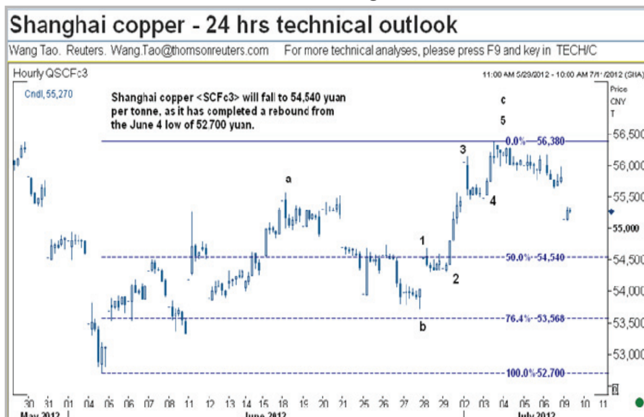
INSIDE METALS

Monday, July 9, 2012

CHART OF THE DAY

Click on the chart for full-size image



Click here for LME charts

GENERAL NEWS

- BHP Olympic Dam delay would tighten copper supply
- Australia's Queensland to join mining tax challenge
- Philippines president signs mining policy after delays

MARKET NEWS

ALUMINIUM:

- European crisis weighs on Aluminium Bahrain sales
- Mining permit delays Cameroon alumina project

COPPER:

- Codelco aims to reach deal with Anglo by July 17

NICKEL/STEEL:

- China's Hebei Steel gets approval to invest in Canada iron ore miner
- Honbridge picks pipeline for Brazil iron mine -paper
- SocGen cuts price targets on metals, mining cos
- Australia's P.Hedland June iron ore shipments to China down
- Steelmakers SAIL, Kobe to sign JV for India plant
- China's Angang Steel sees 1.98bln yuan H1 net loss

FEATURE

COLUMN- Iron ore defies commodity slowdown, for now

It's not hard to find bearish views on the steel industry, given renewed recession in Europe and slower growth in China, but these seem in contrast to the resilience in the iron ore market.

Clyde Russell is a Reuters columnist. The opinions expressed are his own

Click here to read more..

- **Low aluminium price seen hurting Alcoa profit**

TODAY'S MARKETS

BASE METALS: London copper was steady as data showing China's inflation cooled in June triggered hopes for policy easing by the top consumer of the metal, offsetting a bleak U.S. jobs report that drove down prices in the prior session. China's annual consumer inflation came in at 2.2 percent, from May's 3.0 percent, leaving room for Beijing to ease policy without stoking upward price pressures and helping most commodities recover from previous session's losses triggered by the dismal U.S. jobs data.

"Better-than-expected China inflation numbers supported sentiment, although technicals have a greater effect on prices lately as investors continue to trade within safe narrow ranges," said CIFCO Futures analyst Zhou Jie.

PRECIOUS METALS: Gold inched down, extending losses to a third session, on a lack of conviction the U.S. Federal Reserve would take measures to stimulate the economy anytime soon even after a disappointing jobs report. U.S. non-farm payrolls increased by just 80,000 in June, lower than a forecast of 90,000, raising pressure on the Fed to do more to help the frail recovery.

"The market is not sure where prices should go and the sentiment is fragile," said Lynette Tan, an analyst at Phillip Futures, adding that prices are likely to remain rangebound for the time being with investors stuck in data-watching mode.

FOREX: The euro steadied after dropping to a two-year low against the dollar early , with little expected to emerge from a meeting of euro zone financial leaders later in the session. The financial meeting will focus on follow-up steps to European leaders' plan revealed last month to shore up indebted states and banks, but the latest talks may only highlight the initial deal's limitations.

"If leaders couldn't agree on details, there's little chance that the finance ministers will reach any further agreement, so anyone betting on another positive surprise might be disappointed," said Kimihiko Tomita, head of foreign exchange for State Street Global Markets in Tokyo.

FEATURE

COLUMN-Iron ore defies commodity slowdown, for now

By Clyde Russell

LAUNCESTON, Australia, July 9 (Reuters) - It's not hard to find bearish views on the steel industry, given renewed recession in Europe and slower growth in China, but these seem in contrast to the resilience in the iron ore market.

China's steel production and consumption is maturing and unlikely to witness rapid growth in the future, while Europe's steel industry is in terminal decline and three-quarters of its capacity may be shut in the next two decades, Wolfgang Eder, the head of European steel body EUROFER said recently.

Views such as Eder's are becoming more widespread and there is much more talk of "peak steel", when demand reaches a plateau, most likely leading to excess capacity and declining prices for both steel and its main raw material, iron ore.

Peak steel is premised more on a limit to demand growth as opposed to the largely discredited peak oil theory, which postulated that supply would be unable to keep up with consumption.

But, as with the peak oil theory, peak steel has its weaknesses, assuming no technological progress and no ability of suppliers to respond to slower demand growth.

It is logical to assume that China won't continue to post double digit growth in both iron ore imports and steel production indefinitely, but given the high rates of the past decade, even small increases in percentage terms result in large changes in actual volumes.

It is probably this dynamic that has underpinned the iron ore market so far this year.

Spot iron ore in Asia is down only 2.5 percent in year-to-date terms at $135.10 a tonne, compared with a drop of 8.5 percent for Brent oil and 6 percent for the Thomson Reuters-Jefferies CRB Index.

On the face of it, it doesn't appear to make much sense that iron ore is outperforming crude at a time of slowing world growth, led by concerns over the state of China, while at the same time oil demand remains in positive territory and there is significant geopolitical risks over Iranian supplies.

However, China's economic slowing has yet to translate to steel output, which is still hovering around 2 million tonnes a day, a level that has been fairly constant since April and is well above the levels just under 1.7 million tonnes a day that prevailed for the first two months of the 2012.

