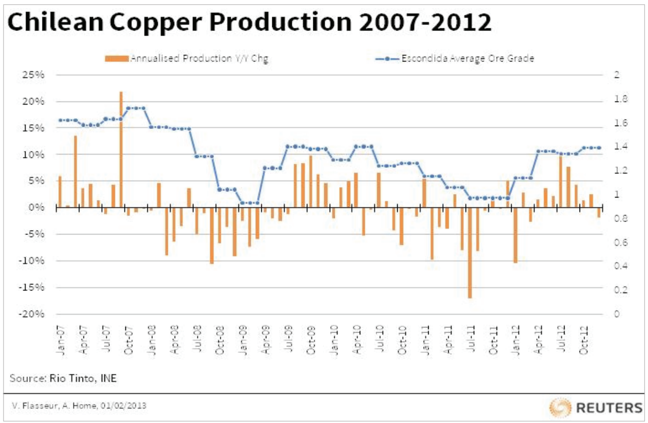
INSIDE METALS

Monday, February 4, 2013

CHART OF THE DAY

Click on the chart for full-size image



Click here for LME charts

TRADING PLACES

- Shanghai to tighten commodity warehouse financing - paper
- Speculators cut gold, copper longs, raise silver-CFTC
- Novelis gives up on LME, seeks other avenues in warehouse battle
- INTERVIEW-Investors buy copper ETFs as see macro turning point

GENERAL NEWS

- Watch what central bankers say, not what they do

MARKET NEWS

COPPER:

- Zambia's 2012 copper output falls y/y to 824,976 T

NICKEL/STEEL:

- Aquila puts $7.7 bln Australian iron ore project on ice
- INTERVIEW-Steel Dynamics to go ahead with vertical integration
- Vale's new Brazil mine boosts Q4 iron ore output

FEATURE

COLUMN- Copper's surprising lack of surprises

Something very unusual is happening in the copper market. Here we are in the middle of the quarterly reporting season. It's normally a time for analysts to take out the red ink and adjust down their mine supply estimates in response to the ritual litany of woe from the world's largest producers.

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

Click here to read more..

TODAY'S MARKETS

BASE METALS: LME zinc climbed to its highest in a year riding in the slipstream of copper after factory growth improved in December both in China and the United States, brightening the demand outlook for metals.

LME zinc hit the highest since Feb. 2, 2012, at $2,190 a tonne, up from a close of $2,175 a tonne on Friday and chasing gains in copper which rallied to four-month highs in London and Shanghai on Monday.

PRECIOUS METALS: Gold ticked up but failed to climb above a recent narrow trading range as mostly upbeat U.S. data took some shine off the precious metal, which withers when economic recovery gains traction.

While U.S. non-farm payrolls rose by a modest 157,000 in January, job gains in the two previous months were revised up by 127,000. The U.S. manufacturing sector hit nine-month highs in January and U.S. consumer sentiment rose more than expected.

"Investors remain fairly optimistic in the U.S. recovery, which makes gold less attractive, even though recent data is rather a mixed bag," said Chen Min, an analyst at Jinrui Futures in the southern Chinese city of Shenzhen.

FOREX: The euro fell to a session low against the dollar weighed down by data which showed Spanish jobless rate rising and peripheral bond yields inched up.

The euro fell 0.3 percent to a session low of $1.3602 from $1.3627 before the data was released, with bids cited at $1.3580 and $1.3600. Stop loss orders are reported below $1.3570.

FEATURE

COLUMN-Copper's surprising lack of surprises

By Andy Home

LONDON, Feb 1 (Reuters) - Something very unusual is happening in the copper market. Here we are in the middle of the quarterly reporting season. It's normally a time for analysts to take out the red ink and adjust down their mine supply estimates in response to the ritual litany of woe from the world's largest producers.

Grade declines, labour unrest, equipment failure, unforeseen adjustments to mining plans have been the norm in the copper market for so many years that analysts have long ago factored in a "supply disruption" adjustment to their supply forecasts.

This time around, though, things are turning out very different.

ALL CHANGE?

BHP Billiton , Rio Tinto , Antofagasta , Southern Copper , Anglo American , First Quantum have all reported higher mined production for both the fourth quarter and full-year 2012 periods.

In some cases, the turnaround has been dramatic. Rio's output last year rose 5.6 percent to 548,800 tonnes after declines of 16 and 23 percent in 2010 and 2011 respectively.

Freeport McMoRan bucked the trend with a 1.4-percent decline in production over 2012. But even that was something of an achievement given an "annus horribilis" at its Grasberg mine in Indonesia, where production slumped to 315,000 tonnes due to a combination of low grades and the knock-on effects of prolonged strike action at the end of 2011.

