INSIDE METALS

Thursday, February 28, 2013

CHART OF THE DAY

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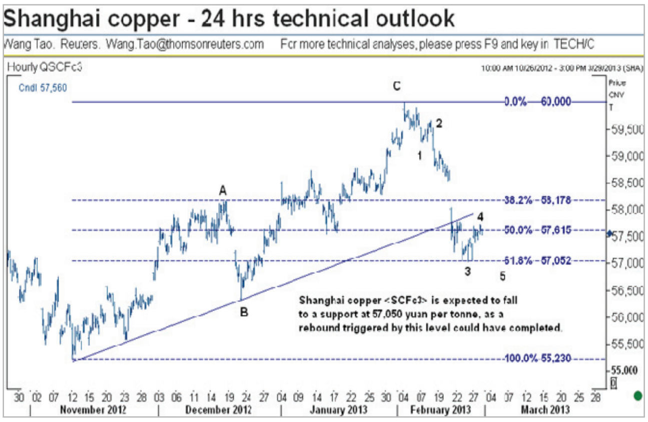

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TODAY'S MARKETS

BASE METALS: London copper climbed pulling further away from two-month lows, as the U.S. Federal Reserve reaffirmed its commitment to existing stimulus measures, although physical markets remained quiet following Chinese New Year.

Three-month copper on the London Metal Exchange had risen 0.51 percent to $7,910 a tonne by 0708 GMT, building on small gains in the previous session.

"It's more to do with Bernanke's comments than anything else," said Macquarie Bank analyst Bonnie Liu in Singapore.

PRECIOUS METALS: Gold inched up but was still headed for its longest stretch of monthly declines in more than 16 years as an improving economic outlook dimmed its safe-haven appeal.

Gold sank nearly 1 percent in the previous session, wiping out gains on Tuesday fuelled by U.S. Fed Chairman Ben Bernanke's reassurance of the bank's easing measures, even though Bernanke continued to defend the programme in a second day of congressional testimony.

"The market was having a bit of a Bernanke hangover from the night before, realising that it might have overreacted," said a Singapore-based trader.

FOREX: The euro held its ground against the dollar and yen after a relatively smooth auction of Italian government bonds helped temper concerns about the country's political deadlock.

Strong U.S. business spending data also boosted investors' sentiment, easing worries about looming U.S. fiscal spending cuts and prompting the yen to resume its descent after a brief spell of sharp gains earlier this week.

"Looking at the U.S. core capital goods orders, there's absolutely nothing unhealthy in it. It shows American businesses do not seem to worry about the spending cuts. Considering that, there will be limited downside in the dollar/yen," said Hideki Amikura, head of forex at Nomura Trust Bank.

GENERAL NEWS

Bernanke sees long slog to lower U.S. unemployment

WASHINGTON/NEW YORK, Feb 27 (Reuters) - The U.S. jobless rate is unlikely to reach more normal levels for several years, Federal Reserve Chairman Ben Bernanke said on Wednesday as he again defended the central bank's forceful easing of monetary policy.

Appearing before a congressional panel for a second straight day, Bernanke downplayed signs of internal divisions at the Fed, saying the policy of quantitative easing, or QE, has the support of a "significant majority" of top central bank officials.

One lawmaker asked Bernanke when the economy might produce enough jobs to bring the unemployment rate, currently at 7.9 percent, down to 6 percent - the top of the Fed's long-term forecast range.

"A reasonable guess for 6 percent would be around 2016, about three more years," Bernanke told the House of Representatives Financial Services Committee.

Moreover, as he had in an appearance before the Senate Banking Committee on Tuesday, the Fed chairman countered the notion that the Fed's loose monetary stance might be fueling asset bubbles or inflation.

"It's our view that there's still a good bit of slack in the economy. I don't think the economy is overheating," he said. Reuters Insider: House Q&A: http://link.reuters.com/gym36t

Financial markets were again encouraged by Bernanke's remarks, with stocks rallying for a second day on the Fed chief's signal of continued stimulus combined with enthusiasm over strong figures on business investment plans.

"He is going to be refilling the punchbowl for a very long time," said Keith Bliss, senior vice-president at Cuttone & Co in New York.

In response to the financial crisis and deep recession of 2007-2009, the Fed slashed official borrowing costs to effectively zero and bought more than $2.5 trillion in mortgage and Treasury securities to keep long-term rates low.

It is currently buying $45 billion in Treasuries and $40 billion in mortgage bonds per month, a policy Fed officials backed in an 11-1 vote in January. However, minutes of that meeting released last week showed many officials had concerns over the risks presented by the central bank's policy course.

Dallas Fed President Richard Fisher, who is among the minority of so-called hawks at the central bank, said later on Wednesday that he would like the Fed to immediately taper the purchases because the U.S. housing market is on sounder footing.

"The fact that the housing market gears have now begun to mesh is why I believe we are running the risk of overkill by continuing our mortgage-backed securities purchase program at the current pace, and I have suggested that we begin tapering those purchases," Fisher said at Columbia University.

"Personally I would begin tapering Treasuries as well," he later told reporters. "I would like to start now. I just don't think the benefits are worth the costs."

But most Fed officials are eager to continue the extraordinarily easy policies given the high jobless rate and the fact that inflation is below their 2 percent target, and they do not want to derail a recovery that has faltered in each of the last three years.

Bernanke argued the Fed's policy easing deserves at least some credit for the ongoing economic recovery, even if growth remains fragile and vulnerable to looming short-run spending cuts from the U.S. government.

Indeed, he argued that current plans for abrupt short-term deficit reduction could be counterproductive, even for the purposes of reducing government debt levels.

"I'm still concerned about the short-run impact on jobs," he said. "(You) don't get as much benefit as you think because if you slow the economy that hurts your revenues and that means your deficit reduction is not as big as you think it is."

