CHART OF THE DAY

Indonesia mineral exports

FEATURE

Record spike in U.S. aluminum premiums stokes LME overhaul worries

U.S. aluminum physical prices surged to record highs last week, reinforcing concerns about volatile supplies and reigniting the debate over the London Metal Exchange’s sweeping reforms to its storage rules, analysts and traders said.

Click here to read more..

TODAY’S MARKETS

BASE METALS: London nickel climbed, adding to strong gains last week as a ban on unprocessed ore exports from major producer Indonesia came into effect. “Due to the export ban on nickel $16,000 is possible if there is a prolonged lack of supply,” said analyst Dominic Schnider at UBS Wealth Management in Singapore.

PRECIOUS METALS: Gold extended gains to a third session to hit its highest in a month after a surprisingly weak U.S. jobs report stoked expectations that the Federal Reserve could temper the pace of its stimulus wind-down. “Prices may continue to rise till $1,267,” said Joyce Liu, an investment analyst at Phillip Futures. “As it’s earnings season for U.S. equities, large disappointments in company earnings may also direct some funds back to gold.”

FOREX: The dollar hit its lowest level in nearly a month versus the yen after surprisingly soft U.S. jobs data disappointed dollar bulls, with traders reassessing how quickly the Federal Reserve can scale back stimulus. “With Tokyo players away today, the sense I get is that the market may be hunting for any stops left by people in Tokyo,” said a trader for a Japanese bank in Singapore, referring to stop-loss dollar offers. Japanese financial markets were closed on Monday for a public holiday.

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• Codelco says Chile port strikes stall 20,000 tns of copper

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• World’s biggest steel trader eyes assets of troubled Lucchini
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• LME lists Scale Distribution warehouse for Detroit

GENERAL NEWS

• India rejects Vedanta’s bauxite mine request
• Speculators raise gold, silver longs, cut copper length - CFT

Click here for LME charts
Record spike in U.S. aluminum premiums stokes LME overhaul woes

By Josephine Mason
NEW YORK, Jan 12 (Reuters) - U.S. aluminum physical prices surged to record highs last week, reinforcing concerns about volatile supplies and reigniting the debate over the London Metal Exchange's sweeping reforms to its storage rules, analysts and traders said. Traders and consumers have scrambled for prompt material as hopes for lower prices abruptly turned into fears of tight supplies. While exchange stocks remain near all-time highs, traders say immediately available metal is surprisingly scarce.

The U.S. Midwest aluminium premium over the LME cash price jumped by 3 cents to 15 cents per pound on Jan. 3, and extended that rally to 17.5 cents last week. Small tonnages transacted at even higher numbers.

That is exactly the opposite of what traders expected to happen after the world's biggest and oldest metals market overhauled its warehousing rules meant to reduce congestion in the LME warehouses, which come into effect on April 1.

Instead of freeing up more metal on the spot market, the rules appear to have spurred a shift of some LME stocks into a new round of long-term financing deals in storage sheds outside of the exchange's vast U.S. network.

That means they have sold it forward at a profit due to low borrowing costs as well as the wide forward price structure, known as the "contango."

"The market didn't seem to anticipate quite how much metal would go into off warrant LME and didn't really understand the implication of the LME rule changes," said Leon Westgate, an analyst with Standard Bank.

Non-exchange warehouses charge lower rent and banks can store metal for months or years in so-called financing deals with out worries about securing speedy access.

One medium-sized U.S. consumer said one or several players have launched "one last-ditch attempt" to push premiums.

Production cuts in North America due to weak LME prices and better demand from the automotive and aerospace sectors have also contributed to the move upward.

While the sudden surge may be a short-term blip, it has underscored concerns about dwindling nearby availability. The shift has accelerated since the exchange announced in November even more stringent changes to its rules.

The price spike also highlights the LME's limited ability to cool a market where low interest rates continue to whet appetites for locking up aluminum as a form of investment. It is likely to top the agenda at the Platts aluminum symposium in Fort Lauderdale, Florida, this week.

LOW VOLUMES, BIG SPIKE

After years of complaints about long queues and high premiums, the LME announced plans last year to slash waiting times to a maximum of 50 days, a move analysts and manufacturers had hoped would lead to lower premiums, especially given that the aluminum market is oversupplied.

Instead, premiums have staged their biggest surge ever, more than reversing the 3-cent drop seen in the second half of last year following the LME's initial warehouse plans announced in July.

