sales disappointingly flat in October and demand growth for credit the lowest in decades.

The housing market has also been less than stellar. The Statistics Bureau on Tuesday reported approvals to build new homes slid 7.6 percent in October, so reversing much of September's hefty 9.5 percent increase.

The impact of lower export prices was clear in Australia's trade deficit, which more than doubled in the third quarter. As a result, the current account deficit widened by a fifth to A$14.9 billion ($15.5 billion), according to figures from the Australian Bureau of Statistics.

Fortunately, export volumes managed to outpace imports and so add 0.1 percentage point to economic growth in the quarter.

However, that was more than offset by government penny-pinching as the ruling Labor Party struggles to return the budget to surplus in 2013, years before most other rich nations.

Data out Tuesday showed government spending fell by 2.0 percent in the third quarter, largely due to a big drop in defence investment. That was a steeper fall than many analysts had expected and could take around half a percentage point from economic growth in the quarter.

It was no surprise then that Treasurer Wayne Swan warmly welcomed the RBA's largesse.

"Today's rate cut is the early Christmas present that hard-working Aussies deserve," he told reporters. "It comes at a time where unemployment is low, and economic growth is in much better shape than many other developed economies."

Figures for gross domestic product (GDP) are due on Wednesday and were expected to show moderate growth of around 0.6 percent in Australia's A$1.4 trillion economy.

Such a result would see growth for the year slow to a still-respectable 3.2 percent, from 3.7 percent. But the balance of risks seems biased to the downside going into 2013.

Analysts estimate that fiscal tightening alone could shave between 0.75 and 1.5 percentage points off GDP growth in the year to end June 2013.

U.S. manufacturing contracts to weakest in 3 years

NEW YORK, Dec 3(Reuters) - U.S. manufacturing unexpectedly contracted in November to its lowest level in more than three years, as companies worried about whether lawmakers in Washington could reach a budget deal in time avert a crisis that many fear could lead to a recession.

The Institute for Supply Management (ISM) said on Monday that its index of national factory activity fell to 49.5 in November from 51.7 the month before. The reading was shy of expectations of 51.3, according to a Reuters poll of economists.

The figure was the softest since July 2009 when the U.S. economy was struggling in the aftermath of the financial crisis. Economists said the November slide may have been aggravated by superstorm Sandy, which devastated the U.S. east coast in late October, as well as uncertainty over budget negotiations in Washington.

The return to contraction - when the index falls below 50 - surprised many economists and investors who had hoped that two straight months of growth meant the economy had gotten over the weakness seen during the summer months.

Still, economists were divided on the impact of one-off events such as Sandy and the fiscal cliff negotiations. Some said that although the sector expanded over the previous two months, the trend was anemic growth, akin to stagnation.

"Since May the index has been very close to 50 and I think what we are seeing is that manufacturing has stalled and has yet to recover," said Christopher Low, chief economist at FTN Financial in New York.

U.S. stocks lost ground after an earlier rise on Chinese reports that showed manufacturing in the world's second-largest economy picked up during the month. At midday, the S&P 500 and Dow Jones industrial average were about flat.

Investors are wary about negotiations in Washington aimed at averting the so-called "fiscal cliff", a series of tax hikes and spending cuts that economists say could push the economy into a recession.

Recent data also showed U.S. consumer sentiment weakened in November amid growing uncertainty over federal tax and spending programs next year.

"Overall, today's report suggests that the manufacturing sector is likely to remain a weak point in the recovery for a few months yet," said Jeremy Lawson, an economist at BNP Paribas in a research note.

But the ISM survey was at odds with a separate manufacturing survey also released on Monday. Financial information firm Markit said rising demand from domestic and foreign customers helped U.S. manufacturing grow in November at its quickest pace in six months, though hiring remained sluggish.

GENERAL NEWS *(Continued)*

US ISM manufacturing PMI

http://link.reuters.com/vuk44t

US Markit final manufacturing

PMI Nov http://link.reuters.com/myk44t

ISM's survey, which focuses more on large companies, also seemed to contradict a survey of smaller firms published on Monday, though this survey was conducted a month earlier.

The Thomson Reuters/PayNet Small Business Lending Index showed borrowing by small U.S. businesses rose in October, as the central bank launched its latest round of monetary stimulus to encourage borrowing and spending.

U.S. October construction spending was a bright spot as the housing sector recovery appeared to be gaining traction. Spending rose by the most in five months, with stronger spending on homes outpacing tepid gains in business and government projects.

The mixed evidence means some economists are taking a more optimistic view.

"As long as Congress reaches a deal to avoid the cliff, then activity should bounce back next year," said economists at Captial Economics in a research note. "Any hit from Sandy may be reversed before then."

Several automakers on Monday reported strong U.S. new-car sales for November as the industry rebounded from a weak October while also benefiting from pent-up demand.

Monday's reports marked the start of a relatively busy week for economic data releases that comes to a head on Friday with the closely watched monthly payrolls report for November. Economists in a Reuters poll expect 93,000 jobs were created during the month, down from 171,000 the month before.

