INSIDE METALS

Thursday, February 14, 2013

CHART OF THE DAY

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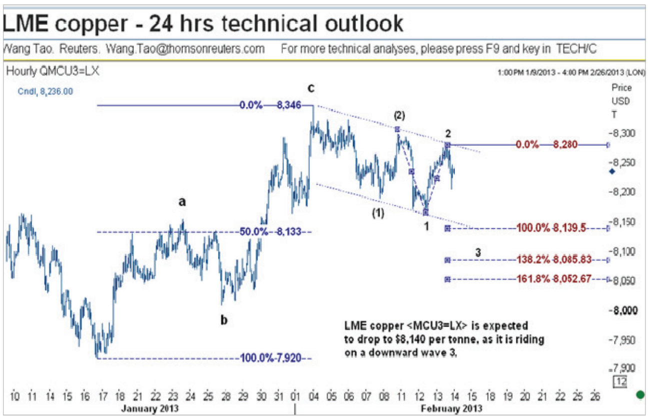

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INSIGHT-Cambodia's $11-billion mystery

The remote district of Rovieng was once a battleground between Cambodian government troops and Pol Pot's genocidal Khmer Rouge. Unexploded bombs still lurk in its fields and forests.

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TODAY'S MARKETS

BASE METALS: London copper edged up reversing previous session's slight losses although a week-long holiday in top consumer China kept turnover light, while traders eyed a G20 meeting at the weekend for further trading cues.

"Markets are expecting China to restock, so copper prices will probably see a slight pick up after the Lunar New Year," commodities analyst Natalie Robertson of ANZ in Melbourne said, but added that there could be a little bit of choppiness ahead of the G20 meet this weekend.

PRECIOUS METALS: Gold regained some strength as recent losses started to ignite buying interest from jewellers in Asia after the Lunar New Year break, but firmer equities could limit gains.

"There's a little bit of buying from the jewellery side - it's from Hong Kong. I think you can say it's small-scale buying," said Ronald Leung, director of Lee Cheong Gold Dealers in Hong Kong, adding that premiums for gold bars to spot London prices ranged from $1 to $1.50.

FOREX: The euro fell to a session-low against the dollar after data showed the German economy had contracted more-than-expected, leaving the euro zone on track for a deeper recession.

The single currency fell 0.5 percent to $1.3382, retreating even further from a 15-month high of $1.3711 hit at the start of February, after data showed that the euro zone's largest economy contracted 0.6 percent in the last quarter of 2012 due to weak exports.

FEATURE

INSIGHT-Cambodia's $11-billion mystery

By Andrew R.C. Marshall and Prak Chan Thul

ROVIENG, Cambodia, Feb 14 (Reuters) - The remote district of Rovieng was once a battleground between Cambodian government troops and Pol Pot's genocidal Khmer Rouge. Unexploded bombs still lurk in its fields and forests.

So does something more desirable - iron ore - and supposedly in such huge quantities two Chinese companies have an $11-billion plan to extract it.

Their proposal - a steel plant and seaport linked by a 404-km (251-mile) railroad - has alarmed environmentalists, mystified mining and transport experts, and bolstered Cambodia's reputation as an agent for Chinese expansionism in a region where the United States is increasingly competing for influence.

It is the latest in a series of mega-projects underscoring China's growing economic clout in mainland Southeast Asia, while improving China's access to supplies of raw material and ports in the Indian Ocean and South China Sea.

Work will soon begin on a $7-billion railway through Laos to link China's Yunnan province with northeast Thailand. And in Myanmar work is almost finished on a $3-billion twin pipeline project to carry oil and gas to Yunnan from Myanmar's Bay of Bengal coast.

The railway, port and steel project will be Cambodia's largest, with a price tag not far off the value of the country's $12.9 billion economy. The steel plant in Rovieng, in northern Cambodia, will be its first. The seaport on a Cambodian island in the Gulf of Thailand will be connected to the mainland by a 3-km (1.9-mile) bridge. The railroad will almost span Cambodia, although its exact route hasn't been revealed.

"This is 65-percent iron," says Sun Qi Cai, 58, caressing a heavy, gleaming lump of Rovieng rock. "Not many places have such high-quality ore." That includes China, the world's largest steel maker, where most ore has an iron content of less than 40 percent.

Sun is a Chinese site manager for Cambodia Iron and Steel Mining Industry Group, which on Dec. 31 signed a deal to build the three-part project with China Major Bridge Engineering Co, a subsidiary of state-owned behemoth China Railways Group.

The iron ore is destined for the steel plant - by law, ore cannot be exported from Cambodia. Mining experts could not hazard a guess as to how much ore is recoverable in Rovieng and there was no indication of how much steel it would produce and where the products would go.

Those are just some of the unanswered questions about the project.

CHINA'S CLOUT

Speaking at the signing ceremony, Cambodia Iron and Steel general manager Zhang Chuan You said work would begin in July and be finished within four years.

But Cambodia's transport minister Tram Iv Tek, who also attended the ceremony, professed to know almost nothing about it. The conspicuous absence of authoritarian Prime Minister Hun Sen also left many wondering whether China's mystery train was going anywhere.

