INSIDE METALS

Thursday, January 17, 2013

CHART OF THE DAY

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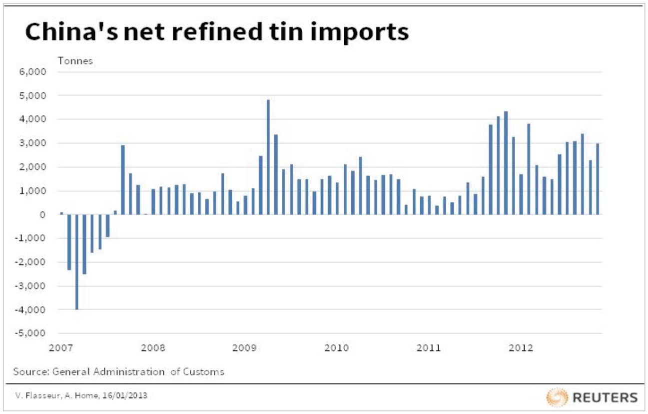

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COLUMN- Tin, the last true bull narrative?

Markets love a good story, particularly if it is a bullish one. Which is why tin has been the early 2013 out-performer of the industrial metals traded on the London Metal Exchange (LME).

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

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PREVIEW-China Q4 GDP growth seen rebounding to 7.8 pct

China's annual economic growth may have quickened to 7.8 percent in the fourth quarter a Reuters poll showed, snapping seven straight quarters of weaker expansion, but the recovery is likely to be tepid and the economy may need continued policy support.

Click here to read more.

TODAY'S MARKETS

BASE METALS: London copper inched up following a four-session losing streak, with better-than-expected U.S. factory data bolstering the outlook for demand, but caution ahead of Chinese growth data later this week tempered gains.

"There seems to be a bit more confidence in the economic outlook which has clearly favoured some relief in metals prices," said analyst Stefan Graber of Credit Suisse in Singapore.

PRECIOUS METALS: Gold traded steady as investors, concerned about the duration of ultra-loose monetary policy, refrained from betting big, while easing concerns about immediate supply shortages from South Africa clipped platinum's seven-day rally.

"If growth continues to be really good, it could shift central banks' bias from easing to tightening, which would not be good for the precious metals complex," said Jeremy Fries, commodity strategist at Societe Generale in Hong Kong.

FOREX: The euro rose to a 9-1/2 month high against sterling as worries about the poor UK economic outlook contrasted with better sentiment towards the single currency. The euro rose 0.3 percent on the day to 83.33 pence, its highest level since early April.

It hit stiff technical resistance at 83.33 pence, equivalent to 1.20 euros per pound and a key level for British companies looking to hedge their foreign exchange exposure.

FEATURE

COLUMN-Tin, the last true bull narrative?

By Andy Home

LONDON, Jan 16 (Reuters) - Markets love a good story, particularly if it is a bullish one. Which is why tin has been the early 2013 out-performer of the industrial metals traded on the London Metal Exchange (LME).

All the LME metals started the year in exuberant mood thanks to the U.S. fiscal cliff swerve but all, with one exception, have since slid back into previous trading ranges.

Tin, by contrast, has simply extended a near straight-line rally that began in October last year, three-month metal hitting an 11-month high of $25,100 per tonne on Monday.

The soldering and plating metal is today trading just shy of the big number around $24,800.

We are of course talking about one of the least liquid contracts traded on the LME, where a little buying, or selling, can make a big impact. And there's little doubt that tin has attracted its fair share of hot money from the momentum-chasing technical fund community over the last few weeks.

But underpinning it all is a cracking good bull narrative.

STRETCHED SUPPLY

As with all good bull commodity stories tin's is one of stretched supply.

The simple truth is that no-one has been investing in new tin mines in recent years.

There is a smattering of projects out there, most of which involve revisiting historic tin-producing sites, such as Cornwall in the United Kingdom, where Western United Mines is looking to revive the South Crofty mine.

But they are small-scale and in most cases still some way from actual production.

MGT Resources, which is refurbishing the Mt Veteran tin mill at Mt Garnet in Queensland, is probably closest to actual production with start-up pencilled in for the first half of this year.

Production from existing tin operations, meanwhile, is a slow-motion car crash.

Peru?

Minsur , the country's sole producer, saw production of tin-in-concentrate from its San Rafael mine slide by 10.5 percent to 19,517 tonnes in the January-September 2012 period, according to tin research body ITRI.

Refined metal output was down 8 percent to 19,034 tonnes over the same time-frame.

Bolivia?

Production from state-owned mines fell 7.3 percent to 6,487 tonnes in the first nine months of 2012, also according to ITRI, citing figures from Bolivia's mines ministry.

And that despite state miner Comibol taking over the Colquiri mine from commodities trader Glencore in June 2012.

THE INDONESIAN QUESTION(S)

Things get even worse when it comes to Indonesia, the world's largest exporter of tin.

Top producer PT Timah warned in November its full-year 2012 production would fall to 29,000-30,000 tonnes from 38,132 tonnes in 2011, citing the need to control costs.

Koba Tin, historically the country's second largest producer, suspended all operations late last year due to a combination of high costs and the expiry in March this year of its mining licence.

That leaves national output increasingly dependent on the fractious band of operators clustered on the Bangka and Belitung tin-producing islands.

Their sporadic threats of suspending production and/or sales whenever the tin price dips below $20,000 have injected an unwelcome unpredictability into the global supply picture.

Last year was no exception. At one stage in August local officials claimed that 27 of 28 licenced smelters had shut up shop.

That may have been an exaggerated claim, judging by the fact that Indonesian exports proved remarkably resilient over the course of 2012.

