INSIDE METALS

Tuesday, January 14, 2014

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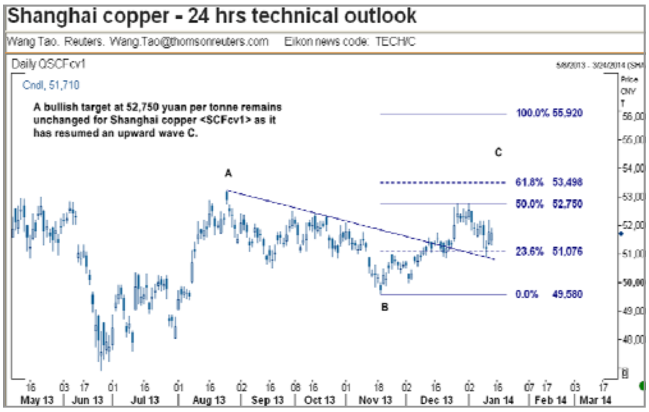

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Indonesia's tin exports surged in December to a two-year high of 13,562 tonnes. That was decidedly good news for global tin users.

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

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TODAY'S MARKETS

BASE METALS: London copper edged higher, as caution over growth prospects for the world's top two economies dampened sentiment, but a shortfall of metal in the physical markets underpinned prices. "The dollar weakened again after the jobs data which normally should support commodity prices, however metals didn't move much mainly because of concerns about an overall demand grow slowdown, especially in China," said Helen Lau, senior commodities analyst at UOB-Kay Hian in Hong Kong.

PRECIOUS METALS: Gold steadied near its highest in a month as safe-haven buying increased amid a drop in equities, with investors fretting over the U.S. growth outlook after a disappointing jobs report last week. "If equities stay on the defensive and yields remain low we could see some modest rotational shift out of paper assets and into gold, which could support a push closer to $1,300, but we do not envisage a significant rally above those levels," HSBC analysts said in a note.

FOREX: The yen eased versus the dollar, taking a breather after having rallied broadly the previous day following a selloff on Wall Street and a further drop in U.S. Treasury yields. Satoshi Okagawa, senior global markets analyst for Sumitomo Mitsui Banking Corporation in Singapore, said there may be some risk in the near term of a further unwinding of yen bearish bets that had been put on recently. "The market had gone too far toward the year-end, and at the start of the new year," Okagawa said. The dollar will probably trade in a 102.00-104.50 yen range for this week, he added.

FEATURE

COLUMN-Tin the template for Indonesia minerals policy

By Andy Home

LONDON, Jan 13 (Reuters) - Indonesia's tin exports surged in December to a two-year high of 13,562 tonnes.

That was decidedly good news for global tin users.

The tin market is characterised by structural supply shortfall and Indonesia is the world's largest exporter of the metal. So when exports plunged in September due to a new raft of export rules, there was understandable consternation as to how long it would take for shipments to normalise.

A couple of months, it turned out. Full-year 2013 exports dropped by 7 percent to 91,613 tonnes, but that was much better than might have been expected when flows all but ground to a halt in September.

The rebound in exports at the end of last year will also, though, be construed as decidedly good news by the Indonesian authorities.

Following a 10-year war of attrition against the miners and smelters clustered on the tin-rich islands of Bangka and Belitung, the government has finally achieved its goal of eliminating exports of unprocessed tin. Everything that was exported in December was in the form of refined metal or tin solder and it was traded on a local exchange before shipment.

Tin is the historical template for the broader ban on exports of unprocessed minerals that kicked in this weekend.

As ever with Indonesian minerals policy, there has been last-minute drama in the form of a presidential decree exempting some minerals, most notably copper concentrate, and some operators.

But if tin is anything to go by, there should be no doubting Indonesia's commitment to forcing its mining sector into value-add processing, however tortuous the path in getting to that goal.

Tin, however, may yet prove to be a problematic template in terms of the longer-term future of Indonesia's mining sector.

THE TIN WAR

The first shot in Indonesia's tin war was fired in 2002, when the government decreed a ban on exports of tin concentrates and ores. That was seven years before the 2009 law covering other minerals that is only now coming into effect.

The target of the tin ban was the host of small miners tapping the alluvial tin deposits on the islands of Bangka and Belitung. Mostly operating without any sort of government licence, they were accused of causing widespread environmental damage.

Over time the ban led to the proliferation of small-scale smelters, some of which proved as difficult to control as the miners.

Smelters were raided and some were forcibly closed for buying illegal ores. There were protests, sometimes violent, by affected workers. Quotas came and went, exports ebbed and flowed but the authorities gradually exerted increasing control over the fractured and fractious tin sector.

September marked the culmination of this long war of attrition with the implementation of minimum purity standards and a requirement that all exports first be traded on the Indonesian Commodity and Derivatives Exchange (ICDX).

Foreshadowing the uncertainty of the last few days, the details of the rule changes were only released at the eleventh hour.

The stipulation that tin had to be traded on the ICDX before shipment was a complete surprise and the prime cause of the sharp drop in September exports since so few players, either Indonesian or international, were actually registered with the exchange.

ICDX volumes have steadily increased from just 795 tonnes in September to over 8,000 tonnes in December.

That's partly thanks to a last-minute concession on the purity standards. The most liquid contract has been that for tin with a minimum lead content of 300 ppm. Under the original proposals exports of such metal would have been banned.

There may be some more tightening of the purity screws but for now Indonesia has largely achieved what it set out to do 10 years ago.

EXEMPTED

There's been similar drama with this weekend's ban on other unprocessed minerals with a presidential decree exempting some minerals and some local producers who have started work on building processing plants.