Iron ore imports are up 8.9 percent in the first five months of 2012 over the same period last year, on track to comfortably beat the estimate of 6 percent full-year growth made by analysts in a Reuters survey in December.

If the pace of imports continues, China will bring in 740 million tonnes of iron ore in 2012.

Even if imports slacken back to 6 percent growth by the end of the year, China will still buy 728 million tonnes of the steel-making ingredient.

The lower import figure still results in average monthly imports of 59.9 million tonnes for the June-to-December period, not far below the 61.7 million achieved in the first five months.

Graphic of Indian iron ore exports since 2000/01:

http://link.reuters.com/nan29s

It would take steel output in China to weaken substantially before any significant slackening of demand would emerge for iron ore, and while there may be a few lean months coming, stronger infrastructure spending by the fourth quarter should boost demand by the end of the year.

With iron ore demand likely to be flat in the rest of the world, growth in demand is the domain of China.

Based on the first five months of the year, which were strong, and factoring in a slightly weaker second half, it's likely that China will import at least 728 million tonnes of iron ore, and possibly as much as 740 million.

That means an increase in overall volumes of between 41 million and 54 million tonnes.

While iron ore production globally is expected to surge in the next few years, the additional output isn't quite yet on stream.

Brazil's Vale, the world's biggest iron ore exporter, is expecting to ship 310 million tonnes in 2012, slightly less than the 311.8 million tonnes it did in 2011.

Australia's government forecaster said iron ore exports would rise to 510 million tonnes in the fiscal year that started July 1 from 463 million in 2011-12.

That implies an extra 42.5 million tonnes a month on average out of Australia, just enough to meet the lower end of China's likely increase in demand.

So far, this all sounds pretty much in balance, until you factor in the halving of exports from India, the number three shipper behind Australia and Brazil.

Indian used to export about 100 million tonnes a year, but this dropped by more than half in the first 11 months of 2011 after the government imposed a 30 percent export duty and mines were closed in Karnataka state, the main mining region.

While mines may restart soon, this is unlikely to result in Indian exports of iron ore returning to previous levels, as the ore will be used by domestic steel mills.

The loss of 50 million tonnes a year of Indian cargoes in the global seaborne market, coupled with demand growth of at least 40 million from China is enough to justify iron ore outperforming other commodities as there is probably a supply shortfall, even given weakness in European steel.

Of course, the market balance will alter in the next five years if all the iron ore expansions come to fruition and China's demand growth flattens faster than expected.

FEATURE *(Continued)*

But only a Malthusian would believe that this marks the end of iron ore's resilience, as the dominant global miners, Vale, Rio Tinto and BHP Billiton are far more able to reduce supply if they see prices weakening too much.

--Clyde Russell is a Reuters market analyst. The views expressed are his own.--

Low aluminum price seen hurting Alcoa profit

By Steve James

NEW YORK, July 6 (Reuters) - Aircraft and automobile makers may be using more aluminum, but as long as the metal's price remains near two-year lows, Alcoa Inc will struggle, analysts said on Friday.

The average earnings estimate has been cut over the past week from 15 cents per share and Wall Street now expects Alcoa to post only a 5-cent per share second-quarter profit on Monday, according to Thomson Reuters I/B/E/S. That compares with 32 cents per share in the same quarter last year.

With an overhang of high inventories and a 20-percent drop in prices since March, many aluminum producers are losing money. Benchmark three-month London Metal Exchange aluminum stood at $1,903 a tonne on Friday - hovering above the $1,880 low of June 2010.

After a surprise profit in the first quarter, Alcoa's Chief Executive Officer Klaus Kleinfeld painted a rosy picture of improving demand from the aerospace and auto industries, which are using more aluminum to reduce weight and improve fuel efficiency.

"Aerospace helps them, but it's only 14 percent of their earnings," said analyst Charles Bradford, of Bradford Research in New York. The auto market is an even smaller percentage of Alcoa's business.

Alcoa's core is its upstream business - mining bauxite, refining it to produce alumina, which is smelted into aluminum. And with raw material and power costs rising and aluminum prices depressed because of over-supply, Bradford saw little relief.

Tony Rizzuto, managing director of Dahlman Rose & Co, cut his second-quarter Alcoa estimate to 3 cents per share from 7 cents per share, citing the aluminum price.

"Although we continue to like the performance of the company's downstream businesses, we expect the shares to remain pressured as long as LME aluminum prices remain at depressed levels," he said.

Nomura analyst Curt Woodworth lowered his estimate from 5 cents per share to break-even on weaker aluminum prices. "The rise in aluminum physical premiums has helped to offset a fall in spot prices, but we feel it is likely a short-term phenomenon, given the overcapacity," he said.

Leo Larkin, analyst with S&P Capital IQ, lowered Alcoa's 12-month target stock price by $1, to $10, "to reflect a less optimistic outlook for aluminum prices."

He cut his second-quarter estimate to 9 cents per share from 15 cents. "We believe that the aluminum market will remain in surplus, and offset otherwise strong end-market demand."

Bradford noted the aluminum price was down $120 per tonne from the first quarter, which he calculated as subtracting $264 million from Alcoa's expected revenue of $5.8 billion.

"The price is part of it, but this time, although the decline is significant, it could be offset by about half by currency in Alcoa's favor," he said.

Alcoa, which operates all over the world, pays much of its costs in foreign currencies.

"But the Aussie and Canadian dollars are down and the euro has been hit too and that helps their costs," said Bradford. According to Reuters, the euro fell 5.1 percent against the U.S. dollar in the second quarter, the Australian dollar fell just over 1 percent and the Canadian dollar fell 1.8 percent against the U.S. currency.

Alcoa's stock was down 3 percent at $8.65 on the New York Stock Exchange at midday on Friday, on a day when the broader market was down about 1.5 percent.

