INSIDE METALS

Thursday, June 21, 2012

CHART OF THE DAY

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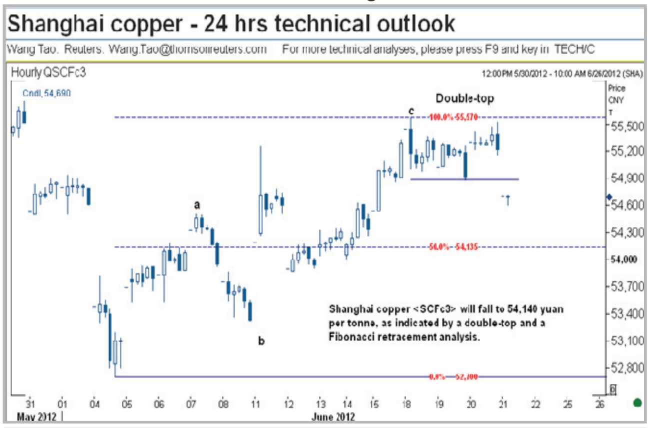

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TRADING PLACES

- CME plans to launch U.S. steel scrap contract in autumn

GENERAL NEWS

- Australia industry struggling outside mining boom - survey
- Glencore will get little for mine takeover-Bolivia
- China considers adding metals to stockpile plan - sources

MARKET NEWS

ALUMINIUM:

- Vedanta Aluminium sells ingots at $220/T premium
- May daily aluminium output 67,900 T - IAI

COPPER:

- Anglo, Codelco to extend talks in copper row -source
- Xstrata puts PNG copper stake on the block
- China copper imports seen hurt by credit easing, regulatory moves

NICKEL/STEEL:

- Global steel production growth slows in May
- Australia's Grange seeks partner for iron ore project
- Rio Tinto approves $3.7 bln Australia iron ore expansion
- Creditors seek to slow RG Steel's rushed sale

TIN/MINORS:

- China says rare earth price gap based on quality, customs

FEATURE

COLUMN- China; from aluminium saviour to scapegoat

Western producers of aluminium have long extolled China as the shining light of the light metal's bright future. As with all things metallic, the country is the single most powerful driver of global demand for aluminium.

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

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TODAY'S MARKETS

BASE METALS: Copper hit one-week lows after investors saw their hopes for more aggressive stimulus measures by the U.S. Fed dashed and worried Spain's borrowing costs would soar, flagging the risks of shaky euro zone finances to the global economy.

While most investors expected the latest HSBC China Flash Purchasing Managers Index to fall under 50 again in June, the seven-month low number of 48.1 confirmed that economic growth in the world's top metals consumer was still slowing.

Three-month copper on the London Metal Exchange dropped 1.4 percent by 0416 GMT to $7,437.50 a tonne, its cheapest level in a week after falling 0.8 percent on Wednesday.

PRECIOUS METALS: Gold slipped for a third straight day after the U.S. Federal Reserve stopped short of launching another round of quantitative easing to stimulate the economy, a move that could have boosted bullion's appeal in times of uncertainty.

But lower prices were expected to attract purchases from jewellers in Asia, while a fragile U.S. economy and the debt crisis in Europe may eventually prompt the Fed to adopt more aggressive measures to help the economy.

A Reuters poll showed Wall Street's top bond firms still see a 50 percent chance of a third bout of quantitative easing or "QE3", under which the Fed effectively creates money to fund large asset purchases, to stimulate the economy.

FOREX: The dollar held above a one-month low against a basket of major currencies, no worse for wear even after the Federal Reserve delivered another dash of monetary stimulus and said it was ready to do more if necessary.

Dollar bears were stopped from rampaging by the fact the Fed stopped short of launching a more aggressive programme of buying bonds outright, or QE3, which some in the market had expected, traders said.

The central bank expanded its "Operation Twist" by $267 billion, meaning it will sell that amount of short-term securities to buy longer-term ones to keep long-term borrowing costs down. The program, which was due to expire this month, will now run through the end of the year.

FEATURE

COLUMN

China; from aluminium saviour to scapegoat

By Andy Home

LONDON, June 20 (Reuters) - Western producers of aluminium have long extolled China as the shining light of the light metal's bright future.

