INSIDE METALS

Monday, January 27, 2014

CHART OF THE DAY

Click on the chart for full-size image

Click here for LME charts

GENERAL NEWS

- As smelters weigh cost, Indonesia's ore export ban may backfire
- ANALYSIS-Gold miners' reserve cuts may mean near-term pain, long-term gain
- India could review gold restrictions by end-March-finmin
- Deutsche bank starts talks to sell gold fixing seat-sources
- Speculators raise copper, gold length, cut silver longs - CFTC
- Striking South African miners meet platinum firms

MARKET NEWS

ALUMINIUM:

- ANALYSIS-Is this the year the world stops making too much aluminium?

COPPER:

- Chile port workers end strike after three weeks

FEATURE

COLUMN-Copper the stand-out in China's 2013 metal imports: Home

If you're wondering where that much-vaunted copper surplus has gone, look no further than China.

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

Click here to read more..

TODAY'S MARKETS

BASE METALS: London copper sagged to its lowest in seven weeks as concerns over slowing growth in top consumer China and turmoil in emerging economies ahead of a key Federal Reserve meeting spilled into commodities. "What really disappointed was that in China and the U.S., manufacturing has not been as strong. This gave the markets a nasty shock and now it's a bit of a confidence issue," said analyst Dominic Schnider of UBS Wealth management.

PRECIOUS METALS: Gold rallied for a third session to its highest in two months as equities fell on worries that capital outflows from emerging economies would continue, boosting bullion's safe-haven appeal. "A poor performance from U.S. equities lifted sentiment and boosted safe-haven demand for gold," said Joyce Liu, an investment analyst at Phillip Futures.

FOREX: The dollar slipped to a seven-week low against the yen as a sell-off in emerging market currencies late last week prompted investors to seek shelter in the safe-haven Japanese currency. "It was all driven by stop-loss selling in thin, pre-Tokyo markets," said Jeffrey Halley, FX trader for Saxo Capital Markets in Singapore, referring to the dollar's earlier drop to a seven-week low against the yen.

FEATURE

COLUMN-Copper the stand-out in China's 2013 metal imports: Home

By Andy Home

LONDON, Jan 24 (Reuters) - If you're wondering where that much-vaunted copper surplus has gone, look no further than China.

At a headline level, refined copper imports fell year-on-year - but then 2012 had been a year of all-time record inflows. China's call on the rest of the world remained huge in 2013 at close to three million tonnes.

Imports of both copper anode (blister) and concentrate, meanwhile, hit new records as the country soaked up the raw materials surplus resulting from strong global mine production.

Copper was the real stand-out in China's metals trade picture in 2013 in terms of market impact. Its continued appetite for refined metal has left exchange stocks depleted everywhere else.

Net imports of other base metals in refined form were more modest and, with the exception of zinc, down on 2012 levels. Dramatically so in the case of tin and lead. Indeed China turned consistent net exporter of lead for the first time since 2007.

As China's own production sector matures, the import story is increasingly becoming one of raw materials flows, particularly the impact on the country's supply chains resulting from the Indonesian ban on unprocessed minerals.

Graphic on China's 2013 refined metal imports:

http://link.reuters.com/zys36v

Graphic on China's 2013 raw material imports:

http://link.reuters.com/hat36v

COPPER BOOM

China's refined copper imports started 2013 in muted form as buyers tapped into high bonded warehouse stocks in Shanghai.

But as that inventory depleted, or at least the readily accessible part of it, import flows accelerated over the second half of the year.

Net imports over the year as a whole came in at 2.91 million tonnes, just a couple of hundred thousand tonnes shy of the record flows seen in 2012. And that despite record exports of 293,400 tonnes, now an established counter-flow of metal by those producers qualifying for preferential tax treatment on tolling contracts.

Graphic on China's refined copper trade:

http://link.reuters.com/rat36v

Graphic on China's copper concentrate imports:

http://link.reuters.com/sat36v

Imports of primary raw materials positively boomed last year.

Those of concentrate increased by 29 percent to 10.1 million tonnes (bulk weight) with December's tally of 1.04 million tonnes a fresh monthly record.

After years of systemic underperformance, global copper mine supply finally turned the corner in 2013. The International Copper Study Group estimates that mined copper production rose by 10 percent in the first 10 months of the year. It's clear where most of that extra supply went.

Equally significant but often overlooked in China's trade data was the continued rise in anode (blister) imports, up 20 percent to a record high of 629,000 tonnes.

The only category of copper import to register a significant fall last year was scrap, down 10 percent against 2012 levels.

That was likely due to a combination of stricter customs checks on scrap imports, dubbed "Operation Green Fence" by the Chinese authorities, and lower supply from recession-hit Europe.

It's notable that the largest declines in scrap imports from major origin countries were recorded by France (down 58 percent) and Spain (down 62 percent).

ZINC UP, OTHERS DOWN

At a refined metal level only zinc saw a year-on-year increase in Chinese imports last year.

Net imports - there were hardly any exports worth speaking of - rose by 22 percent to 621,000 tonnes, the highest annual total since 2009.

The driver appears to have been as much financial as industrial, with zinc an increasingly popular alternative to copper as collateral for loans in China's shadow credit markets.

Net imports of all the other base metals fell last year.

In the case of nickel the decline was a negligible 1,800 tonnes. Imports rose by 6 percent but exports rose by a faster 33 percent.

Given China's build-out of its own nickel pig iron (NPI) sector, it's surprising that imports rose at all. It's worth bearing in mind, though, that lurking somewhere in those import flows may well have been metal destined for military stockpiles.