Higher production from its North American assets largely picked up the Grasberg slack and the company's Q4 output of 366,500 tonnes still represented year-on-year growth of 24 percent, albeit from a low strike-hit base. Some producers, such as Antofagasta and First Quantum, even beat their 2012 guidance figures, an almost unheard-of occurrence in a market long accustomed to disappointment.

CHILEAN TURNAROUND

Crystallising this dramatic shift in collective fortunes was last year's 3.0 percent rise in copper production in Chile, the world's largest supplier of the red metal. It doesn't sound very dramatic but it followed two years of zero and negative growth respectively and was actually the highest national production rate since 2007.

Chile in recent years has come to symbolise copper's chronic supply problems, ageing mines yielding progressively less as ore grades inexorably declined. But even here, it seems, things are changing. It's hard to overestimate the impact of the turnaround that is under way at Escondida, the world's single largest copper mine. As recently as 2007 Escondida produced almost 1.5 million tonnes in a mix of concentrates and cathode. By 2011 production had contracted to just 819,000 tonnes as ore grades fell below 1.0 percent, compared with over 1.5 percent in 2007.The owners, a consortium of BHP, Rio and Japanese investors, have initiated a series of measures intended to revitalise those flagging grades and return the mine to its former glory days.

The stated ambition is to drive production back up to 1.3 million tonnes by 2015. It's a brownfield project but on such a scale that it will feel like a new mine coming on stream.

The impact was already tangible in the fourth quarter of last year, average grades surging back up to 1.39 percent and production to 287,600 tonnes.

Graphic on Escondida's production:

http://link.reuters.com/myr65t

Graphic on Escondida's ore grade and Chilean output:

http://link.reuters.com/kyr65t

State miner Codelco, meanwhile, is confident that a heavy investment programme will stop the long slide in its production.

Not last year. It has guided to lower output over the course of 2012. But it is expecting things to improve this year. Another big Chilean mine, Collahuasi, is getting the make-over treatment from its owners, who have stepped in after a truly disastrous 2012 performance.

SHIFTING SURPLUS

Of course, this is still the copper market and production problems and downgrades are never going to miraculously disappear completely. So, for example, while Chilean production seems to be on the bounce-back, that in Zambia appears to have stalled.

Preliminary figures from the central bank, and emphasis on the word "preliminary" with this particular data series, suggest that national output fell by 6.4 percent last year, the first set-back after many consecutive years of production growth.

But for the first time in a long, long time there is a sense that copper supply is finally coming good. Proof is in the 10-percent jump in this year's treatment and refining terms, the lightning road for supply in the copper raw materials markets.

Further proof is the sharp acceleration of concentrate imports into China. They rose by 23 percent last year, hitting consecutive all-time records over the last three months. Chinese refined metal production has accordingly been trending sharply higher. December's annualised run-rate of 6.83 million tonnes was also an all-time record.

Everything is pointing to a market that is shifting from deficit to surplus with most expecting the move to become more pronounced as the year goes on thanks to new mines such as Rio's Oyu Tolgoi in Mongolia and the Japanese-owned Caserones in Peru.

STING IN THE TAIL

FEATURE *(Continued)*

What would a world of copper surplus look like? And what specifically would it mean for prices?

Conventional analysis would be to look at the cost curve and the price needed to incentivise producers to keep on developing new projects. Researchers at UBS, for example, justify their call for copper to fall to $5,842 per tonne over the course of 2014, a notable bearish outlier in the recent Reuters poll, on precisely this basis.

Two years of "relentless global mine supply growth" will force prices down to the marginal cost of production, they argue.

Analysts at Macquarie Bank are considerably more bullish than that. Not that they disagree with the concept of copper falling to the cost of production just that they suggest the top end of the cost curve is actually much higher at $6,600.

And with new mine supply coming in towards the upper end of the cost curve range, "we are comfortable with copper trading in a range of $7,000-7,500/t by the middle of this decade, but this will not be at a premium to the cost curve."

Certainly, recent events underline the dynamic nature of copper production costs, which Macquarie estimates grew by 3.5 times between 2003 and 2011.

Witness, for example, Antofagasta's warning on cost escalation at its existing operations this year and its suspension of the $1.7 billion Antucoya mine project due to a blow-out in projected budget.

Or consider the pressure on Rio from the Mongolian government over the revenue split from the new Oyu Tolgoi mine. Rio has been forced to deny suggestions it was halting work on the project in protest about the latest Mongolian demands.

Negotiations between mine operator and government are scheduled next week but it looks likely that Rio is going to have to come up with some sort of further sweetener to keep the government on side. That won't affect the project right now. It has in fact just generated its first concentrate. But it certainly places a question mark over any second-phase development of Oyu Tolgoi.

So even while the copper market is experiencing the rare phenomenon of improving mine supply, uncertainty about the next generation of mines, particularly their likely cost, is growing.

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

GENERAL NEWS

Watch what central bankers say, not what they do

LONDON, Feb 3 (Reuters) - Central banking is in a state of flux as policymakers from Tokyo to Washington ditch prevailing orthodoxies to try to grab a bigger share of a slow-growing global economic pie.

