INSIDE METALS

Tuesday, July 31, 2012

CHART OF THE DAY

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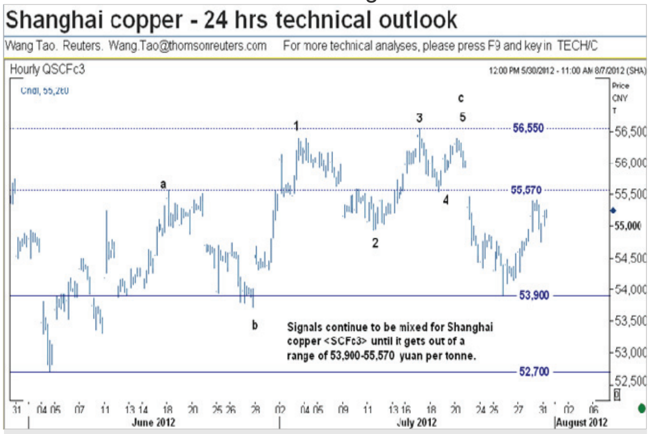

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- LME says LMESelect log in problems resolved

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- Jiangxi Copper plans to expand smelting capacity

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- China says iron ore prices abnormally high versus steel products
- EU suggests institutional fund use to keep ILVA open

FEATURE

COLUMN- Even tin can't escape demand fears

The price of tin traded on the London Metal Exchange collapsed last week to a one-year low of $17,125 per tonne. It was a typically brutal move, highlighting once again how the lack of liquidity in one of the LME's smallest-volume contracts can translate into extreme volatility.
Andy Home is a Reuters columnist. The opinions expressed are his own

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TODAY'S MARKETS

BASE METALS: SINGAPORE, July 31 (Reuters) - Copper edged up on Tuesday, underpinned by expectations the United States and Europe would introduce fresh easing measures this week, while traders were cautious ahead of China factory data that could offer new trading cues.

"Copper remains macro-driven and data point dependent, but the likelihood of any strong conviction trend emerging through the summer months seems pretty limited considering physical markets are all but dead," said Hong Kong-based commodities analyst James Luke of China International Capital Corporation. "Still, people will be watching the NBS PMI tomorrow. There's the possibility of some increased conviction if the decent HSBC flash number is followed by an improved PMI."

PRECIOUS METALS: SINGAPORE, July 31 (Reuters) - Gold held steady on Tuesday ahead of the U.S. Federal Reserve's policy meeting later in the day, which is expected to shed light on the bank's stance on monetary stimulus, a key factor driving bullion prices. "Gold may come under some pressure in the run-up to this week's central bank meetings with the possibility of a dip below $1,610, but direction will depend almost entirely on policy decisions," ANZ said in a research note.

FOREX: SYDNEY/SINGAPORE, July 31 (Reuters) - The euro edged higher against the dollar on Tuesday but stayed off a recent three-week high, while the Australian dollar hit a four-month high, supported by expectations that major central banks may add more stimulus.

"I think there are more options on the table than we can think of right now. There's a lot of anticipation after Draghi's comments," said Jesper Bargmann, Asia head of G11 spot FX for RBS in Singapore. "The market seems to think that there are going to be some strong measures and this should boost the commodity currencies and some of the emerging market currencies," he said.

FEATURE

COLUMN-Even tin can't escape demand fears

By Andy Home

LONDON, July 30 (Reuters) - The price of tin traded on the London Metal Exchange (LME) collapsed last week to a one-year low of $17,125 per tonne.

It was a typically brutal move, highlighting once again how the lack of liquidity in one of the LME's smallest-volume contracts can translate into extreme volatility.

It was also symptomatic of the broader weakness that has afflicted all the industrial metals over the last couple of months.

Tin, it might be argued, was simply playing catch-up with the others in its usual overwrought way, the flip downside to its stratospheric rally above $33,000 per tonne back in 2010.

But this is a market that is widely perceived to have the strongest underlying fundamental drivers, first and foremost a structural supply shortfall.

In the Reuters mid-year poll of metals analysts, 10 out of 11 projected a market deficit this year. And all of the 11 offering a market balance calculation for 2013 projected another year of deficit.

So, what is the current low price saying? Is it a distortion caused by the broader risk-off run on metal prices or is it signalling a real-world deterioration in fundamentals?

SUPPLY STILL STRUGGLING

One side of tin's now-tattered bull narrative still seems to be largely intact.

All the available evidence suggests that supply remains as problematic as ever.