"There are a lot of real things happening here with Chinese money," says Daniel Mitchell, a long-time American resident who runs a Phnom Penh investment firm called SRP International. "I don't think this railroad is one of them."

Mining experts question whether northern Cambodia has enough mineral wealth to justify the project's costs. Transport experts wonder why the Chinese railroad will not connect with Cambodia's existing train system, which is already being refurbished at a cost of at least $141.6 million, or either of its ports.

The ambitious project could be as much strategic as economic. Chinese investment pledged in Cambodia has totaled $9.1 billion since 1994, including almost $1.2 billion in 2011 - eight times more than the United States, according to the Cambodia Investment Board. China is also Cambodia's largest aid donor.

That money carries political clout. Last year, Cambodia used its powers as chair of the Association of Southeast Asian Nations (ASEAN) to stymie discussion on the South China Sea, where China's territorial claims overlap those of five other countries. Cambodia emerged as a staunch China ally willing to put the interests of its giant neighbour over those of its ASEAN members.

The lesson for Washington was clear.

"For U.S. strategists, if you neglect certain ASEAN countries you hurt U.S. interests," says American scholar Carlyle Thayer, an Asia Pacific security expert at the Australian Defence Force Academy in Canberra. "There's a price to pay ... because China's economic dominance carries political influence, the U.S. has to compete across the board."

AMATEURISH FACADE

Cambodia Iron and Steel doesn't look like a billion-dollar company or, as Chinese media reports describe it, a Cambodian one.

It is registered to three Chinese nationals who, says Rovieng site manager Sun, are brothers. The only Cambodian found working at its Phnom Penh headquarters, a five-story building flanked by a paint shop and a Korean restaurant, was the cleaner.

Despite its amateurish facade, other evidence suggests that Cambodia Iron and Steel is moving ahead with its project, and Cambodian officials know more than they publicly state.

On July 15 last year, telecoms and electricity officials were summoned to the Ministry of Public Works and Transport to explain to a Chinese representative from Cambodia Iron and Steel where the country's fiber optic and electrical cables were buried.

"He wanted to know so that the train track didn't cut through them," said a Cambodian who attended the meeting.

FEATURE *(Continued)*

An official at the company's Shanghai-based partner, China Major Bridge Engineering, said it would begin construction this year but gave no specific date.

CATALYSTS FOR PROTEST

In Myanmar, where a quasi-civilian government replaced a military dictatorship in March 2011, Chinese mega-projects have been catalysts for protest. China armed and supported Myanmar's hated military during decades of Western sanctions, and is still resented by many people.

China's ambassador to Myanmar, Li Junhua, has promised greater transparency from Chinese companies doing business in the country. In Cambodia, however, Chinese companies remain tight-lipped and closely allied with an authoritarian government that last year jailed record numbers of land-rights activists.

In one token of their close collaboration with the government, Chinese projects in Cambodia are often guarded by soldiers or military police. Chinese workers often dress in military fatigues.

No sign marks the entrance to Cambodia Iron and Steel's vast site near Rovieng village, only a ramshackle house occupied by armed Cambodian soldiers who stopped Reuters from entering.

"I'm scared the Chinese will get angry," one soldier said.

Som Soeun, 64, a community leader, was among hundreds of villagers who attended a 2011 ceremony in Rovieng to announce the building of a steel plant. Also present was Suy Sem, Cambodia's Minister of Mines and Energy, who told villagers not to protest against a plant "needed for the country's development," Som Soeun recalled.

With the help of local people, Reuters reporters entered the same area and found no sign of construction. Trucks and other heavy machinery lay idle. Lumps of iron ore littered the deserted access roads.

The Cambodia Iron and Steel's depot in Rovieng village already occupies what used to be community ground: the local soccer field. The depot also lay dormant. A villager who had befriended its few Chinese workers said they complained of being broke, bored and homesick.

The prospect of a railroad cutting a swathe through homes and land is unsettling, says Som Soeun. So is the continued silence from government and company officials.

"I am worrying every day now," he says.

GENERAL NEWS

German, French economies contract in fourth quarter

BERLIN/PARIS Feb 14 (Reuters) - Europe's two largest economies, Germany and France, both shrunk markedly in the last three months of 2012, suggesting the euro zone has slipped deeper into recession and throwing a first quarter recovery for the bloc into doubt.

The German economy contracted by 0.6 percent on the quarter, official data showed on Thursday, marking its worst performance since the global financial crisis was raging in 2009.

France's 0.3 percent fall was also a touch worse than expectations.

Worryingly for Berlin, it was export performance -- the motor of its economy -- that did most of the damage.

"In the final quarter of 2012 exports of goods declined significantly more than imports of goods," the German Statistics Office said in a statement.

Back revisions to the French figures showed its output fell by 0.1 percent in each of the first and second quarters of 2012, meaning the country has already experienced one bout of recession in the last twelve months.

While the European Central Bank's pledge to do whatever it takes to save the euro has taken the heat out of the bloc's debt crisis, even its stronger members are gripped by an economic malaise that could push debt-cutting drives off track. French Prime Minister Jean-Marc Ayrault acknowledged for the first time on Wednesday that weak growth was putting his government's deficit goal for 2013 out of reach.