The exemptions to copper, zinc, lead and iron ore are only temporary, though.

Unprocessed exports will be banned from 2017 and there will be steep increases in taxes over the intervening period progressively penalising overseas shipments.

The concession benefits Freeport McMoRan and Newmont Mining, which operate the Grasberg and Batu Hijau copper mines respectively.

Both supply feed to the country's sole copper smelter/refinery but both are also large exporters of copper concentrates. Both are major local employers and both have argued with some justification that copper in concentrate form has already captured most of the value-add in the copper production chain.

But the lesson to be drawn from the tin war is that the Indonesian authorities are going to stick with the longer-term goal of forcing the local conversion of concentrates into refined metal.

That's a major headache for both operators and leaves a significant question-mark hanging over the nature and timing of future Indonesian copper supply.

FEATURE *(Continued)*

BANNED

A sign of that Indonesian single-mindedness is the fact that nickel ore exports have just been banned despite the inevitable negative impact on the local economy resulting from wholesale redundancies and reduced tax revenues.

As with tin, it seems, the authorities are prepared to take some short-term pain for the sake of the long-term gain.

And as with tin, there is a good chance the hard-line stance will be vindicated...eventually.

Indonesia can largely do what it wants with its tin sector because it knows there is no alternative supplier to grab market share.

Similarly with nickel ore. China's nickel pig iron (NPI) sector has become increasingly dependent on Indonesia for its ore because the country produces the quality required to feed the new generation of rotary kiln NPI plants.

Ore from the Philippines, the second largest supplier to China, is of a lower quality. And although China has stocked up on Indonesian ore ahead of this weekend's ban, those stocks will not last forever.

Assuming no more concessions, it is clear that Chinese operators will have to start investing in NPI facilities in Indonesia, if they want to continue using the country's ore.

A PROBLEM TEMPLATE

Indonesia, though, does not have a similar strangle-hold on other raw materials.

Chinese aluminium producers, for example, have also come to rely heavily on Indonesian bauxite. They too have built up significant stocks ahead of the ban.

But unlike their NPI peers, China's alumina refineries can look for alternative sources, a process that has already begun, judging by the recent growth in bauxite imports from the likes of Australia, India and West Africa.

Indonesia may get a couple of alumina refineries over the next few years, but there is an equal risk that it will simply lose out to other bauxite suppliers.

It is also quite possible that the world can live without Indonesian iron ore, if the investment case for building steel plants in the country doesn't stack up.

The success of Indonesia's tin policy, in other words, may not be so easily replicated in other mineral sectors. Only in nickel does the country enjoy the equivalent supply leverage necessary to force value-add processing.

Existing operators may have little choice but to go down that path, but future investors may think twice.

Fortunately for Indonesia, there are no obvious alternatives to the tin deposits of Bangka and Belitung or the type of nickel ore now relied on by China's NPI sector.

Unfortunately for Indonesia, the country does not have a similar monopoly on other minerals.

(The opinions expressed here are those of the author, a columnist for Reuters.)

GENERAL NEWS *(Continued)*

U.S. Fed set to push ahead on new commodity trade rules

By Anna Louie Sussman and Emily Stephenson

NEW YORK/WASHINGTON, Jan 13 (Reuters) - The U.S. Federal Reserve is set to take its first formal step toward limiting the role of Wall Street banks in physical commodities markets this week by issuing a notice to seek public comment on the topic, sources familiar with the matter said on Monday.

The Fed will publish an "advance notice of proposed rulemaking" on Tuesday, laying out the issues it is considering, one day before a second Senate banking committee hearing on the matter, the sources said.

The notice and Wednesday's hearing come after months of public and political outcry over the risks of allowing banks to trade physical commodities such as tankers of crude oil and pallets of copper.

At a Senate hearing in July, witnesses testified that the activities pose a risk to the financial system in the event of a catastrophic accident. Metals consumers complained that banks' ownership of physical storage assets enabled them to inflate prices for commodities such as aluminum.

In 2013, banks including JPMorgan Chase and Barclays have paid hundreds of millions of dollars in fines for manipulating energy markets.

The U.S. Federal Energy Regulatory Commission (FERC), which regulates energy markets, will be represented at Wednesday's hearing by Norman Bay, a former New Mexico district attorney who has led a series of high-profile market manipulation cases against big traders in the U.S. power and gas markets, including a record $410 million penalty agreed with JPMorgan.

The other two witnesses are the CFTC's market oversight chief, Vince McGonagle, and Michael Gibson, the Fed's director of banking supervision and regulation.

WHAT ARE THEY THINKING?

It is not clear what measures the Fed may propose. The public is expected to have 60 to 90 days to submit comment letters, which the Fed can use to formulate its rules.

A Federal Reserve spokeswoman declined to comment.

An ANPR can range from being a simple list of questions designed to elicit information to something more like a concept paper, said Hugh Conroy, Jr., a banking lawyer at Cleary Gottlieb Steen & Hamilton. In any case, Tuesday's document will provide the first glimpse into the Fed's thinking since lawmakers and the public have put the issue in the spotlight.

"Usually an ANPR would be done in a context where they're trying to get people to give them more ideas, versus a proposed rule text where they just want people to comment on what they have already put in writing," he said.

Over the past year, lawmakers have pressed the Fed to examine whether Wall Street's biggest banks, including JPMorgan Chase & Co and Goldman Sachs Group Inc, should be allowed to own assets such as metals warehouses and oil tankers, and to trade physical commodities alongside commodity derivatives.

The notice by the Fed may touch on the issue of capital surcharges for certain activities, an issue that arose in media reports but was never clarified by the Fed.