As with all things metallic, the country is the single most powerful driver of global demand for aluminium.

It's not just aluminium's usage in construction and infrastructure that excites but also its linkage with consumer spending, first and foremost in the form of China's fast-rising car ownership.

U.S. heavyweight Alcoa , for example, estimates that Chinese consumption grew by 15 percent last year, compared with global growth of 10 percent and just 6 percent in its own home North American market.

This year, according to Alcoa's most recent quarterly presentation to analysts, it expects Chinese consumption to grow by another 11 percent, far outstripping expected growth of 4 percent in the rest of the world.

But right now China finds itself on the receiving end of some pointedly critical comments about how it's running its aluminium sector.

Oleg Mukhamedshin, head of equity and corporate development at Russian aluminium giant UC RUSAL called on all producers to "take responsibility for decisions on production volumes and more actively cut unprofitable production".

All producers, but one in particular: China. Graphic on monthly aluminium production:

http://link.reuters.com/qan88s

Graphic on China vs the rest of the world:

http://link.reuters.com/pan88s

ANOTHER MONTH, ANOTHER RECORD

The latest batch of global production figures from the International Aluminium Institute (IAI) show why RUSAL and other non-Chinese producers are so frustrated.

Production in the rest of the world dropped another gear in May as producers continued responding to low prices and high stocks.

At 24.78 million tonnes, annualised collective output has now declined by 1.13 million tonnes since October, when the London Metal Exchange aluminium price first started cutting into the production cost curve.

In stark contrast Chinese production surged by the same amount, 1.13 million tonnes, between April and May alone to hit another fresh record high of 19.76 million tonnes annualised.

Such fast incremental growth at a time when China's broader economic engine is slowing shatters any prospect of the country saving the rest of the world in the form of accelerated imports.

True, Chinese imports of primary aluminium have spurted higher this year to the tune of 160 percent in the January-April period. But at 227,000 tonnes the volume is a drop in a very large ocean.

It is also eclipsed by the amount of metal that is still leaving the country in the form of semi-fabricated products, 880,000 tonnes in the first four months of 2012 alone, all of which displaces demand for primary metal elsewhere.

DIFFERENT COUNTRY, SAME DYNAMIC

What really irks Mukhamedshin and no doubt plenty of others outside of China is the fact that local governments are now subsidising high-cost smelters to prevent them closing.

This is coming in the form of discounts on the price of power, a key cost input in the aluminium smelting process, and is happening in traditional production hubs such as the provinces of Henan and Guizhou.

These of course are the very smelters that "should" be closing, given their positioning towards the top of the cost curve.

The fact they are not, even as new smelter capacity is being built in lower-cost provinces such as Xinjiang and Qinghai in the northwest of the country, explains why Chinese aluminium production is still growing and not contracting.

However, what is happening in China is simply a mirror reflection of what is happening everywhere else. In a sector characterised by excess capacity and historical oversupply, evidenced by those millions of tonnes of metal gathering dust in warehouses, survival is about moving down the cost curve.

Just as Alcoa is building new capacity in Saudi Arabia and RUSAL itself is driving deeper into Siberia, so too are Chinese producers moving westwards to tap the potential of stranded coal reserves. As they do so, it is natural that governments in higher-cost countries or provinces fight to stop the loss of tax revenue and jobs.

Only Australia seems intent on closing out its aluminium smelter sector by adding to the cost burden in the form of a carbon tax.

Others, such as Italy, are actively resisting planned closures, witness Alcoa's compromise with the local government on the future of its Portovesme plant.

Witness also, topically enough, the legal to-and-fro between Alcoa, Italy and the European Commission, which has classified previous power arrangements for Alcoa's smelters in the country as illegal state aid.

MORE RISES, MORE CUTS

Right now it seems unlikely there will be any step-change in China's aluminium production dynamic. Older, higher-cost capacity will continue closing but, thanks partially to government intervention, at a slower pace than new, lower-cost capacity comes on line in different parts of the country.

FEATURE *(Continued)*

The likely outcome is for national run-rates to keep trending higher and national production costs to keep trending lower.

