INSIDE METALS

Monday, July 8, 2013

CHART OF THE DAY

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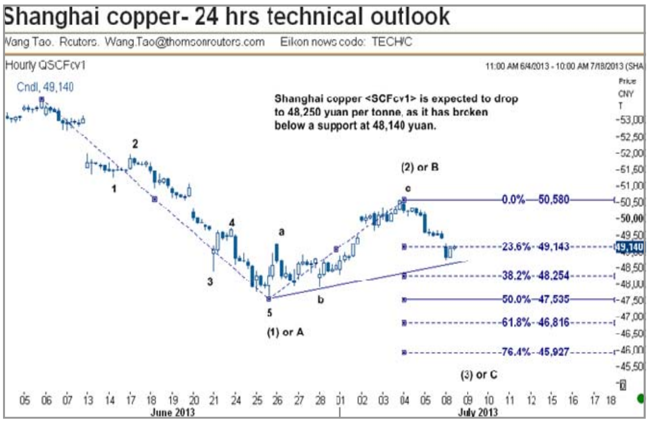

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Price-cost pinch dulls last lustre of S.Africa's gold

A hand drill lying in the hillside tunnel of a 19th-century South African gold mine testifies to the back-breaking labour by black miners that built what was once the world's biggest bullion industry.

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TODAY'S MARKETS

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"Overall the market mood is still pretty bearish on China, so markets will probably be looking towards the import data on Wednesday to see if there has been an improvement," she said.

PRECIOUS METALS: Gold fell for a third session on Monday on fears the U.S. Federal Reserve could soon begin tapering its bond-buying stimulus after a stronger-than-expected jobs report, and as the dollar hit a three-year high.

"The jobs report is pulling gold prices down," said Peter Fung, head of dealing at Hong Kong's Wing Fung Precious Metals.

FOREX: The U.S. dollar hit a fresh three-year high against a basket of major currencies on Monday as market expectations grew that the Federal Reserve will scale back stimulus as early as September following solid jobs growth.

"We believe steady improvement in labour market conditions will be enough for the Fed to start tapering its asset purchases in September," they wrote in a report.

FEATURE

Price-cost pinch dulls last lustre of S.Africa's gold

By Ed Stoddard and Sherilee Lakmidas

KROMDRAAI/JOHANNESBURG, South Africa, July 7 (Reuters) - A hand drill lying in the hillside tunnel of a 19th-century South African gold mine testifies to the back-breaking labour by black miners that built what was once the world's biggest bullion industry.

But even with basic tools and cheap labour, costs overran returns at the Kromdraai gold mine north of Johannesburg, which listed in London in 1893 and closed in 1914.

A century later, South African's remaining gold mines, which still employ a mostly black and lowly paid workforce, look set to follow the same fate, as the sun sets on an industry that has produced a third of the bullion extracted from the planet.

Gold's sliding price and surging costs are hitting an industry that laid the foundations for Africa's largest economy but has been slowly dying for decades as ore grades decline and shafts reach depths of 4 kms (2.5 miles), the world's deepest.

Unrest is also flaring as restive miners demand more for their toil after over a century of low wages linked to a system of migrant labour that outlasted the end of apartheid in 1994.

A weaker rand currency, which lowers local costs for domestic gold producers, has given them a temporary life-line of sorts but not enough to halt the terminal decline.

According to Roger Baxter, chief economist at South Africa's Chamber of Mines, in the fourth quarter of 2012 the price of gold averaged 509,000 rand per kilogramme, but it fell in the first six months of this year to under 400,000 rand/kg.

"This precipitous fall in the price ... has been the biggest decline that has taken place since the 1920s," he said.

"At a 400,000 rand a kilo gold price, our estimate is that about 60 percent of the industry is in loss-making territory."

This spells doom for an industry that accounted for 79 percent of world production in 1970 in its heyday, when Johannesburg, still ringed today by the hill-like humps of eroding dusty mine tailings, was dubbed the "City of Gold".

Thomson Reuters GFMS ranked South Africa sixth in global production in 2012, when it fell behind Peru and produced 177.8 tonnes of gold, just 6 percent of the world total, the country's worst year for production since 1905.