GENERAL NEWS

BHP Olympic Dam delay would tighten copper supply

SYDNEY, July 6 (Reuters) - BHP Billiton will tighten global copper supply from late 2013 onward if it postpones work on its single-biggest project, the $30 billion expansion of the Olympic Dam mine in Australia.

A 25 percent drop in benchmark international copper prices since early 2011 has eroded potential returns from the project, and the economic slowdown in top base metal consumer China has dampened the demand outlook.

BHP's scheme to quadruple output from Olympic Dam - the fourth-largest known copper deposit and largest uranium source in the world - is one a growing number analysts believe likely to be shelved until markets stabilise.

" Now is not exactly the right time to be thinking of bringing more copper into the market and BHP knows this," said Gavin Wendt, a mining analyst with MineLife in Sydney.

"Sure, longer term, the market may be there, but for the next few years at least, there's plenty of the stuff around."

London copper prices have fallen to around $7,650 a tonne from a peak over $10,000 in early 2011 as big copper buyers such as car and computer manufacturers slow consumption.

China cut its interest rates for the second time in weeks on Thursday, stepping up efforts to bolster the world's second-largest economy, which last quarter probably saw its weakest growth since the global financial crisis.

China accounts for about 40 percent of global copper demand, making it among the raw materials most sensitive to China's economic performance.

Responding to shifting fundamentals, BHP abandoned in May an $80 billion investment plan and announced a spending rethink.

"Olympic Dam is surely under review," said UBS mining analyst Glyn Lawcock. "It's not an issue of finding the cash," he said, but rather ensuring a good return on the investment.

For BHP's board, the challenge is to time the expansion to coincide with a market providing maximum returns.

The board is due to decide by the end of the year whether or not to continue work to transform Olympic Dam from an underground mine to an open pit operation capable of yielding 750,000 tonnes of copper and 19,000 tonnes of uranium a year.

BHP's decision will be complicated by mixed views on the supply and demand balance for copper.

This year, supplies are running around 180,000 tonnes behind demand, and that deficit could narrow to around 7,000 tonnes in 2013 as new production comes on stream, according to a Reuters poll in April.

As the global economy falters that deficit could become a glut. Increased use of scrap copper could also mean oversupply.

Further curbing the appetite for refined copper, BHP now sees recycled scrap meeting up to 50 percent of China's overall demand in the coming year for the metal, up from 35 percent now.

The Lisbon-based International Copper Study Group, which compiles data from producers and consumers, expects global refined copper output to exceed demand by 350,000 next year.

"That alone suggests Olympic Dam isn't needed for at least another two years," said Wendt of MineLife .

"The slowdown occurring in China is not something BHP will have seen coming when it started making plans to expand," said David Lennox, a mining analyst for Fat Prophets in Sydney.

Late last year, BHP's board earmarked $1.2 billion for "pre-commitment" funding after the government of South Australia state ratified an indenture agreement with BHP that mandated a final board decision on the mine by the end of 2012.

"Given world economic circumstances, I think there is a much bigger question mark over it now than there was perhaps when the indenture was ratified by the parliament at the end of last year," said Isobel Redmond, a state parliamentarian pushing to see Olympic Dam developed to help stimulate jobs.

RISKY BUSINESS

The expanded output from Olympic Dam would eventually account for around 4 percent of global copper needs and 20 percent of uranium supply, according to environmental impact documents lodged in Australia.

That's up from existing output of around 1 percent of copper consumption and 4 percent of uranium supply.

A delay is unlikely to have much impact on near-term spot prices, but a reduction of that magnitude in future supplies will impact longer-term price assumptions.

BHP says its timetable will ultimately depend on market and economic dynamics. Analysts expect additional output from the mine to start to rise within a year of construction, though it will be the latter half of the decade before production hits its stride.

"Copper traders are starting to look over their shoulders and building in a bit of a price risk that they are going to put Olympic Dam on hold," said Lennox.

Doing so could put producers at a disadvantage when demand and prices recover. The risk for BHP is it might be unable to capitalise quickly on any upturn in the commodities cycle.

That's what happened in 2005, when copper prices tanked to under $3,000 a tonne, leading many miners, including BHP, to rethink expansions, only to see prices nearly triple by 2007 in a vastly under supplied market.

So even if the Olympic Dam expansion schedule is reset, it is unlikely to be on the shelf for too long.

A push by miners to dig massive new lodes in other parts of the world - namely North and South America, Africa and Mongolia - won't necessarily assure plentiful future supplies of copper.

GENERAL NEWS *(Continued)*

One reason for that is many of the new mines contain much less copper than the mega-strikes of the last century.

The Oyu Tolgoi mine in Mongolia under development by Rio Tinto , for example, would yield little more than half that of Olympic Dam at its peak.

At the same time, BHP is weighing up expansion work at its Spence and Escondida copper mines in Chile. BHP owns 57.5 percent of the Escondida lode currently the world's single-largest copper mine.

URANIUM SIDESHOW

The spot uranium price is languishing at just above $50 a pound, down from around $70/lb after an earthquake and tsunami in 2011 crippled Japan's Fukushima nuclear power plant and led to the closure of Japan's 50 reactors and soured sentiment elsewhere for nuclear power.

Japan has since approved the restart of two reactors, though the sector is far from a full recovery.

Fundamentals may improve next year when the Megatons to Megawatts treaty expires, under which Russia has supplied the U.S. market with 25 million pounds a year of downgraded uranium from old nuclear weapons, or about 17 percent of global supply.

A supply gap is forecast after 2013 since emerging nations have pressed on with reactor building programmes despite the Fukushima crisis, analysts say.

Globally, 63 nuclear reactors remain under construction and 97 new reactors are due to be built by 2021.