There is certainly no reason to expect any step-change in Chinese imports, which will continue to fluctuate with arbitrate opportunities.

That means that if the likes of RUSAL want to help stabilise the market, they will have to stop waiting on China and do so themselves. It's not as if Western production itself has been curtailed too dramatically. That 1.13-million tonne drop in annualised output over the last six months flatters to deceive.

Part of it has come in the form of non-price-related cutbacks, such as the outage at BHP Billiton's Hillside smelter in South Africa and the continuing lock-out at Rio Tinto's Alma plant in Canada.

Moreover, the pace of shutdowns has noticeably slowed in the last couple of months with only the widely-expected full curtailment of Norsk Hydro's Kurri Kurri smelter in Australia adding any fresh impetus.

Nor, for that matter, has RUSAL itself cut back production, although it has been talking for several months now of curtailments in the second half of this year.

If it's serious about all producers taking "responsibility for decisions on production volumes," it might want to take a look at its own run-rates rather than blaming China.

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

GENERAL NEWS

Australia industry struggling outside mining boom -survey

SYDNEY, June 21 (Reuters) - Australian industry not lucky enough to be leveraged to the country's mining boom continued to struggle this quarter under the weight of a high currency and a darker global outlook, a survey showed on Thursday.

The quarterly survey from Westpac and the Australian Chamber of Commerce and Industry (ACCI) found activity overall remained in contractionary territory in the second quarter.

The survey's Actual Composite index of conditions was little changed in the second quarter at 47.9, the fifth straight reading under the 50-growth threshold.

The Expected Composite index measuring the outlook was somewhat better at 51.7, from 51.5, consistent with expectations of modest growth in the next three months.

Westpac noted the survey had tended to underestimate official measures of domestic demand in the recent past, mainly due to the contrast between a very strong mining sector and sluggishness elsewhere.

"While we expect the mining boom to remain a robust support for growth, we continue to believe the non-mining sector will remain weak," said Westpac economist Elliot Clarke.

"Clearly the strong Australian Dollar is having a material impact on manufacturers," he added. "Other sectors, such as the housing construction industry, are also facing extremely tough conditions."

Glencore will get little for mine takeover-Bolivia

LA PAZ, June 20 (Reuters) - Bolivia will not compensate global commodities giant Glencore for rescinding its contract to mine tin and zinc at Colquiri, which was shaken by violent protests, a government decree signed on Wednesday showed.

Evo Morales' leftist government took over operations at Colquiri to end a weeks-long dispute between employees and independent miners. The decree said officials will only pay Glencore's local subsidiary, Sinchi Wayra, for the machinery and goods stored there, minus any debts the company has.

Morales has nationalized the key natural gas industry as well as the telecommunications and electricity sectors, arguing Bolivia's poor should benefit more from the country's rich natural resources.

"Today we're signing a great decree, for two reasons. We're recouping a company that belonged to the state and now returns to state hands, and we're also democratically resolving the contradiction between two factions of the Bolivian population: cooperative workers and salaried employees," said Vice President Alvaro Garcia.

Garcia signed the decree as acting president while Morales attended a United Nations conference in Brazil.

Bolivian state mining company Comibol will have control over the Colquiri mine, 12 years after it was semi-privatized. The decree permits an independent cooperative that has mined one area of the site to continue working there.

Officials at Sinchi Wayra declined to comment on the move.

Last week, hundreds of police and soldiers were sent to Colquiri following violent clashes between groups of workers at odds over the management of the site, which lies about 200 km (125 miles) south of the administrative capital La Paz.

A similar battle for control of the state-owned Huanuni tin mine six years ago ended in clashes between rival groups of miners that killed 17 people.

Colquiri, which is one of three mines operated by Glencore's Sinchi Wayra subsidiary in Bolivia, produced 2,000 tonnes of tin concentrate last year, according to Comibol data.

Sinchi Wayra exported minerals worth more than $300 million last year.

GENERAL NEWS *(Continued)*

Morales' government is working on a sweeping reform of mining legislation aimed at giving the state a bigger slice of the sector's profits.

China considers adding metals to stockpile plan -sources

HONG KONG, June 20 (Reuters) - China's state economic planner is considering ways to reshape the country's programme of stockpiling strategic materials and could include metals such as rare earths, tungsten, indium, molybdenum and tin, two sources with knowledge of the plan said.

