INSIDE METALS

Friday, July 20, 2012

CHART OF THE DAY

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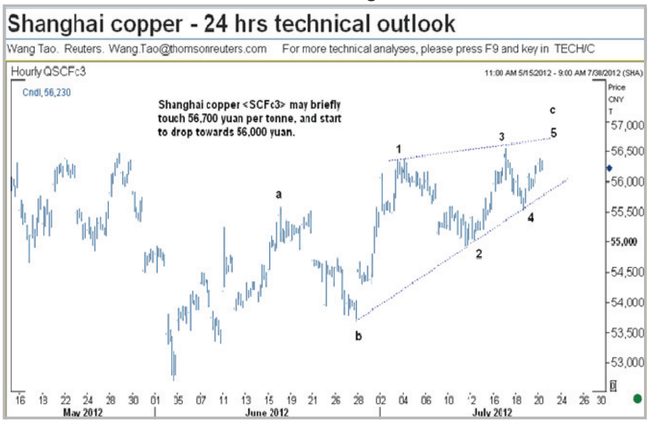

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FEATURE

COLUMN- Time for lead and zinc to go their separate ways?

The global lead and zinc markets have both been in supply-demand surplus this year, according to the latest figures from the International Lead and Zinc Study Group (ILZSG).

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

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- **PREVIEW-China's rising steel exports slam Asian producers**

TODAY'S MARKETS

BASE METALS: London copper prices edged up , holding near a two-week high hit in the previous session on hopes of more steps by top consumer China to boost its economy after Beijing's comments on jobs creation.

"We can't rule out the possibility of Beijing rolling out more monetary easing or investment policies soon, which will push base metals prices higher," said consultancy CRU Group analyst Wan Ling.

PRECIOUS METALS: Gold hovered near $1,580 an ounce as investors clung onto hopes for more monetary easing from the U.S. central bank after weak data in the previous session, but a dollar rebound would likely cap gains.

The latest data showed factory activity in the U.S. Mid-Atlantic region contracted in July for a third straight month and new jobless claims surged last week.

"Range is contracting these days, and I don't see much encouragement for people to have a big position," said Yuichi Ikemizu, head of commodity trading, Japan, Standard Bank.

FOREX: The euro eased against the dollar and hovered near a record low versus the Australian dollar , and was seen on shaky ground due to worries about Spain's fiscal woes and as investors hunt for higher yields.

Weak demand at a bond auction pushed Spain's 10-year bond yield above 7 percent on Thursday for the first time in more than a week, intensifying doubts over whether Madrid can avoid a full-blown bailout.

"There is a global trend in which the euro seems like the weakest currency," said Hiroshi Maeba, head of FX trading Japan for UBS in Tokyo, adding that falls in shorter-term euro zone interest rates have further eroded the incentive for holding euros.

THOMSON REUTERS

FEATURE

COLUMN-Time for lead and zinc to go their separate ways?

By Andy Home

LONDON, July 19 (Reuters) - The global lead and zinc markets have both been in supply-demand surplus this year, according to the latest figures from the International Lead and Zinc Study Group (ILZSG).

Lead supply exceeded demand by 32,000 tonnes in the January -May period, while the global zinc market generated a surplus of 149,000 tonnes.

Both metals were also in surplus last year and the year before, according to ILZSG calculations.

Superficially at least, this would explain why lead's historic price premium to sister-metal zinc has shrunk dramatically.

Indeed the "normal" relationship between the two has inverted twice so far this year, zinc trading above lead in late March and again in late June.

But on just about any metric lead is a fundamentally sounder market than zinc, which begs the question why the price differential between the "ugly sisters" remains so marginal.

Graphic on lead and zinc prices: http://r.reuters.com/xyd59s

Graphic on market balances 2007-2011:

http://r.reuters.com/zyd59s

Graphic on market balances in 2012:

http://r.reuters.com/baf59s

Graphic on lead and zinc stocks:

http://r.reuters.com/caf59s

LESS UGLY

Both metals may have been in historical surplus but that in the zinc market has been much larger, totalling a cumulative 1.275 million tonnes over the 2007-2011 period.

Lead over the same years generated a surplus of just 143,000 tonnes.

Even now zinc is still generating a significantly higher supply surplus than its sister metal, both in terms of outright volumes and, more tellingly, in terms of market size.

Zinc's estimated surplus in the first five months of this year, for example, represented 14 percent of last year's global usage. That in lead represented a relatively lowly 4 percent of global usage in 2011.

Visible stocks of both metals in the London Metal Exchange (LME) warehouse system are historically high.

Lead stocks have been dribbling lower in recent weeks but they are doing so from an all-time record high of 388,500 tonnes recorded in October of last year.

Zinc stocks registered with the LME , meanwhile, have just punched up through the one-million-tonne level for the first time since 1995.

But even with this surge of zinc onto LME warrant, what is the LME system still accounts for less than half of total stock levels estimated by the ILZSG, which includes in its figures an assessment of inventory held by producers, consumers and merchants.

LME lead stocks, by contrast, still represent around 57 percent of total global stocks of total inventory, using the same methodology.

In other words, we are still seeing more of the global stocks picture in lead than in zinc.

That may seem surprising. But the sporadic front-month tightness that characterised the LME lead market last year sucked in metal from the physical market.

LME lead stocks surged by almost 70 percent, or 143,000 tonnes, over the course of 2011 with stocks "out there" accordingly shrinking.

There are plenty of statistical pitfalls with this type of analysis, not least the difficulties assessing off-market stocks and official Chinese production figures.

But potential anomalies should apply equally, given the same source of the statistics and the fact that at a primary level zinc and lead are sister metals, tending to be mined together and smelted by the same producers.

SINKING TOGETHER

There is of course an argument that just as a rising tide lifts all boats, so does an ebbing one cause all boats to sink together.

All of the LME base metals have fallen this year as the market frets about the deteriorating global growth outlook and the potential impact on cross-metals demand, first and foremost in China.

However, the curious thing is that lead should be far more resilient to slowing macroeconomic growth than zinc.