Polymetal may double capacity of Albazino gold project

MOSCOW, Dec 3 (Reuters) - Russian precious metals miner Polymetal said it would decide next year whether to double production capacity at its Albazino gold project in Russia's far east after doubling its estimate of mineral resources there.

"Exploration results at Albazino highlight the tremendous potential of this asset and pave the way for the expansion decision to be taken in the second half of 2013," Vitaly Nesis, Polymetal chief executive, said in a statement on Monday.

The company, controlled by Russian businessmen Alexander Nesis and Alexander Mamut along with Czech private equity investor PPF, is considering increasing its capacity to 3 million tonnes of ore per year, company spokesman Andrey Abashin said, adding that its capital expenditure had not yet been determined.

Polymetal has already invested $270 million in the project and would need another about $150 million to double the concentrator capacity, analyst Sergey Donskoy at Societe Generale said, citing previous management comments.

The company has increased its estimate of mineral resources at Albazino to 5.7 million ounces of gold in five ore zones and expects to determine a development plan after completing a study in the second quarter.

Including Albazino, Polymetal has increased its total resources estimate by 30 percent to 18 million ounces of gold equivalent since the start of the year.

Albazino, its second greenfield mine after Khakanja in Russia's Far East, is located approximately 440 kilometers from the Amursk POX hub. The deposit comprises an open-pit mine and on-site flotation concentrator of 1.5 million tonnes of ore per year, which is running at full capacity.

Shares in the company were up 0.94 percent at 10.72 pounds by 1134 GMT, compared with a gain of 0.31 percent in the FTSE 100 index, which it joined last year.

Polymetal is expected to produce 1.2 million troy ounces of gold equivalent in 2013, including 760,000-800,000 troy ounces of gold and 23-24 million ounces of silver.

Gold equivalent is a measure of gold and other metals expressed in units of gold.

Russia's 10-mo gold production up 5.2 pct y/y-lobby

MOSCOW, Dec 4 (Reuters) - Russian gold companies increased gold production by 5.2 percent in the first ten months of 2012 compared to the same period of last year, the industry lobby said on Tuesday.

Total gold production stood at 186.4 tonnes (5.99 million troy ounces) in January-October of 2012, including mined output, output of gold as a by-product of other metals and refining from scrap, the Gold Industrialists' Union said.

Mined output rose 6.8 percent year-on-year to 168.0 tonnes.

The lobby said in March that Russian gold production growth could slow to 3 percent this year from 3.6 percent last year, as output declines at several major mines.

Russian companies produced 209 tonnes of gold in 2011.

TRADING PLACES

Complaint over aluminium logjams reaches EU watchdog - consumers

LONDON, Dec 3 (Reuters) - The European Union's competition watchdog has received a complaint against owners of metal warehouses for being so slow to release aluminium that it is forcing up prices for manufacturers, a consumer body said.

"I'd expect the competition authorities to be looking at this as the subject has been raised with them," said Malcolm McHale, president of the Federation of Aluminium Consumers Europe (FACE).

FACE and other consumer sources did not name the warehouse companies concerned in the complaint to the European Commission Directorate General for Competition. Any delays at warehouses mean buyers pay more in storage costs before they take delivery of the metal.

Glencore and Trafigura are among commodity trade houses that own warehouses in Europe registered by the London Metal Exchange (LME), the world's biggest metals marketplace.

Both Glencore and Trafigura, contacted by Reuters, declined to comment on the complaint.

Some metal market participants say trading companies are acting within their rights and that long queues are largely the result of the difficulty and expense of moving aluminium out of vast sheds in ports such as Vlissingen in the Netherlands.

The European Commission competition body and the LME declined to comment on the report of a complaint.

Consumer sources said the watchdog, which has the power to impose fines of up to 10 percent of company revenues, had not yet opened an investigation, although it has to follow up on complaints.

"When someone says the market is being kept short, and big finance houses who are LME members are managing massive inventories of metal in warehouses and outside warehouses, where else would you go but the competition authorities," McHale of FACE said.

McHale declined to say when the complaint had been made or to name the consumers who had complained. One industry source said they included a major maker of aluminium goods.

The complaint follows one made by aluminium manufacturers to the commission's enterprise and industry department, which is also inquiring into the accusations. A source said the same companies had complained to competition authorities.

The controversy over warehousing is now a problem facing the LME's new owner, Hong Kong Exchanges and Clearing Ltd (HKEx) , whose $2.2 billion takeover of the metal exchange was approved by British regulators last week.

Warehouses registered by the LME at ports around the world are supposed to allow companies that need metal to take delivery of supplies, if necessary, against the exchange's futures contracts.

Normally the consumers would buy metal under long-term contracts, but the warehouse network allows the LME to perform its role as a market of last resort.

Manufacturers have long struggled to compete for aluminium supply with banks and trade houses that hold stockpiles of the metal for years on end as collateral for finance deals.

Their problems have come to a head as queues, sometimes lasting months, have developed across the LME warehouse network.