Additional stockpiling moves by China, the world's top copper buyer and second largest oil consumer, would be certain to benefit commodities prices, which have lost 9 percent this year, battered by bleak prospects for the global economy.

China already stockpiles copper and crude, but planner the National Development and Reform Commission has asked state-owned research bodies to research if the additional metals should be included, said one source, who declined to be identified.

The move follows a proposal by officials of the state planner at a meeting in Beijing last month for China to try and boost its stocks of strategic commodities at a time of low prices, said the source, who had direct knowledge of the plan but was not authorised to discuss details.

Prices of key commodities, including oil and copper, fell sharply in May, with London Metal Exchange copper down more than 10 percent from the year high seen in February to stand at $7,572 on Wednesday. "The timing of the review reflects the urgency of the situation," the source said, adding that May's sharp drop prompted the study, whose conclusions would be incorporated in an updated stockpiling plan due by year end.

"They should be able to pick what metals they want to add in the stockpiling plan in one month. By the end of the year, the whole research work should be done," he said.

Planners would look into building stocks of metals of which China already is a major producer, such as rare earths, tungsten, molybdenum, antimony and tin, said a second source, also speaking on condition of anonymity.

Graphic for China's refined copper imports, LME prices:

http://link.reuters.com/wuj88s

Apparent consumption: http://link.reuters.com/sac58s

CRUCIAL ROLE

The state planner plays a crucial role in deciding the volumes to be bought for the stockpiling plan, which kicked off in 2008 and is up for review this year.

Besides copper and crude oil, it covers materials for nuclear power generation such as uranium and rare earths, a source with links to the state planner said, although the central government has not yet begun stockpiling rare earths.

Having a purchase plan in place would allow the designated commodity stockpiler, the State Reserves Bureau, which is an arm of the state planner, to place orders for shipments.

China's target for copper stockpiled under the plan was 2 million tonnes, but it is not clear if the government will increase the inventory target this time around.

The authorities could set up a buying mechanism for copper that establishes conditions such as a price formula which would allow the agency to act swiftly to exploit price volatility, analyst Jing Chuan, research chief at Citic Futures, said, going by comments in reports of government meetings released last year.

Turning to crude, China is expected to complete filling the 170-million-barrel second phase of its strategic oil reserve this year. Analysts said China could have poured around 40 million barrels into its strategic petroleum reserve (SPR) in the first five months of the year, with about 85 million to 110 million barrels still to be added in the second half.

The stockpiling plan is separate from a 3-year temporary programme launched in 2009 with the aim of supporting domestic smelters in the wake of the global financial crisis that ended last year.

Under these two stockpiling programmes, industry sources estimated that the SRB may have received more than 700,000 tonnes of copper in 2009, more than half of which was imported. SRB imported more than 110,000 tonnes of copper last year.

The SRB now may hold about 1.4 million to 1.6 million tonnes of copper stocks.

The stocks are typically estimated by sources with links to the government, as China does not reveal the data.

The International Monetary Fund in April estimated China's total copper inventories at about 1.78 million tonnes, excluding material held in exchange-bonded warehouses.

TRADING PLACES

CME plans to launch U.S. steel scrap contract in autumn

NEW YORK, June 20 (Reuters) - The CME Group said it plans to launch a U.S. steel scrap contract to expand its offering of ferrous derivatives contracts, as the Chicago exchange aims to cash in on growing interest in price risk management in the sector.

The new contract, the exchange's 13th steel and steel raw materials contract and its second scrap contract, will be launched in the autumn, a spokesman for the exchange said on Wednesday confirming an announcement by Harriet Hunnable, managing director for metals, at the AMM Steel Success Strategies conference in New York this week.

The new contract could provide hedging opportunities to scrap recyclers, mini mills and construction companies, who buy long steel products produced from steel scrap.

Financial players, including U.S. bank JP Morgan, have also shown interest in the contract. The CME contract could benefit from a recent decline in interest in the four-year old steel physically-backed billet futures offered by the London Metal Exchange.

The contracts will be settled against an AMM index.