Tin shipments from Indonesia, the world's largest exporter of the metal, slid six percent to 47,315 tonnes in the first half of this year.

Refined tin production in China, the world's largest producer, fell by a similar amount over the same period.

Chinese smelters are struggling to source sufficient raw materials. The country's mined production also fell over the first half of 2012, while scrap supplies are thought to be super-tight.

China has accordingly imported more concentrates, up 13 percent in January-June, and more refined metal, 13,200 tonnes compared with 4,600 tonnes in the first half of 2011.

Peru, another major exporter, has seen production slide by five percent this year.

Tin industry association ITRI ascribes this to the country's sole tin mine, San Rafael, encountering "increasing difficulties in the mining of narrower ore veins".

Renewed unrest in Congo has severely impacted shipments of tin ore from the mineral-rich North Kivu province.

So far, so unsurprising.

The issues at San Rafael are typical of aging mines everywhere and echo the struggle by Chilean copper mines just to keep production steady after decades of ore extraction.

Indonesia, meanwhile, faces its own long-term issues in the form of grade depletion of easily-accessible orebodies in the Bangka-Belitung production hub.

These production problems are hard-wired into the consensus that the tin market has a structural supply problem, exacerbated by the lack of investment in new mines.

DISTORTIONS

Yet despite the combination of falling supply and accelerated Chinese call on metal from the international market, any tangible sign of deficit is missing.

LME stocks of tin currently stand at 11,765 tonnes, pretty much unchanged since the start of the year.

Indeed, they actually rose to above 14,000 tonnes at one stage in the second quarter.

That was a distortion caused by the disruption to Indonesian exports last year.

An attempt to support prices by banning exports fell apart almost as soon as the ink had dried on the agreement. But the effect was to reduce sharply exports in the September-November period before the resulting build in stocks surged out of the country in December.

Since much of Indonesia's "metal" needs to be re-refined to meet international purity standards, that late-year export flood took a couple of months to appear in the LME warehouse system.

And distortions of a different kind are still at work in terms of LME inventories.

High cancelled stocks, currently accounting for 38 percent of total registered stocks, "should" be signalling strong demand for metal in the market of last resort.

In reality, they may be signalling no more than the head-aches in scheduling tin draws around the load-out queues for other metals at Johor, the Malaysian location where most of the tin stocks are located.

Certainly, there has been a highly unusual level of activity in Johor in recent weeks. with tin stocks being shuffled almost daily between the cancelled and live categories.

The key take-away, however, is that tin stocks have not fallen since the start of the year, despite a litany of supply-side issues and historically high Chinese imports.

DEMAND PROBLEMS?

No surprise then that analysts are now starting to take a harder look at the demand side of the tin equation.

Tin's demand profile is largely split between its usage in soldering for electronic products and in tin-plated steel for packaging.

FEATURE *(Continued)*

Neither is a particularly "sexy" growth story, Indeed, there is an underlying trend in electronics to use ever smaller amounts of solder.

ITRI estimates that global demand actually fell by 0.7 percent last year, in stark contrast to just about all other industrial metals.

It was forecasting an equally marginal pick-up in usage this year, but that is now starting to looking increasingly questionable.

Societe Generale analyst Stephen Briggs cites both ITRI and research house CRU as estimating a six-percent slide in global demand in the first quarter of this year. Enough, with the extra Indonesian supply, to push the market into surplus.

The bank has now reduced its own forecast for demand growth from an already-modest two percent to less than one percent this year. Even that is predicated on some expected improvement in China on the back of second-half stimulus programmes.

With both production and consumption sliding, assessing likely market balance over the whole of 2012 now means hitting two moving targets.

SocGen is sticking with its expectation of a 10,000-tonne deficit, matching the latest assessment from ITRI.

EXAGGERATED BUT NO ABERRATION

And so too are most other analysts. The implications are an erosion of already low stocks cover and a resulting rise in price.

The median 2013 price forecast in the July poll was $22,590 per tonne.

That, though, represented a collective downgrade of views. The median was 10 percent lower than in the January poll. The highest forecast fell from $30,000 to $26,000.

As with all the other industrial metals, it is the deterioration in demand prospects that is causing analysts to lower their forecasts.

And it is the deterioration in demand right now that has sapped the life out of tin's bull story.

Was last week's slump exaggerated by poor liquidity? Almost certainly.

Does that mean that the current price is some sort of aberration? Almost certainly not.

Rather, it reflects exactly the same vulnerability of metals demand to faltering global growth that has undermined the other LME metals.