SOME BANKS EXITING COMMODITIES

In July, the Fed said it would be reviewing the role of banks in physical commodities trading, something that it has allowed a range of banks to engage in since 2003.

Karen Shaw Petrou of Federal Financial Analytics in Washington said the notice would likely seek comment on how the risk varies by commodity, and would consider the systemic impact of various physical trading activities.

“This is hard, and the Fed is busy,” Petrou said. “It is really complicated. If you want to have a simple capital rule, then you would have an across-the-board charge for certain commodities activities, but it’s true that some of them are a lot riskier than others.”

It is unclear whether the Fed will also address a related but distinct question: whether former investment banks Goldman and Morgan Stanley should be allowed to carry on owning commodity-related assets, such as metals warehouses and oil pipeline, due to a "grandfathering" clause in a 1999 law.

Regardless of the scope of the Fed's statements, they are certain to be scrutinized by industry executives and their lawyers, who have been frustrated by the lack of clarity over a possible crack-down that could further roil Wall Street's multibillion-dollar trading operations.

Some banks have not waited for a final word. JPMorgan is in the final stage of a months-long process to sell its entire physical commodity desk, and Morgan Stanley agreed last month to sell its physical oil trading operation to Rosneft.

"One thing I’d want to look at is their justifications for such a proposal. I think for it to be an appropriately reasoned rulemaking, it should address how the charges address the risks," said a banking lawyer who declined to be named.

"I would also want to see what they said about their supervisory experience over the time they have allowed financial companies to do this."

ANPRs are a preliminary step on the rulemaking path, said Conroy, adding that even more advanced documents, like draft rules or interpretive statements, can fall by the wayside.

"Generally, even notices of proposed rulemaking and interpretive statements sometimes don't end up becoming rules, so an ANPR may not end up becoming a rule," he said.

"But it indicates they are moving towards that."

GENERAL NEWS *(Continued)*

Gold fund managers, burned, seek miners ready for tough times

By Clara Denina and Silvia Antonioli

LONDON, Jan 13 (Reuters) - Gold stocks fund managers, who lost as much as two thirds of their clients' money in 2013, pledge they can do better this year by picking the few gold mining firms that can weather sharply lower prices.

An era of expensive expansion projects and loose financial controls has ended with the biggest annual gold price fall in 32 years in 2013. Investors expect miners to deliver on promises of cost cutting and balance sheet discipline.

Bullion prices fell by 28 percent last year, bringing an abrupt end to 12 straight years of gains. Gold mining stocks fell by 53 percent on average..

It comes as no surprise then that nine of the 10 worst-performing funds in the UK in 2013, and six out of the 10 worst in the United States made bets on gold equities.

At the top of that list is the Junior Gold fund, which lost almost 66 percent - a level that even its manager, Angelos Damaskos, describes as "eye-watering".

"At the beginning of 2013, we were more focused on growth in production rather than cost controls, which is what has been the weakness of most investors in the gold sector. We did not expect the gold price to drop so much," Damaskos said.

"The key criteria for us in 2014 is to make sure that the investment companies have a sustainable all-in cost of around $1,000 an ounce or less," Damaskos said.

Just behind Junior Gold were Ruffer Baker Steel Gold, which dropped by 61 percent, and WAY Charteris Gold by 54 percent, according to financial data provider Morningstar.

THE WHEAT AND THE CHAFF

Even during the boom years, gold mining stocks were already underperforming.

In the 1995-2013 period, bullion returned 213 percent, while gold mining stocks lost 36 percent, according to S&P indexes.

"Losses of the gold miners were bigger in the negative years for gold and not as positive in the positive years for gold," Jodie Gunzberg at S&P Dow Jones Indices said.

Optimism about ever-rising gold prices in the good years led companies to embark on acquisitions and ambitious expansion plans, rather than focus on cost efficiency and debt control.

This led to multi-billion dollar writedowns in 2013 by companies such as Barrick Gold Corp, Goldcorp Inc, Newmont Mining Corp and Kinross Gold Corp

And for 2014, analysts forecast average gold prices will decline further as the economic backdrop brightens.

"The gold industry has allowed its costs to go up at a faster pace than the gold price itself. That's why they are in a pickle today," said Neil Gregson, manager of the JP Morgan Global Natural Resources fund.

"I think a low gold price is a great thing for the industry, because it's going to sort out the wheat from the chaff. The strong will survive, the rest will get closed down."

During the bear market for gold in the 1990s, larger companies seemed to be the safest bet, offering low costs, longer mine life and little debt.

This is no longer the case, according to fund managers, who say they have to look across the spectrum to find the few players that are capable of surviving lower prices.

One of Damaskos's favourite stocks for 2014, due to its low cash costs, is Australia-listed Kingsrose Mining.

For Gregson, one favourite is New Gold, a low-cost producer that also gets income from copper, a byproduct in its mines, and owns undeveloped gold properties that could become valuable should the price rise.

One of the stocks he has sold is Petropavlovsk due to output targets he deemed too ambitious based on the assets owned.

Most managers interviewed by Reuters favoured the larger Randgold Resources, however, praising its strong management and seeing it as one of the best positioned firms to survive a tough price environment.

"We believe it is one of the very few companies that can deliver margin improvement from an increase in its overall grades," said Ani Markova, manager of the Smith & Williamson Global Gold and Resources Fund.

WHAT'S YOUR PLAN FOR 1,000?

Gregson, whose fund includes energy and industrial metals stocks, reduced exposure to gold stocks throughout 2013 to 10 percent now from 25 percent. He said the gold price outlook remains fragile and that few miners still are prepared to face the rough times.