No other details were available, although it is likely to be cash settled as the Chicago exchange has had success with contracts settled against cash rather than physical delivery with its other steel products.

The news comes as the exchange continues to work on launching ferrous contracts in China, which is the world's largest steel producer and consumer and has a growing investor base, and as liquidity in its U.S. hot-rolled-coil (HRC) contract increases.

"Asia is the most actively traded market. We're putting a lot of resources into it," Hunnable told Reuters in an interview on Tuesday ahead of the announcement. The exchange is working with its Chinese partner MySteel who is collecting pricing data which would be used for a possible contract.

The exchange's HRC contract has attracted increasing liquidity, represented by open interest which has hit record highs above 14,000 lots in February, Hunnable said. It has since fallen below that level, but remains just under 14,000 lots.

Trading volumes are more volatile though, totaling around 6,000 lots in January and February, but plunging to under 2,000 lots in the following two months.

U.S. service centers, appliance manufacturers and steel mills are using the contract, she said. Steelmakers, including ArcelorMittal and Nucor Corp, have been vocal in their opposition to futures contracts, but Hunnable said mills are started to invest in educating their staff on hedging.

She declined to name mills that have been using the hedging tool, but said growing liquidity have helped to build confidence among users.

"They're very engaged. They are very alive to price volatility and the fact that the futures contract is working," she said.

MARKET NEWS

Vedanta Aluminium sells ingots at $220/T premium

MUMBAI, June 20 (Reuters) - Vedanta Aluminium, a unit of Vedanta Resources Plc , said it has sold 3,000 tonnes of aluminium ingots at $220 per tonne premium over the average LME cash price on cost, insurance and freight (CIF) basis.

The metal will be shipped in three lots of 1,000 tonne each to an Asian buyer from July to September, the company said on Wednesday.

Aluminium on the London Metal Exchange was trading at $1,917 a tonne on Wednesday. Premiums have increased due to tightness in the physical market after closure of smelters in recent quarters.

The company operates a 1 million tonne per annum green field alumina refinery and an associated 75 mega watts captive power plant in the eastern Indian state of Orissa, the company website said.

May daily aluminium output 67,900 T - IAI

LONDON, June 20 (Reuters) - Daily average primary aluminium output in May dropped to 67,900 tonnes compared with a revised 68,100 in April and 69,900 in May 2011, provisional figures from the International Aluminium Institute (IAI) show.

Total production in May (31 days) was 2.104 million tonnes, compared with 2.043 million tonnes in April (30 days) and 2.168 million in May 2011.

To see the full breakdown of primary aluminium production please click on and . Figures are in thousands of tonnes.

Anglo, Codelco to extend talks in copper row -source

SANTIAGO, June 21 (Reuters) - Global miner Anglo American and Chilean state copper giant Codelco will seek to extend their self-imposed deadline for talks in a bid to resolve their spat over disputed copper assets, a source linked to Codelco's legal team told Reuters earl y on Thursday.

The miners, currently on a 30-day break from their legal wrangling, can ask for up to 60 more days to try to reach an agreement, according to Chilean law. Anglo supports the suspension of legal proceedings, the source said on condition of anonymity.

Investors are watching closely to see if world No. 1 copper producer Codelco and Anglo will reach a deal or whether they will plunge back into a mu ltibillion-dollar co urtroom showdown that could drag on for years.

Anglo and Codelco could not immediately be reached for comment.

Graphic on Chile mines: http://r.reuters.com/gyz52s

The contract conflict 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 stunned markets with the pre-emptive sale of a 24.5 percent stake in AAS to Mitsubishi Corp , with a $5.4 billion deal that dented Codelco's ambitions but which it says secured better value for investors.

Since then, the firms have been tussling for the properties, which include the promising Los Bronces mine that used to be called La Disputada, "the disputed one," in Spanish.

Xstrata puts PNG copper stake on the block

SYDNEY/MELBOURNE, June 21 (Reuters) - Global miner Xstrata Plc has put up for sale a stake in the Frieda River copper project in Papua New Guinea, potentially worth more than $2 billion, as part of a review of its development projects worldwide.