Figures for the whole euro zone are due at 1000 GMT and forecast to show a 0.4 percent fall on the quarter, pushing it deeper into recession.

Economists say it may also shrink in the first quarter of 2013 although resilient Germany is expected to bounce back.

"The chances that the (German) economy will return to growth at the beginning of this year are very good. The early indicators are all pointing upwards," said Andreas Rees, chief German economist at Unicredit.

"The question is how strong the first quarter will be. We expect growth of 0.3 percent but it could be more."

Draghi's dashboard http://link.reuters.com/ves65t

Euro zone debt crisis graphics http://r.reuters.com/hyb65p

WEAK PERIPHERY

For the more embattled members of the currency bloc, matters are of course worse.

Spain, the euro zone's fourth largest economy, released figures two weeks ago which showed it remained deep in recession after a 0.7 percent contraction in the fourth quarter.

Madrid is pressing on with harsh austerity measures to cut its debt but may be given more time to meet its deficit targets by the European Commission if its economy worsens further.

There are signs that countries like Spain are starting to benefit from harsh internal devaluations -- marked by wage falls and job losses -- in terms of international competitiveness.

GENERAL NEWS *(Continued)*

The ECB predicts the euro zone will pick up more markedly later in the year although its currency, if it keeps strengthening, could quickly snuff out hard-won competitive advantages for its high debt members.

More recent data for January have already suggested some upturn in the first months of 2013, in the bloc's stronger members at least, and if improvement comes it is likely to be seen in Germany first.

"The debt crisis has ebbed significantly and the global economy has turned up," said Joerg Kraemer at Commerzbank. "Therefore all the important early indicators for Germany are pointing upwards. I expect noticeable economic growth again in the first quarter."

The pain is not confined to Europe. Japan, under some pressure over its aggressive monetary and fiscal policies which are driving down the yen, came up with an unwanted riposte earlier on Thursday -- its GDP shrank 0.1 percent in the fourth quarter, leaving it in recession and crushing expectations of a modest return to growth.

China's CITIC buys $467 mln stake in Australia's Alumina

MELBOURNE, Feb 14 (Reuters) - China's state-owned CITIC Group [CITIC.UL] has bought a A$452 million ($467 million) stake in Australia's Alumina Ltd , giving it an interest in the world's largest alumina business at a time when China has grown more dependent on alumina imports.

Alumina's shares jumped 17 percent after the share sale was announced, on relief that the company has been shored up by a strategic investor, allowing it to pay down debt as the aluminium industry struggles with weak prices.

"This takes all the pressure off them," said Hayden Bairstow, an analyst at CLSA.

Alumina owns 40 percent of Alcoa World Alumina & Chemicals (AWAC), the world's top producer of alumina, in a joint venture with U.S. aluminium giant Alcoa .

CITIC, through its listed arm CITIC Resources Holdings and another subsidiary, will own 13 percent of Alumina following the placement, in a deal that has already won approval from the Australian and Chinese governments.

Under the terms of the agreement, the Chinese firm will be allowed to raise its holding to 15 percent and is capped at that level for two years. Beyond that it will be allowed to raise its stake to just below 20 percent.

Alumina said it would use the funds raised to pay down debt at a time when the aluminium industry has been struggling with rising energy costs and weak prices, largely due to unanticipated growth in aluminium production in China.

China has had to increase imports of alumina after Indonesia last year clamped down on exports of bauxite, which is used to produce alumina, which is then turned into aluminium.

"CITIC's investment demonstrates their confidence in the alumina industry and their understanding of Alumina Limited's unique position in the global market," Alumina Chief Executive John Bevan said in a statement.

CITIC agreed to pay A$1.235 a share for the stake.

Alumina's shares surged to a 14-month high of A$1.405 after the announcement and last traded up 12 percent at A$1.34 in a flat broader market.

The struggling aluminium industry won another fillip this week when Rio Tinto agreed to keep open its Australian Gove alumina refinery, after securing gas supply from the Northern Territory government, crucial to cutting costs at the loss-making plant.

CITIC Resources already owns a direct 22.5 percent stake in AWAC's Portland aluminium smelter.

It previously owned a 25 percent stake in Macarthur Coal, and played a pivotal role in extracting a solid premium when the Australian miner was taken over by U.S. firm Peabody Inc in 2011, booking a A$400 million profit on that investment.

Alumina was advised by Flagstaff Partners, and CITIC was advised by ANZ Corporate Advisory .

Metalloinvest may raise Norilsk stake via Udokan swap

MOSCOW, Feb 14 (Reuters) - The owners of Norilsk Nickel are in talks to acquire Metalloinvest's Udokan copper deposit in exchange for an increased stake in the Russian nickel and palladium mining giant, two sources familiar with the matter said on Thursday.

Norilsk's largest shareholders Interros and RUSAL are in talks with Metalloinvest, controlled by Russia's richest man Alisher Usmanov, to buy the undeveloped Udokan deposit in exchange for Norilsk stock.

Metalloinvest currently owns a 4 percent stake in Norilsk. The volume of additional stake which it may get in Norilsk depends on the valuation of Udokan now, a source said.

"Udokan is a large deposit and Norilsk has experience in copper deposits, while Usmanov would like to have Norilsk shares," a source said. Another source confirmed the negotiations.