"The market found producers did not have metal for the first five months of the year, business was moving higher for some time, it was only a matter of time before we saw the premium move," said a senior executive at a major merchant.

Most big end users, who use aluminum to make beverage cans and automotive sheet, buy raw material on long-term contracts with a premium set by published prices.

With cash LME around $1,700 per tonne, the premium now accounts for almost a quarter of the price, compared with about 10 percent historically.

The LME has cautioned it will take years for queues to disappear when new rules sharply increase delivery rates. In Detroit, which is holding more than quarter of total LME stocks, it will take two years for the wait time to vanish.

Even as the market took off last week, Alcoa Inc reined in its expectations for prices over the coming years.

On Thursday the U.S. producer, one of the most bullish voices in the industry, booked a massive $1.7 billion non-cash goodwill writedown on smelting assets, based on discounted cash flow, margins and LME prices and physical premiums for the next three years.

That pushed the company into a fourth-quarter net loss of over $2 billion.

"If you listen to Alcoa, they're very bullish on the aluminum market, The reality is there's a huge amount of excess metal in the market that will take three years to deplete," said Curt Woodworth, equity analyst at Nomura Securities.

RUFEED FEATHERS

The LME overhaul has polarized the industry. Loss-making producers Alcoa and Rusal worry the changes will damage premiums, a key support while LME prices are close to or below the cost of production.

End users such as the big brewers say the new rules are necessary to ease the long wait times they say have distorted supplies and driven up prices.

LME-registered stocks are close to record highs around 5.5 million tonnes, with some 66 percent of that total stored in Detroit, Michigan and Vlissingen, Netherlands.
FEATURE (Continued)

Almost half of that total has been canceled, which means it is due to be delivered out of the warehouses. Traders must wait as long as a year to take delivery of physical metal out of Detroit. The size of the off-exchange stock is unknown. Alcoa estimated it was over 2 million tonnes at the end of last year and will increase in 2014, while analysts say it could be as much as 6 million tonnes.

The stakes for the LME are high as it considers launching its own cleared premium contract and tries to head off U.S. rival CME Group, which plans to launch a U.S. contract that would include the underlying price and the physical premium. "This could be the one to annoy people enough to listen to people with other ideas," said a U.S.-based trader.

GENERAL NEWS

India rejects Vedanta’s bauxite mine request

BHUBANESWAR, India, Jan 11 (Reuters) - India’s environment ministry has rejected London-listed Vedanta Resources Ltd’s request to mine bauxite in the Niyamgiri hills of Odisha state after local residents opposed mining in the area they consider sacred, an official said on Saturday.

Vedanta Aluminium’s 1 million tonne-a-year alumina refinery in the eastern state has been struggling to source key raw material bauxite since its commissioning in August 2007. The company has been forced to import bauxite as a result.

"Vedanta forest clearance has been rejected. There will be no mining in Niyamgiri hills," Saswat Mishra, Chairman of the Orissa Mining Corporation told Reuters. An official of Vedanta declined to comment.

The mining project near the Lanjigarh refinery in Kalahandi district, about 450 km (280 miles) from state capital Bhubaneswar, had drawn the anger of rights groups globally.

India’s top court in April last year ordered the state to submit a report based on the views of the local villagers to the federal environment and forests ministry. Residents of all the 12 villages whose opinion the state authorities sought had unanimously voted against the mining.

Speculative investors increased their net gold long by 6,124 lots, or 18 percent, to a seven-week high of 40,229 in the week up to Jan. 7, CFTC’s Commitments of Traders report showed.

Specs also raised their silver longs, while they trimmed their copper length for the first time in four weeks, CFTC data showed.

Gold prices had rallied in early 2014 following a 28 percent drop in 2013 for their biggest annual loss in 32 years.

"Just look at the inverse correlation that has been happening between gold and equities. Gold has certainly played its role as a diversifier here," said Axel Merk, portfolio manager of the California-based Merk Funds which have about $400 million in currency mutual-fund assets.

Traders now focus on next week’s CFTC data, which is likely to show funds continue favoring the precious metal at the expense of the equity markets.

On Friday, gold rose 1.5 percent, cementing a third consecutive weekly gain, after disappointing U.S. jobs data stoked speculation the Federal Reserve will take a gradual approach to tapering its bond-buying stimulus this year.

Among other metals, speculators boosted their net long in silver by 1,688 contracts to 7,260, and they cut their net longs in copper by 606 to 35,030 lots.