That's why the focus this week will be on what European Central Bank (ECB)Governor Mario Draghi has to say about the strength of the euro and what Canadian central bank chief Mark Carney might have in mind when he succeeds Mervyn King at the Bank of England (BOE) in July.

Draghi holds a news conference on Thursday after an ECB policy-setting meeting. On the same day, with delicious timing, Carney will be wrapping up testimony to British lawmakers just as the BoE announces the results of its own policy meeting.

The unanimous verdict of economists polled by Reuters is that neither bank will change its stance. The environment, however, is shifting, presenting both with unwanted challenges.

The ECB must keep a close eye on the euro, which has risen to a 14-month peak against the dollar and a 30-month high against the yen, reflecting the Federal Reserve's promise to keep buying bonds until U.S. unemployment falls much farther and the Bank of Japan's plan for a much looser monetary policy.

Exchange rates have much less of an impact on trade volumes than the state of external demand. But, with global growth languishing, the relative performance of euro zone exporters will take a hit, said Daniel McCormack, a strategist at Macquarie in London. "The euro could well be starting to cause a bit of pain already. It's moved up significantly, and in the context of what Japan's doing and the Fed's desire to get the dollar down or keep it low, it will have some impact," he said.

WHAT MIGHT THE ECB DO?

France has already complained about the euro's climb and Germany has blamed Japan for encouraging a weaker yen.

But Goldman Sachs said an ECB rate cut in response to a rising euro was still some way off, not least because the currency's vigour was largely due to improving economic and financial news from the euro zone.

The bank's economists did acknowledge, however, that the risks to its forecast that rates will stay on hold in 2013 were skewed to the downside.

"While global growth is picking up and demand growing, concerns about appreciation may be muted. But a strengthening euro in a stagnant global economy is likely to prompt questions about where the 'pain threshold' of German exporters to the level of the euro exchange rate lies," they said in a report.

Like the dollar, sterling has also fallen to a 14-month low against the euro.

British policymakers view a weaker pound as part of the solution to reviving the economy, which stagnated in 2012, and Goldman is among those who expect continued depreciation given the prospect of a more innovative and expansionary monetary policy under Carney.

GENERAL NEWS *(Continued)*

McCormack reckons the shortfall in Britain's potential output that has opened up due to the recession is so great that the BOE might not need to contemplate tightening until 2018 - a full decade after the financial crisis climaxed.

But he said it was debatable whether Carney would prevail with his suggestion of targeting nominal gross domestic product, which implies permitting a temporary overshoot of inflation to allow growth to catch up.

"Most central bankers at the end of the day are in favour of strict inflation targeting. So he'll face a lot of intellectual pushback if he tries to get that through. But clearly there's the potential for some significant policy innovations once he's on board because he'll want to make his mark," McCormack said.

TRADE POLICY AND DATA IN SPOTLIGHT

Central banks are not alone in rummaging around for new ways to spur growth.

European Union leaders, who hold a summit on Thursday devoted mainly to the bloc's budget, are expected to call for maximum efforts to reach a series of bilateral free trade pacts to lower tariffs and cut red tape throttling exports.

The prospects for talks with the United States and Canada are still up in the air, but leaders are likely to endorse an early start to talks with Japan, according to diplomats.

Trade figures happen to be the core of this week's global economic releases.

Britain's gaping goods deficit is forecast to show a small improvement, due in part to sterling's weakness.

China's imports are projected to leap, which would bode well for world growth.

But, like most early-year data from Asia, interpretation will be treacherous because of calendar distortions: Lunar New Year, when factories in China close en masse, falls this year on Feb. 10, while last year the week-long holiday was in January.

America is likely to show a narrower trade deficit in December. Improving net exports would reinforce the view that the unexpected dip in GDP last quarter was due to fleeting factors and not the harbinger of a trend.

Bruce Kasman, an economist with JP Morgan in New York, said after Friday's good-but-not-great January jobs report that the economy was on track to expand about 2 percent this year despite fiscal drag that would lop at least 1.5 percent off growth.

Kasman said he was heartened by solid gains in labour income in recent months. Risks of a break-up of the euro, a hard landing in China and a plunge off the fiscal cliff in the United States had also been avoided.

All this pointed to steady if unspectacular U.S. growth.

"We don't have by any means the kind of growth that we would like, but we are setting ourselves up for a world where there's less risk and more sustainability," Kasman said on a conference call.

TRADING PLACES

Shanghai to tighten commodity warehouse financing -paper

SHANGHAI, Feb 4 (Reuters) - The government of Shanghai, China's financial hub, aims to launch an electronic system this year to track collateral used in commodities warehouse financing, in a bid to strengthen the banking system after trade defaults, domestic media said.