A number Republicans on the House committee said they also were concerned about the Fed's actions.

"For diminishing marginal benefits, the Federal Reserve's unconventional strategy creates considerable risks," said Representative Jeb Hensarling, the panel's chairman. "If the (Fed's) balance sheet is not unwound at the right time and at the right pace, we could be looking at another deep recession, soaring inflation or skyrocketing interest rates."

Bernanke tried to soothe such worries, expressed by a number of lawmakers, that the central bank was so far into uncharted policy territory that an exit could be problematic.

Admitting the Fed would face an unprecedented task, Bernanke nonetheless said the central bank has the right tools to exit when the time comes, adding that those measures have been tested and used in other countries.

Miners' austerity talk could create pressure for next bull run

LONDON, Feb 27 (Reuters) - A generation of new bosses taking the helm at the world's biggest mining companies is unanimous in preaching austerity: no major project approvals, no blockbuster deals, no risks.

The result, analysts say, could be a medium-term supply squeeze and subsequent price spike in some unloved base metals like zinc from 2016, as key investment decisions are put off and projects turned down or sold off. Good news for miners if the squeeze lifts prices - even on lower volumes.

But, more importantly, the tough talk - amid unprecedented pressure from institutional investors - marks a major shift for the mining sector's behemoths, whose decision-making, they say, is focused on margins and returns after years of chasing ever increasing production.

GENERAL NEWS *(Continued)*

"The big guys really screwed up," Glencore Chief Executive Ivan Glasenberg told a conference this week, in a typically direct criticism from the sector's self-proclaimed iconoclast. The "big guys", he said, failed to control supply growth, pouring money into projects and deals as soon as the market turned.

Indeed, capital expenditure in the sector soared 136 percent between 2009 and 2012, when miners aggressively embraced growth as the Chinese economy responded to stimulus measures.

"When the markets do get stronger, no need to keep building a new asset and let's keep the market tight for a while," Glasenberg told analysts and investors in Florida.

"You, the investors, want to get returns on our assets and it's easily done if we just use our brains."

Glencore, clearly, does not have to balance some of the tricky political dilemmas facing larger rivals, whose pipeline includes blockbuster projects like the Simandou iron ore project in Guinea for Rio Tinto and BHP Billiton's now delayed Olympic Dam copper and uranium mine in Australia.

There, just sitting tight, without implementing investments, could jeopardise plans in an environment where governments want to see jobs created and taxes trickling into state coffers.

Similarly, cost cuts - Rio has a $5 billion target - have to be set against other considerations. For example, the risk Rio's salary freeze for its energy division might cause labour unrest.

But investors agree with Glasenberg's rallying call. For the last two years they been demanding a tighter control of capital allocation and better returns, after a string of poor boom-year acquisitions crumbled into multi-billion dollar writedowns. They prompted the exit of some of the sector's biggest names.

If miners practise what they preach, the effects could be long-lasting for a sector where players have long viewed project cuts as a threat to market share, not a boon for prices.

"The reality is that when you bring new mines online you do have an impact on price, and they are starting to react to that," analyst Chris LaFemina at Jefferies investment bank said.

"So the consequence of austerity in mining is that you get not only higher prices, but greater profitability, even on lower volumes - unit margins go up so much, that it is a net positive for the industry.

"This sets the sector up for a very strong bull market."

It may not be so simple, however. The miners' moves away from new projects and a price spike could bring in new players or increase material substitution - as with cheaper aluminium for copper, for example, or Chinese nickel pig iron for nickel.

But investors are willing for now to embrace the prospect of improved profitability, lower debt and better returns from a sector that has long been criticised for its poor yields.

BASE METALS HIT

A supply squeeze, if tough actions match tough talk, is not for now - miners are coming off peak years for growth spending, base metals like zinc and nickel are mired in oversupply and iron ore is facing a wave of new production.

But it could be on the cards for the next bull run, or three to five years from now, and most likely in base metals, as mining companies are directing their investments into iron ore and even oil and gas. Adding to the impact, smaller producers who loom large in metals like zinc are also cutting back, hit by tougher markets and a funding squeeze.

In 2008-9, during the last drive for cost control and restraint, some analysts estimate almost 2 million tonnes of copper was affected in some way by project delays - more than the world's largest producer, Codelco, churned out last year.

"On a broader level we see base metals at most risk of metal deficits, purely because this is the sector that is the least attractive to the major miners," said Paul Robinson, Director, Multi Commodity Projects, at consultancy CRU.

He said the zinc market was particularly vulnerable to shortages of supply on a 4- to 5-year horizon, given the proportion of smaller miners, and a number of large mines coming to the end of their producing life. "Our base case is that by 2017 there will be a supply shortage in zinc. We see the deficit reappearing from 2016, principally due to the exhaustion of zinc mines and in our scenario they are not being replaced by new mines," he said. Others also highlight the potential for a squeeze in copper, where annual supply has for years failed to meet forecasts, and even lead and nickel - though the supply of nickel pig iron from China could offset the impact of any cuts there.

"When you look at what the market consensus is expecting by 2015 or so, consensus is expecting the copper market to be in surplus. The reality might be something quite different, because the spending cuts will delay some of that future growth in production," said metals analyst Gayle Berry at Barclays.

Berry pointed to the impact from reduced investment spending, but also the potential hit from cuts to "sustaining" spending - cash spent on maintenance, new equipment and so forth - which could raise the risk of supply disruption:

"There is potential for a double-whammy impact depending on where the miners cut and how aggressively they cut spending."

The key will be to cut, but to balance - and to learn the lessons of 2009, when production was taken off and then replaced at high cost. Even Rio, with one of the most publicised cost-cutting targets that includes slashing sustaining capital spending and exploration, stresses that it will not overdo it.