For its part, BHP insists uranium from Olympic Dam is little more than a welcome by-product providing an additional income stream and that copper will always dictate the project's course.

Australia's Queensland to join mining tax challenge

MELBOURNE/CANBERRA, July 9 (Reuters) - Australia's northern Queensland state plans to join a challenge to the federal government's Minerals Resource Rent Tax (MRRT) in the High Court, saying the tax unfairly discriminates against the resource-rich state, the state government said on Monday.

Queensland's attorney-general Jarrod Bleijie told reporters the state will join the legal action launched against the tax by Fortescue Metals Group , Australia's No.3 iron ore miner.

"We are one of the biggest resources states in Australia along with Western Australia so it's important we protect that and do everything we can to protect that as much as we can," Bleijie said.

He also told local media that legal advice supported his state's view that the new tax discriminates between states, raising the possibility it is constitutionally invalid.

Treasurer Wayne Swan said the challenge was a political action from Queensland's conservative government, and would waste taxpayers' money.

"It appears that the Queensland government is prepared to waste taxpayers' money on a futile challenge," Swan told local media. He said the government was confident in its legal advice that the tax would withstand the challenge, adding the other resources-rich state Western Australia also saw the challenge as futile.

"If you listen to the premier of Western Australia has to say, he doesn't think such a challenge will be successful," Swan said.

The Western Australian government was not immediately available to comment.

The 30 percent tax on mining profits was passed last year by Prime Minister Julia Gillard's minority government, after 18 months of acrimonious debate that brought down former prime minister Kevin Rudd.

It came into effect on July 1, and is expected to raise A$9.7 billion ($9.9 billion) over its first three years for the federal government budget

Philippines president signs mining policy after delays

MANILA, July 8 (Reuters) - Philippine President Benigno Aquino has signed a new executive order spelling out the government's policy on mining, a move that will influence the development of $12 billion worth of new projects over the next five years, officials said.

The signing ends months of waiting by a mining industry frustrated over a moratorium on new projects imposed since January last year as the government started a review of its mining policy. The government has said the new policy is one step toward the lifting of the moratorium.

Government officials, including Aquino's spokesman, did not give details of the policy but said the environment and natural resources minister would explain in detail the new executive order at a media briefing on Monday.

"This policy aims to bring the mining situation to a middle ground, where the objective of enhancing the economic benefits from the use of mineral resources is attained while not compromising the interest of the environment and communities, including indigenous peoples," Leo Jasareno, head of the state regulator Mines and Geosciences Bureau said in a text message to Reuters on Sunday.

"We see the industry moving forward under the regime of responsible mining."

About $12 billion worth of new projects planned in the next five years will be affected by the new policy, including the $5.9 billion Tampakan copper-gold project in southern Philippines by global miner Xstrata Plc and Australia's Indophil Resources NL .

GENERAL NEWS *(Continued)*

The lifting of an 18-month moratorium on new mining projects in the country is unlikely to happen immediately after the release of the new EO, as the government wants lawmakers to first pass new legislation seeking more state revenues from mining to offset environmental risks, Aquino told Reuters on Monday.

Aquino also said he wants to see more mineral processing in the country, instead of the current practice of merely shipping ore to China and Japan, among others, due to the lack of local processing facilities.

The new policy would also seek to increase fees related to mineral exploration, as the existing fee structure is outdated, Environment Secretary Ramon Paje told reporters last month.

The Southeast Asian nation sits on an estimated $1 trillion worth of untapped mineral resources - mostly gold, nickel and copper.

MARKET NEWS

European crisis weighs on Aluminium Bahrain sales

ABU DHABI, July 8 (Reuters) - Aluminium Bahrain's output edged up 1.7 percent in the first half of 2012 but sales were almost flat as weak economic growth in Europe dampened demand in the first quarter, Alba said on Sunday.

Production at one of the world's largest aluminium smelters was 443,533 tonnes in the first half of the year, against 436,256 tonnes in the same period of 2011, a company statement said.

Sales edged up to 446,044 tonnes versus 445,370 tonnes in the first half of 2011.

"Our sales and production figures reflect the company's operational focus on delivering progress while facing challenges," Chief Executive Laurent Schmitt said, pointing to a fall in aluminium prices and weak economic growth in Europe.

Bahrain's state-run energy supplier raised Alba's gas supply costs by $0.75 per million British thermal units (mmbtu) to $2.25/mmbtu on January 1, but Alba still enjoys cheaper fuel than its competitors outside the Gulf.

The company plans to increase capacity from 881,000 tonnes to 1.28 million tonnes a year in 2015 with a new production line.

Mining permit delays Cameroon alumina project

YAOUNDE, July 6 (Reuters) - More than three years on and a $4.3 billion project to build a bauxite mining and alumina refinery in Cameroon is still waiting for a mining permit, a company executive said on Friday.

India's Hindalco, Dubai Aluminium Company (Dubal) and Hydromine Inc announced plans for their Cameroon Alumina Ltd (CAL) joint venture in 2008.

The project plans to tap bauxite reserves at Minim-Martap and Ngaoundal deposits in the Adamawa region of northern Cameroon.

"The kick-off of our project is so far delayed because we don't yet have a mining permit," CAL Deputy General Manager Joel Sinquin, told Reuters in an interview.

"We are pushing negotiations with the government and our hope is to be granted the licence as soon as possible, maybe before the end of this year or early next year."

CAL had aimed to produce 4.5 to 9 million tonnes of bauxite per year starting in late 2014. Sinquin said the company now expects to start building the refinery in 2015 and start commercial production in 2018.

The alumina refinery, with a capacity of 1.4 to 3 million tonnes, would be only Africa's second alumina refinery. Rusal operates one in Guinea.

"We are planning an annual production of 1.5 million tonnes of alumina per annum, doubling the continent's current lone producer in Guinea-Conakry which produces about 700,000 tonnes a year," Sinquin said.