Shanghai's finance service bureau is working with agencies including the regional banking regulator to set up the system to avert bad loans, the Shanghai Securities News reported on Monday, without citing sources.

The banking system currently does not have an integrated system to track and verify warehouse receipts, creating a loophole that allowed firms use fake receipts or pledge the same inventory numerous times to different banks.

Authorities will use the system to track warehouse receipts for steel, copper and other commodities, the paper said.

Traders often use pledge copper and steel inventories as collateral to improve cash flow. But large swings in commodities prices last year, when steel prices lost as much as a quarter between April and September, exposed a series of frauds.

Some banks that tried to seize goods from defaulting steel traders last year discovered that inventories were missing, or belonged to another company, or had been pledged as collateral to numerous lenders.

Speculators cut gold, copper longs, raise silver-CFTC

NEW YORK, Feb 1 (Reuters) - Hedge funds and money managers slashed gold's net length in futures and options on signs of a steadily improving U.S. economy, while raising silver length and trimming copper longs, Commodity Futures Trading Commission data showed on Friday.

Speculative investors, or specs, also boosted both platinum and palladium's net length, essentially bullish bets, to record highs. (Graphics package: http://r.reuters.com/buv87r)

Speculators cut net longs in gold by 25,414 lots to 82,081 in the week to Jan. 29, the lowest since mid August, the CFTC's Commitments of Traders report said.

Bullion prices fell nearly 2 percent in the period covered by the report on technical selling and upbeat U.S. economic data including rising single-family home sales.

TRADING PLACES *(Continued)*

Traders now look forward to next week's CFTC report following modest growth in U.S. nonfarm payrolls and after the Federal Reserve pledged to maintain its market stimulus.

Meanwhile, speculators increased silver net length by 3,244 contracts to 29,580, their highest since mid-December, while they trimmed copper length by 1,990 contracts to 14,448, lowest since early December.

Money managers also boosted platinum's net longs by 2,841 to 40,938 contracts, while they increased palladium length by 3,560 to 22,532 lots.

Platinum group metal prices have recently risen on a combination of supply worries and recovering auto demand.

Novelis gives up on LME, seeks other avenues in warehouse battle

LONDON, Feb 1 (Reuters) - The world's top maker of aluminium for beverage cans has lost patience with the London Metal Exchange's failure to tackle access problems at the warehouses the LME monitors and says it will seek a solution elsewhere.

Novelis has long criticised the warehouse system for contributing to record-high price premiums for aluminium, a metal in chronic surplus.

"The LME sees no need to do anything else, even though they sympathise with the aluminium consumers," Nick Madden, vice president and chief procurement officer at Novelis, a unit of Hindalco Industries , said in an interview.

Madden's words follow a speech by Chris Evans, LME head of business development, who told a recent conference in the United States that the solution to the problem would have to come from the market, rather than the LME.

"I can only conclude that now that we have tried the direct approach and failed, Novelis will have to work through other stakeholders," Madden said.

"We will continue to be active, we just have to find some other way to get attention, we have to try other avenues."

Madden, whose company has been speaking out about the current LME warehousing problems since 2011, declined further comment.

Europe's competition watchdog received a complaint late last year against owners of LME-registered warehouses for ramping up rental profits by letting long queues for metal grow at some locations.

NEW OWNERSHIP CREATES HOPE

Metal buyers also hope the exchange's new owner, Hong Kong Exchanges and Clearing , will tackle the problem forcefully. The big banks and trade houses that own the warehouses will now have less influence on exchange policy after they sold their LME shares during the takeover.

For those warehouses, backlogs are lucrative because metal waiting to be delivered out continues to earn storage fees. They also say the backlogs are due to the logistical difficulties of moving large amounts of metal.

LME rules stipulate a low minimum load-out rate for metals stored in the warehouse network that the exchange monitors.

Warehouses do not have to deliver out any more than the minimum. They are also free to set their own rents, and even if the LME raises the load-out rate, they can raise rents to compensate for any loss of income.

Novelis has proposed that the load-out rate for the warehouses carrying the largest stockpiles should be trebled.

The LME rejects this proposal.

"There is no solution that the LME could or should propose. This isn't a debate about delivery (out rates)," Evans told the U.S. conference.

"This is an aluminium industry problem, and it is the industry that must come up with a solution. If fabricators choose to sell at uneconomic levels, they will of course lose money."

Fabricators are crippled by high premiums because they are paid a percentage of the LME base price for converting a sheet of metal into a can for example. They are not able to pass on the costs of premiums, which in some cases might equal their sale price.

Premiums for duty-paid aluminium in Rotterdam are currently at record highs of around $300 a tonne - about 15 percent of the LME base price . Benchmark U.S. Midwest spot aluminium premiums have also reached a record high.

They have been rising since the financial crisis pushed interest rates to near zero, making the financing deals both lucrative and safe.