Some sort of tin price bounce is probably inevitable. And it will probably be just as brutal as last week's slide.

But a more sustained rally is dependent on a sustained recovery in demand, a part of the tin price equation that is starting to look even more problematic than the supply side.

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

GENERAL NEWS

China may revive tax rebates to bolster struggling steel sector

BEIJING, July 31 (Reuters) - China may revive tax rebates to bolster the country's steel sector hit by slumping profits and inventories that have ballooned to levels enough to build hundreds of Beijing's National Stadium.

The China Iron and Steel Association (CISA) has appealed to the government to restore a value-added tax rebate on some high-end steel products purchased from domestic steel mills by plants that usually rely on overseas suppliers.

The move, if implemented, may help alleviate the domestic supply glut and reduce imports, hitting regional steel producers including South Korea's POSCO and Japan's Nippon Steel.

Profits at China's steel mills plunged 96 percent in the first half from a year earlier as financing costs soared, according to the CISA, a worrying combination that is threatening a sector that racked up 2.55 trillion yuan ($399.72 billion) of liabilities as of the end of 2011.

Profits declined to 2.385 billion yuan in the first half while financing costs for large Chinese steel mills rose 37 percent, Zhang Changfu, CISA's vice chairman, told reporters in Beijing on Tuesday.

Credit is not only expensive but is also hard to obtain, Zhang said.

Many mills, especially the larger ones, are struggling as steel prices dive just as expensive upgrades commissioned during China's decade of booming steel demand are coming online.

China's slowing demand for steel has also driven Chinese exports of the metal used in automobiles and construction to 27.26 million tonnes in the first half, the highest for a six-month period since 2008.

The rising tide of steel exports has already precipitated a volley of complaints from other countries preparing possible trade action against China on the grounds of alleged predatory pricing.

GLOBAL PROBLEM

Zhang said overcapacity for steel is now a global problem, and he urged Chinese steel mills to start controlling their own production in the second half to stabilise prices and reduce raw material costs.

The cost of iron ore, a key steel-making ingredient, was also abnormally high compared to the price of steel products, Zhang

GENERAL NEWS *(Continued)*

said. His comments came even as iron ore prices slumped to a 30-month low of $116.20 a tonne on Friday.

Iron ore stocks have swollen to almost 100 million tonnes, while steel products inventories at major mills rose to 12.45 million tonnes as of July 20 -- up 46 percent from the start of the year and 36 percent higher than a year earlier.

China's steel sector is plagued by chronic overcapacity, with many state-owned enterprises continuing to produce at a loss to preserve jobs for tens of thousands of workers. The years of unrestrained expansion has led to a massive supply glut and sent steel inventories soaring.

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.

China steel industry profits plummet - CISA

BEIJING, July 31 (Reuters) - Profits at China's steel mills fell by 96 percent in the first half of 2012 compared with the year before, the China Iron and Steel Association, which represents the country's largest mills, said on Wednesday.

Many mills, especially the larger ones, are struggling as steel prices dive just as expensive upgrades commissioned during China's decade of booming steel demand are coming online.

The industry as a whole earned 2.385 billion yuan ($374 million) in the first half of the year, CISA officials told reporters at its regular press conference.

Sales margins have fallen to 0.13 percent, from 3.06 percent last year, CISA said.

June commods index investments snap 3-mth decline - CFTC

July 30 (Reuters) - Investment in commodity indexes rose in June, snapping a three-month decline, as renewed hopes for a solution to the euro zone crisis boosted most risk assets, figures from the U.S. Commodity Futures Trading Commission showed on Monday.

In its first monthly data showing an uptick in commodity market positions since February, the CFTC said the value of net long index investments rose by $6.8 billion, or nearly 4 percent, to $190.8 billion in June.

The notional value of long-only index investments -- representing bets for higher prices -- stood at $284.1 billion in June versus $269.9 billion in May, the CFTC reported.

Short-only positions -- or bets that prices will fall -- also rose, but much less than the long-only investments, reaching $93.9 billion in June versus $85.9 billion in May.

The previous rise in net-long investments noted by the CFTC was in February, when the tally went to $209.9 from January's $196.9 billion.

June marked a watershed moment for commodities, with oil prices jumping nearly 10 percent on the last session of the month after the European Union surprised markets by announcing measures to cut borrowing costs for Greece and Spain after a long period of no progress in the region's debt crisis.

The Thomson Reuters-Jefferies CRB index, the commodity market bellwether, had fallen by about 16 percent from March through May as prices declined steadily from a selloff by investors worried about the euro zone crisis and the global economic climate.