The latter's use in galvanised steel leverages it to construction, even in China a problematic part of the metals demand equation right now.

Lead's main usage derives from batteries. That means it is more vulnerable to slowing new automotive output, but replacement batteries are also an important part of its usage profile and one that is effectively recession-proof.

Batteries fail, irrespective of economic cycle.

Neither metal is yet at a price where producers feel sufficient pain to cut back production, although there has been a noticeable slowdown of refined zinc production growth in China since the start of 2011.

As such, current market balance trends should continue, meaning zinc will keep generating a greater supply surplus than its heavy sister.

FEATURE

Indeed, some analysts argue that lead is already moving close to balance with the potential for a supply deficit to emerge next year. No-one is expecting zinc to shift into deficit any time soon.

Even zinc bulls aren't expecting any significant tightening of market balance until the scheduled closure of major mines such as Brunswick in Canada and Century in Australia feeds through into the refined market, a process that is expected to take at least a couple of years.

And one that is subject to continued delays, witness the extension of the mine-life at Century from 2015 to 2016.

WHICH IS MISPRICED?

Failing a convincing fundamental argument as to why lead is not trading significantly higher than zinc, the best explanation is that it is probably to do with market structure.

Earlier this year some of the disparity between the two was explained by the unwinding of a short-zinc/long lead relative play strategy.

It was a plausible explanation for lead's underperformance and zinc's outperformance in the first part of the year but one that surely can no longer apply.

Now, however, there is a new factor in play.

The zinc spreads are tightening, the benchmark cash-to-three-month period flitting in and out of backwardation in recent days.

Large amounts of metal have been cancelled at New Orleans, which dominates the LME zinc stocks picture.

And equally dominant is the entity in the LME market reports that controls 50-80 percent of all LME zinc stocks and a similar portion of warrant/cash/tom-next positions relative to stocks.

It is one reason why so much zinc is now hitting the LME system, just as was the case during the sporadic lead squeezes of 2011.

Could it be that this dominant long and the concentration of LME zinc stocks in just one location, New Orleans, is artificially inflating the price?

It's an interesting thought.

Because one of these two metals is mispriced, it's just a case of which one.

The analyst consensus is that lead has the stronger fundamentals. Once these reassert themselves, so the argument runs, it will be the out-performer.

It is in essence a bull call on the lead price.

The alternative, and a less appealing one for bulls of any persuasion, is that lead is correctly priced in the current macro climate and has little real upside potential.

That would mean that it is zinc that is mispriced, implying that once the dominant long position loosens its grip, the zinc price has further downside potential.

Either way, these two trading at close to parity is clearly anomalous. It is time for the two "ugly" sisters to go their separate ways.

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

PREVIEW-China's rising steel exports slam Asian Producers

By Hyunjoo Jin and Ruby Lian

SEOUL/SHANGHAI, July 20(Reuters) - China's slowing demand for steel is driving Chinese exports of the metal to the highest level in more than three years, flooding the Asian market with supplies at a time when producers such as South Korea's POSCO are grappling with thinning profits.

Europe used to soak up most of China's steel exports, but the region's protracted debt woes have forced producers like Baoshan Iron & Steel to turn their shipments to destinations closer to home. The wave of cheap Chinese exports has fuelled price undercutting among Asia's top mills, which are expected to report profit slumps for the three months to June.

POSCO, backed by billionaire investor Warren Buffett, is expected to see its operating profit fall by a third from a year ago, analysts say.

"Before, China was exporting 2 million tonnes per month and now it is suddenly 5 million tonnes. Given that domestic demand in their respective countries is already not particularly strong, they (local steel producers) are clearly afraid," said Helen Lau, a commodities analyst at UOB-Kay Hian in Hong Kong.

"China will continue to export at a high rate for the rest of the year. I understand they (the Chinese steel mills) are making very little money from exporting, but it is still better than closing down their plants and laying off their staff."

China boosted first-half exports of the metal used in cars and construction to 27.26 million tonnes, the highest for a six-month period since 2008, as domestic consumption ebbed and inventories ballooned.

Traders say stockpiles of steel products in major Chinese cities have surpassed 15 million tonnes -- enough to build around 350 of Beijing's National Stadium, also known as the Bird's Nest Stadium because of its striking design.

Newly-started property construction in China slumped 16.3 percent in June from a year earlier, extending the 4.6 percent drop in May and cutting demand for steel.

The supply glut will likely overshadow any hopes of Beijing's policy action to stimulate an economy that is growing at the slowest pace in more than three years, signalling that the ailing sector has yet to find a bottom, analysts say.

FEATURE

Graphic: China steel trade

http://link.reuters.com/sec59s

Graphic: Share prices of Asian steelmakers

http://link.reuters.com/qec59s

POSCO, NIPPON STEEL

With South Korean imports from China rising, POSCO had to cut prices to maintain its market position, further eroding its earnings, Chinese traders say.

POSCO's domestic prices of hot-rolled coil may decline further in the third quarter to 816,000 won ($710) per tonne after falling 11 percent in the second quarter from a year earlier, according to estimates by Woori Investment & Securities.

POSCO, which will kick off the earnings season for major Asian steelmakers on July 24, is expected to post a second-quarter operating profit of 1 trillion won. That, however, would be an improvement from the preceding three months thanks to lower raw materials costs.

POSCO's dominant position in the domestic market, along with its cost competitiveness, will help the world's No.4 steelmaker post better margins than its overseas peers.

Nippon Steel , the world's No.6 steelmaker, is forecast to report a fall in recurring profit of almost 40 percent to 35.05 billion yen ($442.5 million) for April to June.

Still, a weaker yen would have helped improve its profit from the preceding three months when Nippon Steel, the country's largest steelmaker, booked its worst quarterly profit since the Lehman crisis in 2009.

Nippon Steel, which is to merge with Sumitomo Metal Industries on Oct. 1, will unveil its outlook for the six months ending Sept. 30 on July 30.

JFE , Japan's second-biggest steelmaker, may announce a smaller quarterly profit decline compared with Nippon Steel because of increased exports, analysts say.