The financing deals, which have locked up more than 70 percent of LME aluminium inventories, keep metal away from industrial users, while at the same time resulting in a concentration of metal in certain LME locations.

This exacerbates backlogs when material is booked for delivery by industrial or other users of the exchange, putting even more upward pressure on premiums.

INTERVIEW-Investors buy copper ETFs as see macro turning point

LONDON, Feb 1 (Reuters) - Investors who believe the global economy has hit a turning point towards growth have piled into base metals exchange-traded funds (ETFs), London-based ETF Securities said.

Assets in ETF Securities' physical copper fund have nearly tripled to $47.5 million in the two weeks up to Jan. 24, and weekly flows hit an all-time record.

TRADING PLACES *(Continued)*

Assets in the firm's fund that tracks copper futures has grown by about a fifth so far this year to $534.7 million, and another fund tracking broad industrial metals has climbed by 18 percent to $243.1 million.

Most ETF investors have had longer time horizons than those using futures on the London Metal Exchange (LME), the world's biggest market for industrial metals, said Nicholas Brooks, head of research and product strategy.

"They look for medium-term macro turning points as entry and exit points, reacting less to short-term news. I think many investors believe we are currently at a macro turning point," Brooks said in an interview.

The benchmark LME copper price touched the highest levels in 3-1/2 months on Thursday after recent economic data showed recovery in the United States and top metals consumer China. It was up 0.4 percent at $8,195 a tonne on Friday afternoon.

ETF Securities' investors include large and medium-sized asset management firms who manage funds including multi-asset and global macro funds, as well as private banks, he added.

UNAFFECTED BY CONTROVERSY

ETF Securities has avoided the controversy around plans by JP Morgan and Blackrock to launch ETFs backed by physical copper.

Metal fabricators and other users have challenged U.S. regulatory approval of the copper funds, arguing that they would siphon off physical copper, distort the market and artificially boost prices.

The ETF Securities product did not stir up the same level of criticism as JP Morgan's, partly because the European approval process does not include a public comment period as is required in the United States, Brooks said.

Also there was less investor interest in base metals about two years ago when it was launched, and the global economy was weaker, he added.

The JP Morgan fund has the potential to become very large after obtaining approval from the Securities and Exchange Commission to store LME copper valued at as much as $499.8 million, equivalent to about 62,000 tonnes at a price of $8,000 a tonne.

Currently, the ETF Securities physical copper fund has 6,013 tonnes of copper in storage. There was no size limit placed upon the fund when European regulators approved it.

Brooks declined to comment on whether physical copper ETFs planned by JP Morgan and Blackrock would be successful if they overcame consumer objections.

FUTURES VS PHYSICALS

Many of the investors in base metal ETFs have specific reasons, sometimes linked to their own investment rules, for not putting their cash in LME futures, Brooks said.

"Most of the investors using commodity ETPs (exchange-traded products) tend to be multi-asset - some with strategic mandates, some with tactical mandates, some with a combination of the two," he said.

"In most cases they either do not have the mandate to use futures or they do not want to deal with the margin, rolling and other issues involved with going into futures markets directly."

Some investors opt for the futures-tracking copper ETF due to its larger size and liquidity, while others look at the storage costs of the physical ETF versus the impact of a contango or backwardation on the futures fund, he said.

Currently, with the copper market in a mild contango, the cost issues are not significantly different. The contango shaves 0.1 percent off returns from the futures-tracking ETF, and storage costs taking about 0.2 percent off the physical ETF.

"If you're in a severe contango, and we've been there, and it's negative 3 percent for example and the storage cost is only 0.2 percent, it would be rational to go into the physical," Brooks said.

If the market moved into a backwardation, that would give a strong advantage to the futures-based fund.

"There are some investors who are opting for the physical just because of the counterparty risk issues - with the physical backing, some investors are more comfortable with that structure," Brooks said.

MARKET NEWS

Zambia's 2012 copper output falls y/y to 824,976 T

LUSAKA, Feb 2 (Reuters) - Copper production in Zambia, Africa's largest producer of the metal, dropped to 824,976 tonnes in 2012 from 881,108 tonnes the previous year, a central bank spokesman said on Saturday.

Copper exports rose to 903,138 tonnes during the period from 832,145 tonnes during the previous twelve months, spokesman Kanguya Mayondi said. Cobalt production fell to 5,436 tonnes from 7,701 tonnes, but exports of that metal increased to 10,030 from 7,830 tonnes, he added.

Aquila puts $7.7 bln Australian iron ore project on ice

MELBOURNE, Feb 4 (Reuters) - Australia's Aquila Resources Ltd has put a A$7.4 billion ($7.7 billion) iron ore project on ice at least through June due to funding difficulties, as soaring costs and volatile commodity prices take a toll on new mine developments.

