INSIDE METALS

Tuesday, July 23, 2013

CHART OF THE DAY

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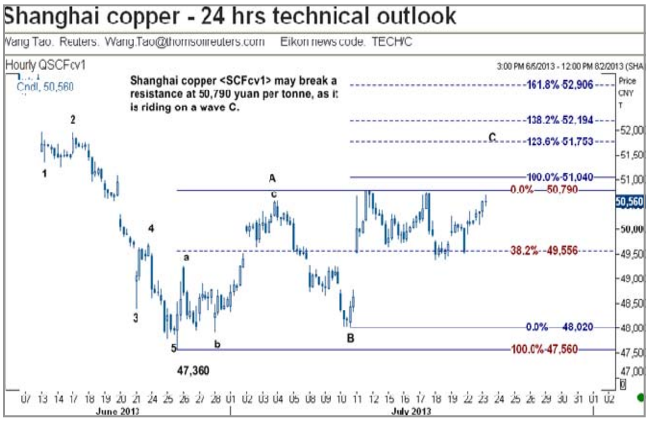

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FEATURE

COLUMN-Aluminium; parallel universe or the same one?

China's production of aluminium cranked up several gears last month to an annualised 22.42 million tonnes. It was the second-highest run-rate ever, eclipsed only by what may have been a holiday-distorted output figure in February.

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

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TODAY'S MARKETS

BASE METALS: London copper slipped as traders took profits from a one-month peak hit the session before, but steady buying from top consumer China kept a floor under prices.

China's central bank removed controls on bank lending rates, effective Saturday, in a move which was seen as signalling the new leadership's determination to push market-oriented reforms and helped to fuel a rally on Monday.

"It's more symbolic than having a real impact ... but sentiment wise it did have impact," analyst Dominic Schnider of UBS Wealth Management in Singapore said.

PRECIOUS METALS: Gold rose for a fourth straight day hovering near a one-month high hit in the previous session, boosted by a weaker dollar and strong buying from China.

Gold has recovered nearly $160 from a three-year low of $1,180.71 an ounce, hit on June 28, after the U.S. Federal Reserve said it would only start phasing out its stimulus once it is sure the economy is strong enough to stand on its own.

"People are more confident that the downside risk has subsided just a little bit. The message from the Fed was not too worrisome as it was before," a Hong Kong-based precious metals trader said.

FOREX: The dollar edged lower in Asia as the slide in U.S. Treasury yields over the past two weeks gave investors less incentive to buy the greenback, while the Australian dollar pared gains ahead of domestic inflation data.

"There are fewer fears of an imminent Fed tapering, and yields on U.S. Treasuries are off their recent highs," said Masashi Murata, senior currency strategist at Brown Brothers Harriman in Tokyo.

FEATURE

COLUMN-Aluminium; parallel universe or the same one?

By Andy Home

LONDON, July 22 (Reuters) - China's production of aluminium cranked up several gears last month to an annualised 22.42 million tonnes. It was the second-highest run-rate ever, eclipsed only by what may have been a holiday-distorted output figure in February.

The world's largest producer churned out 10.54 million tonnes of the light metal in the first half of this year, according to figures from China's Nonferrous Metals Industry Association published by the International Aluminium Institute (IAI).

That represented year-on-year growth of almost 11 percent, pretty much matching last year's pace.

Annualised production jumped by 1.63 million tonnes in June alone. Although China's monthly production figures can be volatile, there is no denying the direction of the trend.

And this from a country where, to quote from U.S. producer Alcoa's quarterly conference call, some 41 percent of all smelters may be financially "under water".

The problem, Alcoa chairman and chief executive Klaus Kleinfeld complained, is that China's aluminium smelter sector is "living on a different universe".

The real problem for the likes of Alcoa, though, is that so too are many smelters in the rest of the world.

THE CHINA DYNAMIC

High-cost smelters have indeed been closing in China, just not at the same rate as new capacity has been ramping up in northwestern provinces such as Xinjiang.

Analysts at AZ China, which specialises in the Chinese aluminium smelter sector, estimate that somewhere close to two million tonnes of annual capacity may have been curtailed over the first six months of this year.

That should give some perspective on the scale of the build-out taking place in the northwest, where a new generation of aluminium producer is capitalising on stranded coal reserves for the supply of energy, the key cost input for making the metal.

AZ China estimates that about five million tonnes of new capacity is going to come on line in China this year, although it will not necessarily translate into that amount of metal because big smelters need time to build up to full-capacity run-rates.

But even as those newer, lower-cost smelters come on stream, many older higher-cost plants in China's central and eastern provinces continue to defy cost-curve economics.

They can do so largely because of a helping hand from local governments, which don't want to see major contributors to GDP and taxes disappear into oblivion.

Yet again there is talk of widespread power subsidies.

Indeed, Guizhou province has successfully petitioned Beijing for a fundamental change in the way some of its smelters buy their power.