HAEMORRHAGE OF JOBS

Gold may have lost much of its lustre for the South African economy, accounting for only around 1.5 percent of gross domestic product, but it is still the country's main mineral export, which in 2012 fetched 72 billion rand, about 10 percent of all export earnings.

The industry has shed 340,000 jobs since 1990, more than two thirds, and there are fears of further big lay-offs as militancy among workers steps up ahead of tough wage talks this month.

"Further job losses are an inevitability, and these are linked to falling commodity prices, but long-term labour instability could act as additional downward pressure on the sector," said political analyst Nic Borain.

This is a headache for President Jacob Zuma's ruling African National Congress (ANC) party, which faces an election next year. It wants to head off further strife in the mines after wildcat strikes and violence stemming from a union turf war last year killed over 50 people and hit the country's credit rating.

The membership war between the Association of Mineworkers and Construction Union and the National Union of Mineworkers (NUM), a key ANC ally, has rumbled on, and the latest government effort to defuse it is showing little progress.

Ominously, even during gold's bull run over the past decade, South African producers shed jobs almost every year, according to government data. The number of miners employed in the gold shafts fell to 142,000 last year from almost 500,000 in 1990.

Much of the gold workforce, drawn from rural areas far from the shafts, is illiterate and will struggle to find work in a slow-growing economy where 25 percent are unemployed.

"It's not a labour force that naturally joins the queue to be part of the middle class. It has one foot in urban squatter camps and one in poverty-stricken rural areas," said Borain.

This could put pressure on the welfare system and pose a threat to social stability, he added.

DEFLATING BUBBLE, SHRINKING MARGINS

South Africa's fortunes as the world's No. 1 platinum supplier have been sinking, too, and top global producer, Anglo American Platinum , wants to cut up to 6,000 South African jobs to restore profits.

But gold is outpacing the white metal in the race to the bottom, dragged down by the plummeting price.

Less than two years ago, in September 2011, gold hit a record $1,920.30/ounce as investors, spooked in part by inflation concerns linked to the U.S. Federal Reserve's loose monetary policy, stampeded to bullion's safe-haven embrace.

They are now in flight on speculation the U.S. Federal Reserve will wind down its stimulus programme, known as "quantitative easing" (QE), as the U.S. economy picks up.

"Gold has been in a bubble, and that bubble is deflating," said Societe Generale analyst Robin Bhar.

Gold lost 23 percent in the April-June period and is now at $1,224/oz, 36 percent off its life high, and looks set to go lower as the Fed stops printing money.

FEATURE *(Continued)*

"This year we could well touch $1,000. Anything you think could be negative for gold, will be negative," said Bhar.

South Africa's gold mines were able to earn tidy profits in 2008 and 2009 when gold was $1,000/oz, but costs - notably labour and power - have ballooned. In the fourth quarter of 2009 for example AngloGold Ashanti's cash costs in southern Africa were $575/oz, but by the same period last year its cash costs in South Africa had doubled to $1,166/oz.

Major South African gold producers have among the weakest pretax profit margins in the industry.

Harmony Gold , which gets more than 90 percent of its output from South Africa, keeps less than 10 percent of its sales as pretax profit, according to Thomson Reuters StarMine.

Gold Fields and AngloGold, with most of their production outside South Africa, fare better with about 19 percent and 15 percent, respectively.

This pales in comparison to 28 percent pretax profit earned by Canada's Kinross Gold Corp or the 44 percent that Russia's Polyus Gold delivers, StarMine data shows.

"BENEFIT THE PEOPLE"

Gold companies in South Africa have been paying above-average wage increases for several years. But those at the bottom of the pay scale were at an extremely low salary base as migrant workers, and, with an average eight dependants to feed, they still struggle to make ends meet.

In the current pay round, the NUM is seeking a 60 percent hike, over 10 times the inflation rate, for entry-level workers. Not to be outdone, the more hardline AMCU has made the fight for "a living wage" its battle cry under charismatic president Joseph Mathunjwa and wants an increase of 150 percent.

Unlike the unprotected Kromdraai workers more than a century ago, today's gold workers toil with automated drills, have helmets and boots and are covered by a safety code.

But AMCU and NUM insist they are still not being rewarded the full fruits of their labour, despite warnings from the companies and industry analysts that more wage pressure will accelerate the industry's deep decline.