"We are mindful of the lessons learned when we put projects on ice in the wake of the global financial crisis in 2009," Rio CFO Guy Elliott told analysts earlier this month.

"It can be significantly more expensive to demobilise and then restart projects than to keep going."

GENERAL NEWS *(Continued)*

Glencore buys stake in Brazil iron ore miner Ferrous

LONDON, Feb 27 (Reuters) - Commodities trader Glencore has bought an unspecified stake in unlisted Brazilian iron ore exporter Ferrous - its first equity stake in a producer of the steel-making commodity.

The Swiss-based trader and miner has also agreed to buy 20 million tonnes of iron ore from Ferrous over four years, in a deal that feeds Glencore's ambitions in a sector that has long remained the preserve of major mining groups Vale , Rio Tinto and BHP Billiton .

Ferrous, which has twice failed to raise capital through share offerings, has long been seeking a partner to bankroll its ambitious expansion plans, and the miner said on Wednesday the Glencore agreement strengthened its financial position.

"The agreement guarantees a substantial part of the company's production until 2016," chief executive Jayme Nicolato said.

Ferrous, which produced 3.2 million tonnes of iron ore in 2012, is targeting 5 million tonnes this year and wants to raise output to 17 million tonnes from 2016.

Glencore, like rival trader Vitol, has big ambitions for iron ore, which it hived into a separate business arm last year. It has since struck deals to buy output from emerging producers such as African Minerals and Bellzone .

Glencore and Vitol are competing for space in an iron ore market dominated by BHP, Rio and Vale with a combined share of around 60 percent, leaving even the world's largest commodity traders to battle over production in emerging iron ore basins such as west Africa.

Glencore has also been circling smaller Brazilian producers.

Sources with knowledge of the matter said last year it was one of the suitors for Anglo American's Amapa iron ore mine, eventually sold to Zamin in January.

SPDR gold holdings drop for 7th day in record stretch of outflows

SINGAPORE, Feb 28 (Reuters) - Holdings of SPDR Gold Trust fell for a seventh straight session on Wednesday in a record stretch of outflows, as signs of an improving global economy dull bullion's appeal as a safe-haven asset.

Holdings of the world's biggest gold-backed exchange-traded fund dropped to a more than six-month low at 1,258.4 tonnes. They are on course for a record monthly decline after falling nearly 70 tonnes so far in February.

"It is difficult to motivate people to buy gold (at the moment)," said Dominic Schnider, an analyst at UBS Wealth Management in Singapore. A raft of robust economic data from the world's main economies has driven a stellar performance by global stock markets, with the S&P 500 Index climbing more than 6 percent so far this year, compared to gold's nearly 5-percent decline. Schnider added that although the global economic outlook had brightened, inflationary pressure remained low as growth was still gathering momentum, dimming gold's attraction as a hedge against inflation. "Monetary policy stays loose, growth accelerates meaningfully and price pressure builds -- this will be supportive for gold. But inflation is not there (yet), and we need to see growth for higher gold prices."

SPDR Gold Trust's holdings marked a record high of 1,353.346 tonnes in December last year. They account for more than half the total holdings of the world's major gold ETFs tracked by Reuters, which stood at about 2,267 tonnes as of Feb. 26.

Spot gold hovered just below $1,600 an ounce on Thursday, down 17 percent from a record high of $1,920.30 hit in September 2011.

Speculative investors have become much less bullish on gold. They cut the net long positions in U.S. gold futures and options to the lowest since late 2008 in the week to Feb. 19, data from the U.S. Commodity Futures Trading Commission showed.

Vietnam's gold demand to fall as govt curbs bite - consultancy GFMS

SINGAPORE, Feb 28 (Reuters) - Investment demand for gold in Vietnam could be a quarter less in 2013 than last year as the government tightens its grip on the bullion market to stabilise the country's currency, metals consultancy GFMS said.

People in Vietnam tend to store gold as a hedge against inflation, once among the highest in Asia, while the dong currency is often pressured by accumulation of the dollar for use in smuggling in the metal, given the absence of official imports.

"We saw a sharp fall in access to gold bars from the second half of 2012, as the government now has much stronger control over what is minted and how much is minted," said Cameron Alexander, a senior metals analyst at GFMS. As a result, investment demand, which contributes about 85 percent of total gold demand in the world's No.9 bullion consumer, is expected to fall 22 to 25 percent in 2013, he said.

Vietnam's consumer gold demand, including jewellery and investment bars, dropped 24 percent to 77 tonnes last year from 100.8 tonnes in 2011 after the government moved to curb gold speculation that had contributed to the dong's volatility , says GFMS, a unit of Thomson Reuters Corp .

The demand estimates are based on scrap supply and the unofficial inflow of gold, GFMS said. Vietnam, Asia's No. 4 gold consumer after India, China and Thailand, has not officially imported any gold since late 2011. Similar to Vietnam, top gold consumer India has been trying to curb its gold demand, which has contributed to a ballooning current account deficit. India raised an import duty on gold to 6 percent from 4 percent in January.

GENERAL NEWS *(Continued)*

The State Bank of Vietnam (SBV) has said it will directly import gold and trade the precious metal with gold companies and banks as part of the plan to control the domestic market.

"Vietnam is essentially a three-currency economy now: dong, dollar and gold," said Jonathan Pincus, dean of the Fulbright Economics Teaching Program based in Ho Chi Minh City, Vietnam's commercial centre.

"SBV wants to discourage speculation in gold and eventually reduce the role of the dollar and gold in domestic transactions and as a store of wealth. Controlling the domestic supply of gold is part of this strategy."

The government has taken several steps to control the market, by slashing the number of gold trading outfits by almost 80 percent to about 2,500 by the end of 2012 and ordered banks to stop taking gold deposits and lending the metal by the first half of 2013.