JFE is expected to announce a 3 percent drop in recurring profit to 24.65 billion yen on July 26. The company will also release its full-year earnings outlook.

CHINESE STEEL

Some large Chinese steel companies have warned of losses for the first half due to tepid demand and declining prices. Angang Steel Co Ltd estimated a net loss of around 2 billion yuan ($313.96 million).

Steel demand in China has started to wane in the second quarter, with prices down 6 percent in June compared with early April.

"The market environment is tough and unclear for steelmakers," said Shinya Yamada, an analyst at Credit Suisse.

"The steep fall in prices has stopped in China, thanks to the government's stimulus measures, but they are not powerful enough to support the sagging market."

China's biggest listed steelmaker, Baoshan Iron & Steel, may still surprise analysts with better-than-expected results, after it sold its loss-making special steel and stainless steel assets to its parent in the second quarter. The company previously said the deals may boost its first-half profit by as much as twofold compared with a year earlier.

Baoshan will cut August prices of its main products by 4.6 percent to 5.6 percent, after its first reduction in 2012 this month, suggesting the company still lacks confidence in the market near term.

"With slowdown concerns in China heightening and raw material cost pressures easing, we expect steel prices to correct further in FY2012-13. Operating margins will remain under pressure," brokerage Motilal Oswal said in an earnings preview note to clients earlier this month.

India's Tata Steel , the world's No.7 steelmaker, is forecast to report a nearly 90 percent profit drop in the quarter ended June 30 on weak prices and slack sales at its European unit Corus, which accounts for most of its global capacity of 27 million tonnes.

Steel Authority of India Ltd , which is the largest steel producer in the country but trails Tata Steel by global capacity, is expected to report better sales volumes and improved margins because of lower prices of coking coal compared with a year earlier.

GENERAL NEWS

Miner Freeport's quarterly profit down but beats Street

July 19 (Reuters) - Freeport-McMoRan Copper & Gold Inc's second-quarter profit topped Wall Street estimates on Thursday and the company announced several mine expansions to boost its copper production by 25 percent in the next three years.

It also said its vast Grasberg mine in Indonesia is returning to normal production after a crippling strike last year and chief executive Richard Adkerson expressed confidence that Freeport's contract to operate in that country would be extended after a review by the Jakarta government.

Freeport's stock rose 5 percent to $34.70 in afternoon trading on the New York Stock Exchange.

"Copper markets remain relatively tight," as inventories have dropped and there is weak economic demand in many parts of the world for the metal which is used in wiring and construction, Adkerson told analysts on a conference call.

"With all of the negative comments about the world's economic situation, to have copper at $3.50 (per pound) I think is notable and the outlook for copper we believe is very positive," he said.

The company also said it planned to increase copper production by 25 percent over the next three years through development of brownfields - projects near existing mines.

In particular, Adkerson said he expected to boost copper production from the Americas from 2.4 billion pounds in 2010, to 3.5 billion pounds in 2016, through expansion of projects at Cerro Verde, Peru and Morenci, Arizona.

Tenke Fungurume, Freeport's cobalt mine in Democratic Congo just started producing copper too, he said, and a planned expansion in the works.

To fund the expansion projects, Freeport boosted its capital expenditure budget this year to $4 billion from $2.5 billion last year and it will rise to $4.5 billion next year, he said.

Adkerson also said the company was in discussions with the Indonesian government which is currently reviewing all mining contracts in the country, including Freeport's for the vast Grasberg open-pit and underground mine.

"Our existing contract provides for extension from 2021 to 2041," he said. "We're committed to working with the government...and I'm confident we'll find a way of coming forward with a completion of this review and extension of our contract in a way that will be well-received both by the government and the people of Indonesia and by our shareholders."

Adkerson said Grasberg, which lost a significant amount of output last year during a strike, was almost back to normal operation.

In its second-quarter earnings release, Freeport said net earnings were $710 million, or 74 cents per share, compared with $1.4 billion, or $1.43 per share in the same quarter of 2011.

Excluding charges for environmental obligations and related litigation reserves totaling $53 million or 6 cents per share, the company earned 80 cents per share, on which basis it beat analyst estimates of 75 cents per share, according to Thomson Reuters I/B/E/S.

Revenue fell to $4.48 billion from $5.81 billion, as the average copper price it received fell to $3.53 per pound from $4.22 a year earlier. Its realized price for gold rose to $1,588 per ounce from $1,509 in the year-ago quarter, but the molybdenum price dropped to $15.44 per pound from $18.16.

"They were hurt by the copper price which they can't control," said analyst Charles Bradford, of Bradford Research in New York. "But it was a good quarter and they gave terrific outlook for projects ahead."

Freeport said consolidated sales from its mines in Indonesia, South America, Democratic Congo and the southwestern United States totaled 927 million pounds of copper, 266,000 ounces of gold and 20 million pounds of molybdenum. That was down from 1.0 billion pounds of copper, 356,000 ounces of gold and 21 million pounds of molybdenum in the second quarter of 2011.

The company said consolidated sales for 2012 are expected to be about 3.6 billion pounds of copper, 1.1 million ounces of gold and 81 million pounds of molybdenum. That is down slightly from its previous estimate by about 85 million pounds of copper and 60,000 ounces of gold.

During the second quarter, Freeport's Climax molybdenum mine in Colorado began commercial production, which is expected to ramp up to a rate of 20 million pounds per year during 2013.

China's waning commodities appetite puts miners' fortunes at risk

SINGAPORE/SHANGHAI, July 19 (Reuters) - Slowing Chinese growth could create a global surplus of copper and iron ore supplies in 2013, hurting mining giants that may also find future demand for raw materials expanding more slowly than the economy as China reduces its dependency on infrastructure spending.

China is the world's second biggest economy, using the most copper, aluminium, iron ore, steel and coal and the second-largest consumer of oil. Chinese demand has fuelled commodity market rallies for a decade and created a bonanza for many of the countries and companies that supply it.