Metalloinvest and Norilsk declined to comment.

Under a recent peace deal to settle a long-lasting shareholder conflict between Interros owner Vladimir Potanin and RUSAL's Oleg Deripaska, Roman Abramovich will buy a 5.86 percent stake for $1.5 billion and be given voting control over about 20 percent.

Abramovich's investment vehicle Millhouse is also in talks, which started in December, the Kommersant daily said on Thursday, citing sources. Morgan Stanley was hired to evaluate Udokan, one of the biggest copper deposits in the world, it added.

GENERAL NEWS *(Continued)*

Metalloinvest won a tender to develop Udokan in 2008, shortly before the global financial crisis, agreeing to pay 15 billion roubles ($499 million). But given lower commodity prices, the cost of developing the project may be prohibitive.

Gold demand falls in 2012 for first time in 3 years-WGC

LONDON, Feb 14 (Reuters) - Global gold demand fell last year for the first time since 2009 as jewellery buying abated in the key Indian and Chinese markets and U.S. and European coin and bar investment dropped, the World Gold Council said on Thursday.

While gold consumption is expected to stabilise this year, it may be some time before it revisits record levels seen in the depths of the financial crisis, the WGC said in a report.

"It's hard to see a major move up in demand (this year)," the WGC's managing director for investment, Marcus Grubb, said. "Demand will remain high, but we're talking small single-digit numbers in terms of growth from the current tonnage level."

"The tonnage last year was 4,405 tonnes for consumer demand, and if you add in over-the-counter demand, it's another 100 tonnes higher," he said. "We would expect 2013 to be quite similar to that."

Grubb said he sees gold prices , which have traded between $1,625-$1,695 an ounce this year, staying within their current trading range, although potentially market-destabilising events such as upcoming U.S. budget talks could push them higher.

Gold is down 1.4 percent this year after posting its biggest quarterly drop since 2008 in the last three months of 2012.

Buying by central banks peaked in the fourth quarter at 145 tonnes. In the full year, central bank purchases continued their upward trend to hit a 48-year high at 534.6 tonnes.

But jewellery demand overall fell 3 percent last year to 1,908.1 tonnes, with the biggest absolute decline noted in India, the world's largest gold consumer, where a weak rupee left consumers struggling against record-high local prices.

China, the second biggest gold buyer behind India, saw a 1 percent drop in jewellery demand to 510.6 tonnes, its first annual decline since 2002.

Overall demand was flat in China in the full year and fell 12 percent in India, although it rose by 35 percent in the final quarter as buyers scrambled to avoid a widely-anticipated hike in import duty announced in January.

"Provided we see no more increases in import duty, we still think we will see India continue to recover from what was a difficult year in 2012 overall," Grubb said. "Some of the buying may have been pulled into Q4 (by anticipation of the duty hike), but overall we think that will be countered by other factors."

He said a higher number of auspicious gold-buying occasions in the first quarter of 2013 would likely favour the metal.

"When you look at the full year, we're anticipating that we'll see 865-965 tonnes of demand," he said.

GRAPHIC-World Gold Council demand trends report:

http://link.reuters.com/vex85t

JURY OUT ON CHINA

In China, demand is expected to recover to between 780-880 tonnes this year, against 776.1 tonnes last year.

"The jury's out on a major re-acceleration of growth in Chinese gold demand," Grubb said. "Last year we saw the first significant slowdown in the Chinese economy in years. That did affect these numbers."

"What you're seeing in January and February is a re-acceleration in the Chinese economy," he said. "We will see what that does to gold demand in the first part of 2013."

Bar and coin investment fell sharply in the United States and Europe last year, with U.S. offtake dropping by more than a third to 53.4 tonnes and European buying down 29 percent to 273.6 tonnes.

Overall investment demand last year fell 10 percent to 1,534.6 tonnes. That was led by a 17 percent dip in bar and coin demand, with bar investment falling by a fifth to 941.1 tonnes.

Investment via gold-backed exchange-traded funds rose, however, with ETF demand up by more than half at 279 tonnes.

"There was a pick-up in U.S. coin and bar demand towards the end of the year because of the fiscal cliff," Grubb said. "But overall for the year it was weak, and it reflects the fact that in Europe the announcements by the European Central Bank took away tail risk in the mind of the investor."

"The announcement of OMT (bond-buying) in Europe and quantitative easing in the United States also mitigated fears of a near -term crisis, and I think that's why bar and coin demand fell. Institutional investors and private wealth took a different view - you see the ETF tonnages went up 51 percent and over-the-counter (demand) had a strong year."

He said while more optimism over the outlook for the global economy was likely to encourage investment in other assets like stocks, the fact that much of that was driven by extremely loose monetary policy meant gold investment was unlikely to fall.

"Investors are trying to call a turn in the asset cycle," Grubb said. "The jury's still out on whether this will be the year when it actually happens. Even if you do start to look at the world more optimistically in 2013, it doesn't mean there isn't a role for gold in your portfolio. There clearly is, to keep the risk down as you pursue more volatility."