In June, the index rose 4 percent and is poised to end July up by more than 6 percent for its best month since October.

The CFTC data does not calculate the estimated in-flow or outflow from markets, only the value of index-based futures positions at the end of month.

If sustained, the surge in confidence among index investors, who are typically long-term buyers, could be a positive trend for commodity traders, who have come to count on a steady stream of fresh capital flowing into markets. Total net assets have swollen from nearly nil to some $400 billion in a decade.

TRADING PLACES

Natixis to cease ring trading on London Metal Exchange

LONDON, July 30 (Reuters) - French bank Natixis will no longer trade as a ring-dealing member on the London Metal Exchange (LME), the exchange said on Monday, following the bank's plan earlier this year to wind up its commodities brokerage business.

Natixis, its business affected by the European debt crisis, said in May that it plans to close its commodities brokerage arm, one of the oldest ring-dealing members of the LME, but continue its over-the-counter commodities business.

The exchange said Natixis Commodity Markets will operate as a Category 2 broker from Monday, meaning it will no longer be able to trade as a Category 1 member taking part in the open-outcry ring trading.

TRADING PLACES *(Continued)*

"With immediate effect, Natixis Commodity Markets Limited has been re-categorised from a Ring Dealing Member (Category 1) to an Associate Broker Clearing Member (Category 2) of the London Metal Exchange," the LME said in a statement.

Category 2 members, or associate broker clearing members, are able to trade on the LME's electronic platforms and the telephone market but may not trade in the ring.

LME says LMESelect log in problems resolved

SINGAPORE, July 30 (Reuters) - The London Metal Exchange has resolved problems with users being unable to log into its electronic trading platform LMESelect, an LME spokeswoman said on Monday.

"The issue this morning was caused by a brief network issue that caused some users to lose connection. The LMEselect application remained stable throughout and market prices were unaffected," she said via email.

MARKET NEWS

Xstrata to lift copper, iron ore mining in Australia

SYDNEY, July 31 (Reuters) - Global miner Xstrata will boost copper production in Australia by 140,000 tonnes over the next five years from a new mine, which will also yield more than a half-million tonnes of iron ore, the company said on Tuesday.

The tonnages will come from Xstrata's Mount Margaret mine, which it acquired last year for A$175 million, and get processed for export at the company's larger Ernest Henry project in Australia's north east.

In addition to copper, Xstrata expects the Mount Margaret mine to yield 560,000 tonnes of iron ore in concentrate and 83,000 ounces of gold over the five years.

Xstrata in 2009 allocated A$589 million to upgrade its Ernest Henry copper mining project and construct an associated iron ore plant, extending the life of the operation until 2024.

Unlike many of its peers, including Vale , Rio Tinto and BHP Billiton , which count on iron ore for a large part of revenue, Xstrata holds little in the way of iron ore assets.

In 2011, Xstrata paid A$532 million for Mauritania iron ore prospector Sphere Minerals and owns 50 percent in the Zanaga iron ore prospect in the Republic of Congo

In contrast, it is the world's fourth-biggest copper producer and has earmarked $7 billion to mine more of the red metal. Most of that money will be spent on copper mining in South America.

Australia & New Zealand Bank has changed its copper forecast for 2012, saying it now expects a global supply deficit of 63,000 tonnes versus an earlier forecast of 170,000 tonnes, citing slower demand in China.

Next year, it forecasts a supply surplus of around 420,000 tonnes.

Chile June copper output up 5.6 pct at 452,690 tonnes

By Moises Avila and Antonio De la Jara

SANTIAGO, July 30 (Reuters) - Chile, which provides about one-third of the world's copper, produced 452,690 tonnes of the red metal in June , up 5.6 percent from the same month a year earlier, the government said on Monday.

Copper output slipped 1.2 percent compared with May, when the world's No. 1 copper producer churned out 458,640 tonnes of it.

"Among the reasons that explain the (year-on-year) rise are greater copper recovery due to an increase in material to process and a rise in the production of deposits that began operations in 2011," the INE statistics agency said.

In the first half of the year, Chile produced 2.64 million tonnes of copper, up 2.5 percent from the same period last year.

Anglo American's disputed Los Bronces mine is being ramped up and is expected to produce a peak of 490,000 tonnes annually, positioning itself as the world's No. 5 copper mine.

Antofagasta Minerals' Esperanza mine, a flagship growth project that faced problems in its production build-up last year, was inaugurated in early 2011.