Specs increased their bullish bets in platinum by 4,624 to 19,312, while they also boosted their palladium longs by 1,765 to 17,426 contracts.
MARKET NEWS

As automakers use more aluminum, can providers expand fast enough?

By Ben Klayman

DETROIT, Jan 12 (Reuters) - With automakers’ demand for aluminum growing explosively as they seek to improve fuel efficiency, aluminum providers are selling out their automotive capacity almost as fast as they can build new plants, raising the question of whether some car makers could be caught short in the future.

The U.S. market for aluminum sheet is expected to be up five-fold this year from 2012 with the development of vehicles like Ford Motor Co’s next generation F-150 full-size pickup truck, a more aluminum intensive model that will be shown Monday at the Detroit auto show.

Demand is expected to continue its surge as automakers look to slash vehicle weights to boost fuel efficiency, industry executives and analysts said.

"The one thing that has proven itself to be accurate is that any forward forecast of the use of aluminum in automotive will change upward," Phil Martens, chief executive of aluminum provider Novelis Inc, said in a telephone interview.

The U.S. market for aluminum sheet is expected to be up five-fold this year from 2012 with the development of vehicles like Ford Motor Co’s next generation F-150 full-size pickup truck, a more aluminum intensive model that will be shown Monday at the Detroit auto show.

The key question is whether the industry can keep up with demand, industry officials and analysts said. If not, some automotive customers could be caught short, lacking sufficient aluminum for their next-generation of lighter-weight cars and trucks.

Aluminum executives said they need two to three years advance notice to meet demand to give them enough time to expand existing plants or build new ones. If automakers do not effectively communicate their needs, shortages could develop, analysts and industry officials said.

"You could have pinch points develop if all of a sudden the auto industry rolls out a set of designs that are heavy in aluminum, if this transformation that we see taking place gradually occurs..."
MARKET NEWS (Continued)

more quickly," said John Mothersole, director of research for the pricing and purchasing service at IHS. Nevertheless, Mothersole and others do not see it becoming a long-term problem.

"If the automakers make the decisions quickly, then it will work. If the automakers delay the decisions too long, then some could have issues," said Pierre Vareille, CEO of Dutch aluminum products maker Constellium NV, which intends to announce its plans for entering the U.S. aluminum auto market in the first quarter. Constellium has an aluminum plant in West Virginia that serves aerospace customers. Certainly, the aluminum suppliers' customers have faith.

"As we work to lightweight our vehicles, our use of aluminum and other materials continues to grow," said Doug Parks, vice president of GM's global product programs. "We stay very close to our suppliers to be sure they can meet our growing needs, and we're comfortable they will."

The growth in demand has Novelis and Alcoa spending big. Last month, Novelis said it would invest $205 million to build aluminum finishing lines at plants in New York and Germany. The company also is finishing construction of a plant in China this year.

Novelis expects the auto industry to account for 25 percent of its business in two years, up from 6 percent two years ago as it shifts away from aluminum beverage cans, Martens said. Down the road, that could hit 50 percent.

Alcoa is on the cusp of completing a $300 million expansion dedicated to the auto sector at its Iowa plant. It also is building a factory in Saudi Arabia this year and will finish a $275 million expansion at its Tennessee plant next year.

"We're in constant communication with automakers about available capacity," said Alcoa's head of global marketing for automotive, Randall Scheps. "Every customer wants to know how much they can have."

Customers are clamoring for more, as the aluminum suppliers have already sold virtually all of their added capacity even if those plants are not yet online.

"The era of 'Build it and they will come' is over," analyst O'Carroll said. "Companies are not going to add capacity with volume and (profit) margin commitment."

LME looking to launch U.S. aluminum premium contract

By Josephine Mason
FORT LAUDERDALE, Jan 12 (Reuters) - The London Metal Exchange is considering launching a U.S. aluminum premium contract, a senior executive said, potentially expanding its most-traded product after years of criticism over high physical prices.

The contract, plans for which are still in the early stages, would reflect the cash premium that is paid on top of the LME benchmark for physical delivery, Matt Chamberlain, head of business development, told Reuters.

The draft specification will be ready by month-end, at which point the LME will start to canvass the market for support. If liquidity grows, the exchange would expand it to include forward transactions, he said.

The plans emerge just as premiums spike to record highs, now accounting for as much as a quarter of the LME price. Historically it has been around 10 percent.

The surge has added to complaints that the LME's mainstay contract is broken because of the yawning gap between the futures and the physical market.