At 98,817 tonnes exports were up three percent year-on-year and the highest annual figure since 2009.

As ever with Indonesia, though, that is no guarantee that exports will remain so robust this year.

The government is tightening its tin export regulations, requiring a minimum purity requirement of 99.9 percent, compared with the current 99.85 percent.

Together with new rules on the export of tin solder, the move is a threat to both official and unofficial flows of metal from Bangka-Belitung. Graphic on Indonesian tin exports: http://link.reuters.com/cun35t Graphic on Chinese tin imports: http://link.reuters.com/bun35t

DEFICIT DRIVER

The net result of this litany of production woes is that the global tin market remains in structural supply-demand deficit even in a weak demand environment.

That makes it a stand-out among the major base metals traded on the LME. There are still plenty of copper bulls who would argue the same for the red metal, but even they would reluctantly concede that after years of underperformance copper mine supply is finally starting to crank up a gear.

There is no such danger for tin. Indeed, there is a strong argument that prices need to move considerably higher still to incentivise new tin mining projects.

FEATURE

Most analysts, including ITRI, expect the market to remain in deficit until such time as new supply enters the market to counter-act falling production among established producers.

Global stocks, meanwhile, remain low. Or at least visible stocks do. Those registered with the LME currently stand at 12,800 tonnes, less than two weeks' worth of global demand.

Bulls will be quick to point out that almost a quarter of that total, or 3,035 tonnes, is in the form of cancelled warrants, implying that the metal is earmarked for physical drawdown from the LME system.

Which is why the front part of the tin spread has been prone to sporadic tightness for many months.

Right now the benchmark cash-to-three-month period is in contango, but at just $2.00 per tonne at last night's close it's a highly marginal contango.

THE ONLY WAY IS UP?

All of which should keep tin primed for further gains over the course of this year...and next year and quite possibly the year after that.

The only problem is that this is the tin market. The lack of liquidity on the LME leaves the contract liable to extreme boom-and-bust cycles.

Consider, for example, what happened back in 2010-2011, when tin went on a super-charged rally, culminating in an April 2011 all-time high of $33,600 per tonne.

By September that year the price had imploded to $17,000 as the previous price spike led consumers to thrift and destock to the point that structural deficit became temporary market surplus.

The same could happen again.

Keep one eye on China, both the world's largest producer and consumer of tin.

China's imports of tin have been running at historically high levels since September 2011. Net imports totalled 28,000 tonnes in the first 11 months of 2012, up 45 percent year-on-year and already an all-time annual high.

But the time-frame is not coincidental, aligned as it is with tin's price crash in September 2011. In the period before then, when the tin price was flying, imports dwindled to minimal levels.

Indeed, there is more than a suspicion that China turned net exporter early 2011, albeit in the form of tin "products" which do not make the China trade headlines.

If bulls push the price too hard, it's quite possible that something similar could happen this time. That's not to negate the truth of tin's bull narrative. It's just to say that in this market, there is no such thing as an easy ride.

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

PREVIEW-China Q4 GDP growth seen rebounding to 7.8 pct

BEIJING, Jan 8 (Reuters) - China's annual economic growth may have quickened to 7.8 percent in the fourth quarter a Reuters poll showed, snapping seven straight quarters of weaker expansion, but the recovery is likely to be tepid and the economy may need continued policy support.

The median forecast of 24 analysts polled is for gross domestic product to have expanded 7.8 percent in Q4 from a year earlier, quickening from 7.4 percent in the third quarter -- the weakest expansion since the depths of the global financial crisis in early 2009.

The modest recovery in the world's second-largest economy follows a raft of pro-growth policy steps over recent months, and may reassure China's leaders after November's power transition. But the outlook in 2013 remains cloudy given the lingering global uncertainties.

"We expect growth of the Chinese economy to re-accelerate to 7.8 percent in the fourth quarter from 7.4 percent in Q3 thanks to accommodative policy and inventory restocking," said Dongming Xie, China economist at OCBC Bank in Singapore.

"The economy is expected to recover further in 2013. But the pace of recovery is unlikely to be significant due to the still weak euro zone and Japanese economy."

Economic activity has picked up since September, supported by faster infrastructure investment and a heating up of the housing market. The factory sector is also picking up as the de-stocking cycle, during which firms ran down inventories in response to the downturn, comes to an end.

Two separate purchasing managers' index surveys of the vast manufacturing sector last week also suggested China's economic growth was picking up late in 2012, although signs persist that it is still depending primarily on state-led investment.

Indeed, the poll revealed few signs of improvement in economic activity in December, suggesting the policy-driven recovery could be shallow and fragile.

Fixed-asset investment, a key driver of economic growth, is expected to have risen 20.7 percent in the whole of 2012 from a year earlier, unchanged from the first 11 months. The government only publishes cumulative data on investment.

Consumption is expected to hold steady, with retail sales in December forecast to expand 14.9 percent from a year earlier. Factory output is estimated to have grown 10.1 percent in December -- unchanged from November's pace.

China was expected to achieve economic growth of 7.7 percent in 2012, forecasts in a benchmark Reuters poll showed. That would mark the slowest full-year expansion since 1999 and a clear slowdown from the roughly 10 percent annual growth in China seen for most of the last 30 years.

Many analysts expect the economy to grow around 8 percent this year, as the government is seen keeping policies largely

FEATURE *(Continued)*

accommodative following the once-a-decade leadership handover at the top of the ruling Communist Party late last year.

Chinese leaders have promised to maintain a prudent monetary policy and pro-active fiscal policy in 2013, leaving room for manoeuvre in the face of global economic risks while deepening reforms to support long-term growth.