"We all got caught out a little bit because companies said they were going to restructure last year but they didn't. Now they are sort of being dragged kicking and screaming into rationalization," Gregson said.

"We have been asking gold companies for a year or two, 'What is your plan for a 1,000 (dollar per ounce gold price)'? And you'd be surprised (that) some of them still don't have one."

Other managers also say miners need to step up their efforts to adjust. Evy Hambro, manager of BlackRock's Gold and General fund, which ranked fifth worst in the UK Morningstar list, said firms have done "nowhere near enough" to improve margins, costs and capital allocation in 2013.

"In previous years the gold price has kind of protected management decisions, but now there is no escape," he said.

"They need to be more disciplined about the ounces they produce. If they are not going to make a rate of return in mining per ounce, then leave it in the ground. Wait for a day when there is a better gold price."

GENERAL NEWS *(Continued)*

INTERVIEW-Gold miners should consider investors in reserves math-BlackRock

By Silvia Antonioli and Clara Denina

LONDON, Jan 13 (Reuters) - To attract shareholders in a climate of weaker bullion prices gold miners need to use more conservative price forecasts to determine how much ore is economical to extract, focusing on a return for investors rather than flat out production.

BlackRock fund manager Evy Hambro says miners have to shrug off habits formed when bullion prices were racing ahead in the last 12 years and to add a rate of return for shareholders when estimating production costs. Ideally that should be 20 percent.

At the beginning of each year gold miners calculate their reserves, or how much gold it is worth their while to produce, depending on their costs of production and based on average gold price assumptions.

This shift to refocus on shareholder return could mean reducing the amount of gold miners produce, but making profits on that output, rather producing gold that could end up being sold at a loss. Less focused miners could find themselves running short of investors.

Some investors have complained that miners' price assumptions have been too optimistic in the last few years, while cost estimates have not included a rate of return for shareholders.

The 12 year gold price bull run until 2012 has in fact seen miners disregard higher costs for energy, labour and equipment over the years, as they sought to maximise production but ended up with rocketing exploration charges that eroded profits.

But in 2013 gold took a 28 percent plunge and gold miners' shares fell by more than half on average, burning investors.

"(Mining companies) need to make their decision and then you can take a view on whether or not you are happy to support the management team but I do think the industry as a whole should use a conservative price assumption to calculate their reserves," Hambro, investment chief for natural resources at BlackRock's Gold and General fund, said in an interview.

"(That) price assumption… should have a return rate built into it," Hambro added. "Some gold companies, the better-run ones, use a price assumption which includes 20 percent rate of returns when calculating their reserves. That's a very good way of doing it."

In February 2013, the world's largest gold producer Barrick Gold assumed a gold price of $1,500 an ounce for its 140 million ounces of reserves, while the second largest miner Newmont Mining assumed a price of $1,400 an ounce.

CHANGE NEEDED

Hambro has been calling for changes in the way mining companies are run for a number of years but only recently firms have become aware that industry sustainability was being jeopardised by over-budget projects, with some undertaking drastic management changes and cost cuts.

"We are starting to see some changes coming through and the fall in the gold price has helped in terms of making these changes more timely," Hambro said, adding that the gold price is today very close to the marginal cost of supply.

Spot gold was at around $1,245 an ounce on Monday.

Hambro manages the BlackRock Gold & General fund, which lost 48 percent in 2013, making it the fifth worst performing fund in the UK, according to data provider Morningstar.

Hambro also said that a return to hedging is not an alluring option for miners at this stage, due to a lack of contango--or discount for spot over later date prices-- in the forward curve.

Selling gold that has yet to be mined to lock in a fixed price was a practice used by mining firms that went out of vogue during gold's 12-year ascent to a near $2,000 an ounce peak in 2011.

But some have argued in favour of hedging once again.

The new chairman of Barrick Gold for example recently said he would seriously consider hedging, given the volatility in the price of gold.

Among other metals, Hambro is particularly keen on producers of copper and iron ore, where margins are healthy even after prices weakened in the past couple of years.

"We are not necessarily saying that prices of those commodities are going up but we expect that those companies will continue to deliver good operating profitability results in those areas," he said.

Goldcorp offers C$2.6 billion to acquire Osisko Mining

By Euan Rocha and Allison Martell

TORONTO, Jan 13 (Reuters) - Goldcorp Inc launched an unsolicited cash-and-stock bid to acquire smaller rival Osisko Mining Corp for C$2.6 billion ($2.4 billion) on Monday, in a move to gain control of Osisko's Malartic gold mine in Quebec.

The bid is the Canadian gold sector's first major attempt at a merger and acquisition deal in nearly a year. Miners stung by a 25 percent drop in the price of gold over the last 12 months have focused on cutting costs and slowing work on growth projects.

The acquisition of the large, low-grade Malartic deposit would boost Goldcorp's proven and probable reserves by some 10 million ounces, but it would also present perils.

"Given the low grade of the reserves, the Osisko assets will be relatively susceptible to any further weakness in the gold price, though the Canadian dollar will help protect the domestic mining industry," JPMorgan analyst John Bridges said in a note to clients.

The Canadian dollar hit a four-year low against the U.S. dollar last week, after data showed Canada unexpectedly shed jobs

GENERAL NEWS *(Continued)*

last month. A weak Canadian dollar typically helps miners that have assets within Canada as most of their costs are denominated in Canadian dollars, while gold sales are in U.S. dollars.

"We have been working on this (transaction) for some time, so the Canadian dollar movement did not drive the discussion or the decision, but the move looks good and it is something that helps our existing portfolio and it would help this asset going forward as well," Goldcorp's chief executive officer, Chuck Jeannes, said on a conference call.