The West Pilbara Iron Ore project in Western Australia is one of a number that have stalled since the mining boom cooled last year in the world's top iron ore exporter after Chinese demand slowed. Aquila's project required billions to be spent on rail and port access, stretching funding prospects when benchmark ore prices hit three-year lows last year, although prices have since partially rebounded. Troubles facing new projects have cemented the power of mega miners Rio Tinto and BHP Billiton , the world's No.2 and No.3 producers, who dominate the iron-ore rich Pilbara and can crank out supplies more cheaply using existing rail and port infrastructure.

Aquila and its partners American Metals and Coal International (AMCI), a mining investment firm, and South Korean steel giant POSCO effectively froze the project last September, as they failed to agree on a budget for the year to June 2013. The dispute went to arbitration, and the process had been due to begin on Feb. 18, but Aquila said on Monday it had bowed to its partners and would continue the project suspension for the rest of this financial year.

"Aquila will continue to focus its efforts on how best to progress the project," executive chairman Tony Poli said in a statement.

The company said last week the project's director, Kevin Watters, had quit. He will join a competitor, Brockman Mining , working on the Marillana iron ore project also in the Pilbara, which has more options to export its ore. Aquila and its partners have yet to agree on a replacement for Watters.

Stalled projects in Western Australia

http://link.reuters.com/cuh44t

Shares in Aquila, 14 percent owned by China's biggest listed steelmaker, Baoshan Iron & Steel Co (Baosteel) , sank to a one-month low of A$2.82 and last traded down 4.8 percent at A$2.97.

BAOSTEEL SAVIOUR?

Securing funding for the West Pilbara project, owned by the API joint venture, grew tougher last year as the cost estimate on the project soared 28 percent to A$7.4 billion and forecast operating costs also increased by about a quarter. Assuming the project was 40 percent equity funded, Aquila's share of the equity funding would be around A$1.5 billion.

As of December, the company had A$441 million in cash, thanks to recent asset sales, and will receive a further A$170 million by the end of March from the sale of its stake in a coal project to Brazil's Vale . One solution to ease Aquila's share of the funding burden would be to sell down its stake in the project to Baosteel. Aquila's Poli, who owns 29 percent of the firm, was not immediately available to comment on options to advance the project.

The West Pilbara Iron Ore project won state environmental approval last week for its proposed Anketell Port, but still needs rail and port construction approvals, key to its plans for exporting 30 million tonnes a year of ore. The Western Australia state government has said it will not approve construction of Anketell Port until it is certain the project's backers have the funds to build a mine, a 282 km rail line and the multi-user port, which will depend on what has become an increasingly volatile iron ore market.

Rio Tinto, in contrast, has no such problem, having won approval on Monday from the state to expand its Nammuldi mine and build a 130 megawatt power station, a $3 billion iron ore project that is part of its plans to increase annual capacity to 360 million tonnes by 2015. Aquila has been shedding assets over the past two years to build up its 50 percent share of equity funding for the West Pilbara Iron Ore project.

The API joint venture, 50 percent owned by Aquila, 25.5 pct by AMCI and 24.5 pct by POSCO, has wound down all engineering and design work for now, Watters told Reuters last week. He said that with the heat having coming out of the construction market as several projects have been put on hold, the joint venture should be able to negotiate lower construction and engineering costs when it comes back to the market. "It's certainly a keener market now in the engineering space and in the construction space," Watters said.

INTERVIEW-Steel Dynamics to go ahead with vertical integration

Feb 1 (Reuters) - Steel producer and metals recycler Steel Dynamics INC. will continue to increase its vertical integration by boosting its captive raw materials supply, a company executive said in an interview this week.

Steel Dynamics, which can produce more than 6 million tonnes of steel a year at its five steel mills, receives about half of the steel scrap it needs to produce steel from OmniSource, a recycling business it bought in 2007.

MARKET NEWS *(Continued)*

The Indiana-based firm is completely self sufficient for pig iron, another necessary steel ingredient, which it receives from Mesabi Nuggets, its joint venture with Kobe steel .

"We have consistently made investment upstream in both iron making and scrap processing and we expect overtime to continue to grow those businesses," said Gary Heasley, Steel Dynamics executive vice president of strategic planning and business development.

"We will grow them with a fair bit of discipline though, meaning we won't be making investment in acquisitions that are valued too high not that are not a good fit," he said on the sidelines of an industry conference in Miami on Tuesday.

Consultancy Ernst & Young carried out a study on the top 30 steelmakers in the world that showed a mildly negative correlation between vertical integration of a producer and its profitability.

Steel Dynamics, which has a market value of about $3.4 billion, already sells half of the ferrous scrap and all the non-ferrous scrap OmniSource processes to other parties. As production at Mesabi Nuggets increases, it will also be selling iron nuggets into the open market.

The steel producer reduced its capacity utilization in 2012 from a year earlier, in line with weaker market conditions, but it expects its steel production to increase a little in 2013 to respond to slightly better demand from the automotive and construction sector.