But after almost a decade of growing at about 10 percent a year, the economy is slowing, reined in by softening domestic demand and the financial and economic woes of its top two trading partners, the European Union and the United States.

Gauging the extent of the slowdown is crucial for the miners and producers whose expansion plans depend on China soaking up additional supplies.

GENERAL NEWS *(Continued)*

For every percentage point China's economic growth rate slows, the value of its industrial commodity demand falls by about $10 billion, according to Reuters calculations based on GDP and consumption growth over the last six years.

The calculations do not factor in changes in inventories.

BHP Billiton , the world's biggest miner, and rivals such as Rio Tinto are already feeling the pain from falling iron ore prices due to slackening Chinese demand. Prices will fall more if supply exceeds demand.

"We are expecting a supply glut from 2013 due to slower demand increase in China and more supply from Australian suppliers driven by huge investments during the past two years," said Daiwa Capital Markets analyst Jiro Iokibe.

China's GDP and commodity demand:

http://link.reuters.com/xam49s

Daiwa is one of a growing number of analysts forecasting a surplus next year, a little earlier than the previous consensus for a surplus to develop in 2014.

Benchmark iron ore prices are at around $128 on Thursday, the lowest since November 2011 and down over a quarter f r om a year-ago as Chinese steel mills cut stocks of their raw material.

The price is still nearly four times the production cost for miners in Australia, who continue with aggressive spending to build capacity.

"Global miners have yet to adjust to the overcapacity and are still rushing to sell into China because they are still able to profit at current levels," said Helen Lau, senior commodities analyst at brokerage UO B -Kay Hian.

Rio said this week sales of its iron ore fell slightly short of its flat June quarter output, and is still planning to spend $3.7 billion on expanding its Australian capacity by another 25 percent.

BHP also posted strong growth in iron ore production in the June quarter, and said it expects to lift Australian iron ore output by 5 percent in the 2013 financial year despite the risks of weakening Chinese demand.

China's slowing consumption will also throw copper markets into surplus next year, a Reuters polls showed.

The mean estimate from analysts polled was for a tiny surplus of 9,000 tonnes, but that could widen further if Chinese growth disappoints this year.

China consumes around 7.6 million tonnes of refined copper annually, and every percentage point less growth equates to around 64,000 tonnes less demand.

WHITE KNIGHT NO MORE

At 7.6 percent, China's GDP growth in the second quarter was its weakest in over three years and prospects for the rest of the year are unclear. The government target for 2012 is 7.5 percent, after registering expansion of 9.2 percent in 2011.

A one percent slower growth rate equates to 80,000 barrels per day (bpd) less oil demand, as well as about 22 million tonnes less coal. That is 15 very large crude carriers of oil, and over 200 typical shipments of coal.

While those declines are small compared to China's total demand -- it consumed around 9.5 million bpd of crude in the first six months of the year and coal demand was over 3 billion tonnes in 2011 -- they have the potential to make a big difference to the physical markets which set benchmark prices.

China burns coal for about 80 percent of its power generation, and buyers are deferring or defaulting on purchases as industrial output growth slows. Declining demand combined with strong output has pushed global prices to two-year lows.

"China is no longer the white knight for commodities, at least in the very short term," said Vishnu Varathan, market economist at Mizuho Corporate Bank, adding that weak property and construction sectors could slow the economy further.

LESS IS NOW MORE

China is becoming less dependent each year on raw material consumption to fuel growth as its economy develops.

The volume of commodities China consumed in relation to GDP peaked in 2003-2005 when the economy was booming on strong exports and huge infrastructure spending, said Henry Liu, chief commodities analyst at Mirae Asset Securities.

"But as Beijing remodels its economy to be less investment intensive and more consumption-orientated, there will not be a repeat of that boom in the foreseeable future," he said.

For every $1,000 of GDP, China consumed 135 kilograms of iron ore last year, down from 236 kg in 2006. Energy efficiency has also improved, with oil demand per $1,000 of GDP falling to under half a barrel in 2011 from over one barrel in 2005.

China has previously taken advantage of a decline in commodity prices to build stockpiles, so a softening in the markets triggered by a flagging global economy may whet China's appetite. That, in turn, would cushion the impact on prices of the slowdown.

What is clear, however, is that there will be no return to China's 2008-2009 stimulus-inspired commodities shopping spree.

"When enough bridges, railways, highways, and basic urban infrastructure have been built around each person, it will be difficult to keep finding more things to build," Credit Suisse analyst Trina Chen said in a report.

Lower metal prices dent Boliden Q2 profit

STOCKHOLM, July 19 (Reuters) - Sweden's Boliden posted lower-than-expected second-quarter earnings on Thursday as weaker metals prices hit profitability at both its mining and smelting business, eclipsing a firm rise in sales volumes.

GENERAL NEWS *(Continued)*

Boliden's pretax earnings fell to 714 million Swedish crowns ($102.82 million) from 1.08 billion a year earlier to come in below the mean forecast of 923 million seen in a Reuters poll of eight analysts.

The company, among the world's ten biggest zinc producers and a top copper producer in Europe, said that while production rose at its mines and smelters and currency swings worked in its favour, lower metal prices and rising costs weighed heavier.

"The quarter was characterized by a relatively high production, especially in Mines, but also by lower metal prices," it said in a statement.

"We have not seen any major changes among our industrial customers, mainly located in Northern Europe. Boliden's sales remain strong, but we share the market's concerns regarding the future development."

The company, whose main products are copper, zinc and lead, as well as gold and silver, was boosted by robust metal prices at the start of the year but has seen a global slowdown stemming from the euro zone debt crisis eat away at prices since then.

Boliden, an operator of mines and smelters in Sweden, Finland, Norway and Ireland, said copper and zinc prices were down 14 percent in dollar terms in the second quarter compared to a year earlier while prices for lead had tumbled 23 percent.

Revenues at the group, which unveiled plans for an expansion of its flagship Aitik copper mine in northern Sweden in May, rose to 10.4 billion on the back of stronger volumes from a year-ago 9.9 billion to beat the average 9.5 billion forecast by analysts.