The new product would initially be for delivery in the U.S. Midwest, the heart of the country's aluminum industry and where the need is "most pressing", Chamberlain said on the sidelines of an industry event.

It would also compete with CME Group Inc.'s struggling Midwest aluminum premium contract. Its Chicago-based rival is also looking at launching a physically deliverable aluminum futures contract. News that the LME is pursuing a premium contract comes just months after it pledged to investigate new products linked to physical premiums, warrant transfers and synthetic warrants.

The speed of the LME's action will underscore its efforts to repair damage to its biggest futures contract by turnover and liquidity.

ALL-IN COST

The new product would allow U.S. end users, such as carmakers and brewers who use aluminum to make drinks cans, to hedge the "all-in" cost of buying a tonne of aluminum.

It would be similar to a swap, whereby buyers and sellers trade a product and the buyer pays the difference between the U.S. Midwest and the other region.

"The auto companies are already going to their brokers saying we need a price for all-in metal. The end users do have access to it with trading relationships but they would like to see a displayed price," he said.

The exchange may eventually look at expanding the contract to Europe for delivery in Rotterdam and Asia - Japan and Taiwan - if there was sufficient interest liquidity, he said.

It would also consider expanding it to other metals in time.

Under pressure to appease critics of its global storage network and facing intense regulatory and political scrutiny, the LME will introduce measures in April to slash the maximum queues for metal and has beefed up its powers to act against market abuse. It is unclear if there would be enough support for the contract.

U.S. producer Alcoa Inc. as given its backing to a premium product, but Chamberlain said the LME would only push ahead with the plan if there was enough backing from the industry. "This is something we'll develop if there's a real business case for it."
Codelco says Chile port strikes stall 20,000 tns of copper

By Anthony Esposito

EL TENIENTE MINE, Jan 10 (Reuters) - Ongoing port strikes in Chile have delayed shipment of around 20,000 tonnes of copper from state-run Codelco, Chief Executive Officer Thomas Keller said on Friday.

"We're being affected, obviously," Keller said of the strike which has spread through export-dependent Chile.

"When our shipments are delayed, that implies a negative effect on our generation of cash," he added during a visit to the central El Teniente mine.

Still, the world's No. 1 copper producer has not had to buy copper to meet contracts as these allow for flexibility, he noted.

Codelco said on Tuesday the work stoppages had sliced $130 million from its December income.

The strike kicked off at the northern port of Angamos last month over temporary workers' rights and then spiraled as other port unions joined the movement in solidarity, adding their own demands to the mix.

Much of Chile’s copper, which accounts for roughly a third of global supply, is shipped from the country’s Pacific Ocean ports, with much headed to top client China.

It was unclear exactly which ports were operating on Friday.

According to the Labor Ministry, some workers in the southern ports returned to work on Thursday.

But the copper-exporting ports of Antofagasta and Iquique and the fruit-shipping port of San Antonio remain on strike, according to reports.

Indonesia mineral export ban boosts nickel price, policy uncertainty remains

By James Regan

SYDNEY, Jan 13 (Reuters) - Global nickel prices and shares in Australian miners rallied on Monday after a ban on unprocessed mineral exports by top supplier Indonesia came into effect, a policy that could trigger a recovery in long-depressed nickel prices.

Indonesia introduced the controversial ban on Sunday on a range of raw mineral ores in order to force home companies to build processing plants on Indonesian soil, but policy confusion remains.

Last minutes changes approved by President Susilo Bambang Yudhoyono - aimed at minimising the short-term economic impact - appear to give reprieve to exports of copper by U.S. mining giants Freeport McMoRan Copper & Gold and Newmont Mining Corp

Shortly before the ban took effect, Freeport halted copper exports and said it would not resume them until there was clarity on which minerals can be shipped.

Freeport Indonesia CEO Rozik Soetjipto told Reuters he believed the company would be allowed to continue shipping copper concentrate, but was awaiting government confirmation.

Indonesia is the world's biggest exporter of nickel ore, refined tin and thermal coal and home to the fifth largest copper mine and top gold mine. Indonesian authorities offered no such relief to the nickel and bauxite industries.

London Metal Exchange nickel rose 4 percent on Friday and added a further 2 percent in early Asian trading on Monday, helping push shares in Australian producer Western Areas up more than 10 percent.

Indonesia accounts for about 15 percent of global nickel supplies. It is a major supplier to China where its high grade laterite nickel, found only in tropical regions, is used to produce nickel pig iron, a cheaper alternative for making stainless steel than high-purity nickel. China requires around 850,000 tonnes a year of nickel -- nearly half global consumption -- with around 450,000 tonnes of that coming from nickel pig iron.