"That is at least the first two to three years, after which it will go up to 3 million tonnes per year," Sinquin said.

Alumina is the raw material for the production of aluminium which is used in the manufacturing of vehicles, aircrafts, and domestic products.

"Once we obtain the mining licence, it will take two years of a detailed study at the site and three years after to construct the refinery before mining of the bauxite begins," Sinquin said.

Sinquin said the government may be taking a longer time to go through the project's feasibility study because of the size of the project, and may also be seeking guarantees to ensure that commercial production will indeed begin once the mining licence was granted.

Cameroonian authorities were not available for immediate comment.

However, the central African nation, though seeking to boost investments in its under-explored mineral resources, has made changes to its mining code, insisting that projects must show adequate finances before obtaining a permit.

Sinquin said funding the CAL's alumina project was not an issue given the financial solidity of the companies involved in the joint venture.

According to the country's mining laws, Cameroon's president, Paul Biya, must give the final approval for all mining projects.

MARKET NEWS

Codelco aims to reach deal with Anglo by July 17

SANTIAGO, July 6 (Reuters) - Codelco , the world's No. 1 copper producer, aims to reach a deal to solve a dispute with global miner Anglo American Plc before the companies' negotiation window closes on July 17th, Chairman Gerardo Jofre said on Friday.

When asked by Reuters whether the mining companies were inclined to extend a self-imposed deadline for the talks for a second time, Jofre told reporters "No ... We're trying to do it within the given time frame." The mining firms appear poised to clinch a deal to solve their multibillion-dollar, three-continental dispute over Anglo's south-central Chilean copper assets. They announced on May 22 they had asked for a suspension of their legal fight.

The companies have maintained a strict silence around the confidential talks, but the alternative floated most commonly in the industry involves state-owned Codelco buying 24.5 percent of the assets and receiving some sort of compensation. Anglo's head of copper John MacKenzie declined to comment on the talks. He, Jofre and other mining executives were attending a ceremony at the presidential palace to launch the first blasting operations to transform Codelco's century-old Chuquicamata copper mine into an underground operation. Graphic: Codelco, Anglo output: http://link.reuters.com/ret88s

The dispute between Codelco and Anglo centers on an option agreement dating to 1978. Codelco said in October it would exercise the option to buy a 49 percent stake in Anglo American Sur (AAS) when the option window opened in January.

But weeks later, Anglo surprised everyone with the pre-emptive sale of a 24.5 percent stake in AAS to Mitsubishi Corp , in a $5.4 billion deal that dented Codelco's ambitions but which it said secured better value for investors. Since then, the companies have been tussling for the properties, which include Los Bronces, a promising mine that used to be called La Disputada, "the disputed one," in Spanish.

A slice of the prized properties would be a major boost for Codelco, which faces stubbornly dwindling ore grades in its tired deposits as it seeks to boost its annual output to 2.1 million tonnes by 2020. Anglo's shares closed down 2.73 percent on Friday, outpacing a 2.19 percent fall on the broader FTSE 350 mining index

China's Hebei Steel gets approval to invest in Canada iron ore miner

BEIJING, July 8 (Reuters) - Hebei Iron & Steel Group, China's largest steel producer, has been given the go-ahead to invest in Canadian iron ore developer Alderon Iron Ore Corp , the official Xinhua News agency quoted local authorities as saying on Sunday.

Hebei Steel said in April that it would invest about C$194 million ($195 million) for a near 20-percent stake in Alderon and a 25-percent interest in Alderon's principal asset known as the Kami project, located in Canada's Labrador Trough.

The deal would also give Hebei the right to buy 60 percent of annual iron ore produced from the Kami project.

The investment has gained approval from the country's top economic planning body, the National Development and Reform Commission (NDRC), Xinhua said, quoting a statement released by the NDRC's branch in Hebei province.

The Kami project has a proven reserve of about 1 billion tonnes, with an expected annual output of 8 million tonnes after it goes into production in 2015, Xinhua said.

The deal is part of efforts by Chinese steel producers to gain more control over foreign iron ore supplies, dominated by a handful of global miners.

China's steel mills have been urged to source at least half of their iron ore imports from Chinese-owned or invested projects by 2015, according to a government plan issued last year.

Honbridge picks pipeline for Brazil iron mine -paper

RIO DE JANEIRO, July 7 (Reuters) - Hong Kong's Honbridge Holdings Ltd plans to build a 420-kilometre (260-mile) pipeline to ship iron-ore from a mine in Brazil's Minas Gerais state to a port on the country's Atlantic coast, the Estado de Minas newspaper reported on Saturday.

The pipeline will carry a slurry of water and fine, processed iron ore to the port of Ilheus in Brazil's Bahia state, as part of Honbridge $3.6 billion Sul America de Metais (SAM) project, the paper said, citing Minas Gerais officials.

Officials said the project could require an additional $600 million in investments, bringing total spending to $4.2 billion, Estado de Minas reported.

SAM plans to export 25 million tonnes a year of iron ore to Chinese and other steelmakers, the paper said, citing Minas Gerais officials. SAM is managed by Brazil's Votorantim Group, which sold the project to Honbridge for $390 million in April 2010. No date for start-up was given.

Honbridge's efforts are part of a flurry of new iron ore mining projects being developed in Brazil by local miners such as Vale SA , MMX Mineracao e Metais and Cia. Siderurgica Nacional and foreign-backed companies such as SAM and Ferrous do Brasil SA to meet the growing demand for steel in China and the rest of Asia.

These projects are expected to boost Brazilian iron-ore output by more than 40 percent to 450 million tonnes a year in 2015 from 420 million tonnes in 2011, according to Macquarie, an Australian-based banking group, and Ferrous do Brasil.