TRADING PLACES

SEC extends review period on JPM's copper ETF plan

NEW YORK, July 19 (Reuters) - The U.S. Securities and Exchange Commission has extended the consultation period on JP Morgan Chase & Co's controversial plan for an exchanged-traded fund (ETF) physically backed by copper amid mounting opposition from U.S. consumers of the metal.

In a notice issued late on Thursday, the regulator asked for more feedback from the U.S. bank that has pushed to launch the fund for almost two years and from copper fabricators and Red Kite, a major hedge fund and physical trader, who have opposed the product, claiming it would disrupt supply and inflate prices.

Opponents to the JPM XF Physical Copper Trust have 30 days after publication in the Federal Register -- the official publication for SEC rulings -- to respond to a string of issues raised by the regulator. The ruling is expected to be published officially next week.

Anyone wishing to file a rebuttal to those submissions then has 15 days to respond, it said, taking the next deadline to mid-September.

Until now, NYSE Arca, the exchange on which shares in the fund would be listed, has responded to complaints about the fund, saying it would be too small to have a major impact on the global market.

The lawyer representing a consortium of U.S. copper fabricators and Red Kite who have launched a strenuous attack on the plan, welcomed the move.

"We are pleased the agency seems to have taken our concerns seriously," Robert Bernstein, attorney with law firm Vandenberg & Feliu LLC, told Reuters following the ruling.

The SEC did not say when it would make its next ruling, but its final decision is likely to stand as a benchmark for other funds in the works.

BlackRock Inc has filed plans for a similar, larger fund that has also drawn the ire of end users.

A spokesperson for JPMorgan declined to comment on the ruling.

LONG-RUNNING SAGA

The SEC's decision to prolong its review comes after opposition to the fund escalated in the week ahead of Thursday's deadline for a ruling.

U.S. Senator Carl Levin, a Michigan Democrat, weighed into the debate earlier this week, claiming the fund would cause a boost-and-bust cycle in the copper market.

Thursday's ruling is the latest development in a long-running saga that has split traditional industrial consumers who use copper in everything from air conditioning units to cars and banks who want to attract retail customers seeking exposure to the potentially lucrative copper market.

By allowing investors buying shares in a fund that is backed by physical metal as collateral, the ETF is aimed at making copper, often considered complicated and risky commodity, accessible to smaller players, JPM said in its first filing for the fund in October 2010.

Investors in turn get exposure to copper prices, which have more than doubled in value in the past seven years. The rally has been largely driven by China's emergence as the world's largest metals consumer, attracting a new breed of investor in the speculative and hedge fund community.

TRADING PLACES *(Continued)*

HOARDING

Opposition to the funds has focused on the impact on the traditional end user in North America.

Most of the 180,000 tonnes of copper that would be used as security against shares in the two funds would likely be bought in the United States, where the metal is cheapest.

JPMorgan's fund would store LME brand-approved copper valued at up to $499,761,150 -- equivalent to about 62,000 tonnes based on a copper price of $8,000 per tonne, while BlackRock's iShares Copper Trust would use up to 121,200 tonnes of copper as guarantee against shares in its fund.

Those tonnages combined are insignificant in a 20 million tonne global market, but they have worried U.S. fabricators because it accounts for the majority of the metal available in U.S.-based exchange-bonded warehouses.

The NYSE Arca has defended JPMorgan's plans, saying concerns that it will cause a market bubble are "speculative and misplaced", noting the small size of the funds.

JPMorgan is expected to launch its fund with an initial value of $75 million, representing a little more than 10,000 tonnes, and will only build up stock if there is demand for the product, NYSE Arca has said in response to objections.

MARKET NEWS

Some Codelco contractors to strike, firm says output safe

SANTIAGO, July 19 (Reuters) - Around 500 contract workers at three of world No. 1 copper producer Codelco's massive northern deposits will strike on Friday, the national federation of contract workers said, but Codelco said the unrest won't affect output.

The contractors work in Chuquicamata's smelter, acid plant and refinery, and in Radomiro Tomic and Ministro Hales' maintenance areas, the federation added. "This won't have any effect," a Codelco spokesman told Reuters on Thursday. "We're taking measures to replace them without any difficulty."

Century-old Chuquicamata produced 443,000 tonnes of copper last year and the promising Radomiro Tomic mine produced 470,000 tonnes. Ministro Hales is scheduled to start operations next year.

World-leading copper producer Chile has in the past years been hit by a series of labor actions encouraged by record prices for the red metal .

Talks with the Metalcav contract workers broke down over demands for larger salary increases and heftier bonuses to end strikes, the federation said in a statement.

The head of a local contractor union, Jose Mardones, told Reuters they would request government monitoring to "block the replacements."

Early on Thursday morning, other union leaders blocked access to Chuquicamata's "industrial areas" for three hours, Codelco said. Police forces had to be called in to free up access.

The labor action didn't affect output, according to the firm.

Japan copper cable output up 1 pct in June on reconstruction demand

TOKYO, July 20 (Reuters) - Japan's copper cable and wire output rose in June from a year ago, the second straight monthly gain on demand for reconstruction materials after last year's massive earthquake and to feed a jump in domestic car sales.

June output rose 1 percent from a year ago to an estimated 57,300 tonnes, the Japanese Electric Wire and Cable Makers' Association said on Friday, on track to meet a production target of 695,000 tonnes for the year to March 2013.

That compares to the pre-Lehman crisis level of 800,000 tonnes.

Demand from the construction sector, which account for nearly 40 percent of the total, rose 3.3 percent to 23,600 tonnes, while that of carmakers surged 36 percent to 7,100 tonnes from disaster-hit lows last year following the March earthquake.

Domestic new car sales in the period from January to June jumped 54 percent from a year earlier to 2.95 million units, buoyed by government subsidies for environmentally friendly cars, the highest in six years.

But Europe's credit crunch and a deceleration of the global economy weighed on global demand, curtailing Japan's copper cable exports by nearly 40 percent to 1,200 tonnes.