The government has relied on policy fine-tuning to support growth, studiously avoiding any hint of repeating a 4 trillion yuan ($640 billion) stimulus package it unleashed in response to the 2008/09 crisis, which led to a debt-fuelled spending binge by local governments.

The restrained policy response included the central bank's two cuts in benchmark interest rates around mid-2012 and three cuts in banks' reserve requirement ratios (RRR) since late 2011.

The monetary easing was accompanied by the quickening of approvals for infrastructure projects by the National Development and Reform Commission (NDRC), the country's top economic planner, to spur investment expansion.

But the central bank, fearful of a flare-up in property prices and consumer inflation, has in recent months refrained from cutting interest rates or RRR, opting to inject short-term cash into money markets to help ease credit strains.

The GDP and activity data will be released at 0200 GMT on Jan. 18. Surprisingly weaker readings from the data deluge could prompt investors to cut exposure to riskier assets such as stocks and commodities.

Few analysts expect the central bank to cut benchmark interest rates in the near future, but market expectations persist that it could still cut bank reserve ratios to step-up bank lending as a means of underpinning economic growth.

GENERAL NEWS

Factory, price data give hopeful signs for U.S. economy

WASHINGTON, Jan 16 (Reuters) - The U.S. economy ended 2012 on a surprisingly sound note as factory output climbed and low inflation lifted consumers' purchasing power, signs the economy may be able to weather the higher tax bills that rang in the new year.

Manufacturing output climbed 0.8 percent in December, the Federal Reserve said on Wednesday, a day after retail sales data pointed to robust consumer spending last month.

"There is every indication that the improvement may be a reflection of a broader pick-up in overall economic activity," said Millan Mulraine, an economist at TD Securities in New York.

The rise in demand appears unlikely to derail the Federal Reserve's easy monetary policy anytime soon given the lack of inflation. The Labor Department said consumer prices were flat in December, restrained by a decline in gasoline prices.

That's good news for consumers still smarting from the 2007-09 recession. Weekly earnings rose 0.6 percent last month when adjusted for inflation, the Labor Department said.

The earnings data means family budgets started this month on slightly better footing as a rise in payroll taxes hit workers and the wealthiest Americans faced higher income taxes.

The tax hikes, aimed at reducing the lofty federal budget deficit, are expected to hold consumer spending back in the first half of 2013. Some economists think higher taxes will subtract a full percentage point from economic growth this year.

U.S. financial markets were little moved by the data, even though the increase in factory output and real earnings beat the forecasts of analysts polled by Reuters.

Gains in manufacturing appeared broad-based, tempering the view that some of the growth resulted from a temporary bounce-back after Superstorm Sandy tore into life on the U.S. East Coast in late October and early November.

Output of motor vehicles and parts jumped 2.6 percent, while production of machinery gained 0.6 percent. Factories churned out 1.5 percent more computers and electronics. Overall industrial production rose 0.3 percent.

GRAPHICS:

CPI http://link.reuters.com/duq93t

Mortgage data http://link.reuters.com/guv37s

Industrial output http://link.reuters.com/vaw93t

Still, the data offered a reminder that the trend in factory output, like the broader economy, remains lackluster. Output of consumer goods fell 0.1 percent from November, and overall manufacturing managed only a 0.2 percent gain in the fourth quarter when measured at an annual rate.

"The manufacturing sector is just about keeping its head above water," said Paul Ashworth, an economist at Capital Economics in Toronto.

Economic growth is widely seen as having slowed in the fourth quarter as businesses restocked shelves at a slower pace.

FLAT PRICES

The Fed said in December it would keep interest rates near zero at least until the jobless rate falls to 6.5 percent, as long as the central bank believes inflation will stay below 2.5 percent. Fed Chairman Ben Bernanke said officials do not expect the jobless rate -- which stands at 7.8 percent -- to reach 6.5 percent until sometime in late 2015.

Wednesday's inflation data reinforced the view that inflation will not hit the Fed's threshold anytime soon.

"This leaves Ben Bernanke and the Fed with a free hand to continue with ultra-accommodative monetary policy." said Michael Woolfolk, a currency strategist at BNY Mellon in New York.

To boost growth and get Americans back to work in the wake of the Great Recession, the Fed has kept interest rates near zero since late 2008 and has bought some $2.5 trillion in assets.

Some economists think steady improvement in the labor market could at least lead the Fed to curtail its asset-buying program by the end of this year.

The Fed targets 2 percent inflation, but uses a separate index of inflation that tends to run cooler than the Consumer Price Index. By either measure, annual inflation remains below the Fed's target.

In the 12 months to December the CPI increased 1.7 percent, the smallest increase since August. A measure of core prices, which strips out volatile food and energy prices to give a better sense of inflation trends, was up 1.9 percent.

"This supports the Fed's contention that inflation is mild and that inflation expectations should be stable," said Terry Sheehan, an economic analyst at Stone & McCarthy Research Associates in Princeton, New Jersey.

The Fed's efforts to lower interest rates are helping many Americans buy homes, and housing is expected to provide a substantial boost to the economy this year.

U.S. homebuilder confidence in the market for single family homes held steady at near seven-year highs in January, suggesting the outlook for the housing market remained upbeat.

The NAHB/Wells Fargo Housing Market index was at 47 this month, the highest level since April 2006. Separately, the Mortgage Bankers Association said applications for U.S. home mortgages rose last week, the second straight week of gains.

Striking Amplats miners return to work -spokeswoman

JOHANNESBURG, Jan 17 (Reuters) - Anglo American Platinum miners have returned to work, ending an illegal walkout to protest the platinum mining firm's plan to cut 14,000 jobs, a company spokeswoman said on Thursday.