Subsidiaries of the People's Liberation Army are believed to have purchased at least 60,000 tonnes last year.

The fall in imports was more pronounced in the case of refined tin.

At 11,300 tonnes, net tin imports were down 62 percent - or 18,300 tonnes - on 2012 levels. That was the smallest annual total since 2007, when China was still a net exporter prior to the imposition of a 10-percent export tax at the start of 2008.

In the case of refined lead, China switched to consistent net exporter last year, the differential between domestic and international prices being wide enough to offset a similar 10-percent export tax on the metal.

FEATURE *(Continued)*

Net outflow totalled 21,100 tonnes, the largest it's been since 2007 when, as with tin, China was still a net supplier to the rest of the world prior to the introduction of swingeing export taxes at the start of 2008.

Net imports of primary aluminium ended 2013 on a high note of 52,300 tonnes in December but were still down 136,000 tonnes on 2012 levels at 255,500 tonnes.

That's a drop in the ocean in terms of the size of the Chinese aluminium market and more than offset by the net flow of 2.6 million tonnes of products leaving the country last year.

More significant was what was happening at the aluminium raw materials level last year.

ALL ABOUT INDONESIA

China's imports of bauxite surged by 79 percent to a massive 71 million tonnes as Chinese buyers built up stocks ahead of the well-flagged Indonesian ban on exports of unprocessed minerals earlier this month.

Indonesia has historically been the key supplier of bauxite to China's eastern-coast alumina refineries and the ban threatens to cut completely this raw material flow.

Chinese importers pre-empted the ban in two ways.

Firstly, they bought as much as they could from Indonesia itself before the ban kicked in on January 12, imports from the country soaring to 47.9 million tonnes from 27.9 million tonnes in 2012.

Secondly, they started looking elsewhere for bauxite, particularly Australia and India.

Imports from Australia jumped to 14.3 million tonnes last year from 9.5 million in 2012, while those from India spiked even more sharply to 5.3 million tonnes from 1.3 million in 2012.

Graphic on China's bauxite imports:

http://link.reuters.com/kav36v

Graphic on China's copper concentrate imports:

http://link.reuters.com/sat36v

Diversifying nickel ore suppliers could prove much more challenging for China's NPI sector, which has been even more dependent on Indonesian supply than the alumina sector.

Unsurprisingly, therefore, imports of Indonesian nickel ore surged over the last couple of months of 2013 as Chinese buyers topped up already high stocks.

Total imports of Indonesian ore rose by 22 percent last year to 41.1 million, a fresh record.

Those from the Philippines, historically the second largest supplier to China, rose by a much more modest 5.5 percent, underlining the argument made by some analysts that Philippines material is used in China as much for its iron as its nickel content.

Imports of Indonesian bauxite and nickel ore may remain strong for one more month, as last-minute shipments arrive in China, but thereafter should decline to next to zero.

What happens then remains to be seen but it should serve as a reminder that China's metal imports are steadily moving up the raw materials chain.

Copper remains the exception. For now.

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

GENERAL NEWS

As smelters weigh cost, Indonesia's ore export ban may backfire

By Fergus Jensen and Melanie Burton

JAKARTA/SYDNEY, Jan 27 (Reuters) - Indonesia's ban on exports of key mineral ores - unless they are processed in the country - risks backfiring as weaker commodity prices mean it is not cost-effective to invest in expensive smelters and refineries.

The ban, which came into effect on Jan. 12, was unveiled in 2009 as a commodities boom began to froth and Jakarta sought to extract more value from its mineral resources. But metals prices and margins have since fallen, leading to oversupply and less need for building more processing capacity.

Worried about the impact on its current account deficit and a sagging rupiah currency, Jakarta tried to ease the ban last month only to be blocked by parliament. This month, it issued exemptions to allow shipments of copper, zinc, lead, manganese and iron ore concentrate, leaving nickel and bauxite - key ingredients in making steel and aluminium - the main targets.

Companies considering building alumina refineries are moving slowly as they weigh the big investments required amid caution over Indonesia's policy flip-flops.

A 1 million-tonnes-a-year alumina refinery in Indonesia would cost around $1.5 billion to build. To recover that investment, even without making a profit, the price of alumina - made from bauxite ore - needs to be "well over" $400 a tonne, said Michael Komesaroff, principal consultant at Urandaline Investments, noting alumina trades now at $325-$350 a tonne.

"It's not economic to construct an (alumina) refinery in Indonesia. The costs are too high, the bauxite deposits are too scattered to supply an in-situ refinery and the sovereign risk in Indonesia for such a capital intensive asset would be too high," he said.

Indonesia is the world's biggest exporter of nickel ore, refined tin and thermal coal, and is home to the fifth-largest copper mine and top gold mine. Indonesian bauxite exports make up around 12 percent of global aluminium output.

Indonesia's trade ministry said on Friday that no miners or companies had requested approval for concentrate or ore exports since Jan. 12 and no concentrate shipments have taken place since then.

SOME WILL, SOME WON'T

The ban will depress local prices, potentially damaging the domestic industry it was designed to help, and have a knock-on effect on reducing Indonesia's foreign exchange earnings. In terms of jobs, smelters are not big employers, and offer only a small return on high investment.

The export ban could cut government revenue by as much as $820 million this year, Indonesia's finance minister has said.

While Indonesia's bauxite industry could be crushed, some nickel miners, starved of sales revenue as ore piles up and can not be shipped, are speeding up plans to build smelters.

But here, too, the cost calculations don't look promising.