Chile's production of molybdenum, a metal used to strengthen steel, plummeted 30.4 percent to 2,471 tonnes in June compared with the same month last year due to dwindling ore grades, the INE added.

Molybdenum output for the January to June period dropped 19.9 percent to 15,473 tonnes versus the same period a year ago.

Jiangxi Copper plans to expand smelting capacity

By Polly Yam

HONG KONG, July 30 (Reuters) - The parent of China's top copper producer, Jiangxi Copper Company Ltd , said on Monday it plans to invest in an 8 billion yuan ($1.25 billion) project to build smelting and refining capacity in Zhejiang province.

China is the world's top copper consumer and a number of companies have been jockeying to boost their smelting capacity.

Jiangxi Copper Corporation had signed a letter of intent on the investment in the east coast province although it had not decided its share, spokesman Pan Qifang said.

The project, operated by Zhejiang Heding Copper, aims to build operations with a smelting capacity of 200,000 tonnes year and able to produce 370,000 tonnes of refined copper cathode.

The other partner is Fuchunjiang Smelting.

"We are going to invest in the project because we want to maintain market shares in China," Pan said, adding that the operations would be located in one of China's main copper consuming areas.

Jiangxi Copper plans to run full production and produce 1.09 million tonnes of refined copper cathode this year, up 16 percent from 940,000 tonnes last year.

Further expansion is also in the works.

Jiangxi Copper Corporation and Yantai Penghui Copper Industry are preparing to build a 300,000 tonne-a-year copper smelter in northeastern Shandong province, a source familiar with the project said. The source declined to be identified because the project has not yet been approved by local authorities.

Jiangxi Copper also plans to open its 400,000 tonne-a-year capacity plant to produce semi-finished products in the southern province of Guangdong in August or September, Pan said.

The plant was originally scheduled to start in May but has been delayed because of the rainy season.

Indian steel makers double pellets imports in May

MUMBAI, July 30 (Reuters) - Imports into India of iron ore pellets, used in making steel, more than doubled in May to 174,319 tonnes as a partial mining ban in southern Karnataka state hit supplies, an industry body said.

Production in India, once the third-biggest global supplier of iron ore, has been hit as the government and state authorities raise taxes and freight rates to try to curb exports and retain supplies for domestic use.

Output slumped 18 percent to 169.66 million tonnes in the fiscal year to March 31, 2012, pushing many steel makers to operate below capacity and helping to cut exports 42 percent to 57 million tonnes.

"The current scenario of iron ore in India is quite shocking," said R.K. Sharma, secretary general of Federation of Indian Mineral Industries (FIMI).

"A commodity which has contributed significantly to the foreign exchange earnings is now sucking out foreign exchange from the country," said Sharma.

The country has lost $8.3 billion in foreign exchange due to lower exports of iron ore fines, the FIMI estimates.

Karnataka used to account for 25 percent of India's total output.

Earlier in the month, a Supreme Court-appointed committee approved resumption of operations of eight mines in Karnataka, with a total capacity of 5.5 million tonnes, in addition to NMDC's a million tonne per month.

China steel mills step up maintenance in bid to curb output

By Ruby Lian and Fayen Wong

SHANGHAI, July 30 (Reuters) - China's small- and medium-sized steelmakers are stepping up maintenance in an effort to cut production and stem losses from a slump in steel prices and a surge in inventories, a move that could further pressure prices of their raw material, iron ore.

With no sign of a quick demand recovery in sight, a growing number of mills in the world's largest steel-producing nation have begun idling some capacity after having held output near record levels over the past few months.

Small and medium-sized steel mills account for about half of China's output while the 10 top players, including Baosteel and Wuhan Steel , make up the rest.

About 1 million tonnes of crude steel output will be cut by sometime in August, consultancy Custeel.com estimates, on the basis of a schedule of mills' plans for maintenance.

"The reality could be worse than what we see," said an iron ore trader in the northeastern coastal city of Dalian. Iron ore prices are at their lowest in 2-1/2 years.

"Some steel mills keep quiet about their maintenance as they don't want their moves to worsen market sentiment."

Chinese steel mills typically do not shut down production outright because of the high costs involved, instead resorting to maintenance as a way to cut output. Plant maintenance is normally scheduled during a winter seasonal lull in demand.

"Some steel mills in Hebei province have been bleeding badly because of poor demand and have recently shut their operations," said Qiu Yuecheng, an analyst with XiBen New Line Co. Ltd, a steel products trading platform in Shanghai.