Industrial consumers say the queues result from warehouse owners concentrating metal into sheds at single locations and releasing it only at the minimum daily rate mandated by the LME.

SURCHARGES

The result, makers of aluminium goods say, is to keep even more metal away from industrial buyers, pushing up surcharges or "premiums" for the metal.

A concern is that the queues have developed only at LME warehouses owned by banks or commodity traders. Critics say they stand to profit both from high premiums and from gaining insight into price drivers such as warehouse inventories.

"It is a conflict of interest but there is no law that prohibits banks and trade houses owning warehouses or financing the storage of commodities. The problem is when this conflict of interest translates into anti-competitive practice," said a source who is in contact with the competition authorities.

Spot market aluminium premiums - paid over the LME cash price to secure physical delivery - have risen so high this year they increasingly form a key part of the revenue of aluminium producers, even helping keep some smelters afloat.

Manufacturers of items like soft drink cans, however, say the premium has at times exceeded the conversion charge they get for turning aluminium into finished products, prompting some to lobby the authorities.

"There's quite a number of extruders that have had to reduce or shut down capacity. It's impossible to pass through increased premium costs," said an executive at a major aluminium fabricator based in Europe. The LME, which has come under criticism for its handling of warehouse backlogs, recently raised its minimum load-out rate in a bid to prevent other metals like nickel, tin, copper and lead from getting stuck behind the queues for aluminium, and more recently, for zinc.

It says that queues exist primarily because of a metal surplus made profitable by financing deals, and that it cannot eliminate them through raising the load-out rate. It also says it cannot dictate who owns its warehouses. Metal buyers hope the exchange's new owners might tackle the problem forcefully, especially as the big banks and trade houses who own the warehouses have less influence on its policy after they sold their LME shares during the takeover.

MARKET NEWS

PNG's Ok Tedi mine nears shutdown due to drought

SYDNEY, Dec 4 (Reuters) - The Ok Tedi mine, one of Papua New Guinea's largest operating copper mines, is two weeks away from temporarily shutting down due to a drought that has brought river transport to a halt and cut off fuel supplies, a company official said on Tuesday.

The mine, which produces about 150,000 tonnes of copper in concentrate a year, ships the material by a pipeline and barges more than 1,000 km (600 miles) to silo vessels in the Gulf of Papua, before it is loaded on to freighters.

Dry conditions have caused problems to shipping from Ok Tedi a number of times in the past.

"We have maybe 14 days before halting production," Nigel Parker, managing director of Ok Tedi Pty Ltd, told Reuters. "We've already slowed down."

However, Parker said, the situation had yet to reach a stage where the company needed to invoke the contractual clause of force majeure to release it from the obligation to deliver concentrate to buyers on time.

Ok Tedi sells the ore to 10 smelting companies in Asia and Europe. "We haven't declared force majeure, not yet," he said.

Low water levels on the Fly River have stopped both the transport of concentrate and the delivery of diesel fuel supplies to the mine, Parker added. "We're still producing concentrate, so our storage sheds are filling up."

In 2011, the mine, majority-owned by the PNG Sustainable Development Program Ltd, was shut for a total of five weeks due to separate incidents when a worker was killed and a pipeline transporting concentrate ruptured.

Separately, Parker said Ok Tedi was close to signing off on a plan to extend until 2025 the life of the mine, which is now scheduled to shut permanently in 2014.

An extension, enabling the mine to produce at two-thirds its current capacity, requires nine separate community groups representing 150,000 residents around the operation to sign off on compensation and other agreements.

Seven of the groups had already approved and the last two were voting this week, according to Parker.

"We have no doubt this will go ahead," he said. "We've already started working on the extension.

Ok Tedi was also looking at ways to acquire the neighbouring undeveloped Frieda River copper project, which world number 4 copper producer Xstrata is considering to sell outright or in part rather than develop, according to Parker.

"As (Ok Tedi) managing director I would love to (acquire Frieda River), but there's a long way to go," Parker said. "It makes sense geographically and I am pursuing that."

He said Frieda River represented a "national asset" for Papua New Guinea that should not be allowed to wither.

Like other major miners under pressure to conserve capital amid uncertainty over global growth, rising costs and falling commodity prices, Xstrata flagged in June that it could slow project spending.

Chinese companies, possibly including Metallurgical Corp of China (MCC) , could be interested in Xstrata's stake, analysts have speculated.

Frieda River has an estimated resource of 12 million tonnes of copper and 18.5 million ounces of gold, and could produce 246,000 tonnes of copper a year, according to a pre-feasibility study in 2010.

Vale to scale back investment as global economy bites

RIO DE JANEIRO, Dec 3 (Reuters) - Brazil's Vale SA , the world's second-largest mining company, cut estimated 2013 capital spending by 24 percent after a global slowdown and a drop in iron ore prices led the company to rethink expansion.

The retrenchment comes after sluggish growth in the United States, China and Europe diminished demand for metals and weighed on the price of iron ore, Vale's main product.

Iron ore, a key ingredient in steel, fell to a three-year low in September, and is currently hovering around $115 a tonne. Vale forecasts a $110-$140 a tonne range in the coming year.