Although many smelters have their own power plants, the price of the electricity has to be mediated through sales to the grid.

No longer in Guizhou, though. Producers there will be allowed to build three new power plants to directly supply their smelters, effectively cutting the cost of power by around a quarter and the cost of aluminium production by around 10 percent.

It remains to be seen whether this is a template for hard-pressed smelters in other provinces.

There is also talk that the central government is being lobbied hard to relax some of its export tariffs on aluminium products.

All of which seems to run counter to the recent rhetoric in Beijing about tackling chronic over-capacity in industries such as aluminium.

Beijing itself, though, is trying to walk a fine line between curbing what it terms "blind investment" and triggering a wholesale collapse of a strategic industry.

The net result to date is captured in those first-half production figures, collective closures running behind the curve of the required collective rationalisation.

THE WESTERN DYNAMIC

Alcoa and Russia's UC RUSAL , the two behemoths of western world aluminium production, are also building new lower-cost capacity.

Alcoa's 740,000-tonne per year Ma'aden smelter in Saudi Arabia is currently ramping up, the main current driver of rising output in the IAI's Gulf category.

RUSAL's 588,000-tonne per year Boguchansk smelter is rapidly approaching first-phase start-up.

Both companies have been trimming higher-cost capacity elsewhere in their smelter systems.

RUSAL's 300,000 tonnes of curtailments explain the five-percent drop in output in the IAI's Eastern European category in the first half of 2013.

Alcoa has already mothballed significant capacity in western Europe, where production also dropped five percent in the first half of this year.

It has announced another 105,000 tonnes of capacity will be idled at its Baie Comeau plant in Canada and has a further 355,000 tonnes under active review.

That Canadian closure is due to be completed by August, meaning it's not yet showing in the IAI figures, which are still capturing the return to normal operations at Rio Tinto's Alma smelter after a protracted strike early last year.

FEATURE *(Continued)*

A similar resumption of normal service at BHP Billiton's Hillside smelter in South Africa, by the way, explains why first-half production in the IAI's Africa category jumped 12 percent year-on-year.

DEFYING THE ODDS

Elsewhere, though, aluminium smelters that should close at current prices continue to defy the odds.

Three have been brought back from the brink of closure in the last few weeks.

Management at Bosnian smelter Aluminij Mostar was poised to flick the off-switch before a last-minute intervention by the government. It wasn't a completely unexpected outcome but how the 130,000-tonne per year plant will return to profitability at current prices without significant ongoing subsidy remains to be seen.

A similar government intervention in neighbouring Montenegro has saved the 120,000-tonne per year Podgorica smelter from imminent bankruptcy and looming closure.

Rio Tinto's 146,000-tonne per year capacity Saint Jean de Maurienne plant in France has been producing aluminium since 1907. Burdened with the need to secure a new competitive power contract, likely closure was averted with a somewhat unlikely sale to Germany's Trimet.

The French government appears to have played a key role in brokering the transaction.

But then, as French Prime Minister Jean-Marc Ayrault, who travelled to the plant to conclude the deal, said: "There is no future for France without industry."

Which is presumably what many provincial governments in China would also say about their loss-making aluminium smelters.

The net result of all this is also evident in the IAI's first-half 2013 production figures.

Western world production was reduced by just 73,000 tonnes annualised over the period, a marginal adjustment that may not even reduce the current market surplus let alone help erode the market's huge legacy stocks.

Not such a different universe after all, then?

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

GENERAL NEWS

Japan needs to raise sales tax next year - Finance Min

By Kaori Kaneko and Yuko Yoshikawa

TOKYO, July 23 (Reuters) - Japan must raise its sales tax rate next year as scheduled to show it is serious about fixing up its tattered finances, the finance minister said on Tuesday as the government upgraded its view of the economy and said deflation was easing.

The sales tax is due to rise to 8 percent from 5 percent next April, and then increase to 10 percent in October 2015. Prime Minister Shinzo Abe has said he will decide later this year whether to go ahead with the increase, citing concerns it could weaken the economy.

Finance Minister Taro Aso said delaying the increase would go against commitments made to the G20 group of developed and developing nations that Japan would fix its finances, and said the government could take steps to mitigate any economic impact.

"We need to consider an extra budget. It's better to moderate economic fluctuations (from the tax hike)," Aso told a media conference after a cabinet meeting.

Earlier, the government upgraded its view on the economy for a third straight month, saying deflation was easing and growth was picking up due to massive monetary fiscal stimulus.

Still, plenty of work is needed to repair public finances.

Japan's public debt is the largest among major industrialised nations at more than twice the size of its 500 trillion yen ($5 trillion) economy, and the sales tax hike is considered a test of the government's commitment to reform.

WAIT FOR GDP DATA

Abe, whose ruling bloc won a big victory in Sunday's upper house election, has vowed to push ahead with tough reforms but could face resistance from some in his party.