TRADING PLACES

BlueMountain's Feldstein bearish on steelmakers in U.S., abroad

NEW YORK, Feb 13 (Reuters) - American steel manufacturer United States Steel Corp will suffer as China's appetite for iron ore slows, hedge fund manager Andrew Feldstein said on Wednesday at an investor conference in New York.

Feldstein, who runs $12.5 billion hedge fund BlueMountain Capital Management, said China's slowing demand for steel, and therefore iron ore, would negatively impact a number of steel and iron ore producers around the world, making them attractive "short" targets.

When a hedge fund manager is short on a stock, he believes it will fall in value.

"The U.S. steel market is not immune to volatility in the Asian steel markets," Feldstein said.

Feldstein, speaking at the Harbor Conference in midtown Manhattan, said United States Steel Corp would be negatively affected as Chinese demand for the commodity declines. He also said the company's high pension costs were a cause for concern.

He recommended shorting the company by being long its equity and short its credit by a ratio of one to six.

Feldstein is not the first large investor to call attention to the challenges United States Steel faces. Hedge fund manager David Einhorn, who runs Greenlight Capital, sounded similar alarm bells at an investment conference last year.

Like Feldstein, Einhorn said the manufacturer's pension liability and slowing Chinese steel demand would negatively impact earnings at the company, which at the time had lost money in nine of the previous 13 quarters.

Feldstein did not restrict his bearishness on the steel industry to the United States. He also singled out Japanese steel producer JFE and Australian-based Fortescue Metals Group as companies on his target list.

He promoted shorting JFE, Japan's second-largest steel producer, via credit default swaps. Feldstein said the steel exporter was at risk from increased exports of the commodity out of neighboring China.

He recommended shorting Fortescue Metals with a combination of equity and put options.

"Iron ore is very abundant - it's basically dirt in the ground," Feldstein said. As new iron ore producers increase supply, thus pushing down prices, Fortescue's business will suffer, he said.

It was at the Harbor Conference a year ago that Saba Capital Management founder Boaz Weinstein presented a trade idea based on a dislocation between two components of a credit derivatives market. The deviation was being caused by a large buyer who appeared willing to pay elevated prices for positions in the index.

That buyer ended up being JPMorgan Chase's Chief Investment Office and the bet, the now-infamous "whale" trade.

A flurry of public criticism of JPMorgan ensued, eventually forcing the bank quickly to unwind the CIO's position. Feldstein's BlueMountain Capital helped with the unwind.

Feldstein also recommended a more simple short bet against debt that has been scooped up by some of the nation's biggest mutual funds.

He reasoned that mutual funds' large holdings of unsecured debt, mostly corporate bonds, presented a good short opportunity. If the economy were to strengthen and interest rates were to rise, the funds would have to sell their low-yielding bonds very quickly to keep their returns in line with benchmarks, pushing bond prices lower.

"The best shorts out there right now are bonds being bought by mutual funds," Feldstein said.

MARKET NEWS

Nippon Steel & Sumitomo to produce 45.9 mln T steel in yr to Mar 31

TOKYO, Feb 14 (Reuters) - Nippon Steel & Sumitomo Metal Corp , the world's No. 2 steelmaker by output, said on Thursday it expects crude steel production to rise by 1.2 percent to 45.9 million tonnes in the year ending March 31, 2013.

The company was created through Nippon Steel's acquisition of Sumitomo Metal Industries that was completed in October 2012. The steel makers produced a combined group total of 45.37 million tonnes of steel in the year through March last year, the company said in a statement on its earnings.

The company forecast a loss of 140 billion yen ($1.5 billion) for the year to March 31, according to an earnings statement.

French minister threatens trade curbs on ArcelorMittal

PARIS, Feb 13 (Reuters) - France's industry minister said on Wednesday the European Union could extend tariffs on cut-price steel imports, a riposte to ArcelorMittal after the Indian steelmaker vowed to press ahead with plant closures and job cuts.

The threat from Arnaud Montebourg revives tensions between France's Socialist government and ArcelorMittal over the fate of two blast furnaces in eastern France, weeks after Montebourg was forced to withdraw a proposal to nationalise them.

Ministers from EU governments and the European Commission urged ArcelorMittal on Tuesday to postpone capacity cuts including the closure of its Florange factory in France until June,

MARKET NEWS *(Continued)*

when they plan to submit an action plan for the region's struggling steel sector, which employs 360,000 people.

The European Commission has just imposed punitive duties on Chinese makers of some types of steel to counter what it said were unfair state subsidies.

"Imposing tariffs on cut-rate steel is the strategic response to companies that don't respect the cradle of steel that is the European Union," said Montebourg, adding that ArcelorMittal was investing in cheap steel production in India and no doubt planned to export it to Europe.

The Luxembourg-based company, formed when India's Mittal bought France's Arcelor in 2006, responded that Montebourg's comment was incorrect because the company did not produce steel in India, much less export it from there.

"ArcelorMittal would like to correct the statement of Mr. Montebourg... We produce steel in Europe for our European customers and will continue to do so," a spokesman said in an email to Reuters.

The company said on Tuesday it could not delay its restructuring due to a dramatic slump in demand for steel in Europe.

Montebourg said he welcomed the pressure brought to bear on the steelmaker by EU states.