Vale will invest $16.3 billion in 2013, down from the $21.4 billion budgeted this year for new projects, research and development and to maintain existing mines and plants, according to a regulatory filing on Monday.

"The outlook for slower expansion of global demand for minerals and metals in the medium term requires rigid discipline in the allocation of capital and greater focus in maximizing efficiency and reducing costs," the company said in the statement.

Vale's 2013 investment plan is the smallest since 2010. Among cuts, Vale confirmed the removal of its Simandou iron ore mine in Guinea, and the Samarco IV pellet plant with Australia's BHP Billiton Plc in Brazil from the list of active projects.

BHP and Vale each own half of the Samarco mine, slurry pipeline, pellet production and port project.

The Lubambe copper mine in Zambia was removed from the project list after output successfully started, Vale said. The mine is a joint venture with African Rainbow Minerals and Zambia Consolidated Copper Mines Ltd.

Vale is also considering selling its 22 percent stake in Norwegian aluminum group Norsk Hydro , Chief Financial Officer Lucianao Siani said.

Vale obtained the stake when it sold its aluminum business to Norsk in 2010. The agreement requires Vale to hold the stock until February 2013, although the company is eager to divest non-core assets.

"Vale's saying 'we're an iron ore company, this is not iron ore (and) we've got enough trouble in iron ore right now,'" an analyst

MARKET NEWS *(Continued)*

said. "(The Hydro stake sale) was just a way to get the deal done and monetize it."

Vale, which is Brazil's largest rail and port operator, may also sell 50 percent to 70 percent of its new logistics company VLI SA, far more than the 33 percent originally planned, Chief Executive Murilo Ferreira said. VLI will operate in the non-mining-related general cargo business.

Some analysts said the cuts and planned asset sales failed to go far enough.

BHP 'GOES FURTHER'

"It would be more significant if there were significant changes to capex on core projects, particularly in Brazil," said Wiktor Bielski, head of commodity research at VTB Capital in London.

BHP Billiton has halved capital spending over the next five years, a posture that offers better returns to shareholders, he said.

Vale is still concentrating on too many new mining projects and not looking for enough ways to increase output from existing assets, Bielski added.

"Vale should follow this business model," he said, referring to what he called BHP's more aggressive shedding of new, so-called greenfield projects and focus on older assets.

Vale, though, trumpeted a sharp tightening of financial discipline and a willingness to consider the sale of any and all assets that fail to provide an adequate return.

The era in which the company expanded in all directions is at an end, Ferreira told investors in New York.

"The super-cycle in mining is over," Ferreira said, referring to a decade-long boom led by growing Chinese demand.

"While there is still growth in the iron ore market, it will be slower," iron ore and strategy chief Jose Carlos Martins said at the same event.

IRON ORE FOCUS

Vale's cuts began earlier this year. Final 2012 spending is not expected to surpass $17.5 billion, 18 percent less than originally planned, the company said. Vale spent a record $18 billion in 2011, one-fourth less than the $24 billion initially budgeted for the year.

Since 2008, actual annual capital expenditure has been an average 18 percent below initial investment plans.

Vale plans to focus on iron ore, dedicating 47 percent of 2013 capital spending to the mineral. That is about the same percentage as budgeted in 2012 despite a 22 percent cut in overall spending on iron ore mines, processing and transport facilities and iron ore pellet plants.

Vale, the world's largest producer and exporter of the mineral, accounts for more than a quarter of the world's seaborne iron ore exports.

While the company is also a major producer of nickel, copper and fertilizers, it gets about 90 percent of its profit from iron ore.

The company's outlook for 2013 iron ore sales is down 1.9 percent to 306 million tonnes from the original 2012 estimate of 312 million tonnes.

Spending on coal projects next year is expected to rise to 10.6 percent of the total from 6.9 percent this year. Vale expects to sell 12.4 million tonnes of coal in 2013, a quarter less than its 2012 estimate. Production is unlikely to pick up until 2014, Vale said.

KEY MINE COSTS RISE

The share of basic metals, where Vale has experienced difficulties with production and efficiency at nickel and copper projects, was raised to 23 percent of spending. The 2013 budget cut base metal spending by 18 percent, to $3.78 billion.

Vale expects to sell 260,000 tonnes of nickel in 2013, or 13 percent less than its estimate for 2012.

Under the 2013 investment plan, Vale expects to spend $10.1 billion, or 62 percent, on new projects; $1.1 billion, or 6.7 percent, on research and development; and $5.1 billion, or 31 percent, to maintain existing mines and facilities.

Vale said it needs less research into new mines and development of projects now that the world economy has slowed. Part of the cutbacks began earlier this year when Vale pulled engineers and other staff from the Simandou project in Guinea.

The need to increase efficiency was underlined by a surge in expected investment in two of the company's largest projects.

The plan to add 40 million tonnes a year of iron ore capacity from mines in the Carajas region of Brazil's Amazon rose to $3.48 billion, 17 percent more than the company estimated in October in its third-quarter earnings report.