Some aides and lawmakers are worried the tax rise would weaken the world's third-largest economy just as it appears on the path to end 15 years on deflation. First-quarter data showed Japan was the fastest-growing major economy in the world.

Abe has indicated he would decide on the tax rise in autumn. Aso said the final decision should be based on revised April-June GDP figures released in September, rather than preliminary data due on Aug. 12.

A government report on the long-term fiscal outlook said reforms were essential to maintain market confidence and ensure a sustainable recovery. It also noted that raising sales taxes in Europe did not necessarily damage growth.

In its economic report for July, the government upgraded its assessment of capital spending, factory output and business sentiment, and said there were signs of strength in exports and consumer spending.

GENERAL NEWS *(Continued)*

"The economy is steadily picking up and it shows some movement towards a self-sustainable recovery," the Cabinet Office said. "Recent price developments indicate that deflation is easing."

POLL-Gold set to languish after 2013 price slide

By Jan Harvey

LONDON, July 22 (Reuters) - Analysts have slashed their 2013 gold and silver price forecasts after sharp falls earlier this year and expect them to remain weak in 2014 as the United States reins in monetary stimulus, a Reuters poll showed on Monday.

For the full year, spot gold is expected to average $1,410.75 an ounce, 13 percent below the average forecast of $1,627 at the time of the last Reuters poll in April.

Nonetheless, price views for the second half suggest gold's latest slide may have bottomed out for now after it hit its lowest in nearly three years last month, according to the survey of 30 leading analysts and traders conducted in July.

Hints that the U.S. Federal Reserve will roll back its quantitative easing programme, which helped send gold to record highs in 2011 by keeping interest rates low and stoking fears of inflation, have knocked prices down 21 percent this year.

The April forecast was considered bearish at the time, because it suggested average gold prices could fall for the first time since 2001 from $1,668 an ounce last year.

"In Asia there is still appetite for gold, but Western world institutional investors, we think, will be more interested in other markets," Deutsche Bank analyst Michael Lewis said. "The dollar is going to be a problem, and our bullish equity view will also limit the inflows going into gold."

Analysts' expectations for the metal were knocked sharply lower by a price slide of $200 an ounce over two days in April and a similar-sized drop over two weeks in June.

Nonetheless, the poll suggested gold prices have bottomed out for now and will average $1,310 an ounce in the second half of the year, close to current levels, and remain in the same region next year at an average of $1,331 an ounce.

"It is reasonable to look at the market and say prices where they are now are about right," Nic Brown, Natixis' head of research, said.

"But if we were to get another leg down in the U.S. fixed-income market related to tapering of quantitative easing, if the U.S. economy started to accelerate more aggressively and investors start moving out of gold again, it's easy to see a scenario where we see prices down quite a bit further," he added.

NO SILVER LINING

The average silver price forecast for the full year was cut to $23.82 an ounce from $30.02 an ounce in April. In the third quarter prices are expected to average $20.50, before recovering to $21.00 by the last three months of the year.

In 2014 they are expected to post a decline for a second year to an average of $21.78 an ounce. Although it has a strong industrial demand base, the record prices seen in recent years were driven largely by investors who bought the metal as an alternative to gold.

As gold prices have fallen, silver has also declined, dropping 36 percent so far this year. It is on track for its biggest annual decline since Reuters data was first compiled in 1982.

It has also suffered from losses in other industrial metals as the global economic recovery struggles to gain traction.

"The gold:silver ratio is now increasing to multi-year highs on the back of relatively weak demand for silver, on the one hand as an inflation and capital hedge and on the other hand as an industrial metal," Commerzbank analyst Eugen Weinberg said.

"It's not seeing the best of two worlds, but the worst of two worlds."

The gold/silver ratio, which measures the number of silver ounces needed to buy an ounce of gold, hit 66.6 on Friday, its highest since August 2010.

Group seeks re-evaluation of Chile's Pascua-Lama project

SANTIAGO, July 22 (Reuters) - A group of indigenous Chileans asked the Supreme Court to revoke the environmental license of Barrick Gold Corp's Pascua-Lama gold mine because it seeks a total re-evaluation of the project, a lawyer representing the group told Reuters on Monday.

The Copiapo Court of Appeals last week ordered a freeze on construction of the project, which straddles the Chile-Argentine border high in the Andes, until the company builds infrastructure to prevent water pollution. However, it did not terminate the project.

"Given the harm caused, this environmental permit has proved itself to be illegal and illegitimate," said Lorenzo Soto, who represents the group of Diaguitas. "The project has to remain suspended until it is completely re-evaluated."

He estimated the Supreme Court could issue a ruling around the end of the year.

The court is likely to back the Copiapo's ruling, said Luis Cordero, a law professor at the Universidad de Chile. But "the likelihood the environmental permit will be revoked is lower," he added.