Demand from electric power companies declined 22 percent to 4,500 tonnes in June as utilities cut back on capital outlays following the Fukushima nuclear disaster, which forced them to turn off many nuclear power plants and rely heavily on costly fossil fuel.

In the year ended March 2012, demand from power utilities plunged 13 percent to 61,400 tonnes, the lowest since 1963.

China's Wuhan Steel Group slashes profit target

SHANGHAI, July 20 (Reuters) - China's Wuhan Iron & Steel Group has nearly halved its profit target for this year, a newspaper reported on Friday, providing further evidence that the world's largest steel industry is unlikely to see a significant pick up in demand later this year.

With little prospect of a recovery in steel demand as the world's second-biggest economy cools, China steel futures hit contract lows this week, while spot iron ore prices have also sagged to their weakest since November.

MARKET NEWS *(Continued)*

The company, group parent of Wuhan Iron & Steel , is slashing its profit target to 1.6 billion yuan ($251.04 million) from 3 billion yuan for this year, after making 3.5 billion yuan of profit last year, the 21st Century Business Herald said, citing president Deng Qilin.

Wuhan Steel Group, China's fourth-largest steel producer, earned 98.9 billion yuan of revenue in the first half, the paper added.

A number of Chinese steel mills have fallen into the red in the first half or seen net profit more than halved due to tepid demand and sharp decline in prices.

State-owned Hebei Steel said its fist-half profit fell 60-90 percent from a year ago, while Angang Steel Co Ltd estimated a net loss of around 2 billion yuan.

ILVA steel plant needs to decide fate by July 26 - source

MILAN, July 19 (Reuters) - The owners of ILVA, one of Europe's biggest steelworks and facing pressure to close because of pollution problems, have until July 26 to accept an agreement on potential public funding for a clean up, a source close to the situation told Reuters.

"The scope of the agreement is a plan that involves ILVA in a way that is voluntary and shared, to reconcile the environment with economic growth," the source said on Thursday.

The government had said on Thursday talks with Riva Group, ILVA's owners, would focus on measures for an environmental restoration of the area in Taranto, in southern Italy's heel. That followed a meeting between government officials and local representatives including the mayor of Taranto, Ippazio Stefano.

ILVA, which employs around 12,000, has made headlines since a study requested by local magistrates linked 386 deaths among the local population to ILVA fumes over 13 years.

The majority lived in two low-income neighbourhoods close to the plant. The study also showed a higher-than-average number of tumours among ILVA workers.

Puglia's regional government passed a law a few days ago that, aside from carrying out analysis on the cost of damages to health in the area and setting limits on emissions, reserved 100 million euros ($123 million) for environmental projects.

The law said factories whose emissions were above a certain level and did not implement recommended changes risked closure.

The source compared the potential agreement on ILVA with previous agreements involving Marghera and Trieste, adding that "within a few months investments and projects would be unblocked".

"Finally everyone has realised the need to speed up the initiatives so Taranto can keep the largest steel factory in Europe," said Marco Bentivogli, national secretary for the country's metalworkers' union.

India clears $750 mln share sale in state steelmaker

NEW DELHI, July 19 (Reuters) - Indian ministers said they had approved a long-delayed share sale in state-run Steel Authority of India Ltd (SAIL) , paving the way for the government to off-load up to 10.82 percent of the company.

The sale would fetch about $750 million at Thursday's little changed close of 93.40 rupees in a firm Mumbai market.

The ministers on Thursday gave no time limit for the sale, which has been pending for 18 months, but an offering is unlikely soon given weak market conditions.

The government had earlier proposed selling 10 percent of the steelmaker along with an issue of 10 percent fresh equity by the company.

The state holds 85.82 percent but, according to market regulator rules, must reduce this to 75 percent by June 2013.

SAIL, India's largest steelmaker, is in the midst of raising its capacity by 10 million tonnes to 24 million by 2013.

India plans to raise 300 billion rupees ($5.4 billion) by next March by selling stakes in 15 state-run firms to help plug a yawning gap in the fiscal budget but poor market sentiment has held back divestments.

The pipeline includes share sales in SAIL, miners NMDC and Hindustan Copper and power equipment maker Bharat Heavy Electricals .

A 10 percent divestment in steelmaker Rashtriya Ispat Nigam Ltd, expected to raise about $200 million, has missed its early-July deadline due to unfavourable market conditions.

Japan Q2 crude steel output highest in 5 quarters

TOKYO, July 19 (Reuters) - Japan's crude steel output rose on an annual basis in the April-June quarter for the first time in five quarters, as robust car output bolstered the sagging sector, but a strong yen currency and slowing car sales cloud the outlook for the third quarter.

Crude steel output in the second quarter rose 4.3 percent on the year to 27.5 million tonnes, a level not seen since the January-March quarter of 2011, the Japan Iron and Steel Federation said on Thursday.

Japan suffered its worst earthquake on record in March last year, which, together with a tsunami and nuclear crisis that followed, wreaked havoc on its economy and left 19,000 people dead or missing.

Domestic car production surged from disaster-hit lows last year, buoyed by government subsidies for environmentally friendly cars, while the yen's brief respite to a year-high of 84 yen at the end of March helped prop up exports during the quarter.

But the government has almost consumed the budget and is about to end the subsidies.

MARKET NEWS *(Continued)*

The industry body also expects a deceleration of the Chinese economy to take a toll of the region's economy, stepping up competition in export markets and slowing demand in other emerging markets in Asia.

"We face deterioration in market conditions both in the domestic and export markets in the following quarter," a Federation official, in charge of statistics, said on Thursday.

Speaking to reporters on Wednesday, Federation chairman Hiroshi Tomono said, "We're bracing ourselves for a backlash of the strong car output in the first half that will come later this year."

Domestic new car sales in the period from January to June jumped 54 percent from a year earlier to 2.95 million units, the highest in six years.

Crude steel output in June rose 3.5 percent from a year earlier to 9.2 million tonnes, aided by a rise of 8.7 percent in the output of electric-furnace steel makers, which produce construction steel.