"Psychologically, those cuts have given the impression that the glut will ease and that steel prices will stabilise."

While the volume of cuts is small compared to the aftermath of the 2008 global financial crisis, when big mills slashed output by nearly a third, industry sources say they suggest steel mills may

MARKET NEWS *(Continued)*

finally be buckling under the weight of high inventories and poor demand.

China's rebar prices have slumped 14 percent since early April to hover near a record low of 3,757 yuan. The swift and steep decline means that most mills are making a loss of 300 to 400 yuan per tonne.

The Custeel.com list showed that Shagang, China's biggest private steelmaker, and other mid-sized steel mills, such as Nanjing Steel and Bayi Steel , are among the mills now cutting production.

Units of some of the country's top steel mills -- including the Hebei Steel Group , Baosteel and the Shandong Steel -- have also made cuts, albeit at smaller volumes.

Graphics China steel production, net exports and prices:

http://link.reuters.com/cuv69s

SWOLLEN INVENTORIES

Iron ore stocks are close to 100 million tonnes and steel products inventories at major steel mills rose to 12.45 million tonnes by July 20, up 46 percent from the start of the year and a rise of 36 percent from a year earlier.

Swelling inventories have alarmed Beijing, which has urged state-owned companies to make destocking a top priority in the second half of the year, local media reported last Friday.

"Steel mills have not been buying iron ore for a while," said an official with a small steel mill, who asked not to be identified because he is not authorised to talk to the media.

"Now that they are cutting output, it suggests demand for iron ore will shrink further and prices could fall to $110 unless we see the output cuts lend strength to steel prices."

With iron ore prices at a 30-month low of $116.20 per tonne, any major cuts in China's steel output would pressure prices further - boding ill for mining giants such as Rio Tinto , BHP Billiton and Brazil's Vale , all of which have launched ambitious capacity expansion plans on the back of surging long-term Chinese demand.

China says iron ore prices abnormally high versus steel products

BEIJING, July 31 (Reuters) - Iron ore prices are still abnormally high compared to steel products, an official with the China Iron & Steel Association (CISA) said on Tuesday.

Financing costs for the association's members, comprising 78-80 medium and large-sized steel mills, rose 37 percent in the first half of this year from a year earlier, Zhang Changfu, CISA's vice chairman told reporters in Beijing.

Zhang said credit was not only expensive but also hard to obtain for steel mills.

EU suggests institutional fund use to keep ILVA open

BARI, Italy, July 30 (Reuters) - The European Union said institutional funds should be used to help keep Italy's largest steel plant ILVA open for business after steps were taken to enforce a court-ordered shutdown of parts of the plant.

Judicial sources said on Monday three technicians had begun the court-ordered shutdown of six sections of the ILVA plant in the town of Taranto, executing a ruling last week that threatens to shutter the plant for good.

Last week's closure order followed a long inquiry into whether dioxin and other chemicals pumped from the plant caused abnormal rates of cancer and respiratory and cardiovascular diseases in the impoverished southern area.

ILVA, which employs 12,000 workers, has appealed the decision. A hearing has been set for August 3.

"It is important to avoid any final shutdown... It is a problem of health but it is above all a problem of safeguarding employment," EU industry commissioner Antonio Tajani said on Monday.

Tajani was speaking on the sidelines of a meeting in Brussels of leading representatives of Europe's steel industry at which ILVA CEO Fabio Riva declined to attend at the last minute.

Tajani said the European Commission was firmly committed to supporting the steel industry in Italy and Europe.

He called for the European Investment Bank to step in and for EU funds earmarked for the Puglia region and not yet spent to be used.

A study requested by magistrates linked 386 deaths among the local population over 13 years to ILVA's fumes. The majority of victims were living in two low-income neighbourhoods close to the plant.

ILVA produced 8.5 million tonnes in 2011, nearly 30 percent of total Italian steel output.