Chile's environmental regulator, the SMA, had already suspended Pascua-Lama, citing major environmental violations, and asked Barrick to build canals and drainage systems.

Barrick has stopped construction on the project and submitted a plan for water management infrastructure to the SMA.

GENERAL NEWS *(Continued)*

The company has previously said it is committed to operating at the highest environmental standard and expects to have the new water infrastructure in place by late 2014 and then restart mine construction at the project.

The project's supporters say its environmental impact will be limited, and that the massive mine, which could cost up to $8.5 billion, will provide employment and help boost Chile's mining-dependent economy.

Environmental and social groups counter that the mega mining project will damage pristine glaciers, strain and pollute the water supply and harm agricultural activity in the area.

LEGAL PATH

The Andean country's complex legal system and new environmental regulator make it tricky to anticipate what will happen to Pascua-Lama, originally forecast to produce 800,000 to 850,000 ounces of gold per year in its first five years of full production.

And while courts have taken a tougher stance on permitting for planned major energy and mining projects in Chile, Pascua-Lama's construction is well under way.

But experts agree the world's top gold miner is facing a protracted legal battle in Chile, where Pascua-Lama is one of the most unpopular mining projects. "It's hard to predict what the Supreme Court will do," said Paulina Riquelme, a lawyer who specializes in environmental law.

TRADING PLACES

In Washington's glare, Wall St commodity trade falls under a shadow

WASHINGTON/NEW YORK, July 23 (Reuters) - Wall Street's multibillion-dollar commodity trading operations will be put under the political spotlight on Tuesday as a powerful U.S. Senate committee questions whether commercial banks should control oil pipelines, power plants and metals warehouses.

The Senate Banking Committee hearing comes as Goldman Sachs , Morgan Stanley and JPMorgan Chase - which generated an estimated $4 billion in commodity revenues last year - face growing pressure from a number of investigations into their operations, and as the Federal Reserve reviews Wall Street's right to operate in raw material markets.

Big aluminum consumers like MillerCoors are set to tell the committee that the banks' control of metal warehousing firms has driven up industry costs by as much as $3 billion. The banks will not speak at the hearing, with their views represented by a lawyer who often works with Wall Street.

The threat to Wall Street's physical commodity trading divisions has escalated abruptly across multiple fronts, putting an uncomfortable spotlight on a lucrative side of their business that has thus far fallen largely outside of regulators' sights.

Last Friday, the Fed raised the stakes dramatically, issuing a surprise statement to say it was reviewing a landmark 2003 ruling that first allowed commercial banks to trade physical commodities such as gasoline barges and coffee beans. Until now the Fed had been thought only to be debating whether or not certain banks could own assets, not trade the raw materials.

"Since 2003, our government and central bank have allowed an unprecedented mixing of banking and commerce," Joshua Rosner, managing director of independent research firm Graham Fisher & Co, said in prepared remarks.

"So far, that grand experiment has gone better for the banks than it has for consumers."

At issue is not whether banks should be allowed to trade derivatives like corn futures or oil options, but whether they should be allowed to invest in infrastructure such as tankers and warehouses that can be integrated with their trading operations - and more broadly whether they should be allowed to continue holding title to the underlying physical commodities.

Goldman, Morgan Stanley and JP Morgan declined to comment in detail on their physical commodity trading.

WALL ST FRUSTRATIONS

The Fed statement was the latest in a series of setbacks for banks at a time of growing frustration in Washington over the failure to complete reforms meant to prevent "Too Big to Fail" banks from endangering the wider economy.

Last week the Commodity Futures Trading Commission (CFTC) also launched the opening salvo of a possible enquiry into the lucrative but controversial business of metals warehousing, which has become a potent political lightning rod.

"Large investment banks should not be allowed to warehouse physical commodities like fuel or building materials, inflating prices for consumers and small businesses and profits for Wall Street," Senator Ed Markey of Massachusetts said on Monday.

JP Morgan and Goldman both purchased major London Metals Exchange (LME) warehouse operators in 2010.

Over the following years, a glut of aluminum and other metals piled up in these storage sheds, forcing companies to wait as long as 18 months to take delivery of physical supplies, Tim Weiner, Global Risk Manager of commodities and metals at MillerCoors LLC, is set to tell the committee.

TRADING PLACES *(Continued)*

"What's happening is that the aluminum we are purchasing is being held up in warehouses controlled and owned by U.S. bank holding companies," he will say, according to advance testimony. He says the rules that have caused the queues and inflated premiums cost companies $3 billion last year.

TRADING WOES

JP Morgan is also reportedly close to a more than $400 million settlement with the Federal Energy Regulatory Commission (FERC), as the bank tries to put to rest allegations that its traders manipulated power markets in the Midwest and California.

The bank's alleged activity in those markets was linked to its control over real power plants and energy supplies, a fact likely to sharpen questions over the rules for ownership.