"The majority of the people have not yet benefited from the distribution of wealth created within the mining industry," Mathunjwa's AMCU said in its demands to the gold producers.

"We believe the minerals of this country must now benefit the people," it added. But unless the wage talks reach an outcome that reflects the balance sheet realities, neither companies nor workers can salvage a gold industry crushed between a toppling price and climbing costs.

GENERAL NEWS

Australia to scrutinize company disclosures after Newcrest probe

SYDNEY, July 7 (Reuters) - Securities regulators will closely monitor disclosures by Australian-listed firms in the upcoming financial reporting season after claims Newcrest Mining Ltd held one-to-one briefings with a small number of analysts prior to releasing bad news.

"The exercise really is designed to proactively look at the approach the companies and analysts are taking... whether is inadvertent or deliberate," said Cathie Armour, commissioner of the Australian Securities & Investments Commission (ASIC).

ASIC has already launched a separate probe into possible breaches of continuous disclosure laws by Newcrest that could take a year or more to complete.

Newcrest on June 7 announced up to $6 billion in writedowns due to cost overruns at some of its gold mines, driving its stock down 14 percent. That added to a 12 percent slide over the previous two sessions after UBS, Credit Suisse, Citi, Deutsche Bank and Morgan Stanley all downgraded their outlooks on the miner.

The world's third-largest gold producer has launched its own investigation into how it releases market-sensitive information.

Newcrest Chief Executive Greg Robinson has said individual meetings took place with analysts and management between April and June, but that the discussions covered only information previously disclosed to the wider market regarding the performance of the quarter already past.

Between 15 and 20 members of ASIC will take part in the policing exercise, which relies on voluntary participation from the companies involved.

"We are about to enter into the reporting season for Australian companies and this provides us with an opportune time to remind the market about integrity on communications between companies and investors and analysts," Armour said.

Armour declined to discuss ASIC's investigation into Newcrest's disclosure practices apart from saying it "put the spotlight on the more general issue of companies and there briefings of research analysts."

MARKET NEWS

Rio's Oyu Tolgoi mine to start copper exports on July 9 - Mongolia

ULAN BATOR, July 8 (Reuters) - Rio Tinto will start exporting copper from the $6.2 billion Oyu Tolgoi mine in Mongolia on Tuesday, the Mongolian government said, but it was not clear if the miner would be able to repatriate sales revenue from the mine.

The unlocking of ore shipments is key for Rio to secure a further $4 billion in project funding for the expansion of the mine, which will significantly boost the Anglo-Australian miner's copper portfolio and ease its dependence on iron ore.

Rio Tinto , operator of the mine, declined to comment, citing the number of false starts. First exports from the mine have been delayed twice since the initial planned date of June 14.

Metals traders have been closely watching whether Rio gets official approval to export concentrate from Oyu Tolgoi amid a shortfall in shipments from the Grasberg mine in Indonesia, run by Freeport McMoRan Copper & Gold .

"The one great problem regarding Oyu Tolgoi's contract for the export of concentrate is no longer. First export will be on July 9th," Mongolia Mining Minister Davaajav Gankhuyag tweeted in Mongolian.

A spokesman for the mining ministry confirmed the statement.

Gankhuyag has said the delay in first exports was because the government and Rio were in disagreement on the arrangement of revenue generated from Oyu Tolgoi as well as the disclosure of the mine's $8 billion sales agreements.

Mongolia wants the sales revenues to be deposited in local banks while Rio wanted to repatriate the earnings overseas.

It remains unclear if Rio would be able to send the revenues offshore.

"We note that an arrangement has been reached on division of sales revenues between Mongolian accounts of Oyu Tolgoi LLC and its other registered accounts (presumably overseas)," Dale Choi, an analyst at Mongolian Metals & Mining Research, said in a note on Monday.

"Official announcement would be a significant first step for Mongolia to prevent itself from developing a precarious financial and economic situation it would find itself in case of further prolonged delay."

Rio subsidiary Turquoise Hill Resources Ltd owns a 66 percent stake in the mine, with the Mongolian government owning the remainder.

Rio's Australian shares were down 2.1 percent on Monday afternoon. The broad Australian stock market was down 0.5 percent.