Spending on the company's Long Harbor nickel and cobalt mine project on the Labrador coast of Canada's Newfoundland province rose 18 percent to $4.25 billion as a result of rising labor and engineering service costs.

Vale preferred shares, the company's most-traded class of stock, fell 0.87 percent to 36.38 reais on the Sao Paulo BM&FBovespa exchange, their first decline in three days.

Brazil's Vale sees derivatives market developing in iron ore

NEW YORK, Dec 3 (Reuters) - Brazil's Vale SA , the world's second largest mining firm, said on Monday it expects a huge derivatives market in iron ore to eventually take shape as players seek hedging instruments to minimize risk from increasingly volatile prices.

"I believe a big financialization of the iron ore market will be inevitable," Jose Carlos Martins, who runs the iron ore business

MARKET NEWS *(Continued)*

for Vale - the world's single largest producer of the commodity - said at a news conference in New York.

The price of iron ore, a key ingredient for steel, fell by a third in China's spot market in August before recouping all of its losses over three months.

The stormy price action was a result of a supply deluge, followed by a surge in demand in China, the world's largest market for iron ore.

"The Chinese have a very big risk appetite towards iron ore because they consume 65 percent of production. Other clients of iron ore who cannot work with this volatility will have to resort to financial instruments to guarantee market stability," Martins said.

"So, we see an increasing trend in the market to use more financial instruments or derivatives to try and hedge away risk. This will be much bigger in the European and Japanese markets."

The spot price of iron ore, now hovering around $115 a tonne, is still below levels that some producers find profitable. In August, the price fell under $89, below the production cost for at least 30 percent of the world's producers. Vale forecast a price range of $110 to $140 in 2013.

For decades, iron ore sales were decided by an annual benchmark price system negotiated between producers and consumers, with contracts for as many as 10 to 15 years common in a market with predictable price growth, Martins said.

The advent of huge supply-demand from China's booming economy brought unprecedented volatility to the commodity, generating a spot market for iron ore that put pressure on producer-consumer negotiated contracts.

China's top economic planner said in October that the country should move ahead with plans to launch futures contracts to help firms buying the steelmaking raw material manage price risks. Three exchanges - two in India and one in Singapore - are currently trading iron ore futures although liquidity has been thin since trading kicked off last year.

Vale has tried to preserve the negotiated contracts system with its customers by making price adjustments every quarter, but even that seemed inadequate at times in a gyrating spot market, Martins said.

"We believe the future of iron ore will be on deals based more than ever on the spot market, with contract terms of one to three years. Clients will not want long-term contracts," Martins said.

While Vale was closely monitoring the market's move towards greater securitization, it was not playing any leading role in bringing about a change, Chief Executive Murrilo Ferreira said.

"There is no study or plans at Vale to be an active player in the iron ore derivatives market," Ferreira said.

"The pricing system or levels with which clients became comfortable to hedge is not a process that happens overnight. I saw it in copper, I saw it in aluminium. It's really a long-term process."

POSCO in exclusive talks for ArcelorMittal Canada mine stake -source

SEOUL, Dec 4 (Reuters) - South Korean steelmaker POSCO has secured exclusive negotiating rights to acquire a stake in a Canadian iron ore mine operator controlled by ArcelorMittal , a source who has knowledge of the matter said on Tuesday.

POSCO is seeking to form a consortium to buy the stake with South Korea's National Pension Service and other investors, the source said, but declined to elaborate on the size of the planned stake.

The Korea Economic Daily reported on Tuesday that POSCO has been picked as the preferred bidder for a 15 percent stake in ArcelorMittal Mines Canada, a deal expected to be worth more than $1 billion.

A POSCO spokeswoman said the company is considering a bid for a stake in the mine, but declined further comment, saying the matter is confidential.

Steel reprieve comes at price for France's Hollande

PARIS, Dec 2 (Reuters) - Francois Hollande's bid to rescue steel furnaces in France's historic industrial heartland was to be the mark of a president on the side of the workers and a state with the courage to bring a multinational to heel.

But the two-month stand-off over steel giant ArcelorMittal's Florange plant in Lorraine has unnerved investors in the euro zone's second largest economy, confused France's unions and exposed his six-month-old government to international ridicule.

The dispute began in September with reports that ArcelorMittal would shut the idled furnaces at the plant, the last survivor in the once bustling northeastern steel region. The government immediately ordered the company to restart the furnaces or put them up for sale.

Hollande's Socialist allies have hailed as a victory a late-Friday compromise under which ArcelorMittal agreed to invest 180 million euros to expand the site near the German border over five years and hold off making forced redundancies.

But as the European steel sector struggles to cope with overcapacity, the furnaces themselves will remain shuttered for now, and questions remain over the exact fate of the some 630 workers employed there and further funding needed for expansion.

With unemployment at 14-year highs of 10 percent and his popularity ratings at record lows for a president only half a year into his mandate, there was clear political advantage for Hollande to lock horns with Indian steel magnate Lakshmi Mittal.