"It's very tough," said Maman Resman, spokesman for nickel miner PT Bintang Delapan, one of the few miners to have started building a smelter. "We're quite worried because this is connected to a very large work programme."

The company is cutting costs and hopes to halve the timeline for its $1.2 billion, 300,000-tonnes-per-year ferronickel smelter project in Sulawesi, one of Indonesia's main nickel producing regions. The project, which includes its own power plant and infrastructure, is feasible so long as the price of nickel is above $15,000 per tonne, the company said, adding it expects nickel prices to increase.

Benchmark LME nickel was at $14,292 a tonne on Friday, a nudge above recent 4-year lows. LME nickel prices are seen rising 13 percent over the next 12 months, Goldman Sachs said in a note dated Jan. 21. It sees prices averaging at $14,800 a tonne this year and $15,125 next year.

Indonesia has issued business permits for 28 smelter projects, according to the Investment Coordinating Board, but only three are expected to come online this year. Various planned projects have not got off the ground. The $5.5 billion Weda Bay project in Halmaherah, which dates back to the 1990s, is at least five years from completion, analysts say, because of the high risk factors and relatively low nickel price.

But there is some hope. Indonesia is the largest exporter of nickel ore to China's steel industry. Chinese nickel pig iron producers turn Indonesian ore into a cheaper feed than refined nickel for stainless steel. Several Chinese firms are speeding up plans to build smelters in Indonesia to process nickel ore, which has a higher metal content than ore from other nearby countries such as the Philippines, making it cheaper to process.

"Unlike copper, where mines capture more than 90 of the value of the concentrate, in selling nickel ore, the mine captures only 15-20 percent of the value – so there's a much more compelling argument in terms of the viability of making a return on investment from constructing a nickel smelter," said Andrew Mitchell, a consultant at Wood Mackenzie.

INTO AFRICA

But for bauxite, buyers, including the Chinese, may simply shop elsewhere.

Unlike minerals such as copper, which is relatively costly and complex to mine, bauxite is plentiful, with deposits close to the surface making it comparatively cheap and easy to access.

"The Chinese are looking very seriously at mining bauxite in Guinea, and that's a better economic deal for them than building an alumina refinery in Indonesia," said Urandaline's Komesaroff.

GENERAL NEWS *(Continued)*

China's Bosai Minerals exited a plan to build a 2 million-tonnes-a-year complex in Indonesia in 2012, focusing instead on developing two existing bauxite mines in Guyana and Ghana.

Besides the cost of building smelters and refineries, there are big add-on costs for power stations, ports and roads. And, with revenue from ore exports drying up, it will be tough to attract investors for new facilities, warned Agus Suhartono, CEO of Singapore's Ibris Nickel, which halted its Indonesian operations on Jan. 7 pending clarity on the ban.

New smelting and refining investment "in the market circumstances likely to prevail until at least 2020, have poor commercial prospects," USAID, a U.S. foreign aid agency, said in a report last April, noting companies would likely need to take on debt financing for maybe 50-70 percent of the project cost.

"The difficulty the industry is going to have is access to capital," said analyst Matt Fusarelli of consultancy AME Group.

"You're going to have to be pretty strong in your resolve to put half a billion dollars into Indonesia in the current environment." ($1=12,140 rupiah)

ANALYSIS-Gold miners' reserve cuts may mean near-term pain, long-term gain

By Nicole Mordant

Jan 24 (Reuters) - Barrick Gold Corp's warning this week that its in-the-ground gold reserves will shrink is widely expected to be echoed in the coming weeks by miners around the globe, spelling more asset writedowns for an already beat-up sector.

For the first time in years, miners from Canada to Australia will tell their shareholders that reserves - the future source of production, cash flow and growth - have significantly diminished, hit by bullion's 28 percent price slide in 2013.

However painful, the reserve cuts and associated writedowns are seen helping nurse the sector back to longer-term health by discouraging miners from seeking low-margin growth at the expense of profits. It is a shift most mining executives have promised over the last year and one that investors are keen to see them deliver.

"To some extent, what has hurt the stocks in the past couple of years is this perceived notion of a long mine life with many ounces. It doesn't necessarily equate to more profitability," said Chris Beer, senior portfolio manager with RBC Global Asset Management in Toronto.

"You want the best rock, not all of the rock," he said.

Reserves are estimates of the amount of metal that it is financially and technically feasible to mine. When gold prices fall, reserves tend to drop, but how much depends on the deposit, price forecasts and other subjective assumptions.

Miners revalue their reserves annually, usually at the beginning of the year, and release the revisions along with fourth-quarter results.

Barrick, the world's biggest gold producer, said on Thursday it plans to update its reserves based on a long-term average gold price of $1,100 an ounce, down from $1,500 an ounce a year earlier. Its rivals are also expected to cut price forecasts.

Spot gold rose to a two-month high of $1,272.70 on Friday. Gold is up 1 percent for the week, on track to record a fifth straight weekly gain for the first time since September 2012.

The more conservative assumptions could mark a strategic shift away from marginal deposits, a concrete move to win back investors alienated by the miners' boom time push for growth at all costs.

Gold stocks, as measured by the S&P/TSX Global Gold Index, are down nearly 40 percent in the past year.

ESTIMATING RESERVES

After 12 years of rising gold prices, 2014 will be the first year for many in which investors really see the impact of lower prices on mine lives and tangible book values, said Deutsche Bank analyst Jorge Beristain.

"These are not your traditional, garden-variety M&A-related or project capex-related writedowns," he said.