"Every day, this private firm hurts countries and their populations; uses public money whenever it sees fit, and has no awareness of its responsibilities," he told French daily Le Monde and Belgium's Le Soir.

Montebourg was accused of sounding anti-business when he said late last year that Mittal was unwelcome in France.

Frequent anti-business outbursts from the minister have caused strains within the government, which has suffered from a string of communications gaffes since it took power last May.

Earlier on Wednesday, Foreign Minister Laurent Fabius strayed from the government's firm line that it will meet its 2013 budget targets, saying it would probably miss its deficit goal.

German steel industry sees no broad recovery this year

DUESSELDORF, Germany, Feb 13 (Reuters) - Germany's steel sector is unlikely to see a sustainable recovery this year as demand remains weak and competition in global markets intensifies, a trade group said.

"The economic and structural conditions are difficult," German steel association president Juergen Kerkhoff told journalists ahead of a steel conference on Wednesday.

Europe Union-wide austerity measures aimed at cutting budget deficits have hit economic growth and proved particularly painful for the steel industry because of the accompanying slowdown in demand for cars, appliances and new buildings.

Germany, Europe's biggest economy, was one of the strongest performers in the euro zone crisis but still saw its economy shrink 0.5 percent in the final three months of 2012.

While the downturn is expected to be short-lived, there have been few signs of recovery in the steel sector, a bellwether of the broader economy.

ThyssenKrupp , Germany's biggest steelmaker, reported a 38 percent slump in core profit on Tuesday and said it saw no growth until its next financial year, weighed down especially by weak demand at its European steel business.

Bigger rival ArcelorMittal , the world's No.1 steelmaker, last week reported a $3.7 billion loss for 2012 after writing down the value of its European steel business by several billion dollars.

The sector produced 4.7 percent less crude steel in the EU in 2012 than a year earlier, the steepest decline of any region in the world. Germany did marginally better, with a 3.6 percent slide.

The German steel association still sees crude steel output rising about 1 percent to 43 million tonnes this year, partly thanks to customers having to refill inventories drawn down last year.

In January, output was up 5 percent, the biggest monthly gain since September 2011, but new orders were down 4 percent.

"At the start of the year, inventories are at least partly being refilled. It remains to be seen how long this 'technical' reaction will last," Kerkhoff said.

India's Karnataka sees only a few iron ore mines resuming ops

MUMBAI, Feb 14 (Reuters) - India's top court looks likely to only allow a handful of iron ore mines in the state at the centre of a mining ban in the country to resume production over the next year, a state mining official said, keeping a lid on output and potential exports.

India's snail-paced approach to resolve the 18-month iron ore mining ban in Karnataka, where shipments are also barred, has allowed other producers to cash in on global prices that hit 15-month highs in January.

Only seven out of 170 mines in Karnataka have resumed operations, and the state hopes to start another 14 mines in the next fiscal year, said H.R. Srinivasa, director at the state government's department of mines and geology.

That could mean another 14 million tonnes, bringing annual output to 15 million tonnes. That is about 10 percent of India's expected production in the fiscal year that starts in April, based on estimates by the Federation of Indian Minerals Industries (FIMI).

"It is a very conservative figure, but achievable," Srinivasa said, adding it will take time for the Supreme Court to give approvals for the reclamation and rehabilitation plans it has called for.

MARKET NEWS *(Continued)*

Some cite these challenging demands - which run from building fort-like walls around mines to using rain water for sanitation - for the delays in the court hearings. Others say with hundreds of cases either awaiting hearings or verdicts, the Supreme Court simply does not have enough time.

The court may eventually allow a total of 120 mines in the state to produce and has already said it wants to shut the remaining 50 mines due to illegalities, according to FIMI, which is advising the top court.

"The silver lining is that the bad and the ugly guys will be weeded out and responsible corporates will live to fight another day," said Basant Poddar, vice-president of FIMI.

The industry's struggles, which have pushed India out of its position as the world's No. 3 exporter of iron ore to possibly a net importer starting this year, stem from an investigation set up in 2010 by New Delhi, which has called for a total ban on exports and tighter controls to stamp out illegal mining.

While the federal government has stopped short of halting exports, Indian states have done what they can to clamp down on transgressors, such as banning movements of iron ore and mining.

The Supreme Court also suspended mining in Goa since September 2012. Between them, Karnataka and Goa used to produce over half of India's 200 million tonnes of iron ore a year.

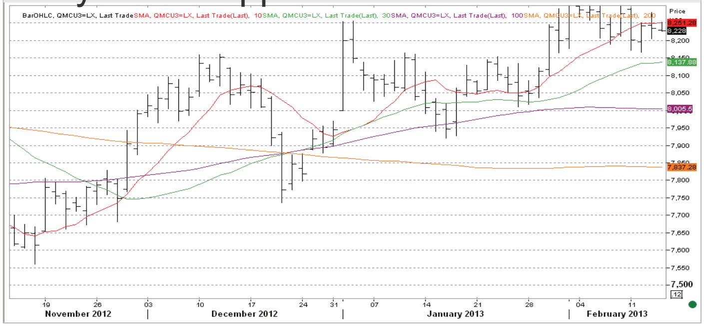
The Shah Commission, appointed by the federal government, will make another visit to iron ore mines this month in Odisha, another major producing state, as part of an earlier investigation into illegal mining. The Commission is yet to submit a report to the federal government.