China rarely draws down on nickel stocks held by the London Metal Exchange, but some analysts think this could change if its supply of Indonesian nickel pig iron is cut off, underpinning prices.

BOOST FOR MINERS

The nickel price, wallowing not far from four-year lows, had largely failed to react to the looming ban because of a global oversupply and scepticism over whether Indonesia would implement the ban, given its history of stepping back from controversial policies.

Western Areas rose nearly 12 percent on Monday while Mincor Resources added 2.7 percent and mining major BHP Billiton was up 0.6 percent. Despite nickel being one of BHP's least profitable businesses, it remains the world's third-biggest nickel producer, with operations in Australia and Colombia.

In Indonesia, the ban has already led to the lay-off of almost 30,000 mine workers as mines cut back operations, according to the Indonesian Mineral Entrepreneurs Association, as well as a halt in some shipments.

Mine lay-offs have already sparked protests in Jakarta and thousands more could see the export ban become a hot political issue in 2014's legislative and presidential elections.

Indonesia is also a major supplier of bauxite, the basic raw material in the manufacture of aluminium.

Unlike nickel, Australia's bauxite sector showed little reaction, with Bauxite Resources and Cape alumina unchanged.

Rio Tinto, which plans to close an alumina refinery in Gove, Australia, stands to benefit from a bauxite ban as it intends to step up outside sales of bauxite a year once the refinery closes.
World's biggest steel trader eyes assets of troubled Lucchini

By Maytal Angel

LONDON, Jan 10 (Reuters) - Duferco, the world's biggest steel trader, is looking at acquiring some of the assets of troubled Italian steelmaker Lucchini as Italy's government ramps up efforts to protect jobs in the steel sector.

Antonio Gozzi, chief executive officer of the Swiss-based company which both trades and produces steel, said that Duferco together with Italian steelmakers Acciaierie Venete and Feralpi had confirmed an interest in Lucchini's assets.

He added, however: "We are also very prudent. It's a tough situation, because there's big overcapacity in Europe."

Lucchini, Italy's second-largest producer, fell victim to recession and was placed under "special administration" late in 2012.

Piero Nardi, the government-appointed administrator, has set a Jan. 20 deadline for potential bidders to submit expressions of interest for all or part of Lucchini's assets in Piombino and Lecco.

Steel output at Piombino, Lucchini's main production site, declined dramatically last year. Media have reported that workers are on a contract under which they work fewer hours to ensure work for all.

But Piombino's blast furnace is unlikely to continue running after a sale. Nardi has said he is willing to accept offers that do not include the furnace, though the buyer must commit to build an electric arc furnace, which tends to be smaller and can be switched off and on with relative ease.

"For me the blast furnace route is finished in Piombino," Duferco's Gozzi said.

Another industry source said Lucchini was set to close the blast furnace. Lecco is a smaller facility without a furnace.

"If there is a buyer, we'll ask him if there is the intention of keeping the blast furnace running. Nardi is saying the blast furnace must be closed because it does not have raw materials anymore. We are producing 2,300 tonnes of liquid pig iron a day versus full capacity of 6,000 tonnes," said Mirko Lami, of Italian union CGIL FIOM.

IRON ORE, COKE SALE?

Separately, Lucchini has begun to seek government approval for the sale of its pig iron and coke plant in Trieste, where hundreds of workers face job losses if a sale does not go through.

Italian steelmaker Arvedi is widely expected to bid after its attempt to rent the plant fell through. Nardi is likely to call for expressions of interest in the Trieste assets in about a month's time, company officials said.

"We've started talks with the ministry and are working on a formal solution to start the sale procedure. Arvedi is interested. We think there are all the conditions in place for a sale, but we need to start with a public offer," Francesco Semino, general secretary of Lucchini, said.

A spokesperson for Arvedi declined to comment.

Producing steel profitably has become difficult in Europe, where demand is down some 30 percent since the 2008 financial crisis, overcapacity is at around 30-40 million tonnes and prices are near 3-1/2 year lows.

The problem is particularly acute for Italy, Europe's second-largest steel producer, where the pig iron, steel and related industries account for about 4 percent of GDP.

"Arvedi showed interest in Lucchini's blast furnace in Trieste. If their interest does not go ahead, the administrator will probably shut it down," said Antonio Gozzi, leader of Italian steel association Federacciai.