MARKET NEWS *(Continued)*

Honbridge submitted an environmental license petition for the pipeline with Brazilian environmental authorities on July 3 and has already received a water-use license, Honbridge said in a July 4 filing with Hong Kong securities regulators.

The application is for a preliminary environmental license that would allow the company to move ahead with planning and pre-construction activities.

Getting final approval and starting output could take three to five years based on the progress of other Brazilian iron-ore mine projects in the region.

The pipeline option was chosen over a rail-transport plan that required the construction of a spur line to the proposed mine and an upgrade to existing track, Estado de Minas reported.

To provide water for the pipeline, SAM plans to build an $80 million dam on the Vacaria River near Salinas, in the north of Minas Gerais, state officials told the paper.

The dam will also provide water to irrigate 500 small farms in the impoverished and drought-prone region.

Honbridge in April 2011 signed an agreement with the Shougang Group , one of China's largest steelmakers, to provide it with 10 million tonnes of iron ore for 15 years.

Chinese state-owned Shougang also agreed to a prepayment of $1.5 billion to help finance the new supply.

SocGen cuts price targets on metals, mining cos

July 6 (Reuters) - Metals and mining companies will continue to face tough market conditions on disappointing demand from China, an uncertain U.S. economy and the euro zone crisis, Societe Generale said, cutting price targets on several stocks, including ArcelorMittal and BHP Billiton Plc .

Steelmakers are in for a supply glut as global demand continues to shrink, SocGen said, downgrading ThyssenKrupp AG , Germany's biggest steelmaker, to "hold" from "buy."

ThyssenKrupp said last month that it hired Goldman Sachs and Morgan Stanley to dispose its loss-making steel plants in North America.

SocGen slashed its price target and earnings estimates on Antofagasta Plc , Eramet SA , Glencore International Plc , Anglo American Plc , Rio Tinto Plc and BHP on flattening demand from China and unattractive valuations.

"We believe that mining companies' interim results are likely to come in on the low side - and fear that investors will be disappointed by a second round of earnings downgrades," the brokerage said.

ThyssenKrupp shares were down nearly 2 percent at 0958 GMT on Friday. The STOXX Europe 600 basic resources index was down 1 percent.

Australia's P.Hedland June iron ore shipments to China down

SYDNEY, July 9 (Reuters) - Iron ore shipments to China from Australia's Port H edland f ell b y 7 .6 p ercent in June from the previous month, according to port authority data.

Shipments to China retreated to 16 . 09 million tonnes from 17.42 million tonnes in May, the data showed. Iron ore shipments were still up 16 percent on June last year.

Total iron shipments from Port Hedland in June were 21.51 m illion tonnes against 22.5 million tonnes in May and 20.7 million tonnes in April, making it a record quarter.

BHP Billiton is the port's biggest user, followed by Fortescue Metals Group Ltd .

Japan imported 2.51 million tonnes in June versus 2.73 million tonnes in May the data showed. June shipments to South Korea totaled 1. 9 m illion to nnes against 1.8 million tonnes in May.

Steelmakers SAIL, Kobe to sign JV for India plant

MUMBAI, July 6 (Reuters) - The Steel Authority of India Ltd (SAIL) will sign a joint venture agreement with Japan's Kobe Steel on July 10 to set up an iron nugget plant with a capacity of 0.5 million tonnes a year, India's steel ministry said on Friday.

The plant, at Durgapur in eastern India, will use Kobe's patented ITmk3 technology to produce iron nuggets, which are used to make steel.

SAIL said earlier the two companies jointly expected to invest 15 billion rupees ($270 million) in the project.

Steel demand in Asia's third-largest economy has been growing at nearly double-digit rates in the past few years, pushing local firms to boost capacity and attracting global steelmakers to set up bases in the country.

Output from the Durgapur plant will be shared by SAIL and Kobe for captive use in their own steel plants, the steel ministry said. The two companies will sign the agreement in Japan, it added.

State-owned SAIL is India's largest domestic steelmaker but lags Tata Steel's global capacity of 28 million tonnes.

Japan's JFE holds a 15 percent stake in JSW Steel , India's third-largest steelmaker, while rival Nippon Steel is joining with Tata Steel to set up an automotive sheet steel plant.

SAIL also is in talks on a joint venture with South Korea's POSCO for a 1.5 million tonne steel plant in eastern India and earlier conducted a joint feasibility study to widen ties with Kobe.

MARKET NEWS *(Continued)*

China's Angang Steel sees 1.98bln yuan H1 net loss

July 6 (Reuters) - China's Angang Steel Co Ltd said on Friday it expects to record a net loss of around 1.976 billion yuan ($309 million) in the first half of 2012 mainly due to a significant decrease in the prices of steel products.

In the first half of last year, Angang Steel had reported a net profit of 220 million yuan, based on audited figures, the Chinese firm said in a statement on the Hong Kong stock exchange.

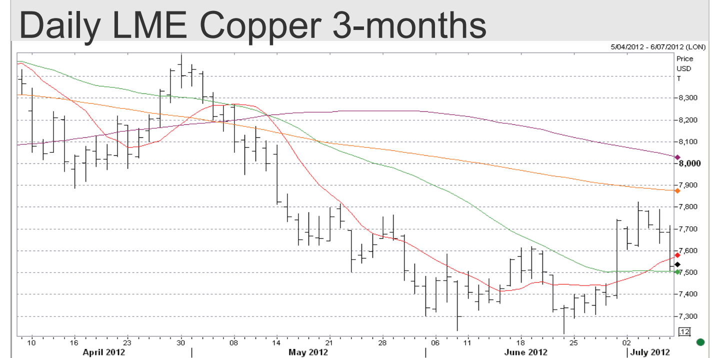
"The estimated loss of the company for the six months ended 30 June 2012 is primarily due to a substantial decrease of over 12 percent in the price of steel products in comparison with the same period in the previous year," it said.