It was a fourth consecutive annual gain, but June output fell 0.3 percent from May before seasonal adjustment.

Demand for long products is solid because of ongoing large development projects in the Tokyo area, the federation official said.

Output of steel sheets by blast furnace steelmakers such as Nippon Steel Corp and JFE Steel Corp for use by manufacturers slipped 1.1 percent in the first decline in four months, as the yen resumed its advance against the U.S. dollar.

Japan's trade ministry estimates crude steel output in the July-September quarter at 27.1 million tonnes, based on a survey of steelmakers and inventory levels at the end of June.

It expects a decline in Asia's steel market to curtail exports 1.9 percent from the previous three months. Domestic passenger car production surged 60 percent from a disaster-hit low last year to 781,340 units in May. On March 11 last year, Japan's northeast coast was struck by a magnitude 9 earthquake, and a massive tsunami that triggered the world's worst nuclear crisis since Chernobyl 25 years ago.

S.African union threatens strike at ARM's nickel mine

JOHANNESBURG, July 19 (Reuters) - South Africa's National Union of Mineworkers (NUM) said on Thursday it was preparing to strike at Nkomati, a nickel mine jointly owned by African Rainbow Mineral's and Russia's Norilsk .

The largest mining union in South Africa has declared a dispute with the mine owners over wages and NUM's Regional Secretary in North East, William Mabap, said it would not hesitate to call a strike.

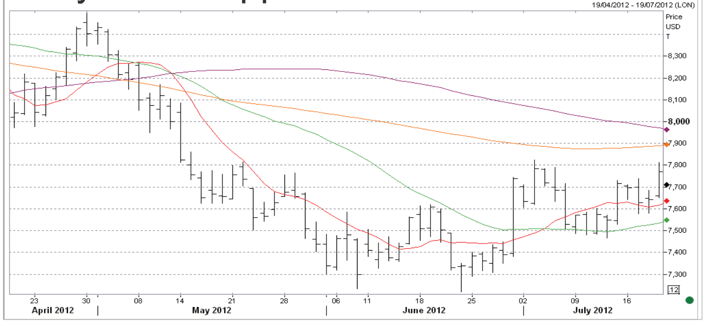
A three-week strike at African Rainbow Minerals' joint venture with Anglo American Platinum at Modikwa Platinum mine in April cost the mine 21,000 ounces in lost production.

This equated to 6 percent of the mine's 350,000-ounce annual platinum group metal production. Nkomati mine is situated in Machadodorp in Mpumalanga and produced 10,100 tonnes of nickel in 2011.

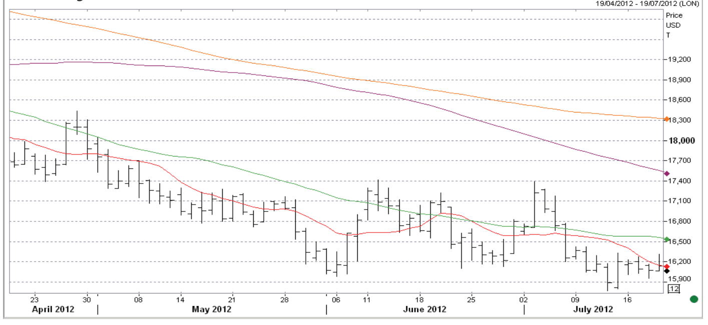
ANALYTIC CHARTS *(Click on the charts for full-size image)*

Daily LME Aluminium 3-months

Daily LME Copper 3-months



Daily LME Nickel 3-months



Daily LME Zinc 3-months

Daily LME Lead 3-months

Daily LME Tin 3-months

Daily LME Alloy 3-months

Daily LME Nasaac 3-months

MARKET REVIEW

METALS-LME copper holds near 2-week top on China stimulus hope

SHANGHAI, July 20 (Reuters) - London copper prices edged up on Friday, holding near a two-week high hit in the previous session on hopes of more steps by top consumer China to boost its economy after Beijing's comments on jobs creation.

But gains are likely to be capped by China's warning against relaxing curbs on the property sector, favoured by many investors as a quick way to boost domestic consumption, and by weak U.S. data underscoring a fragile U.S. economic recovery.

Three-month copper on the London Metal Exchange edged up 0.1 percent to $7,740 per tonne by 0421 GMT after touching a high of $7,813 per tonne on Thursday, its highest since July 3. It is on track to post a rise of 0.5 percent on the week in its second such increase in a row.

Many investors are betting on new Chinese stimulus measures this weekend after Premier Wen Jiabao said Beijing needed to step up efforts to create jobs.

"We can't rule out the possibility of Beijing rolling out more monetary easing or investment policies soon, which will push base metals prices higher," said consultancy CRU Group analyst Wan Ling.

The most active November copper contract on the Shanghai Futures Exchange fell 0.2 percent to 56,130 yuan ($8,800) per tonne, pushed down by Shanghai equities.

Shanghai copper is on track for a 1.2 percent weekly gain.

"With Shanghai equities down, some Chinese investors may have cut positions in metals to cover losses. This is especially since there isn't any really positive news to sustain prices," a Shanghai-based trader said.

Further weighing on sentiment was a firm reminder by Beijing to local governments to keep clamping down on property speculation, underlining official concerns about renewed inflationary pressures even as the broader economy slows.

"The government's latest comments on property purchase curbs dashed the hopes of those who were looking for a reversal on current restrictions, which will likely boost metals demand from construction and household appliances," said CIFCO Futures analyst Zhou Jie.

Worries over a slowdown in the U.S. economy are also expected to cap session gains, after data showed factory activity in the Mid-Atlantic region contracted in July for a third straight month and that new claims for jobless aid surged last week.

This is despite a spot of good news from the euro zone, where German Chancellor Angela Merkel easily won a parliamentary vote on a euro zone rescue package for Spanish banks on Thursday, and from Japan, where a poll showed big manufacturers' outlook improving slightly in July.

In industry news, the U.S. Securities and Exchange Commission extended the consultation period for its deliberations on JP Morgan Chase & Co's controversial plan to launch an exchanged-traded fund (ETF) physically backed by copper, after copper users voiced their opposition to it.