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

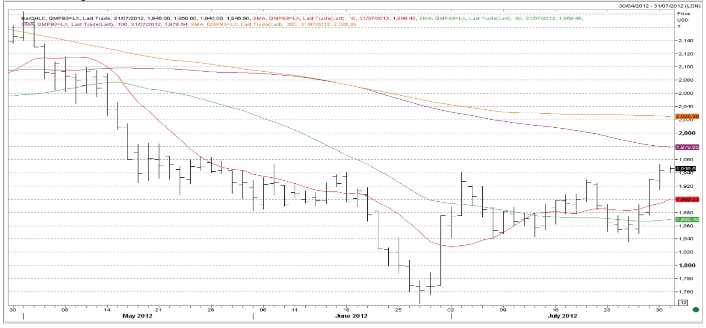
Daily LME Aluminium 3-months

Daily LME Copper 3-months

Daily LME Nickel 3-months

Daily LME Zinc 3-months

Daily LME Lead 3-months



Daily LME Tin 3-months

Daily LME Alloy 3-months

Daily LME Nasaac 3-months

MARKET REVIEW

METALS-Copper edges up, supported by stimulus hopes

By Melanie Burton

SINGAPORE, July 31 (Reuters) - Copper edged up on Tuesday, underpinned by expectations the United States and Europe would introduce fresh easing measures this week, while traders were cautious ahead of China factory data that could offer new trading cues.

Anticipated new steps to shore up the fragile U.S. and European economies this week have made traders reluctant to put on positions, draining liquidity and direction from an already thin summer market.

China's official manufacturing sector index for July, to be released on Wednesday, will be scoured for more evidence that loosening steps taken by Beijing in the past few months have filtered down to the real economy, helping stimulate growth and metals demand.

"Copper remains macro-driven and data point dependent, but the likelihood of any strong conviction trend emerging through the summer months seems pretty limited considering physical markets are all but dead," said Hong Kong-based commodities analyst James Luke of China International Capital Corporation.

"Still, people will be watching the NBS (National Bureau of Statistics) PMI tomorrow. There's the possibility of some increased conviction if the decent HSBC flash number is followed by an improved PMI."

Three-month copper on the London Metal Exchange traded at $7,577 a tonne by 0248 GMT, up 0.38 percent from the previous session when it closed almost unchanged. Prices have recovered by more than 3 percent from last week's one-month lows but still remain in negative territory for the year.

The most-traded November copper contract on the Shanghai Futures Exchange rose 0.26 percent to 54,970 yuan($8,600) a tonne.

China is the world's biggest market for refined copper, accounting for 40 percent of refined demand last year, but there is scant buying interest from consumers, traders said.

"Physical demand is weak, traders tend to sell when prices are above $7,600," a Hong Kong-based trader said.

"Copper is correcting in the short term: $7,600 is strong resistance and $7,520 is near term support," he added.

LEADEN OUTLOOK

Lead hit its highest in two months on Monday but further gains have been capped by trade selling, with signs pointing to softer demand from the North American battery market in particular, traders and analysts said.

North American shipments of replacement automotive batteries in June fell 5.94 percent from May and dropped 7.72 percent from June 2011, a U.S. industry group said on Monday.

"Lead put in another strong performance up to $1,952 as technical buying through $1,930 emerged but trade selling was seen as the market rose," trading house Sucden said in a research note.

Lead hit $1,952.75 on Monday and was trading down 0.45 percent at $1,942.25.

PRECIOUS-Gold stays put as investors eye Fed meeting

By Rujun Shen

SINGAPORE, July 31 (Reuters) - Gold held steady on Tuesday ahead of the U.S. Federal Reserve's policy meeting later in the day, which is expected to shed light on the bank's stance on monetary stimulus, a key factor driving bullion prices.

The Fed's non-committal attitude towards easing monetary policy has trapped gold in a sideway pattern over the past couple of months, keeping investors on the sidelines.

Besides the Fed meeting, the European Central Bank will hold its policy meeting on Thursday, under pressure from investor expectations of immediate action after its chief, Mario Draghi, vowed last week to do anything within the bank's mandate to preserve the single currency.

"Gold may come under some pressure in the run-up to this week's central bank meetings with the possibility of a dip below $1,610, but direction will depend almost entirely on policy decisions," ANZ said in a research note.

More quantitative easing, or cash-printing, by central banks will raise the inflation outlook and drive investors to buy gold, seen as a good hedge against rising prices.

Spot gold traded little changed at $1,621.04 an ounce by 0628 GMT. Prices were on track for a 1.5 percent gain this month, its second straight monthly rise.

U.S. gold futures contract for August delivery was nearly flat at $1,621.10.

Enthusiasm from gold investors has cooled off in recent months. By July 24, speculators had cut their net long positions in U.S. gold futures and options to the lowest level since December 2008.

Holdings of exchange-traded funds also declined. SPDR Gold Trust , the world's biggest gold-backed exchange-traded fund, saw its holdings drop to the lowest level since last November, at 1,248.606 tonnes.

"The speculative interest and ETF flow are not being supportive of gold," said Dominic Schnider, an analyst at UBS Wealth Management in Singapore.