"As a result, the earnings of the company had decreased significantly despite the efforts made by the company on cost reduction and control."

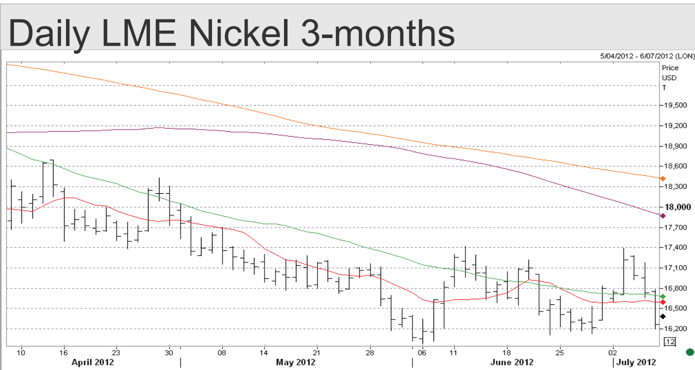
ANALYTIC CHARTS *(Click on the charts for full-size image)*

Daily LME Aluminium 3-months

Daily LME Copper 3-months

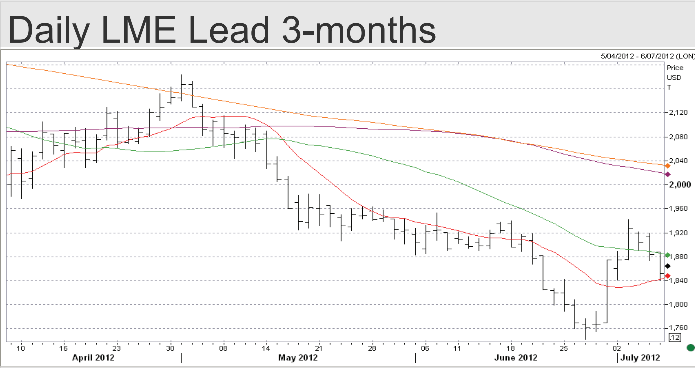


Daily LME Nickel 3-months



Daily LME Zinc 3-months

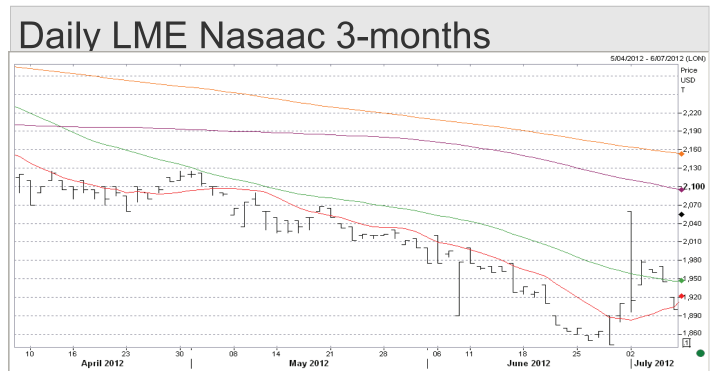
Daily LME Lead 3-months



Daily LME Tin 3-months

Daily LME Alloy 3-months

Daily LME Nasaac 3-months



MARKET REVIEW

METALS-LME copper steady after China inflation data

SHANGHAI, July 9 (Reuters) - London copper was steady on Monday as data showing China's inflation cooled in June triggered hopes for policy easing by the top consumer of the metal, offsetting a bleak U.S. jobs report that drove down prices in the prior session.

China's annual consumer inflation came in at 2.2 percent, from May's 3.0 percent, leaving room for Beijing to ease policy without stoking upward price pressures and helping most commodities recover from previous session's losses triggered by the dismal U.S. jobs data.

Three-month copper on the London Metal Exchange edged up 0.1 percent to $7,538.75 per tonne by 0425 GMT, snapping three sessions of losses. Prices dropped more than 2 percent on Friday.

The most-active October copper contract on the Shanghai Futures Exchange fell 1.1 percent to 55,130 yuan ($8,700) per tonne, tracking the drop in LME prices in the previous session and heading for its third session of losses.

"Better-than-expected China inflation numbers supported sentiment, although technicals have a greater effect on prices lately as investors continue to trade within safe narrow ranges," said CIFCO Futures analyst Zhou Jie.

"In the short term, I see LME copper bound between $7,350 and $7,600, and Shanghai copper between 54,500 yuan and 56,000 yuan," Zhou said.

In the physical markets, analysts noted a slight uptick in Chinese copper demand, although overall demand remained sluggish. Investors are now awaiting China's commodities trade data due later this week for fresh trading cues.

Arrivals of copper may have fallen in June compared to the previous month, with term shipments in a seasonal decline.

In the euro zone, better-than-expected German industrial production numbers were encouraging, but officials cautioned against expectations of quick solutions to problems there, especially out of a meeting later in the session among the bloc's finance ministers.

The next set of macroeconomics data likely to affect metal prices will be China's GDP numbers, which are due later this week and likely to show its weakest expansion in three years.

In industry news, BHP Billiton will tighten global copper supply from late 2013 onward if it postpones work on its single-biggest project, the $30 billion expansion of the Olympic Dam mine in Australia.

PRECIOUS-Gold extends losses to 3rd session after US data

SINGAPORE, July 9 (Reuters) - Gold inched down on Monday, extending losses to a third session, on a lack of conviction the U.S. Federal Reserve would take measures to stimulate the economy anytime soon even after a disappointing jobs report.

U.S. non-farm payrolls increased by just 80,000 in June, lower than a forecast of 90,000, raising pressure on the Fed to do more to help the frail recovery.

"The market is not sure where prices should go and the sentiment is fragile," said Lynette Tan, an analyst at Phillip Futures, adding that prices are likely to remain rangebound for the time being with investors stuck in data-watching mode.