The government of the eastern state, which produces between 65 million and 75 million tonnes a year, had warned miners there against excessive mining and called for half the state's iron ore to go to local steel mills.

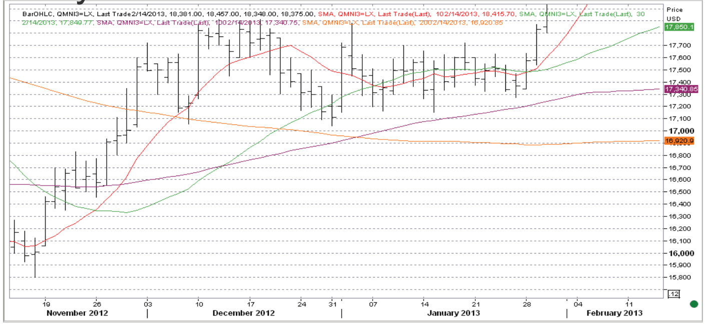
ANALYTIC CHARTS *(Click on the charts for full-size image)*

Daily LME Aluminium 3-months

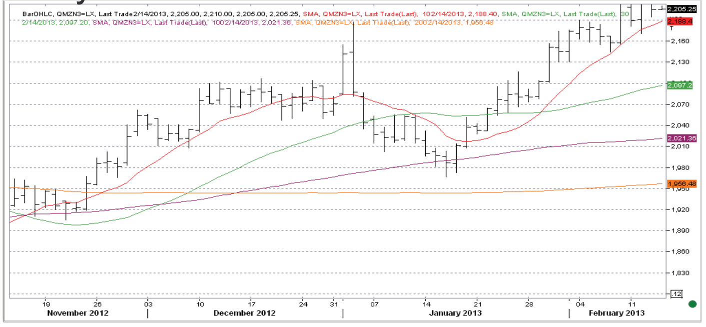
Daily LME Copper 3-months



Daily LME Nickel 3-months

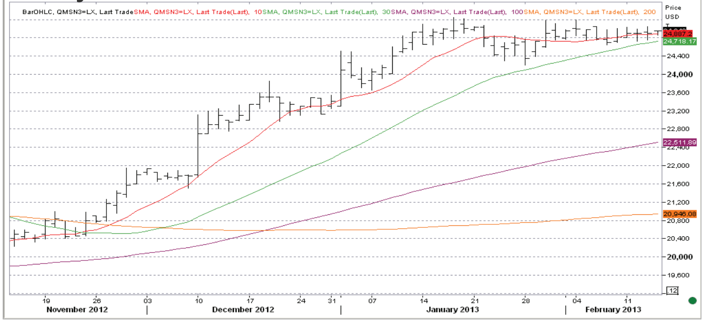


Daily LME Zinc 3-months

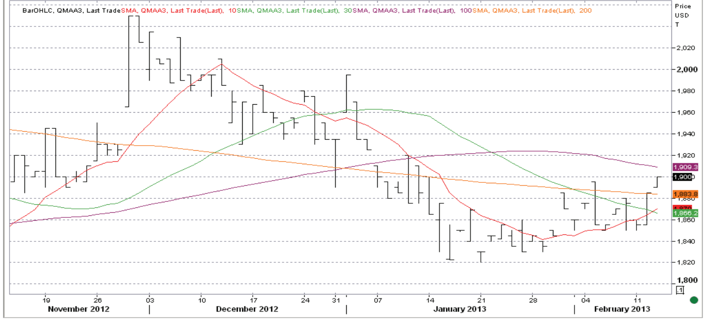


Daily LME Lead 3-months

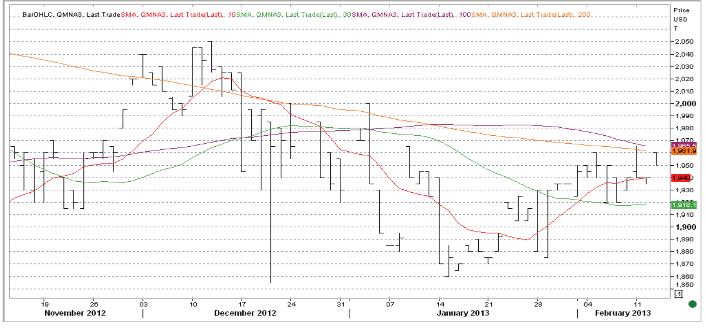
Daily LME Tin 3-months



Daily LME Alloy 3-months



Daily LME Nasaac 3-months



THOMSON REUTERS

MARKET REVIEW

METALS-Copper inches up; eyes G20 in holiday-thinned trade

SINGAPORE, Feb 14 (Reuters) - London copper edged up reversing previous session's slight losses although a week-long holiday in top consumer China kept turnover light, while traders eyed a G20 meeting at the weekend for further trading cues.

Three-month copper on the London Metal Exchange edged up 0.11 percent to $8,235 a tonne by 0714 GMT, after ending the previous session down 0.1 percent.

Copper hit a 4-month high of $8,346 a tonne on Feb. 4, but has since struggled to find momentum with the Shanghai Futures Exchange closed this week.