Southern Copper might close Peru refinery -company email

LIMA, July 5 (Reuters) - Southern Copper Corp is considering closing its foundry and refinery in southern Peru because it does not think it will be able to meet tighter pollution standards, according to a company document.

The global miner, a unit of Grupo Mexico , said in an email circulated among employees this week that it is impossible to comply with limits on sulfur dioxide emissions that take effect at the start of 2014.

Reuters obtained a copy of the email. A source at the company confirmed the document's authenticity.

It is unclear how such a closure would affect the company's annual copper output, which the firm has estimated at about 650,000 tonnes this year.

Southern Copper said in the email that while the government has extended the deadline for complying with the stricter pollution standard, the technology that would enable the company to comply "does not exist."

"In our case it is possible that we see ourselves forced to close the foundry and refinery in Ilo," said the email, signed by Chairman and Chief Executive Oscar Gonzalez.

Peru's environment ministry, which introduced the new air quality standards, was not available for immediate comment. But in an April press release it said the new rules were reasonable and long overdue.

"The technology for reducing sulfur dioxide emissions has been around for many years. Unfortunately, in our country it was introduced long after our industrial plants and refineries started operating," the press release said.

Some 2,500 people work at Southern Copper's units in Cuajone, Toquepala and Ilo.

Chinese consortium selected to revive Uganda copper mine

By Elias Biryabarema

KAMPALA, July 5 (Reuters) - A Chinese consortium has won a concession to revive production at Uganda's Kilembe copper mines in the west of the country near the border with the Democratic Republic of Congo (DRC), a government official said on Friday.

The mine was abandoned in the early 1980s due to political turmoil in Congo and a fall in copper prices, but in recent years the government has been seeking an investor to resume production, encouraged by attractive world copper prices.

MARKET NEWS *(Continued)*

Uganda's Department of Geological Survey and Mines said Kilembe has an estimated 4 million tonnes of ore, of which 1.98 percent is estimated to be pure copper and 0.17 percent cobalt.

Jim Mugunga, spokesman for the finance ministry, said a total of five companies from China, Zambia and Australia had expressed interest in the mine, but the Chinese consortium led by Tibet Hima Industry Co Ltd had been selected.

"The committee met on Wednesday and approved the Tibet Hima led consortium as best evaluated bidder," Mugunga said.

In recent years China has emerged as one of the leading sources of investment and infrastructure financing for the prospective crude oil producer.

Last month China's Sinohydro Corp won a contract to build a 600 megawatt hydropower dam on the River Nile, expected to cost about $1.6 billion.

Mugunga said the consortium led by Tibet Hima had said it would invest $175 million in the first three to five years of the concession and would expand a nearby hydropower dam that supplies electricity to the mine from its current 5 megawatts capacity to 12 megawatts.

The concession is expected to last between 25 and 30 years. The consortium will pay a signing fee of $4.3 million and an annual concession fee of about $1 million, Mugunga said.

China's avg daily crude steel output rises in late June - CISA data

SHANGHAI, July 8 (Reuters) - China produced an average of 2.181 million tonnes of crude steel on a daily basis in the last ten days of June, up nearly one percent from the preceding 10-day period, the China Iron & Steel Association data showed on Monday.

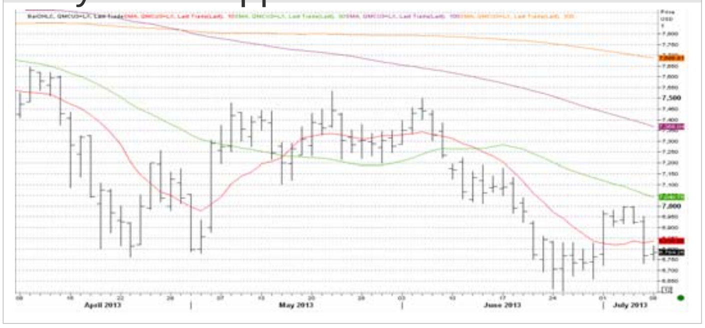
CISA estimated the country's total production based on its members, including more than 70 large steel mills that account for about 80 percent of China's total steel output.

CISA members produced a record high of 1.762 tonnes of crude steel on an average daily basis during the same period, up about one percent from the preceding period, data showed.