Schnider expects gold prices to fall to as low as $1,520 an ounce in the next three months, in the absence of more bond buying by the Fed. He was also sceptical that the ECB could do much to address the fundamental malaise lying beneath the ailing economy.

MARKET REVIEW *(Continued)*

"They can't solve the structural problems such as rigid labour laws. The underlying problems are still there and you could only postpone the inevitable."

Economic sentiment in the euro zone fell to near a 3-year low in July as the bloc's economy deepened its slump and businesses became more pessimistic.

The correlation between the dollar and gold stood at -0.74, suggesting the strongest inverse correlation since beginning of the year.

More monetary stimulus in the euro zone may further weaken the euro and buoy the dollar, adding additional pressure on gold prices, said Schnider.

Spot silver rose to $28.28, its highest in nearly four weeks, before easing slightly to $28.12.

Spot palladium hit $590.75, also its highest since July 5.

FOREX-Euro firmer vs dollar; Aussie rises on stimulus hopes

By Ian Chua and Masayuki Kitano

SYDNEY/SINGAPORE, July 31 (Reuters) - The euro edged higher against the dollar on Tuesday but stayed off a recent three-week high, while the Australian dollar hit a four-month high, supported by expectations that major central banks may add more stimulus.

The single currency moved up 0.1 percent from late U.S. trade on Monday to $1.2274 , but remained stuck below the high of $1.2390 hit last Friday.

The focus is on the European Central Bank's policy meeting on Thursday, after ECB President Mario Draghi pledged last week to do whatever was necessary to protect the euro zone from collapse.

"I think there are more options on the table than we can think of right now. There's a lot of anticipation after Draghi's comments," said Jesper Bargmann, Asia head of G11 spot FX for RBS in Singapore.

"The market seems to think that there are going to be some strong measures and this should boost the commodity currencies and some of the emerging market currencies," he said.

A popular trade has been to short the euro against the Australian dollar, New Zealand dollar and some emerging market currencies, Bargmann added.

Draghi's remarks last week have stirred market expectations that the ECB may soon reactivate its bond-buying programme to help cut Spanish and Italian borrowing costs.

"The most significant possible measure would be for the ECB to buy bonds and to leave such purchases unsterilised, but I don't think such steps can be taken as they are likely to meet German opposition," said Satoshi Okagawa, senior global markets analyst for Sumitomo Mitsui Banking Corporation in Singapore.

Last week, the ECB bought no government bonds via its Securities Markets Programme (SMP) for a 20th straight week and it has barely conducted such purchases this year, even as rising borrowing costs in Spain fuelled jitters Madrid may eventually need a full-blown sovereign bailout.

When the ECB bought government bonds in the past, it offset, or sterilised, its purchases by draining equal amounts of liquidity from the banking system to avoid stoking inflation.

The ECB probably won't go so far as to deviate from this convention, SMBC's Okagawa said.

"At the same time, with market expectations running high, they can't afford to do nothing. They raised the bar high on their own," he added.

In any event, traders and analysts are sceptical that ECB bond-buying by itself would be enough to change the euro's weak overall trend.

"It is a short-term relief, but it is not like people are going to invest in Europe suddenly for that reason," said Bargmann at RBS.

"We've already seen some serious diversification, not just out of the periphery but out of Europe altogether and these are longer term decisions and they are not going to turn around in the short -term," Bargmann said, referring to a shift in asset allocation by central bank reserve managers out of the euro.

AUSTRALIAN DOLLAR

The euro eased 0.2 percent against the high-flying Australian dollar to A$1.1656 , after having hit a record low around A$1.1646 the previous day.

The Aussie and other high-beta currencies, which are relatively volatile and tend to benefit when investor optimism about the outlook for the global economy picks up, have been among the best performers recently.

Such currencies have gotten a lift from market expectations that both the ECB and Federal Reserve are closer to providing more aid for their respective economies.

The Aussie rose 0.3 percent to $1.0526 , having hit a four-month high of $1.0538 earlier on Tuesday.

The modest rise in the euro weighed on the dollar index, which measures the greenback's value against a basket of major currencies. The dollar index stood at 82.749, holding near a three-week low of 82.343 hit last week.

Against the yen, the dollar edged up 0.1 percent to 78.26 yen .

While the Fed is seen likely to hold off from adopting another bond-buying programme at its two-day policy meeting that starts on Tuesday, some market players think the U.S. central bank might adopt such monetary stimulus in coming months.

(Inside Metals is compiled by Kishan Nair in Bangalore)

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