To be sure, reserve writedowns will likely be smaller than the tens of billions in charges taken by miners on assets bought at peak metal prices or on development projects where costs spiraled. But they come after several consecutive quarters of bad news from the sector.

Barrick's price assumption was more conservative than the $1,200 an ounce analysts were expecting most miners to use.

"The fundamental thing is, they're trying to draw a line under the past," said Adrian Day, chief executive of Adrian Day Asset Management, referring to the billions of dollars Barrick wrote down over the past year on an ill-timed acquisition, weak metal prices and a cost blow-out at a major project.

Valuing reserves conservatively is part of that process, said Day, who recently sold down a small position in Barrick's shares, but still owns some call options.

There is a risk that Australia's biggest miner Newcrest Mining Ltd could write down as much as A$3 billion ($2.62 billion) if it chooses to recalculate reserves and asset carrying values at a gold price $100 an ounce below what it used a year ago, RBC Capital Markets analyst Steuart McIntyre said in a client note.

Included in that total is a A$300 million to A$400 million reduction in the carrying value of its Telfer mine due to reserve cuts ahead of the mine's expected shutdown in 2018.

Newcrest, whose results are expected on Feb. 14, previously used a gold price of $1,250 an ounce to estimate reserves.

'HIGH-GRADING'

But not all miners face reserve writedowns this year.

GENERAL NEWS *(Continued)*

Most small- and mid-tier Australian gold miners are not expected to trim reserves this time around as they already use a gold price around $1,200 to measure reserves.

"Only if we see the gold price under $1,200 for an extended period will we see them cut reserves," said Scott Williamson, an analyst at broker Hartleys Limited in Perth.

Some miners, like London-listed Randgold Resources Ltd, have for years used conservative gold prices - $1,000 an ounce in Randgold's case - to estimate their reserves.

Randgold Chief Executive Mark Bristow is concerned that miners may be cutting lower-grade reserves and rejigging mine plans only as a quick fix to survive currently lower gold prices as they wait until better times return.

"The question is, are the companies going to re-cut their business long-term at a lower gold price, or are they going to re-cut their short-term business hoping they'll be rescued in the long term by the gold price?" he said. "That second one is called high-grading and it's a disaster."

High-grading is the practice of mining higher, more profitable grade - a strategy that risks reducing the overall grade of the resource and making it uneconomical to mine in the future.

India could review gold restrictions by end-March-finmin

NEW DELHI, Jan 27 (Reuters) - The Indian government could review restrictions on gold imports, which include a record 10 percent import duty, by the end of this year, Finance Minister P. Chidambaram said on Monday.

Chidambaram did not say whether he was referring to the calendar or fiscal year but revenue secretary Sumit Bose said later that the review could come by the end of March.

India, which used to be the world's biggest buyer of bullion, clamped down on gold imports last year after concerns over a bloated current account deficit. Imports in December were higher than in November, Bose added.

Deutsche bank starts talks to sell gold fixing seat-sources

By Clara Denina and Jan Harvey

LONDON, Jan 24 (Reuters) - Deutsche Bank is talking with prospective buyers about selling its place in the global gold and silver price setting process, known as the "fix", sources familiar with the situation said on Friday.

Deutsche said on Jan. 17 it would seek a buyer for its fixing seat, which it had held since 1994 after buying Sharps Pixley from Kleinwort Benson.

The move follows its recent decision to withdraw from the bulk of its commodities business. Also European regulators have launched investigations in recent months into suspected manipulation of precious metals prices by banks.

Sources said talks are at an early stage. Meanwhile, the bank is asking the London Bullion Market Association (LBMA) for clarification on whether a buyer would have to be one of the LBMA's market-making members, who quote two-way prices to each other during the London business day for agreed minimum quantities, they said. A Deutsche Bank spokesman declined to give any update on the situation to date.

"The key issue ... is whether or not the new fixer needs to be a market maker. They will be looking for a company with stature and credibility and not necessarily just the best price - someone who will add status to the fix," one industry source said.

If the buyer does not have to be a current market maker, it increases the likelihood that a candidate could emerge from Asian banks looking to raise their profile in the London market. Asia is taking a more important role in the gold industry as supplies of physical metal move eastward.

Bank of China (BoC) and Industrial and Commercial Bank of China (ICBC) have both already become members of the LBMA. ICBC is also about to complete the acquisition of the London commodity arm of Standard Bank, another member of the London Bullion Market Association.

Both banks declined to comment on whether they are interested in joining the fixing group.

HARD SELL

Four other banks are currently involved in the gold fixing process - Bank of Nova Scotia-ScotiaMocatta, HSBC Bank USA, Societe Generale and Barclays - and the first two are also involved in fixing silver.

N.M. Rothschild and Sons was the last fixer to sell its seat, to Barclays in 2004. According to market sources, the sale took place for around 1 million pounds ($1.7 million).

Selling the fixing seat may be a tough task as the price-setting process, along with that for other commodity benchmarks, has come under increasing scrutiny from regulators including Germany's Bafin, the UK's Financial Conduct Authority, and the U.S. Commodity Futures Trading Commission over the past 12 months, after the London Interbank Offered Rate, Libor, was rigged by British banks.

The fixing process takes place twice a day, at 1030 and 1500 London time.

Members relay net interest from clients, based on orders placed with their dealing rooms, to the other fixers, who adjust prices up and down until buy and sell orders are matched. At that point, the price is declared 'fixed' and all orders are executed.

Gold market participants insist that the fix is transparent.