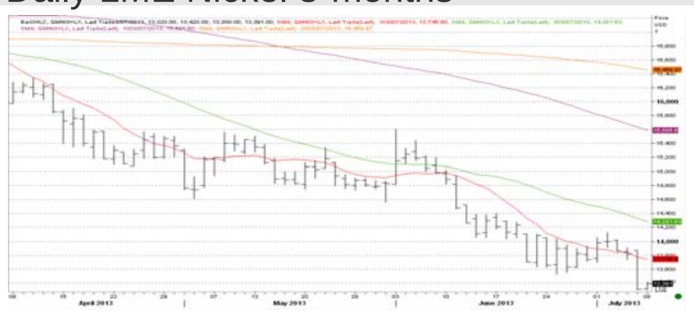
ANALYTIC CHARTS *(Click on the charts for full-size image)*

Daily LME Aluminium 3-months

Daily LME Copper 3-months



Daily LME Nickel 3-months



Daily LME Zinc 3-months

Daily LME Lead 3-months

Daily LME Tin 3-months

Daily LME Alloy 3-months

Daily LME Nasaac 3-months

MARKET REVIEW

METALS-London copper edges up; U.S. stimulus worries cap gains

By Melanie Burton

SINGAPORE, July 8 (Reuters) - London copper edged up on Monday on technical buying after a steep fall in the previous session, but expectations that U.S. economic stimulus will be scaled back as early as September after a solid labour report kept a lid on gains.

Three-month copper on the London Metal Exchange rose 0.3 percent to $6,798 a tonne by 0256 GMT on short covering, paring losses from the previous session when it fell by more than two percent.

Prices remain mired not far off a 3-year low of $6,602 a tonne touched June 25.

The most-traded November copper contract on the Shanghai Futures Exchange fell 1.27 percent to 49,050 yuan ($8,000) a tonne.

A better-than-expected U.S. jobs report on Friday sparked a fall in metals prices as investors would back expectations for demand, which fed into broader worries about slowing economic growth in China, the world's top copper consumer, said Melbourne-based ANZ analyst Natalie Rampono.

"Overall the market mood is still pretty bearish on China, so markets will probably be looking towards the import data on Wednesday to see if there has been an improvement," she said.

"The market is still very cautious at this stage. I think there's potential for relief rallies but these will short lived," she added.

U.S. job growth was stronger than expected in June and the payroll gains for the prior two months were revised higher, cementing expectations the Federal Reserve will start winding down its stimulus program as early as September.

The U.S. dollar hit a fresh three-year high against a basket of major currencies in Asia on Monday, adding pressure to metals. Commodities tend to fall as the dollar climbs because a stronger dollar makes commodities more expensive for holders of other currencies.

China's resolve to revamp its economy to win long-term gains will be tested this month when a slew of data is expected to show growth is grinding towards a 23-year low, with no recovery in sight.

China trade data is due on July 10, while GDP data is due July 15.

ANZ expects copper imports to improve month-on-month but to show year-on-year weakness.

Reflecting a bearish outlook by investors for commodities, hedge funds and money managers boosted a net short position in copper futures and options in the week to June 25, a report by the Commodity Futures Trading Commission (CFTC) showed on Friday.

PRECIOUS-Gold falls for 3rd session on stimulus outlook, dollar

By A. Ananthalakshmi

SINGAPORE, July 8 (Reuters) - Gold fell for a third session on Monday on fears the U.S. Federal Reserve could soon begin tapering its bond-buying stimulus after a stronger-than-expected jobs report, and as the dollar hit a three-year high.

Bullion, typically seen as a hedge against inflation, has fallen 10 percent since Fed Chairman Ben Bernanke said last month the U.S. economy was recovering strongly enough to reduce its $85 billion monthly bond buying stimulus later this year.

U.S. employers added 195,000 new jobs to their payrolls last month, exceeding expectations of 165,000 and supporting the case for a Fed pullback.

"The jobs report is pulling gold prices down," said Peter Fung, head of dealing at Hong Kong's Wing Fung Precious Metals.

"Some physical buying interest supported prices earlier but we could test $1,200 again today."

Gold for immediate delivery fell 0.2 percent to $1,220.59 an ounce by 0632 GMT following a 2 percent decline on Friday. Comex gold was higher by about $8 at $1,220.20.