The SBV has also limited trading to just one brand of gold bars minted by state-owned Saigon Jewellery Company Limited (SJC), which should help curb the flow of smuggled gold from neighbouring countries as other brands of gold bars lose favour with Vietnamese investors.

Domestic premiums on gold bars surged to a record of more than $200 an ounce last week over global spot prices as a lack of imports created a shortage of the metal, helping keep buyers at bay.

But demand may creep back up as premiums have come off highs this week, dropping to just above $100 on Thursday.

"I am still keeping gold, no matter what the issues are on the domestic market," said Pham Hoang Anh Tuan, an investor in Ho Chi Minh City. "If it (the premium) narrows, I will pour more cash into it."

TRADING PLACES

Europe copper premiums defy warehouse demand to head lower

LONDON, Feb 27 (Reuters) - Premiums for much of the spot copper traded in Europe have fallen as poor industrial demand and rising supply of scrap outweigh the impact of warehouse firms paying to keep metal away from the market in backlogged storage sheds.

Warehouse companies, which in Europe include commodity trader Trafigura's NEMS subsidiary, earn rent by letting metal backlogs develop in certain port locations, rather than produce it from storage promptly when buyers need it.

Industry sources say NEMS has for some months been paying incentives of $80-100 a tonne above the London Metal Exchange cash price for deliveries of grade A copper into its backlogged sheds in the port of Antwerp.

Trafigura declined to comment on incentive payments made by its NEMS subsidiary. LME data also show that since early December last year, copper stocks in Antwerp have increased fivefold to 103,125 tonnes - equivalent to 79 percent of all exchange registered copper stock in Europe.

Premiums are paid to cover delivery costs like transport and insurance, but also vary according to supply-demand dynamics.

If an LME-registered warehouse company pays incentives to draw in metal into a backlogged location, this should push up premiums at ports in the surrounding region. This has not happened, however. Sources say premiums for grade A copper in Rotterdam, near Antwerp, have fallen to around $50-70 a tonne on the spot market, from $80-90 late last year, as the lessening of Europe's debt crisis has yet to feed through into industrial demand. "The market is very quiet, consumption is not very brilliant and consumers probably have enough scrap. If they don't, they buy cheap non-LME registered cathodes. LME-grade material is all going into Antwerp," a physical copper trader said.

"'Why sell to consumers when consumers don't need it?' That's what we hear in the market," he added.

AT RISK OF SUDDEN RISES

Industry sources warn that as soon as industrial demand rises, however, Rotterdam premiums will jump because the market will not be able to draw on LME supplies that are mostly trapped in backlogged ports.

"Probably the differential (between Rotterdam and Antwerp) is wider than it has been historically because one location has attracted so much metal, but it only needs an uptick in demand and that gap closes quickly," said a Europe-based physical copper trader.

He added, however, that a rise in industrial demand in Europe might take time. Also, top copper consumer China is becoming more self-sufficient in meeting its metal needs, while global supply is rising, with the market expected to tip into surplus this year.

Extended delay in the revival of industrial demand would be unwelcome to investors who have tied up copper as collateral in non-profitable financing deals, in the hope of pushing up and then cashing in on rising premiums.

Financing deals - which involve buying physical copper, storing it cheaply, and selling it forward at a profit - are a safe way of making money for institutions that do not have the luxury of running lucrative warehouse queues.

Having been prominent in aluminium for some time, they recently spread to copper, where the difference between cash and future prices is wide enough to cover storage costs, but where profits will only come when and if premiums rise.

TRADING PLACES *(Continued)*

U.S. judge issues order to block precious metals trader Hunter Wise

NEW YORK, Feb. 27 (Reuters) - A U.S. federal judge has issued a preliminary injunction against Hunter Wise Commodities, to block the company from offering precious metals investments to the public. The order, issued by Judge Donald Middlebrooks of the Southern District Court of Florida, stems from a Commodity Futures Trading Commission (CFTC) complaint filed last Dec. 5, the top U.S. derivatives regulator said on Wednesday.

The CFTC alleges that Hunter Wise Commodities, based in Las Vegas, had improperly taken in at least $46 million from "hundreds of customers" since July 2011.

Fred Jager, the head of Hunter Wise Commodities, said in a telephone interview the company did not violate any regulations and would file an appeal against the preliminary injunction order.

In a court order, Judge Middlebrooks described Hunter Wise as "the conductor of the orchestra, with the other defendants playing instruments at Hunter Wise's direction."

The CFTC said it was seeking a permanent civil injunction against the defendants, in addition to other remedial relief, including restitution to customers. The CFTC's complaint showed how the defendants claimed to sell physical metals to retail customers. Customers would make a down payment, and the companies would then arrange loans for the balance of the purchase price.

But these statements were false, and the transactions were just paper deals, the CFTC alleges. Jager, who was the chief executive of Hunter Wise Commodities until the CFTC assumed control on Monday, said the company had always complied with the rules of the Uniform Commercial Code.

"I do not believe under any circumstances that we have done anything improper," Jager told Reuters.

In addition, Jager said the company had complied with the CFTC's requests to provide copies of documents and emails.

The case is United States Commodity Futures Trading Commission v. Hunter Wise Commodities LLC et al, U.S. District Court Southern District of Florida No. 9:12-cv-81311-DMM.

MARKET NEWS

INTERVIEW-Freeport Indonesia sees 2013 copper concentrate output up 25 pct

JAKARTA, Feb 28 (Reuters) - Copper concentrate output from Freeport McMoRan Copper & Gold Inc's Indonesian unit will rise 25 percent this year, the chief executive said on Thursday, as the company recovers from the effects of industrial action in late 2011 and starts to mine higher ore grades.

Freeport's Grasberg, in eastern Indonesia, is the world's second largest copper mine which also has the world's largest gold reserves. A three-month strike by workers demanding higher pay in late 2011 halted production and exports, which helped lift global copper prices .