"The fixing is unlike a currency fixing or a Libor determination in that it is based on actual transactions, physical flows," one gold market source said. ($1 = 0.6060 British pounds)

GENERAL NEWS *(Continued)*

Speculators raise copper, gold length, cut silver longs - CFTC

Jan 24 (Reuters) - Hedge funds and money managers raised their net long positions in copper futures and options for the first time in two weeks, as expectations of a better global economic outlook boosted demand for industrial metals, data from the Commodity Futures Trading Commission showed on Friday.

CFTC's Commitments of Traders report also showed speculators boosted their length in gold but slashed their net long positions in silver in the week to Jan. 21.

Copper prices climbed to a nine-month high in late December on signs of improving U.S. economic conditions as the Federal Reserve trimmed its bond purchases earlier that month.

Traders now await next week's CFTC data after copper prices fell to their lowest in a month on Friday and struck its biggest weekly fall since mid-November as slowing growth in China's factories fueled worries about demand in the world's top metals consumer.

Among other metals, speculators cut their net longs in silver by 1,469 contracts to 7,322, and they added their net longs in gold by 76 to 43,353 lots for a fourth consecutive weekly gain.

Gold rose to a two-month high on Friday, posting its fifth consecutive weekly gain as a global flight from emerging-market assets and declines in equities increased bullion's safe-haven appeal.

Speculators increased their bullish bets in platinum by 1,514 to 24,555, while they also boosted palladium longs by 1,892 to 20,316 contracts.

Striking South African miners meet platinum firms

By Ed Stoddard

RUSTENBURG, South Africa, Jan 24 (Reuters) - South Africa's main platinum miners union will resume government-brokered talks next week with the world's top three producers, in an effort to end a strike that showed flickers of violence on its second day, officials said on Friday.

Union leaders representing as many as 100,000 miners who walked off the job on Thursday sat down with management from the three companies, which produce more than half the world's platinum, a metal used in catalytic converters in cars.

The three - Anglo American Platinum (Amplats), Impala Platinum and Lonmin say union demands to more than double the miners' basic pay are "unaffordable and unrealistic."

Amplats said the strike was costing it 4,000 ounces per day, while Implats was losing about 2,800 ounces daily. Smaller rival Lonmin estimates losses at some 3,100 ounces a day.

The strike and fears of unrest hit the rand, pushing it through the psychologically key 11.0 to the dollar to levels last seen five years ago. Violence in the platinum sector could trigger a heavier sell-off in the currency.

The companies' talks with the hardline Association of Mineworkers and Construction Union (AMCU) were held under the auspices of South Africa's main commercial arbitration body, labour ministry spokesman Musa Zondi said.

"They will sit down on Monday and talk," he said after several hours of mediation in Johannesburg. Next week's negotiations are expected to go on for three days.

"It would be good if something positive were to come out of it,' Zondi said.

The government stepped in to mediate to avoid damage to an already struggling economy and to the political standing of President Jacob Zuma and the ruling African National Congress, which faces general elections in around three months.

Police reported several violent incidents, including the torching of a Chinese furniture shop in Marikana, a mining town near Rustenburg, and the barricading of roads with burning tyres, stones and rubble. No arrests were made.

PLATINIUM BELT TENSION

Police armoured vehicles roamed the platinum belt, 120 km (70 miles) northwest of Johannesburg, mindful of the bloodshed and violence of the last two years, especially at Marikana, where 34 miners were shot dead by police 18 months ago.

"We are concerned about what's happening on the platinum belt because of history. We want a peaceful strike," police minister Nathi Mthethwa told a news confernece in Pretoria.

Security guards at an Amplats' mine near Rustenburg told Reuters not to drive towards the mine gates as strikers were blocking anyone from crossing their picket line.

"They will damage your car if you drive further," one said.

Implats said strikers were blocking miners who wanted to report for work at its operations.

"Never a good situation as it raises tension and the risk for potential violence," Implats spokesman Johan Theron said.

AMCU's rival, the National Union of Mineworkers (NUM), said its members at Implats were assaulted as they reported for work.

The government has been unable to soothe nearly two years of tensions in the platinum belt, where miners are angry about their lack of economic progress two decades after the end of apartheid.

The AMCU-affiliated workers say they will not call off the strike until their demand for a 12,500 rand ($1,100) a month minimum basic wage are met.

South Africa has an average minimum wage of around 2,500 rand a month. The basic wages for entry-level miners is currently about 5,000 rand. "There is nothing that can change our demands," prominent AMCU member Evans Ramokga told Reuters. ($1 = 10.9809 South African rand)

MARKET NEWS

ANALYSIS-Is this the year the world stops making too much aluminium?

By Eric Onstad

LONDON, Jan 24 (Reuters) - This could be the year the world at last stops churning out much more aluminium than it can use, as economic recovery begins to stoke demand while some producers cut output after years of falling metal prices.

At least that is what a few aluminium smelters and bankers are predicting, going against a consensus view that surpluses of production over demand are set to continue.

Whatever happens, prices this year are unlikely to rally because there is a huge overhang of stocks, estimated at 10 million to 15 million tonnes globally, although much of this is kept sitting in warehouses earning cash via investment deals.

The price of aluminium - mainly used for packaging, construction and transport - has shed nearly 50 percent since 2008, forcing loss-making companies to slash capacity in recent years.

"It's a market in deficit at the current time, as it should be. This is the way commodity markets work - prices move down to a level where supply is pushed offline, and that's exactly what we've seen in this market," said Colin Hamilton, head of commodities research at Australian bank Macquarie.