The hearing is the first to address the oversight of banks in physical commodity markets since a Reuters report last year revealed that Goldman and Morgan Stanley were still awaiting a Federal Reserve decision on whether they can still own physical assets after becoming bank holding companies in 2008.

Commercial banks are prohibited from owning trading assets, but the two former investment banks argued that their commodity activities are permitted under a "grandfathering" clause in a 1997 law that effectively scrapped much of the Glass-Steagel act separating the commercial and investment banks.

The Fed has until mid-September deadline to make that decision, and has never commented on the issue. The central bank's reluctance to address the issue publicly may also come under scrutiny at the hearing.

Separately, JP Morgan - which as a commercial bank has never been allowed to own assets - is believed to have reconfigured its Liverpool, UK-based Henry Bath metal warehousing business in order to qualify it as a "merchant banking" investment with the Fed, sources have said.

It is unclear whether that effort, which would require the warehouses to be managed at arm's length from the bank and divested within 10 years, was successful. JP Morgan has also floated a possible sale of Henry Bath, sources have said. The bank has declined to comment on the status of the unit.

Randall D. Guynn, a partner and head of the Financial Institutions Group at law firm Davis Polk & Wardwell, says the Federal Reserve's original 2003 decision to allow Citigroup to trade physical commodities should not be lightly dismissed.

"Both Congress and the Federal Reserve have previously found that the public benefits of these activities outweigh their potential adverse effects," he will say, according to testimony.

MARKET NEWS

POLL-Copper seen pressured next year by supply glut, weak demand

By Harpreet Bhal

LONDON, July 22 (Reuters) - Copper prices are expected to tumble this year as increased supply enters the market while demand from top consumer China remains lacklustre and are set to fall further in 2014, a Reuters poll showed.

The average forecast for 2013 cash copper prices from 26 market participants surveyed fell to $7,315.70 per tonne from a forecast of $7,900 in an April poll. That is off 8 percent from the 2012 average price of $7,958.33.

In 2014, prices for the metal used in power and construction are seen slipping to $7,140 per tonne, lower than a previous forecast of $7,672.10.

Pressuring prices is a glut of supply from new mines and a ramp-up at existing operations as demand struggles to keep up in the wake of a slowdown in economic growth in China, which makes up for as much as 40 percent of refined copper demand.

"We are in the middle of a cycle of stronger copper mine supply driven by a combination of new projects, increased recoveries at established facilities and expansions," said Gayle Berry, analyst at Barclays.

"Our forecast surplus for 2014 would be the largest since 2009 and leads us to believe that the potential downside for copper prices is bigger than for any other metal."

Earlier this month, the Oyu Tolgoi mine in Mongolia, one of the world's five biggest copper mines, began exporting copper to China. The project is expected to produce between 75,000 and 85,000 tonnes of copper concentrates for the year, with a full capacity of 450,000 tonnes.

In addition, Freeport McMoRan Copper & Gold Inc resumed copper concentrate shipments from its mine in Grasberg, Indonesia, this month after a near two-month stoppage at the world's second biggest copper mine.

Reflecting ample supply, copper stocks in London Metal Exchange (LME) warehouses rose steadily from the start of the year to hit a 10-year high in June at 678,225 tonnes.

Analysts forecast the copper market to register a bigger surplus of 153,000 tonnes in 2013, compared to 98,500 predicted in the previous poll, with the number widening to 368,500 in the following year.

The market is also concerned about weak growth in China where annual gross domestic product (GDP) slowed to 7.5 percent in the second quarter, the ninth quarter in the last 10 that expansion has weakened.

MARKET NEWS *(Continued)*

"We expect Chinese demand to continue to be weak as the economy grows as at a slower pace than has been the norm over the past two decades and the economy gradually starts to shift to less metal intensive growth," said Ross Strachan, economist at Capital Economics.

Benchmark copper on the London Metal Exchange (LME) is down 12 percent so far this year. It traded at a session low of $6,938.25 a tonne on Monday.

ALUMINIUM SURPLUS

A surplus is also seen in the aluminium market, with analysts expecting the metal to show a surplus of 825,385 tonnes in 2013, growing to 1,000,000 tonnes the following year.

Stocks of aluminium in LME warehouses have hit record highs above 5 million tonnes, but bank financing deals have locked-up about 70 percent of the metal, keeping prices from declining in an oversupplied market.

A poll of 24 analysts forecast on average aluminium prices at $1,907.50 per tonne this year, down from $2,023 forecast in an April poll and off 5.6 percent from the 2012 average of $2,021.60.

Russia's Severstal says Q2 steel output up 5 pct q/q

MOSCOW, July 23 (Reuters) - Severstal , Russia's second-biggest steel producer, said on Tuesday crude steel output rose 5 percent quarter-on-quarter to 4 million tonnes.

Severstal, controlled by billionaire Alexei Mordashov, said in a statement total sales of steel products also rose 5 percent to 3.9 million tonnes "despite the challenging economic environment".