GENERAL NEWS *(Continued)*

Workers at three of Amplats' South African mines went on a wildcat strike from Tuesday's overnight shift, hours after the company, a unit of London-listed Anglo American , said it would mothball two mines and sell another.

"I can confirm that workers returned to duty as from the night shift on Wednesday and they are reporting to work this morning," Amplats spokeswoman Mpumi Sithole told Reuters.

The protests, expected after Amplats unveiled its restructuring plans, together with strong government objections to the job cuts, underline the difficulties Amplats faces in pushing through the changes critical for its recovery.

Amplats is the world's largest producer of the precious metal used in vehicle emissions control devices and jewellery.

"The workers' committee decided that the workers should resume their normal duties and then we will try to resolve the matter of the retrenchments with the company," Amplats labour leader Evans Ramokga told Reuters.

The planned job cuts and closures risked provoking a repeat of the violent strikes in the gold and platinum sectors last year that left more than 50 people dead and slowed the growth of Africa's largest economy. Amplats' share price closed nearly 6 percent lower on Wednesday while parent Anglo American fell 3 percent in London.

ArcelorMittal bids $1.5 bln for ThyssenKrupp's Alabama plant - WSJ

Jan 16 (Reuters) - ArcelorMittal SA and Brazil's Companhia Siderúrgica Nacional have emerged as leading contenders to acquire ThyssenKrupp AG's steel operations in the United States, the Wall Street Journal reported.

While U.S. steelmaker Nucor Corp was also a potential bidder, it is less likely to succeed as it lacked the balance sheet flexibility compared to the other steel makers, the Journal said, citing people familiar with the situation.

ArcelorMittal has submitted a $1.5 billion bid for ThyssenKrupp's plant in Alabama, while the Brazilian company made a $3.8 billion bid for that plant and a majority stake in a Brazilian mill, the Journal said. (http://link.reuters.com/tup35t)

ArcelorMittal said last week that it had put in a bid to buy assets that ThyssenKrupp has put up for sale.

The largest German steel maker, which invested $11.8 billion in its foray into the American market, has been plagued by the downturn in Europe, ballooning losses and poor project management at its plant in Brazil and the United States.

The company has said its Steel Americas project will be sold this year, as it shifts investment into higher margin products like elevators, plant components and submarines.

ThyssenKrupp and ArcelorMittal's spokespeople were not available for comment outside regular business hours.

Investors to drive gold price higher in H1-GFMS

LONDON, Jan 16 (Reuters) - Persistent concerns over the health of the U.S. economy and pressure on the dollar will send gold prices to a record average high this year, Thomson Reuters GFMS said on Wednesday, before the metal's 12-year bull run tops out late in the year.

Gold investment fuelled by negative real interest rates and debt concerns is seen driving prices higher in the first six months of 2013, it said, offsetting a dip in jewellery demand and a rise in mine and scrap supply.

GFMS forecasts that gold prices will average $1,775 an ounce in the first half of 2013, up from an average $1,685 in the second half of 2012, and well above the previous half-yearly record average of $1,693 set in the last six months of 2011.

It expects gold to average $1,847 an ounce in the full year, but monthly forecasts suggest it will peak in late 2013. Prices are expected to remain extremely elevated in the first half of 2014.

The company is forecasting a surge in implied net investment, which covers activity in exchange-traded funds, futures and over-the-counter trading, in the next six months to 152 tonnes, against 59 tonnes in the first half of last year.

That is likely to balance a projected 4.2 percent, or 40 tonne, drop in jewellery offtake -- which is expected to weaken especially in the major Indian market -- a 20 tonne rise in mine output and a 57 tonne increase in scrap supply.

"I think we could see investment in a number of arenas, and at a higher set of prices," GFMS' head of research Philip Klapwijk said. "Commentary on the dollar/euro has shifted in recent months from being very bearish on the euro. We don't see much scope for dollar appreciation this year."

"We are also expecting the Fed will continue with its asset purchase programmes, and that we won't see these cease in 2013," he added. "We think the U.S. economic performance will disappoint this year."

Implied net investment more than tripled last year, GFMS estimated, to 354 tonnes from 104 tonnes in 2011, picking up the slack after physical bar investment fell by a fifth to 961 tonnes. Jewellery buying, the largest demand segment, fell 4.4 percent to 1,885 tonnes.

Global coin minting is forecast to have dropped to a four-year low of 199 tonnes, down 19 percent from the previous year.

High prices weighed on demand from jewellers last year, particularly in price-sensitive Asian markets such as India, historically the world's largest consumer of the precious metal.

Jewellery fabrication demand in the Indian subcontinent fell 11 percent last year to 624 tonnes, and was down in almost every individual region. It rose 5 percent in the Middle East, however.

GENERAL NEWS *(Continued)*

INDIAN DEMAND EXPECTED TO EASE

Fabrication demand from India and its subcontinent is forecast to fall to 322 tonnes in the first half from 348 tonnes in the same period of 2012.

Indian jewellery demand is expected to dip 9 percent in the first half, leaving it at a four-year low.

Fabrication demand in east Asia, which includes China and smaller markets such as Hong Kong, Taiwan, Vietnam and Malaysia, is expected to dip just over 2 percent to 465 tonnes.

Chinese jewellery fabrication demand fell in 2012 for the first time in nine years, though by only 1 percent.

Chinese fabrication demand failed to take over from that of India, still the world's biggest overall gold consumer, as it had been forecast to do.