But the result is at best a no-score-draw, and the tactics used - anti-business rhetoric and the threat of nationalisation - could damage his wider reform effort.

MARKET NEWS *(Continued)*

While his pugnacious, micro-managing predecessor Nicolas Sarkozy led from the front, Hollande let his ministers lead the fight, creating confusion over who runs industrial policy.

Arnaud Montebourg, the firebrand leftist industry minister who pushed the nationalisation option hardest, declared Mittal a persona non grata in France and revealed he had found an anonymous potential buyer ready to invest in the plant.

That was lapped up by international critics including London mayor Boris Johnson, who told executives in New Delhi that the "sans culottes" revolutionaries had taken control in Paris and advised them to bring their investment rupees to Britain.

RHETORIC VS REALITY

Montebourg later retracted his personal attack on Mittal but then had to watch as aides of Prime Minister Jean-Marc Ayrault, who announced the final accord, briefed media that his putative investor was neither "credible or solid".

Facing opposition calls to resign, Montebourg went on local television on Saturday to announce he had Hollande's support and insist he felt "not betrayed, merely let down" by the outcome.

But worse than the damage done to the credibility of one of Hollande's most high-profile ministers, many fear the cacophony further shakes France's image as a place to do business just when it needs all the help it can get to avert recession.

"It has been a disaster," a senior French banker said last week as the episode unfolded.

"Even for sophisticated investors who understand that in France there is a difference between the rhetoric and the reality, this is hugely unnerving."

Elie Cohen, economist at the CNRS public research institute, told the commercial i>Tele television network that by raising the option of nationalisation, Montebourg risked encouraging copycat demands by workers at other struggling sites.

It is still too early to say whether the Florange wrangling will hurt foreign investment in France, which Bank of France data show has grown modestly since the 2008/2009 global turndown to hit 30 billion euros or 1.5 percent of output last year.

Barely noticed last week, U.S. online giant Amazon said it was opening a new distribution centre in northern France that will create up to 2,500 jobs - four times the number at the Florange furnaces and a reminder that 80 percent of France's economy is now in the services sector.

UNIONS FEEL BETRAYED

Vital to France's long-term prospects is whether Hollande obtains in coming weeks the overhaul of the country's unwieldy and expensive labour regulations which he has tasked employers and unions to achieve in negotiations by year-end.

For that, France's trade unions must make unprecedented concessions to allow business more flexibility in hiring and firing. But the government handling of the Florange tussle has left many labour leaders feeling betrayed.

"Until the last minute, basically, we were made to believe that temporary nationalisation was essentially a given," Edouard Martin, head of the Florange chapter of France's large CFDT union, told RTL radio.

"We did not understand this last-minute fix-up in which Jean-Marc Ayrault unveils an option never before discussed ... We get the feeling he was lying to us all along."

A big test now will be whether unions have been riled so much that they stonewall in the labour reform talks. It could also make some more prone to protest if the government makes the extra public spending cuts that analysts say could be needed next year to ensure France hits its deficit-cutting target.

For now, both sides hope the battle of Florange is over.

ArcelorMittal has welcomed a deal that includes commitments on voluntary redundancies and re-deployment of furnace workers elsewhere in its French activities that go little beyond what it would likely have offered without government intervention.

Hollande's office concedes he did not manage to get the furnaces re-opened as he promised during his election campaign, but argue the deal to expand activity in the current poor economic climate is a victory of sorts.

Whether the accord goes ahead in its entirety partly depends on variables outside the two parties' control, including 400 million euros' worth of European Commission funding.

It may not be quite the end of the story.

Referring to the nationalisation threat, one Hollande aide noted: "We are still keeping that revolver on the table."

Canada approves massive Arctic iron ore mine

TORONTO, Dec 3 (Reuters) - Canada, hoping to spur economic development of its far north, has approved the construction of a massive iron ore mine in the Arctic territory of Nunavut that could help top steelmaker ArcelorMittal reduce its dependence on outside suppliers.

The open-pit Mary River project on remote Baffin Island was approved on Monday by the Minister of Aboriginal Affairs and Northern Development, based on the recommendation of the Nunavut Impact Review Board.

"It's a game changer for Nunavut and particularly for Baffin Island," said Minister John Duncan.

The project "will bring infrastructure and much economic activity and many jobs to the area and, of course, revenues to government and to the Inuit organization," he said, referring to the Inuit aboriginals in the region.

That said, Mary River - which could to produce at least 18 million tonnes of iron ore a year over a 21-year mine life - is still years away from production, if it ever gets off the ground.

MARKET NEWS *(Continued)*

The project needs its project certificate and a water license before work can proceed. Baffinland Iron Mines Corp, the ArcelorMittal subsidiary developing the mine, also needs to finalize an impact benefit agreement with the local population.

"This is very much a transitional point for us from the environmental assessment phase to the regulatory permitting phase," said Baffinland spokesman Gregory Missal. "It is a long process but we're getting there."