Russia's Rusal, the world's biggest aluminium producer, estimates that producers outside of China cut up to 1.2 million tonnes of capacity last year and further reductions of 1 million-1.5 million tonnes are expected in 2014.

"The most important trend in the industry is that starting from the fourth quarter 2013, we see the aluminium market in deficit on strong consumption and production cuts," said Rusal Deputy Chief Executive Oleg Mukhamedshin.

While such views are not surprising coming from an aluminium producer, Rusal has been joined by a handful of institutions such as Macquarie and Barclays in forecasting a deficit this year.

They are bucking the consensus view of another surplus after nearly a decade during which smelters have produced more than needed by industry.

Analysts polled by Reuters this month expect a surplus of 568,400 tonnes this year, narrowing to 500,000 tonnes in 2015.

Macquarie, however, expects world consumption of primary aluminium this year to rise to 53.24 million tonnes, surpassing production at 52.85 million tonnes, leaving a gap of 390,000.

This does not include recycled or secondary aluminium, which is a separate market, used mainly in alloys.

STRONG DEMAND GROWTH

The most bold forecast is by Barclays, which calculated that the global aluminium market was already in a deficit of 726,000 tonnes last year, increasing to 1.07 million tonnes in 2014.

"What's moved really fast, even more than supply, is demand," said Barclays analyst Sudakshina Unnikrishnan.

"Demand has been very strong and has surprised to the upside from China. This has tended to be overlooked because the focus has been so much on the supply side."

Demand in China, which accounts for nearly half of the global market, jumped by 13 percent year-on-year in October/ November compared with average 7 percent growth during the first through to third quarters, according to Barclays.

At the same time, demand has improved elsewhere as Europe emerges from recession and the U.S. recovery gains pace.

Use of the light metal in autos is growing as carmakers cut car weights to meet stricter emissions laws. Consultants Ducker Worldwide expect North American automakers to boost aluminium use by 60 percent by 2025.

Ford Motor Co this month unveiled a new version of its best-selling F-150 pickup truck using 95 percent aluminium in the body.

Most analysts see the massive Chinese market as roughly in balance, but a new leadership bent on closing polluting factories and cutting subsidies to state-owned firms as well as a ban imposed this month by Indonesia on exports of unprocessed ore could change the balance there as well.

Indonesia, which wants minerals to be processed at home, has supplied two-thirds of China's needs of aluminium raw material bauxite and faces obstacles in establishing more of its own processing plants.

"With the export ban you are cutting off a significant supply to the Chinese market... And within China there are efforts to restrict the aluminium oversupply. So it's going to be tight in the Chinese market," said Nic Brown, head of commodities research at French bank Natixis in London.

Brown forecasts a roughly balanced market this year, which is also the prognosis of analyst Paul Adkins, with consultancy AZ-China in Beijing.

Even analysts forecasting a deficit this year do not expect a strong price recovery due to an overhang of inventory, including over 5 million tonnes in warehouses registered by the London Metal Exchange.

But continued healthy demand as global economic growth ramps up, combined with scant new smelter projects, could lead to a much different environment in coming years, said Adkins.

"2015 is where it gets interesting...now we start to see some serious inroads into the inventory and a decent recovery in price," he said.

"If you take into account even a modest 3 percent (demand) growth pattern, then we need a new smelter every year going forward. Once we get past about 2016, new metal supply starts drying up. There is nobody out there who has the interest and the capital to build the extra capacity."

MARKET NEWS *(Continued)*

Chile port workers end strike after three weeks

SANTIAGO, Jan 25 (Reuters) - Chilean port workers negotiated a settlement with management on Saturday and ended a more than three-week-old strike that had slowed copper, fruit and other shipments from the world's top copper producer.

The northern port of Angamos kicked off a work stoppage in late December to demand stronger union organizing rights. The labor action then spread. Other ports joined the strike in solidarity and in protest over what they say is police brutality against striking workers.

Workers at the copper-exporting ports of Antofagasta and Iquique downed tools during the work stoppage. Many of the other striking ports were in the southern part of Chile, an agricultural region which barely produces any copper. "We appreciate this accord, which ends more than three weeks of paralysis," the Chilean fruit exporters' chamber Fedefruta said in a statement.

The stoppage has hit grape, apple and berry farmers in the middle of the Southern Hemisphere summer.

Smog-hit China's switch to high-grade raw materials to boost big miners

By Ruby Lian and Fayen Wong

SHANGHAI, Jan 27 (Reuters) - Chinese steelmakers and power plants are being forced to shop around for higher-quality raw materials to meet tougher air pollution standards, a move that will be a boon for global mining giants that produce premium-grade iron ore and coal.

Beijing, under heavy public pressure to cut pollution after a series of hazardous smog crises in many major cities last year, has vowed to raise emission standards and shut polluters in big industrial sectors like steel, cement and power.

The air pollution campaign could squeeze out iron ore suppliers from Iran, Mexico and Vietnam, but would be good news for others from Brazil and Australia, like Vale, BHP Billiton and Rio Tinto as well as Australian coal exporters that supply top grade raw materials.

It could also undermine China's efforts to diversify its sources of iron ore away from Australia and Brazil, which account for more than 70 percent of imports and - according to Beijing - have an undue influence on the way prices are set.

"Mills used to take cargoes with various grades as long as they are cheap and never questioned about minor ingredients, but more and more customers are starting to look into the specs before buying," said an iron ore trader in Beijing.

Higher-grade iron ore is more efficient for steel makers and contains fewer additives which cuts down on emissions.