Goldcorp said it will file a takeover bid circular with details of the offer.

In a statement released after the market closed, Osisko said its board will consider Goldcorp's announcement and any formal offer.

UNSOLICITED BID

The bid by Vancouver-based Goldcorp, which works out to roughly C$5.95 per share, represents a 15 percent premium to Osisko's closing share price on Friday.

Goldcorp said Osisko shareholders would receive 0.146 of a Goldcorp share plus C$2.26 in cash for each share they own. The bid will be open until Feb. 19.

Shares in Osisko closed up 20.7 percent on the Toronto Stock Exchange at C$6.24, indicating that investors expect Goldcorp to sweeten its offer.

"Our clear preference remains to engage with Osisko as we strongly believe in the compelling strategic and financial merits of this transaction to the mutual benefit of both companies' shareholders," Jeannes said.

With most major gold miners from Barrick Gold Corp to Newmont Mining Corp struggling with major setbacks on key growth projects, analysts doubt that Osisko will be able to find a white knight to counter the Goldcorp bid.

Salman Partners analyst David West noted that Goldcorp has weathered the tough gold market relatively well, and with rivals carrying heavy debt loads the company is unlikely to face much competition in bidding for Osisko.

"Goldcorp has come out the other side fairly intact, in a fairly decent position," he said. "That allows them to go after an Osisko here, where maybe it doesn't allow some other companies to do that."

West does not see the Goldcorp proposal kicking off a wave of consolidation in the industry, in part because other large gold producers' share prices are depressed, and many are busy shoring up their existing operations.

Goldcorp said its offer will not require the approval of its own shareholders. The miner has obtained a $1.25 billion credit facility from Scotiabank which, together with cash on hand and an undrawn $2 billion credit facility, will be sufficient to fund the cash portion of the offer.

OSISKO ASSETS

Malartic, Osisko's only operating mine, is likely to produce 500,000 to 600,000 ounces of gold per year over its 16-year mine life, according to the company's website. The mine, located in the prolific Abitibi mining district, began commercial production in May 2011.

Osisko also owns the Hammond Reef and the Kirkland Lake gold projects in Northern Ontario.

"Overall, we believe that both the producing mine as well as the potential development assets fit well within the geographical risk profile of Goldcorp's current portfolio of mines, which are located across North and South America," Barclays analyst Farooq Hamed wrote in a note to clients.

Goldcorp has said it expects to produce between 3.0 million and 3.15 million ounces of gold this year, an increase of 13 to 18 percent from 2013.

Goldcorp until recently was the world's largest gold company by market capitalization, but it was surpassed by Barrick Gold after the world's biggest gold producer issued $3 billion in equity late last year.

Goldcorp's shares fell 1.0 percent to C$25.04 on Monday.

MARKET NEWS

Aleris mulls U.S. expansion to meet resurgent auto demand

FORT LAUDERDALE, Fla., Jan 13 (Reuters) - Aleris International is considering expanding its automotive aluminum capacity in the United States, Chairman and Chief Executive Steven Demetriou said on Monday, the latest sign that the resurgent auto sector is helping offset continued sluggish construction and packaging use.

His upbeat outlook comes as the aluminum industry struggles with weak London Metal Exchange (LME) prices, which are close to or below the cost of many smelters' production, as well as surplus global output capacity and a shortage of scrap metal.

A switch by automakers to use lightweight aluminum in place of steel is the "biggest opportunity since the 1970s", when beer can makers switched metals, Demetrious told delegates at the Platts aluminum symposium.

At the Detroit auto show on Monday, Ford unveiled its revamped F-150 pick-up truck, which will have a body and load bed made almost entirely of aluminum, the first of its kind for a big-volume vehicle. The move was seen as a major victory for the aluminum market as it battles to gain market share from lower-priced but heavier steel.

Legislation requiring deep cuts in U.S. and Europe auto fuel efficiency are forcing carmakers to reduce the weight of vehicles. Growing demand for vehicles in emerging economies such as India and China is also driving the market.

"The industry is looking at how to capitalize on this. We are looking at new capacity in the U.S. for this growth," he said.

He would not comment any further on the plans, but he suggested that Aleris may be looking to secure a long-term partnership with a major automaker. Car makers needing auto body sheet produced at hot-rolling mills will need local capacity, he said.

"This is not a 'build it and they will come'" he said. Aleris has recently completed an expansion of its rolling mill in Duffel, Belgium.

On the flip side, the steel industry is developing new high-tech products in a long war to defend its share of the auto sector against aluminum, which is more expensive but a third of the weight of conventional steel.

But aluminum firms see significant room for growth, as analysts say the metal accounts for only about 8 percent of the weight of a typical car versus nearly 60 percent for steel.

The outlook will foster growing confidence about the auto sector, as overcapacity in packaging forces companies to retreat from making lower-margin products like foil.

Novelis, the world's No. 1 flat-rolled products maker, sold its North American foil business last November and United Co Rusal last week warned about overcapacity in packaging in Russia when it reported a massive $2 billion net loss in the fourth quarter.

In a greater focus on automotive markets, Novelis has commissioned two new automotive sheet finishing lines in Oswego, New York and is also building a auto sheet finishing plant in Changzhou, China which will go into production in the middle of this year with capacity of 120,000 tonnes per year.

The upbeat outlook for the downstream aluminum market is striking compared with the U.S. primary market which is struggling to compete with lower-cost producers in the Middle East even after the oil shale revolution has slashed energy costs, a big portion of output costs.

Indonesian ban seen halting China nickel pig iron growth

By James Regan

SYDNEY, Jan 13 (Reuters) - Growth in China's nickel pig iron industry is under threat from an Indonesian ban on exports of mineral ores, Australian nickel miner Western Areas Ltd said on Monday.