Though June's payrolls increase fell short of expectation, it still exceeded the May number and could be seen as a slight improvement, putting a damper on hopes for a third round of quantitative easing from the Fed, Tan added.

On June 1 gold jumped 4 percent at a surprisingly weak employment report which fuelled talks of further monetary easing from the Fed. The central bank's stance on easing has played a major role in the gold market this year.

Spot gold dropped to its lowest in almost two weeks of $1,575.89 an ounce, before recovering slightly to $1,580.09 an ounce by 0346 GMT.

However, Reuters market analyst Wang Tao expects spot gold to fall to $1,540 an ounce during the day.

U.S. gold futures contract for August delivery was up 0.2 percent to $1,581.20.

Spot gold 24-hour technical outlook:

http://graphics.thomsonreuters.com/WT1/20120907094159.jpg

The dollar and Treasuries trumped gold as top destinations for the flight to safety, as investors fretted about the global economic outlook with euro zone fighting its debt crisis and China showing signs of an economic slowdown.

China's annual consumer inflation in June cooled, giving Beijing more scope to ease monetary policy to support growth but potentially taking some heat off gold, a traditional hedge against inflation, in the world's upcoming biggest gold consumer.

Asia's physical gold market has been sluggish for a while, as the rangebound price moves did little to excite investors.

"India is not even responding to the stronger rupee," said a Singapore-based trader, "Physical supply seems high and scrap is coming into the market."

Hedge funds have also moved to the sidelines of the market as volatility drops, he added.

MARKET REVIEW *(Continued)*

FOREX-Euro steadies after hitting two-yr lows

TOKYO, July 9 (Reuters) - The euro steadied after dropping to a two-year low against the dollar early on Monday, with little expected to emerge from a meeting of euro zone financial leaders later in the session.

The financial meeting will focus on follow-up steps to European leaders' plan revealed last month to shore up indebted states and banks, but the latest talks may only highlight the initial deal's limitations.

"If leaders couldn't agree on details, there's little chance that the finance ministers will reach any further agreement, so anyone betting on another positive surprise might be disappointed," said Kimihiko Tomita, head of foreign exchange for State Street Global Markets in Tokyo.

The single currency traded as low as $1.2225 in thin early trade as stops were triggered, but recovered to $1.2293. On the upside, stop-loss orders were said to be placed around $1.230.

The euro slipped to around $1.2260 on Friday after the U.S. Labor Department reported that employers created only 80,000 jobs in June, far fewer than needed to bring down the 8.2 percent unemployment rate. The jobs report added to evidence that Europe's debt crisis was weighing on global growth.

The U.S. data came a day after the European Central Bank's move to cut its target interest rate to 0.75 percent from 1.0 percent and its deposit rate to zero from 0.25 percent.

The ECB's rate cut raised expectations that funds will flow out of Europe. JGBs, with their perceived low risk, could benefit from such flows, which could give the yen an additional lift, market participants said.

The price of 10-year Japanese government bond futures rose to their highest level since October 2010 on Monday.

Against the yen, the euro touched a one-month low at 97.48 yen , before rising back to 97.92 yen.

The dollar also slipped slightly against the yen to 79.70 yen , moving away from a two-week high of 80.099 yen hit on Thursday but above session low of 79.42 yen.

Support is said to be at the pair's 200-day moving average at 78.97 yen.

Data released early in the session showed Japan's core machinery orders fell at a record pace in May, but the foreign exchange reaction was muted because it failed to change expectations that the Bank of Japan will stand pat on policy at its meeting this week.

With no clear signs yet that Japan's recovery prospects are under threat, the central bank sees little reason to ease further unless a sudden spike in the yen hits business sentiment.

Commodity currencies were still pressured by the grim U.S. jobs numbers, although they escaped with relatively modest losses. The Aussie dollar was at $1.0185, down from a two-month high of $1.0330 hit last week but off a session low of $1.0175.

The Aussie largely shrugged off Chinese data showing that annual consumer inflation in Australia's single biggest export market cooled to 2.2 percent in June from May's 3.0 percent, giving Beijing more scope to ease monetary policy to support growth without stoking price pressures.

More threatening to Aussie-dollar bulls could be Chinese gross domestic product data due on Friday, with a Reuters poll forecasting China's economy grew 7.6 percent in the second quarter compared with the same three months of 2011. That would mark a pronounced slowdown from the previous period's 8.1 percent year-on-year growth, and would be the slowest quarter of expansion since the first three months of 2009.

But the Aussie held its ground against the beleaguered euro, which bought A$1.2058 , not far from its lifetime low of A$1.2002.

With the euro languishing, the dollar index remained firm at 83.273, not far off a June 1 peak of 83.542. A break there would take it back to highs not seen since mid-2010.

This week, markets will be keeping a close eye on the U.S. Federal Reserve's June minutes, to be released on July 11, for clues on further easing options.

(Inside Metals is compiled by Shruthi G in Bangalore)

For questions and comments on Inside Metals click here

Your subscription:
To find out more and register for our free commodities newsletters, click here

Privacy statement:
To find out more about how we may collect, use and share your personal information please read our privacy statement here

To unsubscribe to this newsletter click here

For more information:
Learn more about our products and services for commodities professionals, click here
Send us a sales enquiry, click here
Contact your local Thomson Reuters office, click here

© 2012 Thomson Reuters. All rights reserved. This content is the intellectual property of Thomson Reuters and its affiliates. Any copying, distribution or redistribution of this content is expressly prohibited without the prior written consent of Thomson Reuters. Thomson Reuters shall not be liable for any errors or delays in content, or for any actions taken in reliance thereon. Thomson Reuters and its logo are registered trademarks or trademarks of the Thomson Reuters group of companies around the world.