Before Lucchini entered into special administration, its owner - Russian steel producer Severstal - had tried for a few years to sell the group.

The Trieste plant employs about 485 people and can produce about 500,000 tonnes of pig iron and also coke, part of which goes to Lucchini's main Piombino facility for processing into steel.

ThyssenKrupp chief tests shareholder patience on steelmaker overhaul

By Maria Sheahan and Tom Kackenhoff

FRANKFURT, Jan 12 (Reuters) - Three years after taking the helm at ThyssenKrupp, Heinrich Hiesinger is running out of time to implement his ambitious plan to retool the 200-year-old German steelmaker as a high-tech engineering conglomerate.

Setbacks in selling weak assets - as well as costly price-fixing scandals he inherited - have made Hiesinger's promises of sweeping transformation look optimistic. At an annual meeting on Friday, the former Siemens man will face tough questions from shareholders who, for a second year, have received no dividend.

"Some thought that he was the guy who can restructure ThyssenKrupp and move it forward. But he hasn't really achieved that yet," said Joerg Schneider, a fund manager at Union Investment in Frankfurt. "He set the expectations too high."

Adding to pressure on Hiesinger are small but significant shifts in the group's ownership since the last AGM. The family trust, which long shielded managers from predators, has seen its holding diluted below a blocking 25 percent. Meanwhile, activist Swedish fund Cevian has built up an 11-percent stake.

Needing cash to expand higher-margin lines, such as elevators and high-performance car parts, Hiesinger has already sold assets accounting for a quarter of group sales. Yet delays and other problems have sparked speculation - which the CEO has...
MARKET NEWS (Continued)

consistently rejected - that he might yet pull out of steelmaking altogether, ending two centuries of Krupp tradition.

A senior manager who has worked with the 53-year-old electrical engineer told Reuters that sentiment would play little role when the CEO determines what must be sold.

"There are," he said, "no sacred cows for Hiesinger."

Despite a 40-percent fall in the share price since he took over, many investors say they are keeping faith in him, for now.

"I do believe that Hiesinger can still turn things around," said Schneider at Union Investment.

"But he needs to show shareholders and employees a clear path so they can finally see a light at the end of the tunnel."

OWNERSHIP CHANGES

Public professions of confidence in Hiesinger’s strategy have also come from Cevian, whose founding partner Christer Gardell was dubbed “The Butcher” in Sweden for pushing aggressively for restructurings of underperforming firms. The investment group has quadrupled its stake in ThyssenKrupp since the middle of last year, giving it a significant voice at the AGM.

There has also been change at the Krupp Foundation. The last family owner, jailed but later pardoned for his role in the Nazi war effort, left his fortune to the trust to fund philanthropy.

His confidant Berthold Beitz oversaw the charity’s influence on the group for decades, before and after the 1999 merger with Thyssen. Beitz’s death last July at the age of 99 could lead to shifts in its stance.

Last month, by not participating in a capital increase, the Foundation let its stake slip below the 25 percent that gave it a blocking minority at the company’s AGMs.

The stake now stands at 23 percent, still a level that gives it great sway over decisions which require the support of 75 percent of votes cast.

The scale of difficulties since he won support for his restructuring plan in 2011 underlines how much there is still to do for Hiesinger, whose contract is up in September next year.

Once synonymous with the rise of Germany’s industrial and military might, producing munitions, tanks and big guns from its Ruhr valley base, today’s ThyssenKrupp is a diversified global conglomerate making products ranging from bulk steel to elevators, automotive parts, fertiliser plants and warships.

When Hiesinger took over, the group appeared to be in decent shape, with most of its businesses posting profits. But as he started shaking it up, shifting the group away from the volatile steel market, lurking problems came to light. ThyssenKrupp has now posted three straight years of losses and racked up debts.

"Three years ago, many risk factors were only partly visible," said a senior ThyssenKrupp manager who declined to be named. "We couldn’t yet see the consequences of investment decisions. But the root of the problems was already there."

Its most profitable units are elevators, buoyed by a construction boom in China, and industrial solutions, where the U.S. shale gas boom has driven demand for petrochemical plants.

Hiesinger has sold off units with at least 10 billion euros ($13.6 billion) of annual sales - a quarter of group turnover.

BRAZIL HEADACHE

But two of the biggest items on his to-do list have become major headaches - the sales of stainless steel business Inoxum and the loss-making company Steel Americas, comprising a steel mill in Brazil and a processing plant in Alabama.