This could prove a boon for nickel miners in places like Australia who blame the proliferation of nickel pig iron production for a prolonged downturn in nickel prices and stand to pick up supply contracts with Chinese buyers.

"Calendar 2013 was China's biggest year in nickel pig iron volumes," said Western Areas Managing Director Dan Lougher. "The net effect now is that should be capped and that represents about half of China's demand for nickel

"The ban should curtail any new investment in nickel pig iron plants in China," Lougher said.

Western Area's stock closed up 9 percent after Indonesia introduced the controversial ban over the weekend on a range of minerals to encourage construction of value-adding processing plants on home soil.

China is the top importer of Indonesian ores, which are fed into furnaces to produce nickel pig iron, a lower-cost alternative to higher-quality nickel ores from Australia and elsewhere for makers of stainless steel.

China consumes around 850,000 tonnes a year of nickel - nearly half global consumption - with around 450,000 tonnes of that coming from nickel pig iron, according to Lougher.

In the past decade one of the most significant changes in the pattern of world nickel markets has been the emergence of nickel pig iron as a new contributor to global production, according to the International Nickel Study Group.

Shipments of ore for the production of nickel pig iron have surged in value from practically zero in 2005 to nearly $5 billion in 2011, the group says.

"There is going to be a lot more demand for nickel from more suppliers such as Western Areas now that the ban is in effect," Lougher said.

The last few years had seen a rise in the number of highly-efficient rotary kiln furnaces that are designed to process richer-

MARKET NEWS *(Continued)*

grade ores exclusively from Indonesia for conversion to nickel pig iron.

"The only alternative for these furnace operators now is to buy higher-purity nickel from mining companies," he said.

Gavin Wendt, a commodities specialist for Sydney-based consultants MineLife, said the ban was a "shot in the arm" for mining companies like Western Areas, Australia's third biggest nickel miner behind BHP Billiton and Glencore Xstrata.

"We've pretty much seen the bottom as far as nickel prices go," Wendt said. "There's now a high likelihood of price shocks during the course of this year."

London Metal Exchange nickel rose 4 percent on Friday and a further 2 percent in Asian trading on Monday to a two-week high above $14,100 a tonne ($6.40/lb).

Lougher said nickel's rise would be tempered by hefty stockpiles of ore amassed by Chinese pig iron producers ahead of the ban, but could still be as much as 25 per cent from current levels to $7.50-$8.00 a pound.

Every $1 dollar rise in LME nickel prices boosts Western Areas' profit by A$34 million, he said. Western Areas stock ended at $2.56, a two-week high.

China crude steel output growth to slow to 3.1 pct in 2014 - CISA

BEIJING, Jan 14 (Reuters) - China's annual steel output growth is expected to slow in 2014 to around 3 percent and reach 810 million tonnes as a result of changes in its economic strategy, the head of the country's steel association said in comments published late on Monday.

Chinese steel production has surged to nearly half the world's total in the past two decades as a result of breakneck economic growth, but Beijing is now determined to slash the excess capacity weighing down the sector as well as reduce the country's overall dependence on heavy industry.

Output in the first eleven months of 2013 reached 712.9 million tonnes, up 7.8 percent on the year, according to the latest figures from China's statistics bureau.

But Xu Lejiang, the new chairman of the China Iron and Steel Association (CISA), said the era of rapid growth in the Chinese steel industry had already come to an end, bringing longstanding problems like overcapacity into sharper focus.

"With the steady advance of urbanisation, steel product demand will continue to see a certain amount of growth, and we predict crude steel output will reach 810 million tonnes and apparent demand 750 million tonnes in 2014, rising around 3.1 percent," he said in a speech to association members on Sunday.

"But because of overcapacity, a slowdown in fixed asset investment growth and slowing demand growth for downstream products, the oversupply situation isn't likely to change much."

According to a transcript of the address published in CISA's official website , Xu said profits in the sector were likely to remain low for the foreseeable future, with environmental and raw material costs also still rising and competition from other emerging steel producing nations expected to intensify.

Xu, also the chairman of leading steelmaker Baoshan Iron and Steel Group, the parent of Baosteel, has previously claimed that the problems in the steel sector were brought about by local government interference, with soft loans and preferential supply contracts creating "huge monsters" that had been saddled with too much production capacity.

He said in his weekend address that China's new economic reforms would reduce the role of the state in the allocation of resources, and that steel firms could only emerge from their current difficulties by becoming more responsive to the market.

U.S. challenges China over duties on high-tech steel

WASHINGTON, Jan 13 (Reuters) - The United States increased pressure on China on Monday in a dispute over U.S. high-tech steel exports, accusing Beijing of not complying with a World Trade Organization directive to drop duties.

U.S. Trade Representative Michael Froman said China continued to use tariffs to effectively block imports of U.S. grain oriented flat-rolled electrical steel, used in the cores of high-efficiency transformers, electric motors and generators, despite a WTO ruling in the United States' favor.

"The WTO found that China's duties are inconsistent with WTO rules. We were right, and China was wrong," Froman told a news conference.

"Unfortunately, it appears that China has not corrected those inconsistencies."

The United States brought the steel case in 2010 after China accused U.S. exporters of "dumping" - or selling at unfairly low prices - on the Chinese market and levied punitive duties on the steel imports. The WTO decided for the United States in 2012.

The office said the action to seek consultations with China over the steel duties marked the first time the United States had initiated a WTO proceeding to challenge a claim by China that it had complied with a WTO dispute ruling.