In the longer term Heasley expect steel demand in the United States to be supported by a return of manufacturing activity to the country.

"Lower shale gas cost is making the U.S. a much better location for manufacturing. Appreciation of foreign currencies against the dollar has also made the U.S. a more attractive place to manufacture goods. That is going help to build additional demand for steel," he said.

Steel Dynamics shares ended the day up 19 cents to close at $15.40 on the Nasdaq. Since Dec. 31, the shares have risen more than 10 percent.

Vale's new Brazil mine boosts Q4 iron ore output

SAO PAULO, Feb 1 (Reuters) - Brazil's Vale SA , the world's top iron ore producer, said on Friday the start of operations at its N5 Sul mine in Carajas helped drive fourth-quarter production of the mineral above the third quarter for the first time in nine years.

Still, Vale said in a securities filing that cumulative output of iron ore, which accounts for about 90 percent of its profits, slipped 0.8 percent in 2012 to 320 million tonnes from the prior year.

Fourth-quarter iron ore output rose 2 percent from the previous quarter and 3 percent from the last quarter of 2011 to 85.5 million tonnes.

Due to the seasonality of iron ore mining in northern Brazil where Vale's massive Carajas deposit lies, the third quarter production has traditionally been greater than the fourth quarter since 2003, Vale said.

"The operations of N5 Sul at Carajas not only contributed to the increase in production but also to the improved quality of ore and reduced costs," Vale said.

Good weather also contributed to the strong output in the fourth quarter.

Rains, which are typically strong during the last three months of the year in the lower Amazon Basin state of Para where Carajas is located, were milder than normal.

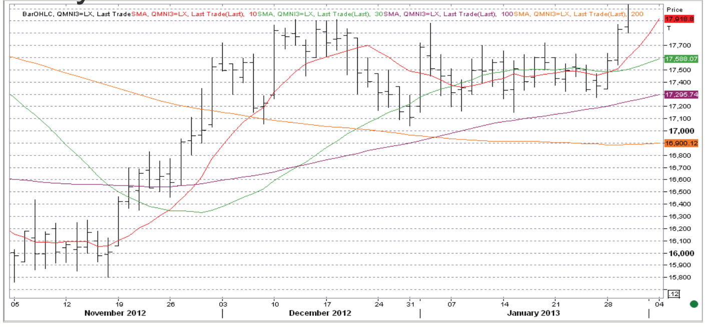
Vale's nickel output reached 237,000 tonnes over the past year, down 1.9 percent from the year before.

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

Daily LME Aluminium 3-months

Daily LME Copper 3-months

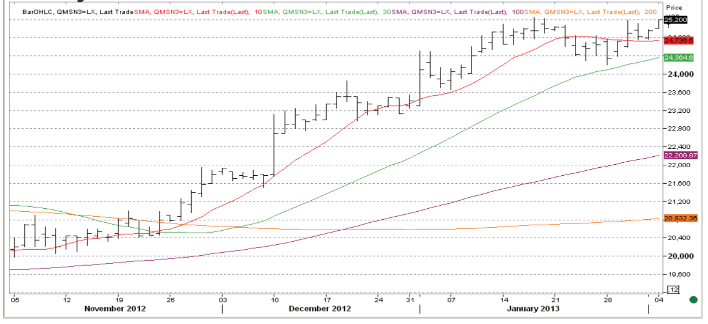
Daily LME Nickel 3-months



Daily LME Zinc 3-months

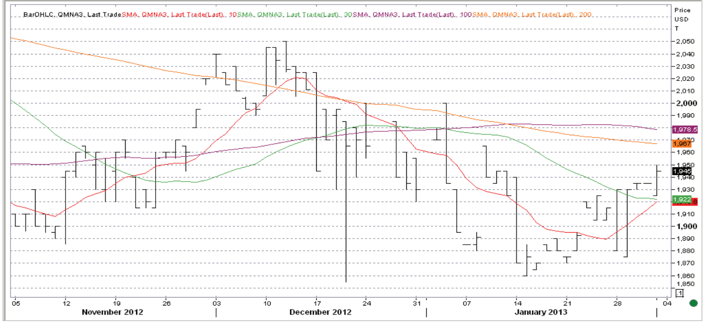
Daily LME Lead 3-months

Daily LME Tin 3-months



Daily LME Alloy 3-months

Daily LME Nasaac 3-months



MARKET REVIEW

METALS -Zinc hits one-year high on global demand outlook

SINGAPORE, Feb 4 (Reuters) - LME zinc climbed to its highest in a year riding in the slipstream of copper after factory growth improved in December both in China and the United States, brightening the demand outlook for metals.

LME zinc hit the highest since Feb. 2, 2012, at $2,190 a tonne, up from a close of $2,175 a tonne on Friday and chasing gains in copper which rallied to four-month highs in London and Shanghai on Monday.