The firm's steel-making assets in Russia and North America ran at close to full capacity in the second quarter, the firm said.

Fortescue sees its costs dropping as China buys more iron ore

SYDNEY, July 23 (Reuters) - Fortescue Metals Group Ltd is forecasting stronger operating margins in the months ahead as iron ore prices hold up on robust buying from Chinese steel mills.

Australia's third-biggest iron ore miner also said it remains in talks to sell part of its coveted port and rail operations in Australia, but maintained the sales process would be scrapped if it does not get a high enough price.

"We will only proceed with that sale provided we can get full market value at terms and conditions that allow us to continue to operate our supply chain efficiently and freely," Chief Executive Nev Power told reporters.

The comments come as the company's June quarter data shows Fortescue is ramping up iron ore production faster than expected and lowering costs and capital spending, suggesting it may no longer be under pressure to sell a stake to pay down debt.

"We are already in a very strong position globally from a cost perspective and our focus on cost savings and cost effectiveness continue to push us down that curve," Power said.

The iron ore price rose 4 percent last week and is up 13 percent so far in July, heading for its best month since December. The benchmark spot price stood at $131.50 a tonne.

Power said Fortescue had upped its cash balance by $700 million to $2.2 billion as of June 30, reflecting improving operating cashflows and a rapid decrease in capital expenditure as its expansion work winds down.

Fortescue also cut costs by 18 percent in the last quarter and forecasts iron ore prices of $110-$130 a tonne for the rest of 2014, Power said.

"They're not forced sellers," said Ben Lyons, a fund manager at ATI Asset Management, referring to the possible sale of the infrastructure assets.

It has already sold a power station for $300 million and half its interest in a mining venture for $190 million.

In December it unveiled a plan to offload a minority stake in its Pilbara Infrastructure (TPI) unit), which analysts estimate could bring in $4 billion.

Since then, the Australia dollar has fallen by around 14 percent, giving Fortescue's bottom line a healthy boost.

Fortescue founder and chairman, Andrew Forrest, is believed to be a reluctant seller of TPI as it provides an outlet for its ore to the lucrative Chinese steel markets.

Fortescue's early backers, Ian Cumming and Joseph Steinberg at U.S investment firm Leucadia National Corp , in June said Forrest has too much sway over the board.

"His personality dominated the FMG board and the other directors were more inclined to follow his lead as to the appropriate amount of equity, debt, leverage and the rate at which to expand, as opposed to our more conservative views," Cumming and Steinberg said in a letter to Leucadia shareholders.

Fortescue showed a 41 percent jump in output last financial year as it moved closer to an annual rate of 155 million tonnes by the end of December. In the month of June, it shipped at an annualised rate of 120 million tonnes, 5 million tonnes above target thanks to improved production processes.

The infrastructure assets include 280 km of rail lines and access to Port Hedland, the word's largest iron ore terminal.

One potential buyer, Australian rail operator Aurizon Holdings Ltd , which wants to expand its coal hauling business to include iron ore, has stated publicly it is not interested in a minority stake in TPI.

There is speculation that Chinese steel producers could be interested, though none have come forward. Fortescue's second-biggest shareholder is steel group Hunan Valin Iron and Steel Group Co Ltd .

MARKET NEWS *(Continued)*

Nippon Steel, Toyota raise steel sheet price by 10 pct - Nikkei

July 23 (Reuters) - Nippon Steel & Sumitomo Metal Corp and Toyota Motor Corp have agreed to raise steel sheet prices by about 10 percent for April-September as yen falls, the Nikkei reported.

Negotiations between the world's second-biggest steelmaker and the best-selling carmaker serve as a benchmark for Japanese steel sellers for contracts with automakers, shipbuilders and other manufacturers.

The 10,000 yen a ton price increase from the previous six months will be applied retroactively to shipments since April, the paper said.

The dollar and euro have gained about 15 percent against the yen so far this year on expectations of aggressive monetary easing in Japan.

Nippon Steel has said its margin have been squeezed in recent years as the company could not pass on higher costs of raw materials such as iron ore and coking coal to manufacturers.

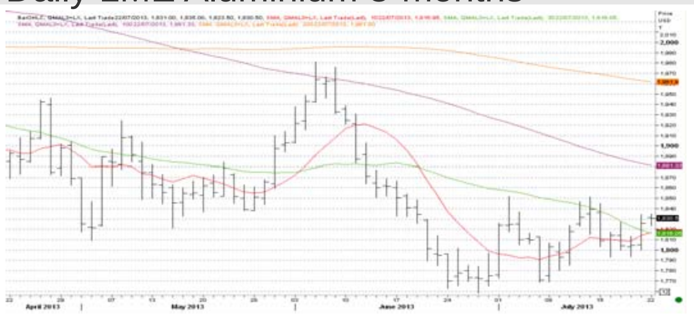
Toyota, which is set to gain from higher export margins due to the weaker yen, will offset this hike in its raw material steel prices through restructuring instead of increasing new-vehicle prices, the business daily said.