Almost a year after completing the sale of Inoxum to Outokumpu of Finland, ThyssenKrupp announced in November it would have to take back parts of that business - the Terni steel plant in Italy and the VDM alloy unit.

And after repeatedly extending the deadline for a deal on Steel Americas, Hiesinger was in the end able to sell just the Alabama unit, leaving the Brazilian mill a drag on finances.

ThyssenKrupp is also trying to find buyers for other units such as Berco, a supplier of undercarriages for construction and mining equipment, and awaiting the outcome of a cartel investigation into firms selling steel to carmakers.

The ill-fated investment in Brazil as well as a downturn in the global steel market has weighed heavily on ThyssenKrupp’s finances, causing its debt pile to swell. At end-September, it stood at about 5 billion euros ($6.8 billion), twice its equity, and it had to ask banks to waive some loan covenants.

To ease the strain, ThyssenKrupp raised 882 million euros by issuing new shares and will receive another 1.1 billion from the Alabama deal once regulators have signed off. In a positive development, the company posted positive free cash flow for the first time in six years in 2013.

Hiesinger has asked investors to be patient.

"It seems the will is there," said Nomura analyst Neil Sampat. "But the reality is that the failure to sell Brazil and having to take back Terni and VDM is a step backwards."

One way or another, Hiesinger must convince investors that his efforts to overhaul the company are worth the wait.

"The story with which ThyssenKrupp tried to enthuse the capital market didn’t work," said Union Investment’s Schneider, who believes Hiesinger can still pull off the turnaround but has reduced his holdings of the stock.

"I don’t believe in it as an investment story right now," he said. "Management over-promised."
INSIDE METALS

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

Daily LME Aluminium 3-months

Daily LME Copper 3-months

Daily LME Nickel 3-months

Daily LME Zinc 3-months

Daily LME Lead 3-months

Daily LME Tin 3-months

Daily LME Alloy 3-months

Daily LME Nasaac 3-months

THOMSON REUTERS
MARKET REVIEW

METALS-LME nickel jumps on Indonesian ore export ban

By Melanie Burton

SYDNEY, Jan 13 (Reuters) - London nickel climbed, adding to strong gains last week as a ban on unprocessed ore exports from major producer Indonesia came into effect.

London Metal Exchange nickel climbed 2.4 percent to $14,190 a tonne, its highest since Dec. 30, before paring gains to $14,040 a tonne by 0731 GMT, up 1.3 percent.

Prices rose nearly 4 percent on Friday in the biggest one-day move in three months.

"Due to the export ban on nickel $16,000 is possible if there is a prolonged lack of supply," said analyst Dominic Schnider at UBS Wealth Management in Singapore.

Given a still fragile recovery in the global stainless steel sector and record LME stockpiles, however, price gains may be curbed much beyond this level, he added.

Indonesia, among the world's biggest suppliers of natural resources, halted all mineral ore exports on Sunday to try to promote domestic processing. But the move also threatens the country's nickel and bauxite industries worth more than $2 billion in annual shipments.

Shares in Australian nickel miner Western Areas and Vale Indonesia jumped on Monday on expectations global nickel prices would rise.

Last minutes changes approved by President Susilo Bambang Yudhoyono - aimed at minimising the short-term economic impact - appear to give reprieve to exports of copper by U.S. mining giants Freeport-McMoRan Copper & Gold and Newmont Mining Corp.

China, the world's biggest consumer of copper, is well stocked with concentrate. Freeport-McMoRan halted its copper exports from Indonesia from Dec. 15.

Three-month copper on the London Metal Exchange climbed 0.11 percent to $7,308.25 a tonne, extending gains from the previous session.

The most-traded March copper contract on the Shanghai Futures Exchange rallied 0.9 percent to end the second session at 51,690 yuan ($8,500) a tonne, hitting its highest in more than a week.

Friday's unexpectedly weak jobs reports added to hopes that the U.S. Federal Reserve may soften or delay its reduction of stimulus, Schnider said.

"Dollar weakness reflects hopes things are going to get delayed, (and that's) good for emerging markets and that will also alleviate pressure on commodities," he said.

U.S. employers hired the fewest workers in nearly three years in December, but the setback was likely to be temporary amid signs that unusually cold weather may have had an impact.

PRECIOUS-Gold rallies to highest in a month as U.S. jobs growth slows

SINGAPORE, Jan 13 (Reuters) - Gold extended gains to a third session to hit its highest in a month after a surprisingly weak U.S. jobs report stoked expectations that the Federal Reserve could temper the pace of its stimulus wind-down.