Smaller iron ore exporters have become popular sources of cheap supplies in recent years. Iran ranked fourth on China's list in 2013, behind Australia, Brazil and South Africa, with deliveries up 29 percent in a year.

But while Iranian ore can be as high as 65 percent iron, some of it contains up to 1.5 percent sulphur, which generates high levels of pollutants when removed during processing. Sulphur levels can reach 2 percent in Indonesian and Mexican ore.

By contrast, iron ore from the big three mining firms grade above 57 percent but with just 0.05 percent sulphur.

Smaller exporters are already losing their competitive edge as Chinese demand slows and supplies from Australia surge.

Australia's market share rose by 4 percentage points to account for 51.2 percent of China's total imports in 2013, while Brazilian miners claim a near 19 percent market share, up from just 8.6 percent a year earlier.

Miners in both countries are in the midst of multi-billion dollar expansion work to dig hundreds of millions more tonnes of ore in the next few years.

"More supplies from Australia and tougher environment protection measures will eventually force non-mainstream suppliers to either cut prices or shut down production," said an iron ore purchasing mill official.

MILL CLOSURES LIKELY

Beijing's campaign has so far focused on the top steel producing province of Hebei surrounding the capital, responsible for a quarter of total output and blamed for most of the smog choking the capital.

The pollution controls serve a wider strategy, with Hebei determined to slim down its bloated steel sector. Governor Zhang Qingwei warned local bureaucrats this week that they will be fired if another tonne of capacity is built on their patch.

Hebei aims to cut 15 million tonnes of outdated steel capacity this year and 60 million tonnes by 2017. The supply cut will ease margin pressures and allow survivors to turn to higher-quality ore to meet new standards, analysts say.

Traders said firms have already have started to test for minor elements like manganese and arsenic as well as routine ones like sulphur and phosphorus when shopping for iron ore.

STEAM COAL

The step-up in environmental checks has also prompted some power plants to switch to higher grades of coal.

"Many power plants are beginning to worry about the inspections and have begun to switch to higher-quality coal with lower sulphur and ash content," said a Beijing-based trader.

China's imports of lignite, a type of coal with low heating value, have surged in recent years, thanks to an abundance of cheap supplies from Indonesia and Vietnam. However, the high moisture content of lignite means it emits more carbon dioxide than higher quality coals.

MARKET NEWS *(Continued)*

Expectations that Beijing may soon introduce even more stringent requirements on coal use at power plants have also led miners to hold off on signing fresh contracts with Indonesian suppliers, trade sources said.

A policy setting new minimum heating values for lignite, currently at the draft stage, would benefit Australian miners who produce low-ash coal of high calorific value, and threaten the export prospects of Indonesia's low-ranked coal miners.

China imported about 87.5 million tonnes of lignite in 2013, mostly from Indonesia.

Enquiries for Indonesian coal with heating value of around 3,800 kcal/kg (NAR), previously popular with Chinese buyers, have already dried up, traders said, adding that buyers are now switching to coal with at least 4,700 kcal/kg (NAR).

"We think that the majority, perhaps as much as 80 percent of the total volume, of Indonesian lignite would struggle to fit the minimum heating value requirement," Macquarie Bank said in a recent report.

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-London copper sinks to 7-week low on growth anxiety

By Melanie Burton

SYDNEY, Jan 27 (Reuters) - London copper sagged to its lowest in seven weeks as concerns over slowing growth in top consumer China and turmoil in emerging economies ahead of a key Federal Reserve meeting spilled into commodities.

Copper last week logged its biggest weekly drop since mid-November after evidence that tightening credit conditions and decelerating growth in China last year had stretched into January.

Expectations the U.S. will continue scaling back its stimulus has also roiled emerging markets, souring sentiment and fanning sales of commodities.

"What really disappointed was that in China and the U.S., manufacturing has not been as strong. This gave the markets a nasty shock and now it's a bit of a confidence issue," said analyst Dominic Schnider of UBS Wealth management.

"I still hold the view China's growth should stay on track and with the acceleration in developed markets, the synchronised move should allow us to go higher on most of the metals."

Zinc, lead and aluminium were all offering value at the minute, Schnider said.

Three-month copper on the London Metal Exchange slipped to $7,160 a tonne, its lowest since Dec. 11, before paring losses to trade at $7,194 a tonne by 0718 GMT, up a small 0.19 percent from the previous session.

The most-traded April copper contract on the Shanghai Futures Exchange slipped by 0.59 percent to 50,980 yuan ($8,400) a tonne.

Also souring sentiment, fears of a possible wealth-product default added to liquidity concerns as cash demand spiked ahead of the Lunar New Year holiday. The holiday begins on Friday, Jan. 31, and extends through next week.

Activity in China's factory sector contracted in January for the first time in six months, a preliminary survey showed last week, pointing to a weak start for the economy in 2014.

The U.S. Federal Reserve will take centre stage in the week ahead with a widely expected cut to its bond-buying stimulus, responding to an improving U.S. economy but also helping fuel a dramatic emerging market sell-off.

Top emerging market policymakers moved to allay concerns about their economies on Friday after investors sold off their currencies and raised fears of a broad market rout.

Reflecting some optimism over copper's outlook, hedge funds and money managers raised their net long positions in copper futures and options for the first time in two weeks, data from the Commodity Futures Trading Commission showed on Friday.

In other metals, cash lead has started to outperform the benchmark price, suggesting spot demand for lead is picking up. The differential between cash lead and three months lead reached $15.25 which is the narrowest since early September. "Apart from lead, LME metals were all down on the day, closing around the day's lows with further weakness looking possible short term," said broker Sucden in a note.