However, prices are up almost 4 percent so far this year on hopes demand will get a boost as a global economic revival takes hold.

"Markets are expecting China to restock, so copper prices will probably see a slight pick up after the Lunar New Year," commodities analyst Natalie Robertson of ANZ in Melbourne said, but added that there could be a little bit of choppiness ahead of the G20 meet this weekend.

"European GDP is also due today, so I think it will be macro driven for the next few days until China re-enters the market," she said.

Volumes were slowly recovering from extremely low levels seen at the start of the week as some Asian nations returned from holidays, but they remained modest across the benchmark LME contracts, with turnover standing at around 2000 lots.

Sentiment was starting to sour. European stock index futures pointed to a slightly lower open on Thursday, as data showing bigger-than-expected contractions in German and French economies rattled investors. [.EU]

"It's been pretty dire, currency led if anything, but with volumes so low its tough to call," a Hong Kong based trader said. "Overall prices are drifting a little, but there is an element of support, so we may push on next week if we hold above these levels," he added.

China, which accounts for 40 percent of the world's refined copper demand, will resume trading next week after its Lunar New Year break.

ALUMINIUM HOLDS NEAR 6-WEEK TOP

Aluminium prices held near a six-week high hit on Wednesday. Chart-based buying has improved the metal's technical picture, RBC Capital said in a note.

"Aluminium's next target will be the January high where a break and close above would set up a test of $2,200," it said.

LME aluminium, which hit a 3-1/2 month peak of $2,184 on Jan. 3, was trading up 0.22 percent at $2,145.75.

In other news, China's state-owned CITIC Group has bought a $452 million ($467 million) stake in Australia's Alumina Ltd , giving it an interest in the world's largest alumina business at a time when China has grown more dependent on alumina imports.

China's imports of the material used to make aluminium jumped by 165 percent last year in part due to uncertainty over Indonesian supply of bauxite, the raw material for alumina.

PRECIOUS-Gold recoups losses, but firm equities weigh

SINGAPORE, Feb 14 (Reuters) - Gold regained some strength as recent losses started to ignite buying interest from jewellers in Asia after the Lunar New Year break, but firmer equities could limit gains.

The weekend meeting of G20 finance and central bank officials will be in focus for clues about global growth and also their views on currencies, which could set the tone for gold and other precious metals.

Gold was steady at $1,643.30 an ounce by 0708 GMT,

having fallen below $1,650 on Wednesday after data showed disappointingly small growth in U.S. retail sales and the S&P 500 index briefly hit its highest intraday level since November 2007.

"There's a little bit of buying from the jewellery side - it's from Hong Kong. I think you can say it's small-scale buying," said Ronald Leung, director of Lee Cheong Gold Dealers in Hong Kong, adding that premiums for gold bars to spot London prices ranged from $1 to $1.50.

Markets in China remain shut for the Lunar New Year holiday, but Hong Kong resumed trading on Thursday.

Global gold demand fell last year for the first time since 2009 as jewellery buying abated in the key Indian and Chinese markets, and as U.S. and European coin and bar investment dropped, the World Gold Council said on Thursday.

A weak Japanese yen and hopes of rising demand from auto makers in China lifted futures for platinum group metals on the Tokyo Commodity Exchange (TOCOM), with the most active palladium contract extending gains to its highest since mid-2001.

The U.S. dollar and euro held their gains against the yen, while shares rose ahead of the G20 meeting. Any dollar strength may weigh on demand for commodities denominated in the U.S. currency.

"Asian physical markets are still quiet due to holidays, with buyers easing back pricing expectations and also holding out for a break below $1,640 an ounce," ANZ said in a report.

"Market uncertainty around conflicting statements ahead of the ... meetings this weekend, will likely weigh on gold prices until final announcements are made." Currencies have been volatile after a Group of Seven statement earlier this week on exchange rates, designed to calm talk of a currency war, instead triggered fresh concerns.

MARKET REVIEW *(Continued)*

For a 24-hour gold chart analysis:

http://link.reuters.com/ryz85t

U.S. gold for April delivery was at $1,643.40 an ounce, down $1.70. The physical market was subdued in Singapore after seeing buying interest from Indonesia and Thailand earlier this week, keeping premiums steady at $1.20 to spot London prices.

"I think gold has to break $1,639 or even lower before we see bargain hunters coming in," said a dealer in Singapore. "Nowadays the current ranges are no surprise to hunters."

SPDR Gold Trust GLD, the world's largest gold-backed exchange-traded fund, said its holdings fell 0.07 percent to 1325.99 tonnes on Wednesday from 1326.89 tonnes on Tuesday.

FOREX-Euro falls to session low against dollar on weak German data

LONDON, Feb 14 (Reuters) - The euro fell to a session-low against the dollar after data showed the German economy had contracted more-than-expected, leaving the euro zone on track for a deeper recession.

The single currency fell 0.5 percent to $1.3382, retreating even further from a 15-month high of $1.3711 hit at the start of February, after data showed that the euro zone's largest economy contracted 0.6 percent in the last quarter of 2012 due to weak exports.

(Inside Metals is compiled by Shruthi G in Bangalore)