U.S. manufacturing growth quickened in January and hiring across the economy increased in late 2012, while Chinese factories extended a modest rebound, suggesting a global economic recovery remains on track.

PRECIOUS-Gold edges up but economic recovery hopes limit gains

SINGAPORE, Feb 4 (Reuters) - Gold ticked up but failed to climb above a recent narrow trading range as mostly upbeat U.S. data took some shine off the precious metal, which withers when economic recovery gains traction.

While U.S. non-farm payrolls rose by a modest 157,000 in January, job gains in the two previous months were revised up by 127,000. The U.S. manufacturing sector hit nine-month highs in January and U.S. consumer sentiment rose more than expected.

Recent upbeat economic data from key economies suggested a brighter outlook, which dulls gold's safe-haven appeal and weakens the case for prolonged monetary stimulus, cutting gold's draw as an inflation hedge. Platinum and palladium, however, have benefited due to their industrial application.

"Investors remain fairly optimistic in the U.S. recovery, which makes gold less attractive, even though recent data is rather a mixed bag," said Chen Min, an analyst at Jinrui Futures in the southern Chinese city of Shenzhen.

"Unless we see surprisingly good news for gold, it will be trapped in a narrow range of roughly $1,660 and $1,680 an ounce."

Trading interest in the Chinese market is expected to wind down this week, as China approaches a week-long Lunar New Year holiday starting this Saturday, Chen added.

Spot gold inched up 0.3 percent to $1,670.65 an ounce by 0709 GMT. U.S. gold was little changed at $1,671.40.

The benchmark gold on Tokyo Commodity Exchange hit a record high of 5,000 yen a gram, boosted by a weak yen on expectations that the Bank of Japan will continue loosening its monetary policy.

Graphic: Spot gold 24-hour technical outlook

http://graphics.thomsonreuters.com/WT1/20130402092156.jpg

Graphic: CFTC commodity traders commitment

http://r.reuters.com/buv87r

PLATINUM, PALLADIUM RISE TO MULTI-MONTH HIGHS

Spot platinum rose as much as 1.5 percent to $1,705.25, its highest in nearly four months. Spot palladium gained as much as 0.7 percent to $759.75, its loftiest level since September, 2011.

"Palladium and platinum will likely do better on account of stronger automobile sales," said Ed Meir, an analyst at INTL FCStone, in a research note.

"But of the two, we think palladium will likely outperform platinum given that it is more sensitive to the stronger U.S. and Chinese automobile markets as opposed to platinum, which is used more in the thoroughly depressed diesel-centric European catalytic converter markets." Platinum has outperformed the rest of the complex with a nearly 11 percent gain so far this year, followed by a 9 percent rise in palladium. Gold is down 0.3 percent, being the only precious metal in the red, after a 12-year winning streak.

Asia's physical gold market saw light trading volume as the rangebound prices sapped interest from market participants.

"We see some light buying from Indonesia, but Thailand is quiet," said a Singapore-based dealer. "Everyone is waiting for a fresh catalyst and a clear direction."

Holdings of SPDR Gold Trust , the world's largest gold-backed exchange-traded fund, were unchanged at 1,328.092 tonnes for the fourth consecutive session. The fund recorded an outflow of 22.728 tonnes in January, its biggest monthly outflow since last July.

FOREX-Euro drops to session low, Spanish data weighs

LONDON, Feb 4 (Reuters) - The euro fell to a session low against the dollar weighed down by data which showed Spanish jobless rate rising and peripheral bond yields inched up.

The euro fell 0.3 percent to a session low of $1.3602 from $1.3627 before the data was released, with bids cited at $1.3580 and $1.3600. Stop loss orders are reported below $1.3570.

REUTERS INSIDER

What kind of challenges does Italy's economy face? How is Russia perceived by global leaders? Reuters Insider's coverage of Davos 2013 provides answers to these questions and more in our dedicated **Insider channel**. This year's guest lineup includes the renowned investors like *George Soros* and *Nouriel Roubini*, European commissioners including *Olli Rehn*, the *prime ministers of Ireland, Malaysia and Haiti*, the *Deputy Prime Minister of Russia* and finance *ministers from several G8 nations*.

Also available on Reuters Insider is exclusive on-demand video coverage from the GAIM 2013 hedge fund conference, including interviews with *Kyle Bass* making his case for a collapsing yen and *Dan Zwirn* on what he learned after he closed his $6 billion hedge fund.

(Inside Metals is compiled by Shruthi G in Bangalore)

For questions and comments on Inside Metals click here

Your subscription:
To find out more and register for our free commodities newsletters, click here

Privacy statement:
To find out more about how we may collect, use and share your personal information please read our privacy statement here

To unsubscribe to this newsletter click here

For more information:
Learn more about our products and services for commodities professionals, click here
Send us a sales enquiry, click here
Contact your local Thomson Reuters office, click here