The Nikkei did not give further details of Toyota's plans.

Nippon Steel lags behind only ArcelorMittal in steel output and competes with South Korea's POSCO in the region.

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

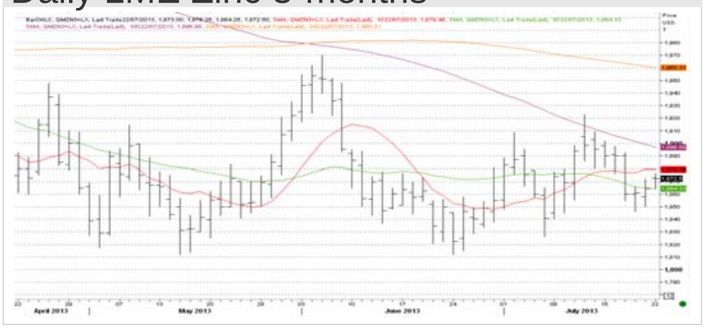
Daily LME Aluminium 3-months



Daily LME Copper 3-months

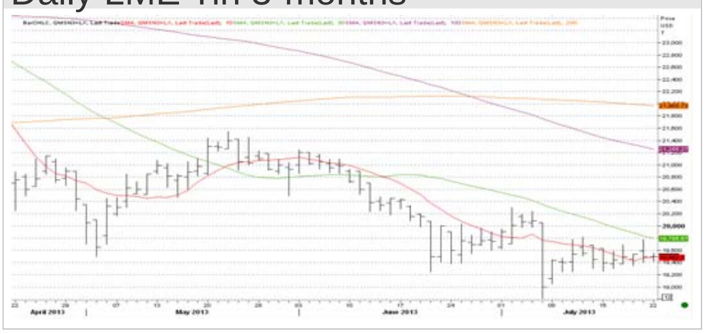
Daily LME Nickel 3-months

Daily LME Zinc 3-months



Daily LME Lead 3-months

Daily LME Tin 3-months



Daily LME Alloy 3-months

Daily LME Nasaac 3-months

MARKET REVIEW

METALS-Copper slips from 1-month high as investors take profits

By Melanie Burton

SINGAPORE, July 23 (Reuters) - London copper slipped as traders took profits from a one-month peak hit the session before, but steady buying from top consumer China kept a floor under prices.

China's central bank removed controls on bank lending rates, effective Saturday, in a move which was seen as signalling the new leadership's determination to push market-oriented reforms and helped to fuel a rally on Monday.

"It's more symbolic than having a real impact ... but sentiment wise it did have impact," analyst Dominic Schnider of UBS Wealth Management in Singapore said.

"Still, the underlying story hasn't changed. It's a sell-the-rallies market because in the second half we don't expect a re-acceleration of China and instead we may be facing disappointment."

Three-month copper on the London Metal Exchange shed around half a percent to a session low of $6,985 a tonne before paring losses to trade at $7,022.50 at 0202 GMT, little changed from the previous session.

Copper on Monday reached its highest level since June 18 at $7,053 a tonne.

The most-traded November copper contract on the Shanghai Futures Exchange climbed 0.80 percent to 50,580 yuan ($8,200) a tonne.

China remains committed to steering its economy towards consumption as the main growth driver, and away from investment and exports, and will fine-tune policies to deal with any prolonged slowdown, a government official said on Monday.

Reflecting healthy demand from China's physical market, the premium for local copper cathode against the August front month ShFE futures contract climbed to around 63 yuan on Monday, the highest in around one month.

Also, premiums for copper held in China's bonded zones are trading at $170-$190 above LME, according to Chinese price provider Shmet (http://www.shmet.com/). That is steady from last week, but down from 4-year highs of $210 seen in late June.

In industry news that could impact banks with stakes in storage, MillerCoors LLC has urged U.S. lawmakers and regulators to press for greater regulatory oversight of the London Metal Exchange, the world's largest metal market, after years of inflated aluminium prices that have cost the industry billions of dollars.

PRECIOUS-Gold extends gains into 4th session, near 1-month top

By A. Ananthalakshmi

SINGAPORE, July 23 (Reuters) - Gold rose for a fourth straight day hovering near a one-month high hit in the previous session, boosted by a weaker dollar and strong buying from China.

Gold has recovered nearly $160 from a three-year low of $1,180.71 an ounce, hit on June 28, after the U.S. Federal Reserve said it would only start phasing out its stimulus once it is sure the economy is strong enough to stand on its own.

This allayed fears of imminent cuts to the Federal Reserve's monthly bond purchases, which is tantamount to printing money and supports gold's appeal as a hedge against inflation.

Spot gold rose 0.1 percent to $1,336.84 by 0332 GMT, after technical buying pushed it past the $1,300 level on Monday. The precious metal is on track for a more than 8 percent jump in July, its biggest monthly rise in 1-1/2 years.