U.S. exports of the specialty steel product, made by AK Steel Corp of Ohio and ATI Allegheny Ludlum of Pennsylvania, had been worth $250 million a year before China imposed duties.

Attorneys for the USTR said they hoped China would bring its tariffs into line with WTO rules after the U.S. request and a review by a WTO compliance panel.

Countries can ultimately seek compensation or redress if trading partners do not comply with WTO rules.

MARKET NEWS *(Continued)*

Europe zinc premiums hit highest since '08, tight supply in focus

By Harpreet Bhal

LONDON, Jan 13 (Reuters) - Premiums to buy physical zinc in Europe hit their highest in more than five years this month, underpinned by shortfalls in production and robust appetite from China, increasing prospects for further gains for benchmark zinc prices this year.

Premiums for physical zinc in Europe, paid above London Metal Exchange (LME) cash prices, were quoted at around $155-$165 a tonne, the highest since March 2008 and up from a steady range of around $130-$140 for most of 2013, traders said.

Benchmark three-month zinc prices on the LME ended the year down 1.2 percent last year, the best performer in the base metals complex, and analysts said tightening supplies are likely to accelerate in the second half to boost prices.

"You are beginning to get the foundations of a more bullish supply story in zinc. If you're looking at a 12-18 month viewpoint there are reasons to be positive on zinc prices," said Gayle Berry, an analyst at Barclays.

After years of oversupply, the galvanising metal is now showing signs that supply is falling short of demand and analysts said the deficit could persist.

Latest data from the International Lead and Zinc Study Group (ILZSG) showed the global zinc market slipped into a 2,000 tonne deficit in the first 10 months last year, the first deficit since 2006.

"The global metal market balance is expected to remain in deficit over the next 3-5 years, with implied stocks dwindling from a high 100 days of consumption in 2012 to 59 by 2015, lifting zinc prices to $0.98/lb in 2014 and $1.30-1.40/lb in 2015," Scotiabank analysts said in a note.

In per tonne terms, this would represent a rise from around $2,161 a tonne in 2014 to between $2,866 and $3,086 a tonne in 2015.

Highlighting the bullish outlook for zinc, data shows open interest for the metal climbed to the highest since 1999 last Friday, coinciding with rising three-month zinc prices.

A rise in open interest in tandem with rising prices suggests fresh long positions being put on.

LME three month zinc prices were at around $2,068 a tonne in late European trading on Monday.

SHORT SUPPLY

Traders said they were having trouble finding adequate material this month, after stocks for zinc in LME-registered warehouses touched their lowest level in more than 1-1/2 years in December.

"There isn't much material in the warehouses and we're also not seeing much from producers," a Europe-based zinc trader said.

Highlighting falling producer output, Glencore Xstrata said in October its zinc output dipped 12 percent to 332,200 tonnes, held back by the end of operations at depleted Brunswick and Perseverance in Canada.

"There's also a lack of material in Europe due to financing deals," a second zinc trader said, referring to financing deals that keep vast amounts of the metal locked away from consumers.

"Some material is also going to China and this could be the story for the rest of the year," he said.

Chinese customs data showed the country's refined zinc imports jumped 91.05 percent year-on-year in November.

Analysts said demand in China is fuelled both by end user consumption and by appetite for financing.

Chinese traders import dollar-denominated metal to resell in the domestic market to raise cash and this trade has become more popular due to tightness in money market rates.

"Traders have been turning their attention to finance zinc where they have not been able to get letters of credit for copper," said Berry.

"From a pure economics standpoint if you're importing copper for financing purposes you're going to take a loss on the arb. However for zinc you will be making money on the arb."

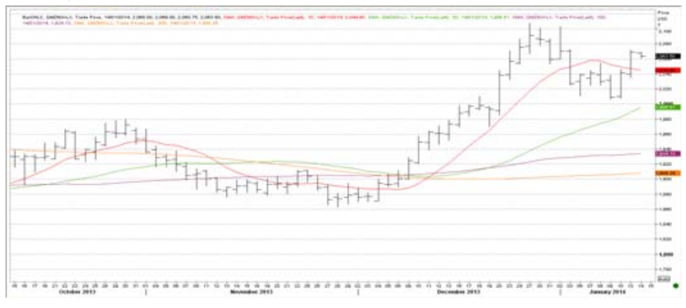
ANALYTIC CHARTS *(Click on the charts for full-size image)*

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-LME copper edges up, traders wary on growth

By Melanie Burton

SYDNEY, Jan 14 (Reuters) - London copper edged higher, as caution over growth prospects for the world's top two economies dampened sentiment, but a shortfall of metal in the physical markets underpinned prices.

Nickel prices, which rallied more than 6 percent over Friday and Monday as Indonesia's ban on unprocessed mineral ore exports came into force, had settled down to also trade little changed.

"The dollar weakened again after the jobs data which normally should support commodity prices, however metals didn't move much mainly because of concerns about an overall demand grow slowdown, especially in China," said Helen Lau, senior commodities analyst at UOB-Kay Hian in Hong Kong.

A weaker dollar makes commodities more affordable for holders of other currencies. The dollar revived from an 11-session low on Tuesday, adding to pressure on metals. Three-month copper on the London Metal Exchange edged down 0.2 percent to $7,316 a tonne by 0300 GMT from the previous session.

The most-traded March copper contract on the Shanghai Futures Exchange was steady at 51,760 yuan ($8,600) a tonne.

Copper is facing added pressure due to seasonal impacts, Lau added, given China is in the depths of winter and ahead of the Lunar New Year late January. Prices were unlikely to find relief until mid February and even then gains were unlikely to be sustained, she said. "Slowing growth and tapering in the U.S. will keep copper in a downtrend this year," she added.