Once all the pieces are in place, Baffinland will turn to its shareholders to make the call on whether construction will go forward. Arcelor holds a 70 percent stake in the company, with Iron Ore Holdings LP owning the remaining 30 percent. Considered one of the richest undeveloped iron ore deposits in the world, permitting the Mary River project has already taken nearly five years. It is expected to cost some $4 billion to build, including related infrastructure.

ArcelorMittal, which gained control of the rich project after a contentious bidding war in 2011, had been building up its iron ore division in an effort to reduce its dependence on top miners such as Vale SA , Rio Tinto and BHP Billiton .

The company is also in the midst of an expansion at its iron ore projects in the province of Quebec.

Benchmark iron ore prices have tumbled in recent months, reflecting slower demand in China, the world's largest steel-consuming nation. That has prompted miners around the world to scale back on expansions and shelve higher-cost projects.

ArcelorMittal is in exclusive talks with South Korean steelmaker POSCO over the sale of a 15 percent stake in ArcelorMittal Mines Canada, which operates the Quebec projects, a source who has knowledge of the matter told Reuters on Monday.

Situated above the Arctic Circle, Mary River is one of the most isolated mining projects in the world. Temperatures at the site regularly dip below minus 30 degrees Celsius, and there is 24-hour darkness from November to January.

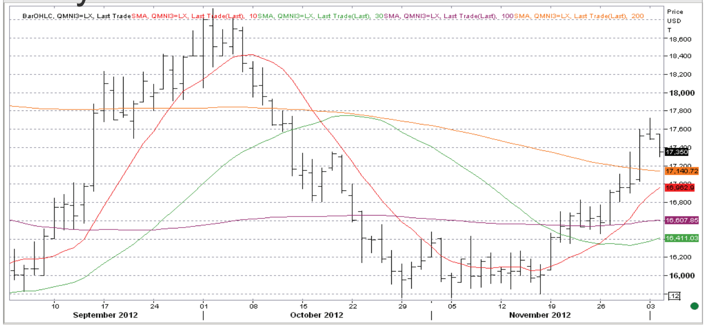
Critics of the project say the mine is simply too ambitious to work in such an inhospitable environment.

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

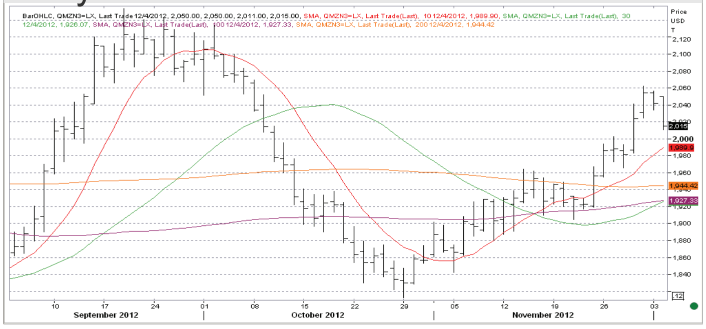
Daily LME Aluminium 3-months

Daily LME Copper 3-months

Daily LME Nickel 3-months



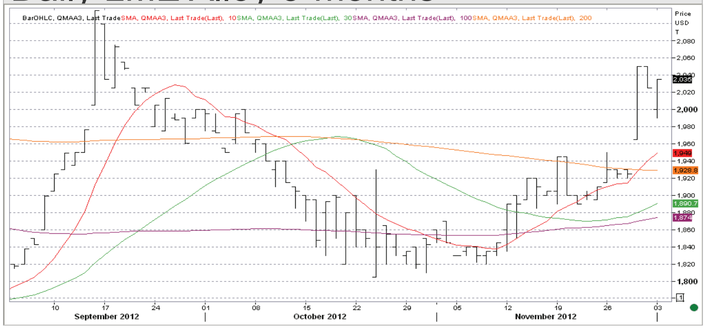
Daily LME Zinc 3-months



Daily LME Lead 3-months

Daily LME Tin 3-months

Daily LME Alloy 3-months



Daily LME Nasaac 3-months

MARKET REVIEW

METALS-Copper drops from 6-week high, U.S. woes weigh

SINGAPORE, Dec 4 (Reuters) - London copper fell for the first time in four sessions pulling away from six-week highs hit in the prior session, as U.S. economic and fiscal worries countered optimism that top copper user China is on the road to recovery.

Copper prices gained only 3 percent in November -- lagging aluminium, zinc and nickel, which rose about 9 percent each -- as bulging stockpiles in China suggest sluggish demand, with any significant rebound in the world's second largest economy only likely to happen in 2013.

"Copper is expensive from a valuation point of view and China is really just stabilising and gathering a bit of strength," said Dominic Schnider, head of commodity research at UBS Wealth Management.

Copper inventories in China are adequate at the moment, limiting the country's import appetite, he said.

Three-month copper on the London Metal Exchange eased 0.3 percent to $7,978 a tonne by 0716 GMT, after peaking at $8,045 on Monday, its loftiest since Oct. 19.

Copper hit six-week highs on Monday after data showed China's factory sector quickening, only to give up some of those gains when another piece of data revealed a surprise contraction in U.S. manufacturing activity last month.