"Though we expect this year that China could take on a firmer tone, we're still concerned about prospects for India," Klapwijk said. "That has provided a slightly less secure floor for the price, as opposed to a rising floor."

Bullion demand from central banks, which have turned from net sellers to net buyers in recent years in a bid to diversify reserves, is forecast to remain relatively steady in the first six months of the year at 280 tonnes, against 277 tonnes in the same period of 2012.

Gold buying from the official sector rose by 79 tonnes to a 48-year high of 536 tonnes last year as a whole, GFMS said.

On the supply side of the market, mine supply is expected to tick up 1.5 percent to 1,389 tonnes in the first half.

Recycling of gold scrap is set to increase a weightier 7.5 percent, with scrap flows rising in the Middle East, east Asia and India, falling in Europe, and stagnant in North America.

Scrap supply from the Middle East is expected to climb nearly 18 percent to 192 tonnes, and by a similar percentage from the Indian subcontinent, to 91 tonnes.

Waning Chinese copper appetite weighs on European premiums

LONDON, Jan 16 (Reuters) - The surcharges paid to secure copper for physical delivery in Europe have eased in the past month as China's appetite has been tempered by a rise in benchmark prices and by its own stockpiles, estimated at around 1 million tonnes.

Copper premiums - paid over and above the LME cash price for physical metal - have fallen more than 10 percent from mid-December levels to around $65-80 a tonne on the spot market in Rotterdam.

By contrast, copper prices are up some 1 percent so far this year at around $8,000 a tonne on expectations that the Chinese economy is set to resume growth and on relief over a deal struck to avert the U.S. "fiscal cliff" of tax rises and spending cuts.

The rise in underlying prices has deterred Chinese buying.

"China spent much of last year accumulating stockpiles at attractive prices. Now the (Chinese) recovery is beginning to take place, they have more than enough metal lying around," Natixis analyst Nic Brown said.

Analysts estimate copper stocks in bonded warehouses in China are at around 800,000-900,000 tonnes, or three times the amount currently held in London Metal Exchange warehouses.

In addition, copper stocks on the Shanghai Futures Exchange are at their highest since April 2012 at just over 200,000 tonnes.

The depressed appetite for copper in China can already be seen in official statistics, which showed that December imports fell 6.6 percent on the month to 341,211 tonnes, the second-lowest monthly level in 2012.

"Europe's got spare tonnage (because) the Asians are not sucking metal into their own area anymore," a London-based trader at a large commodity trade house said.

China, which consumes around 40 percent of the world's copper, is quickly becoming more self-sufficient in meeting its needs for the metal, helped by the improved availability of copper concentrate from mines around the world.

Supplies are rising, and not just in China. LME copper stocks, after being in decline over most of last year, were at their highest level in a year at 349,275 tonnes on Wednesday.

The LME has warehouses in all key metals markets around the world except China.

"Premiums are under pressure; you need to have material on offer at lower levels. I think they will stay under pressure this year as we expect supply will rise more than demand," a Germany-based physical metals trader said.

A.M. Castle to reduce workforce by 10 percent

Jan 16 (Reuters) - Specialty metals and plastics distributor A.M. Castle & Co said it will cut 10 percent of its workforce in a restructuring of its core metals business as it seeks to reduce costs.

A.M. Castle, which employs about 1,781 people, expects the restructuring to add $33 million to annual operating profit.

The Illinois-based company said it will consolidate five warehouses catering to the metals business, which accounts for 90 percent of total revenue.

"We experienced softness in demand that was greater than anticipated during the fourth quarter, as well as lower activity levels due to extended seasonal shutdowns," Chief Executive Scott Dolan said in a statement.

A.M. Castle expects to record a pre-tax charge of about $10 million in 2013 related to the restructuring.

MARKET NEWS

China aluminium consumption to pick up but lag output - industry

HONG KONG, Jan 16 (Reuters) - China's consumption of aluminium is set to pick up speed this year, though not by enough to keep up with production as a swelling surplus of the metal caps prices, industry sources and a leading analyst said.

State-backed research firm Antaike expects aluminium consumption in China to grow 8 percent in 2013 to about 23.2 million tonnes, while output is expected to grow around 10 percent to 24 million tonnes.

But the world's top consumer and producer of aluminium is unlikely to increase exports of primary metal due to a 15 percent tax in place.

A slowdown in China's economy saw growth in aluminium demand cool to about 7 percent last year, while production still rose more than 10 percent, helping boost stocks.

Stocks of aluminium ingots in four major industrial cities -- Shanghai, Wuxi, Nanhai and Hangzhou -- doubled to 897,000 tonnes in late December 2012 from a year ago, data from information provider SMM showed.

Consumption from the transport and power sectors is expected to rise this year, while demand from construction may improve after falling last year, said sources at smelters and plants that buy aluminium to manufacture semi-finished products such as plates and strips.

An improved demand outlook and the startup of new production capacity mostly in remote western and northwestern provinces should lift output this year, the sources added.

"The supply will stay plentiful this year. Prices in the domestic market will be similar to the average last year," said a manager at a large aluminium smelter, who asked not to be identified because he was not authorised to talk to the media.

Spot aluminium prices have inched down 0.5 percent so far this year to trade at 14,980 yuan ($2,400) per tonne on Wednesday, after falling 5.9 percent in 2012, pressured by a domestic supply surplus and a slowdown in exports of semi-finished products.

But hopes of a revival in demand may push some smelters to produce more aluminium, said the manager.

An executive at a large plant that manufactures aluminium plates, sheets and strips said the plant would produce more than 1 million tonnes in 2013 versus 790,000 tonnes in 2012 as Beijing's push for urbanization boosts construction demand.