"We hope for a 25 percent increase this year in concentrate production," Rozik Soetjipto, CEO at the Indonesian unit of Freeport-McMoRan Copper & Gold, told Reuters in Jakarta.

"The quality of ore will be better this year," he said, referring to both the levels of copper and gold in the ore. "The mining sequence meant metal content was lower last year."

Freeport's mine is a technically challenging open pit in the remote highlands of Papua province. Copper content was also lower at Newmont Corp mine, Indonesia's second largest copper and gold mine, which is preparing for a new phase of development at its open pit.

Soetjipto said Freeport would again have to negotiate wages with its workers from May as a two-year pay deal agreed with its union will end in October 2013. He did not say what kind of pay rise he expected the union to ask for this year.

The company is also in talks with the government, which owns a 9 percent stake in Freeport Indonesia, about paying higher royalties and divestment. Soetjipto said Freeport had so far agreed to pay more royalties and to divest a total of up to 20 percent of the firm, but that the numbers were still being discussed.

The government has said it has no interest in buying the extra 9.36 percent stake offered by Freeport, but Soetjipto said another option to divest - a listing on Jakarta's stock exchange - was being held up until all the negotiations were finalised.

Freeport says it is protected by its long-standing Contract of Work from government rules last year that require foreign miners to divest 51 percent of assets.

The negotiations with the government are also holding up Freeport's decision to invest billions of dollars to develop underground mining at Grasberg to extend the mine's life.

"It's like the chicken and the egg," said Soetjipto. "If we don't continue investing there will be a couple of years where production will be low because the surface mine is depleting...of course we need a guarantee of extension."

Labour disputes have increased markedly since the Freeport strike paved the way for workers to demand a larger share of profits from high commodity prices and Indonesia's economic growth, which is one of the fastest in Asia.

Nationalist politicians also want the state to profit further from the resource sector, and last year, the government started negotiations with foreign miners and enacted a series of regulations in the wake of the Freeport strike.

Unionised industrial workers have managed to increase minimum wages by 50 percent in some sectors for 2013.

MARKET NEWS *(Continued)*

Australia iron ore ports reopening after cyclone

SYDNEY, Feb 28 (Reuters) - Major iron-ore export ports in northwestern Australia, which account for half the world's seaborne-traded iron ore, have reopened or are expected to restart operations later on Thursday after a powerful cyclone weakened after hitting land.

Port Hedland, used by BHP Billiton and Fortescue Metals to ship more than 20 million tonnes of iron ore a month, will reopen for inbound vessels by 0800 GMT, according to a port official.

The port of Dampier, 200 kms (120 miles) south of Port Hedland and the main Indian Ocean shipping terminal used by Rio Tinto to export iron ore, reopened late on Wednesday and has advised vessels to return to port anchorages.

Cape Lambert, a third smaller iron ore port near Dampier, is also expected to reopen.

"It is expected that both Dampier and Cape Lambert will resume ship loading later today," a Rio Tinto spokesman said.

Rail car dumping and mining was not affected and has been continuing throughout the week, the spokesman said.

"It remains to be seen if as much rain falls in east Pilbara region as was predicted earlier, we are closely monitoring that situation," he said.

Cyclone Rusty, which packed winds up to 200 kms (120 miles) per hour at its strongest, had closed all three ports which handle 500 million tonnes of iron ore annually.

At one stage Port Hedland had expected a "direct hit" from Rusty, but the massive category four storm, one short of the most destructive category five, crossed the coast about 100kms (62 miles) north. It is now a category one storm and weakening.

"At this stage, things are looking pretty good, though we still need to assess the situation for any damage," Port Hedland Port Authority (PHPA) spokesman Steed Farrell said.

"Once these inspections are complete and everything is confirmed as fully operational, the PHPA will look to open the anchorage and port operations," he said.

Officials have lifted evacuation alerts for Port Hedland, which was closed for a total of 86.5 hours. On average the port moves 750,000 tonnes of iron ore a day.

"Storm surge is no longer a risk for the Port Hedland area now that the cyclone has crossed the coast," the Western Australian Fire and Emergency Services said in a statement.

Satellite tracking showed the cyclone crossed the coast near Pardoo, a small mining town and cattle station about 100 kms (60 miles) northeast of Port Hedland, early on Thursday. Atlas Iron, which operates a mine in Pardoo yielding around 2.5 million metric tons of ore a year, has evacuated the site.

As Rusty weakens into a rain depression concerns of widespread flooding remain, with weather warnings stretching 500 km (310 miles) inland to the mines and towns of Tom Price, Mt Newman and Nullagine, operated by Rio Tinto, BHP Billiton and Fortescue Metals Group.

Spot iron ore prices steadied just under $152 a tonne this week, supported by the potential disruption in supply from Australia.

Hanlong talks to 4 China steel mills on $4.7 bln Africa iron project

MELBOURNE, Feb 28 (Reuters) - China's privately-owned Hanlong Group is talking to four Chinese state-owned steel mills to try to line up a partner for the $4.7-billion Mbalam iron ore project in Africa, the chief executive of Mbalam owner and takeover target, Sundance Resources , said on Thursday.

Sundance Chief Executive Giulio Casello declined to say which steel mills Hanlong was talking to. He was speaking to reporters at a conference in Beijing.

Hanlong has been ordered to team up with a large Chinese company for the Mbalam project in order to secure final approval from China's National Development and Reform Commission (NDRC) for the Sundance deal.

Steel producers match U.S. Steel price hike

Feb 27 (Reuters) - Several U.S. steel producers raised prices on Wednesday, following reports that United States Steel Corp had boosted its own spot prices on Tuesday.