"People are more confident that the downside risk has subsided just a little bit. The message from the Fed was not too worrisome as it was before," a Hong Kong-based precious metals trader said.

"Demand from China is quite healthy and has been a lot more reliable. It's helping offset some of the losses from India where demand has fallen off."

India, the world's biggest consumer of gold, has imposed new rules on gold imports this year in an effort to reduce its current account deficit.

China, on the other hand, has been buying consistently, gold dealers have said, pointing to elevated premiums on the Shanghai Gold Exchange.

Shanghai gold is about $20 an ounce more expensive than London spot prices, and gold futures were up more than 2 percent on Tuesday.

Spot gold also drew support from a softer dollar that made assets priced in the greenback cheaper for holders of other currencies.

MORE UPSIDE?

Despite this month's gains, gold is down 20 percent for the year - its worst annual performance since 1997.

Analysts polled by Reuters slashed their 2013 gold and silver price forecasts and expect them to remain weak in 2014.

Nonetheless, price views for the second half suggest gold's slide may have bottomed out for now after it hit its lowest in nearly three years last month, according to a survey of 30 leading analysts and traders conducted in July.

MARKET REVIEW *(Continued)*

Gold hit a one-month high of $1,338.91 on Monday as speculators fearing a reversal of the recent downward price trend rushed to buy.

"Should we move along this trajectory, we could conceivably get to $1,460 from here, not necessarily an outlandish target, but one which we think is somewhat of a stretch unless U.S. macro indicators take a decisive turn for the worst," INTL FCStone analyst Edward Meir said.

FOREX-Dollar edges down, Aussie steady ahead of inflation data

By Lisa Twaronite

TOKYO, July 23 (Reuters) - The dollar edged lower in Asia as the slide in U.S. Treasury yields over the past two weeks gave investors less incentive to buy the greenback, while the Australian dollar pared gains ahead of domestic inflation data.

A low inflation reading on Wednesday would give fodder to those expecting the Reserve Bank of Australia (RBA) to cut rates next month, which would weigh on the currency.

Sue Trinh, senior currency strategist at RBC Capital Markets in Hong Kong, said ihat if inflation is near the lower end of the central bank's target range, "it shouldn't really be an obstacle to further rate cuts by the RBA if they're so inclined."

Swap markets see a two-in-three chance of an interest rate cut next month, while interbank futures have a 25-basis-point easing to a record low of 2.5 percent fully priced in by October.

Also on Wednesday, HSBC will release its flash PMI for China.

The Australian dollar was steady against its U.S. counterpart at $0.9253 , after earlier rising to a one-week high of $0.9284. It faces stiff resistance in the $0.9292 to $0.9306 area, but remains well above a three-year low of $0.8998 set on July 12.

Against the yen, the U.S. dollar dipped to a one-week low of 99.13 yen in early trading but then quickly pared losses to buy 99.51 yen, down about 0.1 percent from late U.S. trade.

The recent fall in U.S. yields came after top Federal Reserve officials, including Chairman Ben Bernanke, stressed that the timing of any reduction to the central bank's $85 billion in monthly purchases would depend on economic data.

Soft U.S. housing data on Tuesday led to dollar selling and added to the perception that the Fed has no reason to rush to trim its stimulus programme.

"There are fewer fears of an imminent Fed tapering, and yields on U.S. Treasuries are off their recent highs," said Masashi Murata, senior currency strategist at Brown Brothers Harriman in Tokyo.

"With the Japanese election out of the way, resulting in a confirmed victory for Prime Minister Abe, there is no particular reason to sell yen right now. So we'll be looking at U.S. data for near-term directional signals," he added.

Japanese Prime Minister Shinzo Abe's bloc won a widely expected victory in elections for the parliament's upper house on Sunday.

While the Fed is eventually expected to taper its stimulus, the Bank of Japan is committed to keeping its ultra-easy monetary stance as it aims for consumer inflation of 2 percent within two years, even against a backdrop of an improving domestic economy.

On Tuesday, the Japanese government raised its view on the economy for a third straight month and said deflation was abating as a result of the nation's expansionary policy mix of monetary easing and generous spending.

The assessment is in line with the BOJ's view that the world's third-largest economy is finally recovering, boosted by the effects of a weakening yen and its massive monetary stimulus.

Separately, an annual government economic report said on Tuesday Japan's economy is showing some signs of bouncing back from prolonged deflation as a result of Abe's monetary easing and budget spending to revive the economy.

The euro was up about 0.1 percent at $1.3191 , after touching a one-month high of $1.3218 in the previous session. The dollar index, which tracks the greenback against a basket of major rivals, fell slightly to 82.190, holding above a one-month low of 82.047 hit overnight.

(Inside Metals is compiled by Pradip Kakoti in Bangalore)

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