In the energy sector, China's power grid will increase spending by 4 percent this year, up from 1.3 percent growth last year, domestic media reported last week, which should help support copper and aluminium demand.

China's economy is expected to grow 7.7 percent in 2012, according to a Reuters poll, though some expect a faster pace as the government keeps policies accommodative following the leadership handover at the top of the ruling Communist Party late last year.

OUTPUT, CONSUMPTION

Real consumption of primary aluminium grew 7.2 percent to about 21.5 million tonnes in 2012, compared to a rise of more than 10 percent in 2011 as the economic slowdown trimmed demand, according to Antaike's senior analyst Yao Xizhi said.

Demand is expected to rise by 1.7 million tonnes, or about 8 percent, to about 23.2 million tonnes this year, he said.

Realized production may rise by 2.15 million tonnes to about 24 million tonnes this year, up 10 percent. Output in 2012 rose 11 percent to 21.85 million tonnes.

The 2012 estimate appears higher than official data, which showed 18.16 million tonnes of output in the first 11 months.

But Yao said 2013 output may be smaller than forecast if prices of the benchmark third-month contract on the Shanghai Futures Exchange stay below 15,200 yuan per tonne for some months.

"About 20 percent of China's 27 million tonnes of capacity would be affected when the price is below 15,200 yuan," Yao said, referring to aluminium production capacity at the end of 2012 and the average profit margin of those capacity.

The annual capacity of aluminium is expected rise to about 30 million tonnes by the end of 2013, Yao said.

Production of raw material alumina may rise to 46.3 million tonnes this year, up about 10 percent from 42.14 million tonnes in 2012. Capacity would rise to more than 60 million tonnes, he added.

Pan Pacific, miners agree on more than 10 pct rise in TC/RCs-source

TOKYO, Jan 17 (Reuters) - Japan's biggest copper smelter, Pan Pacific Copper , and major miners have agreed to a more than 10 percent increase in copper concentrate treatment and refining charges for 2013, a source said, reflecting a recovery in copper mine supply after years of deficit.

The benchmark terms for this year will influence deals throughout the region, including those struck with top consumer China, where terms are yet to be finalised.

The deals, which are usually hammered out by year end, were delayed because of uncertainties over the global economic outlook.

"The market's looking like it will be better supplied than the past 2-3 years. You've got increasing supply coming out of operations like Escondida, giving smelters a stronger hand," said strategist Nick Trevethan of ANZ in Singapore.

"Demand is going to be reasonable, but increasing mine supply is likely to outstrip the demand improvement while more smelter capacity from China is not likely to come on line until the second

MARKET NEWS *(Continued)*

half," he added. BHP Billiton controls Chile's Escondida, the world's largest copper deposit. It had held out for better terms for its ore that has lower impurities than other producers.

The fees have climbed from $63.50 a tonne last year, a source said on Wednesday, putting the figure above $69.85 per tonne and $6.985 per pound, within the $65-$75 and 6.5-7.5 cents range expected by traders.

Global miners pay TC/RC to smelters to convert concentrate into refined metal and the charges are deducted from the sale price based on LME copper prices. Higher charges are typically seen when concentrate supply rises or when smelter capacity thins.

The International Wrought Copper Council expects global mine supply to expand 6.5 percent to more than 17.7 million tonnes in 2013, versus a 3 percent growth this year.

Miner BHP buys iron ore in rare move as prices slide-traders

SINGAPORE, Jan 17 (Reuters) - BHP Billiton , the world's No. 3 iron ore producer, bought 100,000 tonnes of the raw material on the spot market, a move traders said was rare and likely triggered by Wednesday's decline in prices which was the steepest in over 13 months.

The recent rally in iron ore prices, which have risen to 15-month highs, is a boon for miners such as BHP but the rapid surge has taken the market by surprise and turned off many Chinese buyers, triggering a decline in prices from late last week.

BHP purchased the cargo of 62-percent grade Australian iron ore fines for February delivery at $145.50 a tonne via the GlobalOre trading platform on Wednesday, traders said.

"This is very unusual. Maybe BHP wants to support prices because there's no reason for it to buy the cargo, it's a producer," said an iron ore physical trader in Shanghai.

The fact that the cargo is not for immediate delivery adds weight to the argument that BHP is seeking to support prices, traders said, although some market participants believe BHP's move was likely due to supply issues.

"I think it's more because BHP sold many cargoes earlier at high prices and now it doesn't have enough to supply, so they bought back from the market to meet their orders," said another trader in Shanghai. It was not immediately clear when BHP last bought a cargo off the spot market. BHP declined to comment on the transaction.

"It is very normal for industry participants (steel mills, traders and producers) to both buy and sell cargo to balance their books," a spokeswoman for BHP told Reuters in an email.

Benchmark iron ore with 62 percent iron content slid 4.9 percent to $145.40 a tonne on Wednesday, the steepest single-day drop since Nov. 28 2011, based on data from Steel Index.

Prices have fallen more than 8 percent since reaching $158.50 last week, the loftiest since October 2011. At last week's peak, iron ore prices were up more than 80 percent from three-year lows hit in September as Chinese mills restocked aggressively on optimism a mending economy will buoy demand for steel in the world's top consumer. But the buying momentum slowed from last Thursday after mills deemed iron ore prices have become too high, bloating their costs with steel prices not rising as much.

China crude steel output up 2.3 pct in early Jan-CISA data

SHANGHAI, Jan 17 (Reuters) - China's average daily crude steel output rose to 1.944 million tonnes in the first ten days of January, up 2.3 percent from Dec. 21-31, data from the China Iron & Steel Association (CISA) showed on Thursday.