AK Steel Holding Corp announced its increase in a release on Wednesday morning. Nucor Corp was one of several other producers to match U.S. Steel's $50 per short ton increase, Steel Market Intelligence wrote in a note to clients.

But a New York-based steel trader said demand was relatively weak, and it would be tough to get higher prices to stick even if, as some expect, scrap metal prices rise.

"I am sure there are going to be a few people that need to buy and will accept the increase. But those who have some room are not going to accept the full $50 price increase," said the trader.

Hot-rolled coil prices, as estimated by The Steel Index, which collects data on the market, have fallen 4.6 percent this year to date, to $615.00.

Michelle Applebaum, chief analyst with newsletter, Steel Market Intelligence, said the price of scrap - a key raw material used by many U.S. steelmakers - is expected to rise in March, and that may support steel prices somewhat.

"We think mills will achieve at least partial success as many buyers are trained to look at scrap prices as a gauge of future steel prices," she wrote in a note to clients on Wednesday.

Dahlman Rose analyst Anthony Rizzuto said the increases should at least keep steel prices in the broader market from falling in the short term.

MARKET NEWS *(Continued)*

"The last time U.S. Steel was the first to move was in mid-October, when prices were in free fall," he wrote in a note to clients. "The move effectively marked the bottom, and list prices moved higher almost immediately."

Citing an internal memo, newsletter Steel Market Update said U.S. Steel had raised its base prices for all flat-rolled steel by at least $50 a short ton. ((http://r.reuters.com/wes36t))

Smaller rival AK Steel said its base prices for carbon flat-rolled steel would go up at least $50 per short ton for new orders. The West Chester, Ohio-based company did not give a reason for the increase.

U.S. Steel and Nucor could not be reached for comment. U.S. Steel shares closed up 1.6 percent at $21.05 on the New York Stock Exchange. AK Steel rose 1.9 percent to $3.77.

Brazil's Vale expects moderate China Steel market growth in 2013

RIO DE JANEIRO, Feb 27 (Reuters) - Brazilian mining company Vale SA expects moderate growth in the Chinese steel market in 2013, a situation that should keep average prices close to current levels, a company executive said Wednesday.

Vale, the world's largest producer of iron ore, expects prices to remain volatile, Jose Carlos Martins, the head of ferrous metals at the Rio de Janeiro-based company, told reporters on a conference call.

Prices could rise moderately from current levels of about $152 a tonne in the first half and fall in the second half, he said.

While declining to predict a price, Martins said talk of iron ore averaging about $130 in 2013 sounded reasonable.

China nickel ore imports set to remain weak -trade

HONG KONG, Feb 28 (Reuters) - China's imports of nickel ores are set to drop for a second straight month in February due to the Lunar New Year break, and could remain weak in March as buyers seek to delay shipments on the belief prices will fall further, producers and traders said.

China is the world's top consumer of nickel and the biggest producer of the metal, used mainly in the production of stainless steel.

But nickel ore supply in China remains plentiful and some importers are seeking to delay contracted shipments from Indonesia, because domestic demand for the metal was weaker than many had expected, said a manager at a production plant of nickel-pig-iron, which is low-grade ferro-nickel.

"We are asking ore suppliers to delay shipments," said the manager, adding it was holding more than 500,000 tonnes of ores in ports and four contracted shipments were due to arrive soon.

The firm was trying to resell the stock without success because buyers anticipated prices falling further after London Metal Exchange nickel prices dropped last week.

The benchmark three-month LME nickel tumbled more than 9 percent last week, while in China spot refined nickel fell 7.7 percent.

Nickel ore arrivals at China's seven main ports fell this month from January as importers reduced shipments to avoid the holiday, which started on Feb. 9, said Wang Lixin, analyst at information provider umetal.com.

Stocks of nickel ore in those ports fell 7.2 percent to 16.89 million tonnes last Friday from a record 18.2 million tonnes at the end of December 2012, Wang said.

Imports of nickel ore and concentrate fell 34 percent to 4.95 million tonnes in January from a record 7.51 million tonnes in December 2012, official data showed

Last week's price fall was prompting buyers of nickel-pig-iron and refined nickel to hold off on spot purchases due to expectations prices would fall further, traders and sources at nickel producers said.

Some stainless steel producers have not offered prices for their March purchases of nickel-pig-iron.

Large stainless steel plants offered 1,160 yuan ($190) per one percent of metal content for nickel-pig-iron for March, flat from February and January. Prices rose in March from February in 2012 and 2011, the producer sources said.

Purchases by stainless steel producers for both nickel-pig-iron and refined nickel were weaker than at the same time a year ago, disappointing nickel producers that had anticipated strong demand after the Lunar New Year holiday.

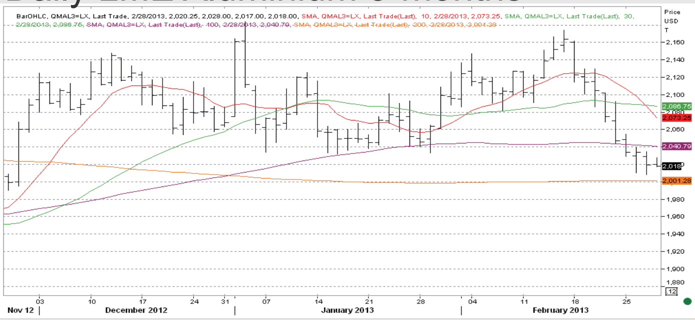
"Stainless steel plants were not in the market. Transactions were only between merchants," said a trader at a large trading house in Shanghai, referring to refined nickel trade in the past two weeks.

Weak demand was weighing on nickel premiums, traders said.

Refined nickel in bonded warehouses in Shanghai was offered at a premium of about $60-$100 per tonne over the cash LME price for melting grades this week, lower than around $150 premium for 2013 term shipments.