Spot gold is expected to revisit its June 28 low of $1,180.71 per ounce as it may have resumed its primary downtrend, Reuters technical analyst Wang Tao said.

The U.S. dollar rose 1.5 percent and hit a fresh three-year high against a basket of major currencies in Asia on Monday.

FURTHER DECLINES

Gold posted its biggest quarterly loss on record, down 23 percent for April-June, and fell below $1,200 for the first time in nearly three years after Bernanke's comments on tapering.

Liquidations from gold-backed exchange-traded funds continued, signalling waning interest in the metal. SPDR Gold Trust , the world's largest gold ETF, said its holdings fell to a four-year low of 961.99 tonnes on Friday.

"We're predicting gold will continue to drop year after year roughly by $100 on average each year," Michael Haigh, managing director at Societe Generale, told reporters at a briefing in Singapore.

Haigh sees gold prices hovering around $1,200 towards the end of the year and fall further to average at $1,150 in 2014.

He also said as prices fall below $1,200, some gold miners will start hedging, adding to the bearish momentum.

MARKET REVIEW *(Continued)*

FOREX-Dollar makes big strides as strong U.S. jobs sharpen Fed view

By Ian Chua and Hideyuki Sano

SYDNEY/TOKYO, July 8 (Reuters) - The U.S. dollar hit a fresh three-year high against a basket of major currencies on Monday as market expectations grew that the Federal Reserve will scale back stimulus as early as September following solid jobs growth.

But weakness in Chinese and other Asian shares on worries about China's tighter credit policy hampered investor risk sentiment, helping the yen recover from a five-week low against the dollar.

The dollar index rose as high as 84.588 early in the Asian trading day, reaching a level not seen since July 2010. It was last at 84.534.

The index jumped 1.5 percent on Friday in its best one-day gain in 20 months after data showed employers added a higher-than-expected 195,000 new jobs to their payrolls last month.

That took the average job growth to 196,333 per month in the second quarter, in line with the 200,000 jobs that economists say the Fed wants to see each month.

Analysts at Barclays Capital said the data has reinforced their views the dollar will gain further momentum in the second half of 2013 as the Fed begins to normalise monetary policy.

"We believe steady improvement in labour market conditions will be enough for the Fed to start tapering its asset purchases in September," they wrote in a report.

In contrast, they expected the European Central Bank, Bank of Japan and Bank of England to stay dovish for the foreseeable future due partly to ongoing headwinds for their respective economies.

"The contrast in monetary policy outlooks among these banks suggests further upside in the dollar against the euro, sterling and yen."

The divergence is clear in bond markets, with 10-year Treasury yields spiking 23 basis points on Friday to 2.75 percent, highs last seen in August 2011. The spread between Treasury and bund yields gapped to the widest since 2006.

The euro traded at $1.2817 , not far off a seven-week trough of $1.2806 plumbed on Friday.

The dollar also rose to as high as 101.54 yen , its highest level since late May, though selling from Japanese exporters curbed its gains.

The dollar looks solid on daily Ichimoku charts, where it has broken above the cloud top, at 100.83, a major bull signal.

Still, the U.S. currency gave up gains to last trade at 101.16 yen, down slightly from late U.S. levels last week, as Chinese shares were down around two percent, underscoring concerns about Beijing's plan to choke off credit.

"On the whole, the dollar looks likely to gain further. But then again, if Chinese shares face more pressures, we could see a bigger dip in the dollar/yen," said Koichi Takamatsu, forex manager at Nomura Securities.

The dollar also rose against commodity currencies, knocking the Australian dollar back towards a 34-month trough of $0.9036 plumbed last week. The Aussie was last at $0.9048, down 0.2 percent on the day, undermined by soft Chinese shares.

The near-term outlook for the Aussie hinges on a flurry of data out of China this week including inflation on Tuesday and trade on Wednesday. On Thursday, Australia's employment data will also be closely watched.

Further evidence of a slowdown in China, Australia's biggest export market, will no doubt take a heavy toll on the Aussie, which has fallen more than 10 percent on trade-weighted terms since mid-April.

(Inside Metals is compiled by Pradip Kakoti in Bangalore)