Still, short supply was evident in the physical market.

Cash copper traded at $36 on Monday, its highest against the benchmark contract since May 2012, reflecting a shortfall in physical supply.

Because holders of nearby copper futures have to pay to roll over their positions, traders may be tempted to deliver metal into LME stocks, lifting them off near one-year lows.

Reflecting a lack of demand for physical metal in China, premiums for bonded metal continue to ease, trading at $160-185 a tonne, down $10 from last week, according to Chinese price provider Shmet.

Indonesia's mining sector was left in turmoil on Monday after the government pushed through a controversial ban on exporting unprocessed mineral exports.

LME nickel, which has rallied more than 6 percent from Thursday as a ban on ore shipments from Indonesia came into force at the weekend, edged up 0.2 percent to $14,240 a tonne.

In other metals, Aleris International is considering expanding its automotive aluminium capacity in the United States, Chairman and Chief Executive Steven Demetriou said on Monday, the latest sign that the resurgent auto sector is helping offset continued sluggish construction and packaging use.

PRECIOUS-Gold near 1-mth high as stocks drop on US growth fears

By A. Ananthalakshmi

SINGAPORE, Jan 14 (Reuters) - Gold steadied near its highest in a month as safe-haven buying increased amid a drop in equities, with investors fretting over the U.S. growth outlook after a disappointing jobs report last week.

Friday's non-farm payrolls showed that U.S. employers added jobs at a much slower pace than expected, sparking fears about the strength of economic recovery.

Markets speculated that the weak report could prompt the Federal Reserve to proceed cautiously in tapering its historic monetary stimulus, causing equities and the dollar to drop.

Gold has rallied, with some analysts beginning to suggest that gains could continue or at least hold for a little longer.

"If equities stay on the defensive and yields remain low we could see some modest rotational shift out of paper assets and into gold, which could support a push closer to $1,300, but we do not envisage a significant rally above those levels," HSBC analysts said in a note.

HSBC expects a limited rally as investors remain on guard against further tapering through the year.

Spot gold was steady at $1,252.84 an ounce by 0659 GMT, not too far from a one-month peak of $1,254.80.

Asian shares fell on Tuesday, with Japanese stocks tumbling more than 3 percent. The dollar edged up slightly though it has been under pressure since the jobs report.

"The weaker dollar and the jobs data are giving gold a boost. For the moment at least these prices should hold because Chinese buying for the Lunar New Year is also giving support," said Brian Lan, managing director of GoldSilver Central Pte Ltd in Singapore.

The Fed last month announced its first cut to its $85 billion monthly bond purchases citing an improving economy. Gold had rallied to all-time highs in 2011 due to these stimulus measures that had been expected to stoke inflation.

Gold is seen as a hedge against rising prices and as an alternative investment to equities.

In China, the biggest physical market for gold, demand has picked up since the beginning of the month in the build-up to the Lunar New Year, when the metal is bought for good fortune and given as gifts.

On Tuesday, trading volumes for 99.99 percent purity gold on the Shanghai Gold Exchange rose to 15.730 tonnes from Monday's 14.630 tonnes. Premiums, however, fell to about $13 from $17.

MARKET REVIEW *(Continued)*

FOREX -Yen takes breather vs dollar as short-covering rally loses steam

By Ian Chua and Masayuki Kitano

SYDNEY/SINGAPORE, Jan 14 (Reuters) - The yen eased versus the dollar, taking a breather after having rallied broadly the previous day following a selloff on Wall Street and a further drop in U.S. Treasury yields.

The dollar rose 0.5 percent to 103.48 yen, regaining some ground after its 1.1 percent drop on Monday, when the dollar fell to as low as 102.85 yen, its lowest level in about a month.

The yen had surged on Monday as investors were forced to unwind stretched short positions in the Japanese currency in the wake of the poor U.S. jobs numbers last week and as U.S. stocks posted the biggest one-day fall in more than two months.

Satoshi Okagawa, senior global markets analyst for Sumitomo Mitsui Banking Corporation in Singapore, said there may be some risk in the near term of a further unwinding of yen bearish bets that had been put on recently.

"The market had gone too far toward the year-end, and at the start of the new year," Okagawa said. The dollar will probably trade in a 102.00-104.50 yen range for this week, he added.

Sterling edged up 0.6 percent to 169.64 yen, after having shed 1.7 percent on Monday. The euro inched up 0.3 percent to about 141.39 yen, recouping part of the 0.9 percent loss.

Analysts at BNP Paribas wrote in a note to clients that "bearish JPY remains a high conviction view for many market participants", adding that the dollar was likely to find buyers ahead of 101.50 yen.

Underscoring some of the headwinds against the yen, data on Tuesday showed that Japan's current account logged a record deficit in November as a bulging trade deficit weighed on the country's balance of payments.

Traders, however, said the yen showed limited reaction to the data.

The dollar edged up 0.1 percent against a basket of major currencies to 80.618. The dollar index had fallen to as low as 80.469 on Monday, its lowest level since Jan. 2.

The dollar had retreated after Friday's disappointingly soft payrolls report raised doubts about the health of the world's biggest economy, driving investors to push out the timing of the first hike in the Fed funds rate into late 2015 from mid-2015.

The euro held steady at $1.3664, treading water in the wake of its rally late last week that saw it pull away from a one-month low of $1.3548 set on Thursday.

The Australian dollar, which has benefited from the U.S. dollar's retreat after the weak jobs data, edged back from a one-month high set on Monday.

The Aussie dollar eased 0.2 percent to $0.9037, down from Monday's high of $0.9087.

(Inside Metals is compiled by Pradip Kakoti in Bangalore)