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

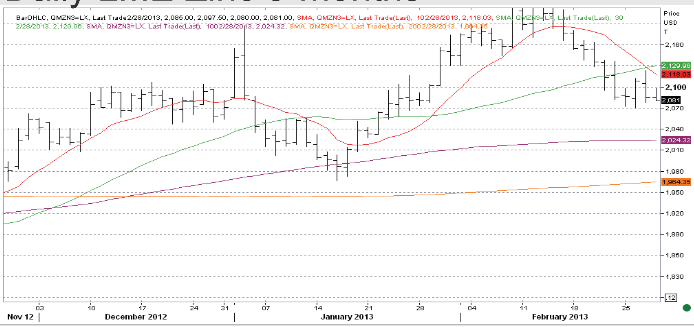
Daily LME Aluminium 3-months



Daily LME Copper 3-months

Daily LME Nickel 3-months

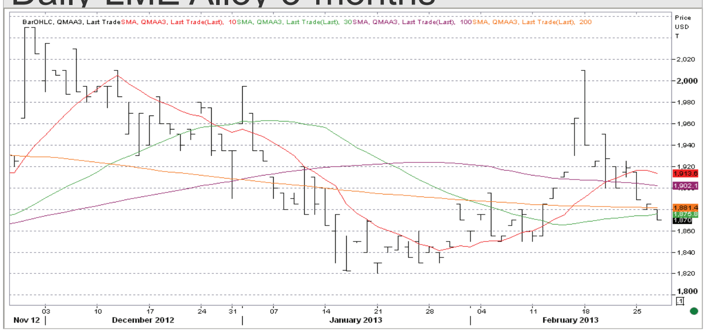
Daily LME Zinc 3-months



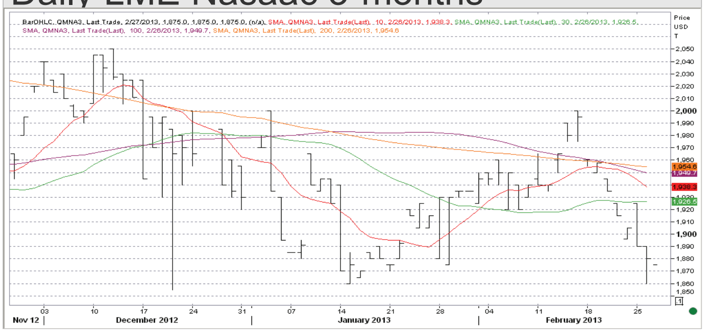
Daily LME Lead 3-months

Daily LME Tin 3-months

Daily LME Alloy 3-months



Daily LME Nasaac 3-months



MARKET REVIEW

METALS-Copper climbs as Fed reassures on strong stimulus

SINGAPORE, Feb 28 (Reuters) - London copper climbed pulling further away from two-month lows, as the U.S. Federal Reserve reaffirmed its commitment to existing stimulus measures, although physical markets remained quiet following Chinese New Year. Three-month copper on the London Metal Exchange had risen 0.51 percent to $7,910 a tonne by 0708 GMT, building on small gains in the previous session. Copper hit its lowest since Dec. 21 at $7,785 on Tuesday and is still down around 0.24 percent for the year. Prices have shed gains of nearly 5 percent that were chalked up by early February from the end of last year.

The most-traded June copper contract on the Shanghai Futures Exchange rose 0.14 percent to 57,680 yuan ($9,300) a tonne on Thursday. "It's more to do with Bernanke's comments than anything else," said Macquarie Bank analyst Bonnie Liu in Singapore. The U.S. jobless rate is unlikely to reach more normal levels for several years, Fed Chairman Bernanke said on Wednesday as he again outlined his reasoning for continuing forceful easing of monetary policy.

"Chinese workers only started to come back last week, so it's probably too early to argue that we'll see any change in the physical market, which is dead," Liu continued, adding that trade would pick up towards the end of next week and later in March.

European stock index futures pointed to a higher open on Thursday, while the euro held its ground against the dollar.

Metals have benefited from price inflation brought on by debasement of the greenback since the 2008 credit crisis. Also boosting appetite for risk was a well subscribed Italian bond auction, where solid demand from domestic investors eased fears that the political deadlock could destabilize Europe's second-biggest sovereign debt market.

"Sentiment seems to be stabilizing after significant price declines since the beginning of the month," Credit Suisse said in a research note. "However, new economic impetus would be required for a more durable stabilization. In this context, PMIs for China and the U.S. due this Friday will be watched particularly closely."

SMELTERS STRONGER

Chinese smelters are likely to win a 10 percent rise in processing fees for zinc concentrate, but fees are unlikely to be as high as the $210.50 that Canada's Teck has given to Korea Zinc for 2013. That is because large zinc smelters in China do not hold multi-year term contracts with the miners. Spot concentrates to China were offered at treatment charges of around $120-$130 two weeks ago, traders said. "A 10 percent jump could stimulate more smelter production, particularly in China, which may also shift some of the concentrate surplus into refined markets," ANZ said in a research note. "This could be a risk to our call for a smaller refined zinc surplus this year compared to 2012."

PRECIOUS-Gold heads for longest run of monthly drops in 16 years

SINGAPORE, Feb 28 (Reuters) - Gold inched up but was still headed for its longest stretch of monthly declines in more than 16 years as an improving economic outlook dimmed its safe-haven appeal. Gold sank nearly 1 percent in the previous session, wiping out gains on Tuesday fuelled by U.S. Fed Chairman Ben Bernanke's reassurance of the bank's easing measures, even though Bernanke continued to defend the programme in a second day of congressional testimony.

"The market was having a bit of a Bernanke hangover from the night before, realising that it might have overreacted," said a Singapore-based trader. U.S. economic data remained largely upbeat, with planned business spending recording its largest increase in more than a year in January and contracts to buy previously owned homes approaching a near three-year peak.