PRECIOUS-Gold rallies to 2-month high on safe-haven bids

By A. Ananthalakshmi

SINGAPORE, Jan 27 (Reuters) - Gold rallied for a third session to its highest in two months as equities fell on worries that capital outflows from emerging economies would continue, boosting bullion's safe-haven appeal.

Asian shares took a beating and the yen raced to a seven-week high against the dollar, with the U.S. Federal Reserve poised to continue tapering its stimulus and tighter credit conditions in China raising fears of a slowdown. Spot gold had risen 0.3 percent to $1,272.99 an ounce by 0341 GMT, after earlier hitting a two-month peak of $1,278.01.

U.S. gold futures climbed 1 percent, while other precious metals also edged higher.

"A poor performance from U.S. equities lifted sentiment and boosted safe-haven demand for gold," said Joyce Liu, an investment analyst at Phillip Futures.

Gold is often seen as an alternative investment to risky assets such as stocks. But Liu warned that a correction was possible given the recent sharp rally in prices and resistance around $1,275.

Other analysts also said the gold rally could be cut off as the Fed on Tuesday begins a two-day policy meeting in which it is expected to announce another $10 billion reduction in its bond purchases.

"Bullion prices at current levels may have largely priced in a $10 billion taper," HSBC analysts said in a note.

"However, this does not preclude prices from falling should the Fed announce another round of taper."

Gold prices climbed to record highs in 2011, helped by a series of stimulus measures meant to bolster a weak U.S. economy. With improvements last year in the U.S. labour and housing markets, the Fed is rolling back its support.

CHINESE PREMIUMS FALL

With the rally in gold prices, which have gained for five straight weeks, purchases from China - the world's biggest gold consumer - slowed on Monday. Premiums for 99.99 percent purity gold on the Shanghai Gold Exchange fell to about $7 from Friday's $10. Among other precious metals, platinum gained as South Africa's main platinum miners union was set to resume government-brokered talks with the world's top three producers, in an effort to end a strike.

MARKET REVIEW *(Continued)*

FOREX -Dollar touches 7-week low vs yen on emerging market concerns

By Hideyuki Sano and Masayuki Kitano

TOKYO/SINGAPORE, Jan 27 (Reuters) - The dollar slipped to a seven-week low against the yen as a sell-off in emerging market currencies late last week prompted investors to seek shelter in the safe-haven Japanese currency.

The dollar fell as low as 101.77 yen, its lowest level since early December, and last stood at 102.36 yen, steady from late U.S. levels last week. It has fallen about 2.1 percent in the past three sessions.

"It was all driven by stop-loss selling in thin, pre-Tokyo markets," said Jeffrey Halley, FX trader for Saxo Capital Markets in Singapore, referring to the dollar's earlier drop to a seven-week low against the yen.

"The market is definitely focusing on EM, particularly the weak EM countries," he said.

Halley said, however, that U.S. names and Japanese importers have been good buyers of the dollar on dips, adding that the dollar seemed likely to be supported at levels near 101.80 yen for now.

Emerging market (EM) currencies from Turkey to Argentine were dumped last week, making investors nervous that the shakeout in markets could lead to a full-blown financial crisis.

Some of the selling in emerging markets also had its roots in domestic factors. In Turkey, political concerns had a negative impact on markets, while Argentina abandoned support of its peso on the open market last week, sending the currency skidding to its biggest drop since the 2002 financial crisis.

However, an underlying concern was that tighter U.S. monetary policy could encourage a shift of funds back to the United States from emerging markets that had enjoyed a flood of cheap money from the Federal Reserve's money printing programme, known as quantitative easing.

In addition, tightening credit conditions in China as the government seeks to curb growth in high-risk lending heightened fears about a possible slowdown in Asia's economic powerhouse.

"Market positioning also likely played a role in the volatile price action. For some currencies, positioning has become slightly stretched, particularly in the yen," Barclays analysts said in a note to clients.

"In a context of market liquidation of the magnitude we witnessed on Friday, it is logical that some of the previously strong performing trades were unwound," they said.

Indeed, data from the U.S. Commodity Futures Trading Commission showed speculators' net selling in yen futures traded in Chicago remained high. As of last Tuesday, net yen short positions stood at 114,961 contracts, near a 6-1/2-year high of 143,822 contracts set late December.

Investors had sold the yen heavily on the notion that a cocktail of a solid global recovery and Japan's hyper-easy monetary policy will spur yen-carry trades - borrowing the yen and converting it to higher-yielding currencies, many of them in emerging markets.

Mitul Kotecha, the Hong Kong-based head of global foreign exchange strategy for Credit Agricole, said risk aversion will probably remain fairly elevated in the very near term, such as during the course of this week.

That points to the potential for more downside pressure on dollar/yen for now, especially since U.S. Treasury yields have also come down, he said. The 10-year Treasury yield touched a near two-month low of 2.706 percent on Friday.

"You need to see an improvement in risk sentiment, but also I think you need to see a jump in U.S. yields for there to be a big (upside) move in dollar/yen," Kotecha added.

The Swiss franc, another safe-haven currency, hovered near a one-month high against the euro, which last traded at 1.2244 franc, not far from Friday's low of 1.2227.

The Swiss franc stood near 0.8947 per dollar, having hit a one-month high of 0.8904 on Friday.

The euro inched up 0.1 percent versus the dollar to $1.3686, having risen to a three-week high of $1.3740 on Friday.

(Inside Metals is compiled by Pradip Kakoti in Bangalore)