CISA estimated the country's total production based on its members, which comprise more than 70 large steel mills that account for about 80 percent of China's total steel output.

Zinc market in 267,000 T surplus Jan-Nov 2012 -ILZSG

LONDON, Jan 16 (Reuters) - The global zinc market was in surplus by 267,000 tonnes in the first 11 months of 2012, a monthly bulletin from Lisbon-based International Lead and Zinc Study Group (ILZSG) showed on Wednesday.

Global refined zinc use was 11.293 million tonnes between January and November, down from 11.647 million in the same period a year earlier. World refined zinc output was 11.560 million tonnes, down from 11.970 million. Additional data from ILZSG showed November producer stocks were 312,300 tonnes, up from a revised 312,000 tonnes in October. At the end of last year they were 333,000 tonnes. Commercial stocks comprise western producers, consumers (reported and estimated), merchants and London Metal Exchange.

Lead market in 60,000 tonne surplus Jan-Nov - ILZSG

LONDON, Jan 16 (Reuters) - The global lead market was in surplus by 60,000 tonnes in the first 11 months of the year, a monthly bulletin from Lisbon-based International Lead and Zinc Study Group (ILZSG) showed on Wednesday.

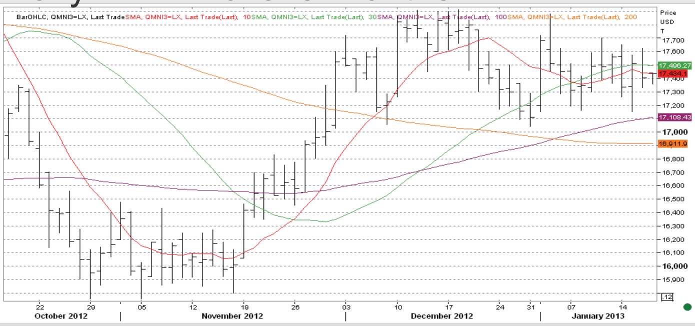
Global refined lead use was 9.812 million tonnes in January to November, up from 9.477 million tonnes in the same period last year. World refined lead output was 9.872 million tonnes, up from 9.656 million tonnes a year earlier. Additional data from ILZSG showed November producer stocks rose to 130,900 tonnes from a revised 130,800 tonnes in October. At the end of 2011 they were 124,000 tonnes. Commercial stocks comprise western producers, consumers (reported and estimated), merchants and London Metal Exchange.

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

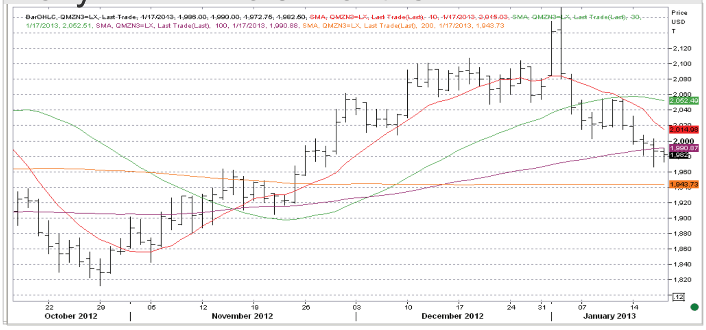
Daily LME Aluminium 3-months

Daily LME Copper 3-months

Daily LME Nickel 3-months

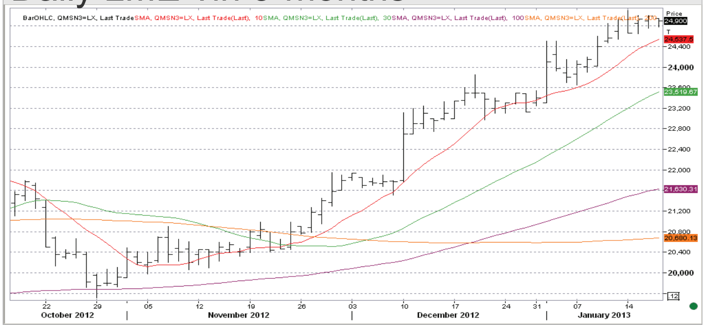


Daily LME Zinc 3-months



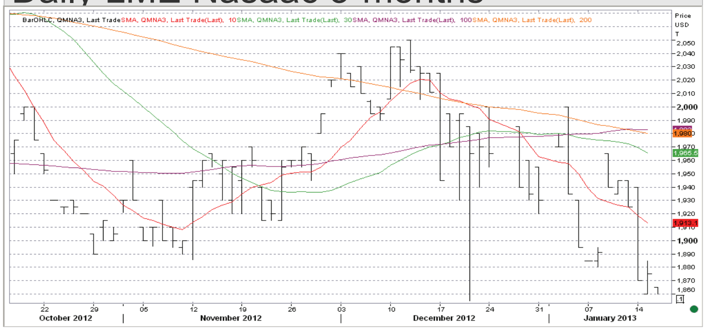
Daily LME Lead 3-months

Daily LME Tin 3-months



Daily LME Alloy 3-months

Daily LME Nasaac 3-months



MARKET REVIEW

METALS-Copper edges up on US factory data; caution on China

SINGAPORE, Jan 17 (Reuters) - London copper inched up following a four-session losing streak, with better-than-expected U.S. factory data bolstering the outlook for demand, but caution ahead of Chinese growth data later this week tempered gains.

The U.S. economy ended 2012 on a surprisingly sound note as factory output climbed and low inflation lifted consumers' purchasing power, signs the economy may be able to weather the higher tax bills that rang in the new year.