That added to recent flows of data from the United States and elsewhere showing evidence of an economic recovery, which discourages investors from buying gold as a risk hedge, said Chen Min, an analyst at Jinrui Futures in the southern Chinese city of Shenzhen. "Gold's sentiment remains fickle, as it lacks a significant catalyst to propel the rally into the thirteenth year and people are more sensitive to even slightly bearish signs." An exodus from the SPDR Gold Trust , the world's biggest gold-backed exchange-traded fund, continued for a seventh consecutive session, marking the longest stretch of outflow in the fund's history. Spot gold edged up 0.3 percent to $1,601.40 an ounce by 0714 GMT, on course for a monthly decline of nearly 4 percent. It has been in the red for five straight months, the longest such losing streak since late 1996 to early 1997.

U.S. gold was also up 0.3 percent, to $1,601.20. Technical analysis suggested spot gold could retreat to $1,579 an ounce during the day, said Reuters market analyst Wang Tao.

GRAPHIC: Spot gold 24-hour technical outlook

http://graphics.thomsonreuters.com/WT1/20132802100621.jpg

Signs of easing fears over Italy also weighed on gold sentiment, after the country's first bond auction since the inconclusive election met with solid demand. The United States is approaching the "sequester" on Friday, or automatic spending cuts in government programmes, barring any last-minute budget deal by the lawmakers. The U.S. fiscal crisis could threaten the fledgling recovery of the world's top economy, which might argue for further monetary easing and boost interest in traditional safe havens such as gold, analysts have said. Investors are also closely watching India's announcement of its budget for fiscal year 2013/14, in which many had expected it to increase curbs on gold imports to the world's top gold consumer.

MARKET REVIEW *(Continued)*

FOREX-Euro salvaged by Italy debt sale, yen on defensive

SYDNEY/TOKYO, Feb 28 (Reuters) - The euro held its ground against the dollar and yen after a relatively smooth auction of Italian government bonds helped temper concerns about the country's political deadlock. Strong U.S. business spending data also boosted investors' sentiment, easing worries about looming U.S. fiscal spending cuts and prompting the yen to resume its descent after a brief spell of sharp gains earlier this week.

"Looking at the U.S. core capital goods orders, there's absolutely nothing unhealthy in it. It shows American businesses do not seem to worry about the spending cuts. Considering that, there will be limited downside in the dollar/yen," said Hideki Amikura, head of forex at Nomura Trust Bank. The common currency edged up 0.1 percent to $1.3147 , having pared more than four fifths of the losses it had made after the inconclusive Italian elections, which had taken the currency down to an eight-week trough of $1.3018 on Tuesday.

Technically, the single currency has managed to keep holding above an important chart support, the bottom of the daily Ichimoku charts, a break of which would have flashed a major bearish signal for the currency. Against the yen, the euro rose 0.2 percent on the day to 121.40 yen , inching further up from a five-week low of 120.20 yen set on Monday. A sale of Italian government bonds on Wednesday drew solid demand, helping soothe jitters that the political deadlock could destabilise Europe's second-biggest sovereign debt market. The euro was unfazed by diminishing hopes of a coalition government -- and an increasing chance of new elections -- in Italy, with two most likely coalition options appearing to fall apart.

Anti-establishment 5-star Movement boss Beppe Grillo slammed the door on overtures from the centre-left leader Pier Luigi Bersani while Bersani's junior coalition partner ruled out an alliance with former prime minister Silvio Berlusconi's centre-right.

While uncertainty on Italy could cap the euro, some market players say the euro's recovery in the past couple of days suggested most investors donot regard the latest political turmoil in Rome as a major threat to Italy's debt financing.

NEW GOVERNOR

The steadier euro, for now, saw the dollar index retreat from a six-month high of 81.948 reached earlier in the week. It was last at 81.530. On the yen, the dollar was a tad firmer at 92.35 , having found its footing after Monday's slide to 90.85. The yen showed no reaction after Japan's prime minister nominated, as expected, Asian Development Bank President Haruhiko Kuroda as BOJ governor and Kikuo Iwata, an academic, as one of the two deputy governors. The parliament is expected to approve the nominations, clearing the way for the central bank to unveil fresh easing steps in April, either at their first policy review on Apr 3-4, or the following one on Apr 26. Expectations of more aggressive easing had prompted investors to push the yen down to a 33-month low of 94.77 yen per dollar on Monday, which marked a 16 percent fall since mid-November.

"The market will need a bit of consolidation after such a long period of one-way falls in the yen. But there's no denying that the yen is in a downtrend in a longer term," said Nomura Trust's Amikura. "I expect the yen to drop more in April, as the market will bet on fresh monetary easing at the BOJ's meeting at the end of April," Amikura added. The dollar outperformed its Japanese counterpart even after Federal Reserve Chairman Ben Bernanke again defended the central bank's forceful easing of monetary policy.

Bernanke, facing a congressional panel for a second day, also downplayed signs of internal divisions, saying the policy of quantitative easing has the support of a "significant majority" of top central bank officials. The dollar was also propped up by data showing planned U.S. business spending recorded its largest increase in more than a year in January. The dollar has so far weathered the threat from sharp U.S. fiscal spending cuts, known as "sequestration", which analysts estimate will cut U.S. growth by about 0.5 percent. The automatic spending cuts of $85 billion look increasingly likely to start as scheduled on Friday, with U.S. President Barack Obama and Republican congressional leader nowhere near a deal to avoid them. "I guess the market is calm partly because payroll tax hikes that started earlier this year haven't so far done much damage to risk appetite," said Teppei Ino, currency analyst at the Bank of Tokyo-Mitsubishi-UFJ.

(Inside Metals is compiled by Shruthi G in Bangalore)