The most-traded copper contract for March delivery on the Shanghai Futures Exchange closed half a percent lower at 57,280 yuan ($9,200) a tonne.

RECORD STOCKS

Copper stocks in China's bonded warehouses hit a record high of more than 1 million tonnes in November and are expected to rise by a further 100,000 tonnes by the end of the year due to weak domestic demand.

But Schnider said signs that China's economy was recovering, including falling inventories of appliances such as air-conditioners, could help copper rebound to $9,000 over the next six months.

"Once the economy gets rolling or accelerates they could draw some of the stocks," he said, adding Chinese copper demand could grow at double-digit levels if massive restocking took place.

A looming increase in global copper supply in the second half of 2013, however, may see copper edging lower soon after hitting $9,000, said Schnider.

"Looking into 2013, the prospect of a supply surplus of some 460,000 tonnes should keep prices capped but further supply disruptions, low stocks in the West and possible consumer restocking in China may well see more of the surplus absorbed," Sucden Financial said in its quarterly report.

But from now to the end of the year, investor focus will be on U.S. efforts to avoid a combination of spending cuts and tax increases due in early 2013 that may cut the federal budget deficit but also tip the economy back into recession.

INTL FCStone analyst Edward Meir believes a deal among U.S. lawmakers is highly likely, which should help copper extend recent gains into year-end.

"While there may be occasional setbacks, we still expect an ultimate agreement, leading to a firmer tone in practically all markets heading into year-end," Meir said in a note.

PRECIOUS-Gold dips 1 pct on stop-loss sales; may flush out buying

SINGAPORE, Dec 4 (Reuters) - Gold fell about 1 percent to its lowest in nearly a month on technical selling after prices broke below key support levels, but the dip may lure bargain hunters who expect the gloomy global economy to keep gold buoyant.

Gold broke below $1,710 an ounce and subsequently $1,705, key technical levels it had held since early November, which triggered stop-loss selling, traders said.

"The break probably will not last long," said a Sydney-based trader. "Funds are happy to buy on dips, and so will the central banks and the Chinese."

The prospect of continuously loose monetary policy around the world will provide support to gold, perceived as a hedge against inflation as a result of rampant cash printing by central banks.

In the latest easing move by central banks, Australia's central bank cut interest rates a quarter point to match a record low on Tuesday, stepping up efforts to safeguard the rich world's most resilient economy from the risk of recession as a mining boom peaks.

Spot gold fell nearly 1 percent to $1,698.3 an ounce, its lowest since Nov. 6, before recovering to $1,702.24 by 0649 GMT.

The most-active U.S. futures contract dropped as much as 1.3 percent to a near one-month low of $1,698.5, and stood at $1,703.

Technical analysis suggested that spot gold is poised to fall to $1,692 after breaking support at $1,707, said Reuters market analyst Wang Tao.

Spot gold 24-hour technical outlook:

http://graphics.thomsonreuters.com/WT1/20120412093422.jpg

The slide the precious metals complex was eye-catching, compared to the performance of other markets. Asian shares slipped on an unexpected fall in U.S. manufacturing data, while the dollar index held near a one-month low.

A softer greenback usually boosts the appeal of dollar-priced commodities including gold, but traders said the stalemate in the U.S. budget talks has made investors hesitant to jump in.

MARKET REVIEW *(Continued)*

"Gold is still under pressure despite the support from currency markets," said Peter Fung, head of dealing at Wing Fung Precious Metals in Hong Kong.

"The physical market is quiet, there is some profit-taking, and we don't see fresh buying interest from the funds." The "fiscal cliff", $600 billion of U.S. tax hikes and spending cuts to kick off in early 2013, threatens to push the world's biggest economy into a recession.

In other precious metals, spot platinum dropped to a one-week low of $1,585.20 an ounce before recovering to $1,588.49. Spot palladium , which rose for the past five weeks straight, fell 1.1 percent to $678, heading to its biggest daily decline in a month.

Recent car sales data have helped platinum group metals recently, which are used widely in producing exhaust-reducing catalysts. U.S. auto sales in November raced to a five-year high for that month on a rebound from storm-ravaged October and the need to replace aging vehicles, leaving industry executives hopeful about 2013.

Last week, China's Ministry of Industry and Information Technology said the country's car sales and output will both exceed 19 million units this year. In the first 10 months of the year, total vehicle sales gained 3.6 percent on the year to 15.7 units.

FOREX-Euro rises to 6-week high versus dollar

LONDON, Dec 4 (Reuters) - The euro rose to a six-week high against the dollar extending the previous day's rise on positive news on Greece and Spain, with traders reporting real money accounts buying the currency.

The euro rose to $1.3077, just above the previous day's high of $1.3076 and its highest since Oct. 22, according to trading platform EBS. Traders reported stop loss buy orders above $1.3100.

The euro's rise helped push the dollar to a one-month low against a basket of currencies, with its index dropping to 79.761.

(Inside Metals is compiled by Shruthi G in Bangalore)

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