Economic activity across the United States expanded at either a moderate or modest pace in recent weeks with consumer spending picking up, the Federal Reserve said on Wednesday, suggesting little change in terms of the recovery's strength.

Still, traders were wary of stocking up on copper ahead of a slew of figures from China, including its fourth-quarter gross domestic product on Friday, that are expected to shine a light on the strength of its economic recovery. China is the world's biggest consumer of the metal.

"There seems to be a bit more confidence in the economic outlook which has clearly favoured some relief in metals prices," said analyst Stefan Graber of Credit Suisse in Singapore.

"The fact that (prices) are not really moving higher is simply a link to the observation that there seems to be enough supply," he added.

Three-month copper on the London Metal Exchange had risen 0.18 percent to $7,960 a tonne by 0705 GMT. It fell to $7,920 in the previous session, its lowest since Dec. 31.

Copper prices rallied in early January to 2-1/2-month highs near $8,250 a tonne, but have since struggled to find momentum, weighed down by tepid demand ahead of China's Lunar New Year holiday and more plentiful supply than previous years.

The global market for refined copper is expected to swing to a 281,000-tonne surplus in 2013 from a deficit in 2012, the International Wrought Copper Council (IWCC) said last year.

The most-traded April copper contract on the Shanghai Futures Exchange fell 0.35 percent to close at 57,740 yuan ($9,300) a tonne.

Besides GDP, economic reports due from China on Friday include on December industrial output, retail sales and house prices.

China's annual economic growth may have quickened to 7.8 percent in the fourth quarter, a Reuters poll showed, snapping seven straight quarters of weaker expansion, but the recovery is likely to be tepid and the economy may need continued policy support.

SMELTERS WIN ON TC/RCS

Feeding the swelling copper stocks is improving mine production, with Credit Suisse seeing growth of 5-6 percent this year.

This is also being reflected in rising fees for smelters, which have gained the upper hand in negotiations over processing fees with miners.

Japan's biggest smelter, Pan Pacific Copper , and major miners have agreed on a more than 10 percent increase in copper concentrate treatment and refining charges for 2013, from $63.50 a tonne last year, a source said.

PRECIOUS-Gold flat, platinum snaps seven-day rally

SINGAPORE, Jan 17 (Reuters) - Gold traded steady on Thursday as investors, concerned about the duration of ultra-loose monetary policy, refrained from betting big, while easing concerns about immediate supply shortages from South Africa clipped platinum's seven-day rally.

Signs of recovery in the U.S. economy supported metals with wide industrial usage such as platinum and palladium, but weighed on gold as concerns on the necessity of long-term monetary stimulus loom.

Investors will be watching U.S. housing data later in the day, as well as economic growth numbers from China on Friday.

Earlier this month, Fed meeting minutes showing concerns about the side effects of monetary stimulus hammered gold prices, as an exit from the loose monetary policy would tarnish the metal's appeal as an inflation hedge during a period of rampant central bank cash printing.

"If growth continues to be really good, it could shift central banks' bias from easing to tightening, which would not be good for the precious metals complex," said Jeremy Fries, commodity strategist at Societe Generale in Hong Kong.

But the U.S. debt ceiling issue, which would force the world's top economy to default on its debt as early as mid-February if lawmakers fail to agree to raise the borrowing limit, might support gold's safe-haven appeal, he added.

"Right now the market isn't sure which direction to go," said Fries.

Gold investment, fuelled by negative real interest rates and debt concerns, is expected to drive prices to a record average high this year, according to Thomson Reuters GEMS.

Spot gold had inched up 0.1 percent to $1,681.30 an ounce by 0733 GMT, trapped in a tight range of less than $6.

U.S. gold edged down 0.1 percent to $1,681.

Technical analysis suggested that spot gold has abandoned a bullish target at $1,701 an ounce as it failed to maintain momentum, said Reuters market analyst Wang Tao.

Graphic: Spot gold 24-hour technical outlook

http://graphics.thomsonreuters.com/WT1/20131701095112.jpg

Physical buying interest ebbed in Southeast Asia, dealers said.

"Buying has slowed as prices are once again locked in a range," said a Singapore-based dealer.

MARKET REVIEW *(Continued)*

Spot platinum lost 0.4 percent to $1,677 , pulling away from a three-month high of $1,699.50 hit earlier in the week.

Anglo American Platinum (Amplest) miners have returned to work after an illegal walkout to protest the world's top platinum producer's plan to cut jobs and close mines.

Potentially tempering the sentiment in platinum, demand for new cars in recession-bound Europe fell to a 17-year low in 2012, leaving mass market manufacturers little hope for this year as they try to cut costly excess factory capacity and aggressive discounting dents their margins.

Platinum usage in Europe's automobile industry accounted for 18 percent of the world's total demand for the metal in 2011, data from refiner Johnson Matthey showed.

Spot palladium inched down 0.4 percent to $718.50, easing from a near 16-month high of $724.50 hit in the previous session.

FOREX-Euro rises to 9-1/2 month high versus sterling

LONDON, Jan 17 (Reuters) - The euro rose to a 9-1/2 month high against sterling as worries about the poor UK economic outlook contrasted with better sentiment towards the single currency.

The euro rose 0.3 percent on the day to 83.33 pence, its highest level since early April.

It hit stiff technical resistance at 83.33 pence, equivalent to 1.20 euros per pound and a key level for British companies looking to hedge their foreign exchange exposure.

The euro also rose to a session high against the dollar of $1.3349 and was up 0.4 percent on the day. It recovered from a low of $1.32565 hit on Wednesday and more gains would see it target its 11-month high of $1.3404.

(Inside Metals is compiled by Shruthi G in Bangalore)