A weaker U.S. dollar also supported prices, although physical demand in China - the world's biggest bullion consumer - dropped off due to the rally in prices.

Spot gold was up 0.3 percent at $1,250.15 an ounce by 0720 GMT, after hitting $1,254.05 earlier - its highest since Dec. 12.

"Prices may continue to rise till $1,267," said Joyce Liu, an investment analyst at Phillip Futures. "As it's earnings season for U.S. equities, large disappointments in company earnings may also direct some funds back to gold."

"However, the general macroeconomic sentiment and outlook continue to weigh on gold, especially as bond yields continue to rise and prospects for USD remain upbeat. As such, we would consider gold prices this week to be largely supported but vulnerable to end the recent rally."

Gold lost nearly 30 percent of its value in 2013 as strong U.S. economic data prompted the Fed to scale back its stimulus. In January, however, gold prices have been supported by weaker equities and robust demand in China ahead of the Lunar New Year.

A slowdown in outflows from SPDR Gold Trust, the world's largest gold-backed exchange-traded fund, has also helped.

Prices were given a renewed boost by Friday's U.S. nonfarm payroll data which showed that U.S. employers hired the fewest workers in nearly 3 years in December.

Markets believe the weak jobs report could prompt the Fed to proceed with caution in tapering its historic monetary stimulus. The Fed last month announced its first cut to the $85 billion monthly bond purchases.

Other data on Friday showed that hedge funds and money managers raised their net long positions in gold futures and options for a second straight week.

On the Shanghai Gold Exchange, premiums for 99.99 percent purity gold fell to about $17 from Friday's $18 as the price gain deterred some buyers.

Buying from China was strong last week due to new year purchases but have now slowed, traders said.
MARKET REVIEW (Continued)

FOREX-Dollar hits near 1-mth low vs yen after weak US jobs data

By Masayuki Kitano and Ian Chua

SINGAPORE/SYDNEY, Jan 13 (Reuters) - The dollar hit its lowest level in nearly a month versus the yen after surprisingly soft U.S. jobs data disappointed dollar bulls, with traders reassessing how quickly the Federal Reserve can scale back stimulus.

The dollar slid 0.6 percent to 103.48 yen, having fallen to 103.26 yen at one point, its lowest level since Dec. 18. The greenback's losses accelerated after it breached Friday's intraday low of 103.83 yen.

"With Tokyo players away today, the sense I get is that the market may be hunting for any stops left by people in Tokyo," said a trader for a Japanese bank in Singapore, referring to stop-loss dollar offers. Japanese financial markets were closed on Monday for a public holiday.

The yen also pushed higher versus the euro, which fell 0.5 percent to 141.50 yen. The euro touched a low of 141.24 yen, its lowest level in nearly a month.

The dollar's slide came after data on Friday showed U.S. employers hired the fewest workers in nearly three years in December.

The rise of 74,000 payrolls was well short of the 200,000 or so that most economists had expected, prompting a big slide in U.S. Treasury yields.

The implied yields on Fed funds futures also tumbled as markets pushed back the timing of the first interest rate hike out towards late-2015 from mid-2015.

The Singapore-based Japanese bank trader said that while the jobs data probably hasn't led to any drastic change in the market's view that the U.S. economy is on a recovery path, it was enough to spark a pull-back in the dollar.

"The market had been too bullish...and dollar/yen had been strong too. The market then got the type of factor that can trigger a corrective move," the trader said.

With its drop on Monday, the dollar pulled further away from a five-year high of 105.45 yen set in early January.

The dollar index eased 0.2 percent to 80.525, adding to its 0.4 percent drop on Friday.

The euro held steady at $1.3675, staying above a one-month trough of $1.3548 plumbed on Thursday.

"The surprisingly weak headline payrolls print sparked a large switch in USD sentiment," analysts at Barclays Capital wrote in a note to clients.

"Arguably, the recent improvement in data left the market vulnerable positioned for Friday's release."

The Australian dollar gained ground on the greenback and touched a one-month high of $0.9035. The Aussie dollar last fetched $0.9027, up 0.3 percent on the day.

The Canadian dollar struggled at near four-year lows against the greenback after data showed the country unexpectedly shed jobs last month.

The loonie, which fell in every session last week against its U.S. peer, last stood at C$1.0895 per dollar. The U.S. dollar had scaled a peak of C$1.0946 on Friday, the greenback's strongest level since October 2009.

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