U.S. miner Freeport-McMoRan Copper & Gold Inc said its Grasberg mine in Indonesia was returning to normal production after a crippling strike last year. The company also said it planned to increase copper production by 25 percent over the next three years by developing brownfields -- projects near existing mines.

Around 500 contract workers at three of world No. 1 copper producer Codelco's massive northern deposits will strike on Friday, the national federation of contract workers said, but Codelco said the unrest would not affect output.

PRECIOUS-Gold steady on weak US data; dollar weighs

SINGAPORE, July 20 (Reuters) - Gold hovered near $1,580 an ounce on Friday as investors clung onto hopes for more monetary easing from the U.S. central bank after weak data in the previous session, but a dollar rebound would likely cap gains.

The latest data showed factory activity in the U.S. Mid-Atlantic region contracted in July for a third straight month and new jobless claims surged last week.

Earlier in the week, Federal Reserve Chairman Ben Bernanke said the Fed is ready to take action if economic conditions worsen, but gave few hints on another round of quantitative easing, which would boost gold's appeal on a higher inflation outlook.

Bullion has been trapped in a range between $1,530 and $1,630 for about two months as investors await a clear signal from the Fed and watch the euro zone struggling with its debt crisis, now in its third year.

"Range is contracting these days, and I don't see much encouragement for people to have a big position," said Yuichi Ikemizu, head of commodity trading, Japan, Standard Bank.

Spot gold traded little changed at $1,582.25 an ounce by 0323 GMT, on course for a weekly loss of about 0.5 percent. The contract gained half a percent in the previous session.

U.S. gold futures for August delivery inched up nearly 0.1 percent to $1,581.90.

Holdings of the SPDR Gold Trust , the world's largest gold-backed exchange traded fund, dropped to 1,257.054 tonnes by July 19, suggesting lacklustre investor interest in gold.

TECHNICALS WEAK

Technical signals painted a grim picture for the gold in the near term.

MARKET REVIEW *(Continued)*

"Gold appears to have lost its glimmer," said Tim Riddell, head of ANZ Global Markets Research, Asia.

"Daily momentum is flat/neutral as it languishes in the lower reaches of a $1,555-$1,635 range. The near term inability to regain levels above $1,600 will keep bias towards retesting the base of this range."

Riddell said though strong support has been built in the $1,522-$1,525 area, that level may come under severe pressure soon.

"Although any fall below $1,555 is likely to encounter solid support at $1,522-$1,525, bias is to see a flip of the current holding range to the downside for at least a test of $1,475 if not a longer term retracement target of $1,445-$1,447."

FOREX-Euro held back by Spain's woes, near record low vs Aussie

SINGAPORE, July 20 (Reuters) - The euro eased against the dollar and hovered near a record low versus the Australian dollar on Friday, and was seen on shaky ground due to worries about Spain's fiscal woes and as investors hunt for higher yields.

Weak demand at a bond auction pushed Spain's 10-year bond yield above 7 percent on Thursday for the first time in more than a week, intensifying doubts over whether Madrid can avoid a full-blown bailout.

The euro fell 0.2 percent to $1.2253 , staying above a two-year low of $1.2162 hit on trading platform EBS last week.

The single currency held steady against the Australian dollar at A$1.1779 , stuck near Thursday's record low around A$1.1735.

Besides investor jitters over the euro zone's sovereign debt crisis, the euro has taken a hit this month after the European Central Bank lowered the deposit rate, which acts as the floor for euro zone money market rates, to zero.

Also, the fact that two-year bond yields have dipped into negative territory recently in Germany and the Netherlands, two euro zone countries in relatively good fiscal health, has fanned talk about the possibility of a fresh investor shift out of euro zone assets.

Negative yields on such euro zone assets could entice investors who are bearish on the euro's outlook to shift money elsewhere, market players say.

"There is a global trend in which the euro seems like the weakest currency," said Hiroshi Maeba, head of FX trading Japan for UBS in Tokyo, adding that falls in shorter-term euro zone interest rates have further eroded the incentive for holding euros.

"I think we could see this trend in euro/Aussie continue over the longer term," Maeba said, referring to the euro's weakness against the Australian dollar.

The euro has been weighed down against the yen recently due to selling by institutional investors, Maeba added.

The euro declined 0.2 percent against the yen to 96.30 yen . A drop below 95.59 yen would take the euro to its lowest level against the yen since November 2000.

EURO/AUSSIE

The euro has already dropped roughly 10 percent versus the Australian dollar compared with a peak of A$1.3028 hit in May.

The euro may still fall even further, said Jesper Bargmann, head of Asia G11 spot FX for RBS in Singapore.

"I think there is a bit of a theme going on, and the biggest single mover is central bank reserve diversification out of the euro, and into especially Aussie," Bargmann said.

"I do think we can carry on lower...As a macro trade it's got everything going for it," Bargmann said.

The potential for another round of quantitative easing from the U.S. Federal Reserve may help support commodities and the Australian dollar, while the euro should continue to stay weak due to concerns over the euro zone's debt crisis, he added.

The ECB deposit rate cut and subsequent drop in money-market rates has also stirred talk of euro-funded carry trades, i n which investors effectively borrow low-yielding currencies to invest in higher-yielding currencies and assets.

"The euro is being viewed as a funding currency and there are increasingly active moves on the back of that," said a trader for a major Japanese bank in Bangkok.

Still, economic conditions do not seem to favour the carry trade as much as they did around 2005 to 2007, when the yen was the funding currency of choice and the global economy enjoyed a period of stable growth, said Satoshi Okagawa, senior global markets analyst for Sumitomo Mitsui Banking Corporation in Singapore.

"Economic conditions are weak compared to the heyday of the carry trade. What's clearly different compared to then is that the global economy now seems to be headed downwards," he said.

The dollar rose 0.1 percent versus the yen to 78.60 yen , but was still near Thursday's six-week low of 78.42 yen.

(Inside Metals is compiled by Shruthi G in Bangalore)

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