Like other major miners under pressure to conserve capital amid uncertainty over global growth, rising costs and falling commodity prices, world no.4 copper producer Xstrata has flagged it may slow down project spending.

Xstrata has not yet decided whether to sell all or part of its 81.8 percent stake in Frieda River, an Xstrata spokeswoman said.

"As part of this process we are assessing the interest of other investors in the Frieda River Project in Papua New Guinea," the spokeswoman told Reuters in an email.

Merrill Lynch is advising Xstrata on the potential sale. A critical concern for any buyer would be the cost of the Frieda River project, last estimated at $5.3 billion. That cost could fall if it secures natural gas for its power supply, a key factor in a delayed feasibility study that Xstrata has committed to deliver to its partner, Australian-listed Highlands Pacific , in December.

Chinese companies, possibly including Metallurgical Corp of China (MCC) , could be interested in Xstrata's stake, analysts at broker Euroz have said. MCC is Highlands Pacific's partner on the Ramu nickel project in PNG.

Three analysts on average value Highlands Pacific's 18.2 percent stake in Frieda River at A$477 million ($486 million), which would imply Xstrata's 81.8 percent stake may be worth about $2.15 billion.

Xstrata has said it wants to become the world's top copper producer, unseating Chile's Codelco, BHP Billiton and Rio Tinto over the next three years.

Charlie Sartain, Xstrata's copper division head, said last month a $7 billion capital expenditure programme was under way to beef up copper mining, mainly in South America and Australia.

Since then, a decline in copper prices that began in January has accelerated, with the London 3-month contract fetching $7,545 a tonne, or $3.42 a pound, down from levels above $8,650 a tonne at the start of the year.

MARKET NEWS *(Continued)*

Xstrata already has projects under construction designed to boost its copper output by more than 60 percent to 1.5 million tonnes a year over the next three years, including its Antapaccay project in Peru, due to start producing in the second half of this year.

The company's attempt to sell the Frieda River stake suggests it may prefer to back the Tampakan copper and gold project in the Philippines, which it is looking to develop with Indophil Resources .

Frieda River has an estimated resource of 12 million tonnes of copper and 18.5 million ounces of gold, and could produce 246,000 tonnes of copper a year, according to a pre-feasibility study in 2010.

Highlands Pacific said on Thursday it hoped to seal an agreement in the next two days to sell a cornerstone stake in the company to PNG Sustainable Development Program Ltd (PNGSDP), a large investment company with strong ties in Papua New Guinea, which could assist in future development.

PNGSDP is the majority shareholder in Ok Tedi Mining Ltd, operator of the Ok Tedi copper mine, once owned by BHP Billiton.

Highlands Pacific shares were on a trading halt pending the outcome of talks with its potential PNG backer.

Indophil's shares rose 4.5 percent to A$0.35, bucking a 1.5 percent slide in the metals and mining index. ($1=0.9815 Australian dollars)

China copper imports seen hurt by credit easing, regulatory moves

BEIJING, June 20 (Reuters) - Copper imports by China, the top consumer of the metal, could fall in the next few months even as the world's second-largest economy gradually recovers, since easier credit will reduce demand for copper used for trade financing.

Beijing unexpectedly cut interest rates this month to counter a sharpening economic slowdown. Previous moves since November to reduce the amount of cash banks are required to hold as reserves have also boosted bank lending.

While increased liquidity typically boosts China's appetite for commodities, with industrial metals such as copper and steel among the earliest beneficiaries, analysts said the credit easing this time would ironically take the shine off copper, since as much as 80 percent of recent monthly imports of the metal had been used as a way to get around credit curbs.

"Given that the tightening was the main driver for the imports over the past year, we should see softer imports coming through on the back of credit easing," said Michael Widmer, metals strategist at Bank of America Merrill Lynch.

"Having net copper imports run at a clip of 300,000 to 400,000 tonnes per month is too high, China just doesn't need that much. I wouldn't be surprised if imports start to come down."

Widmer forecast China's average monthly imports could ease to around 250,000 tonnes in the second half, with buying largely led by end-users, should the economy start to recover. That would represent a 40 percent decline from May's arrivals of close to 420,000 tonnes.

Growth in the world's second-biggest economy slumped to a three-year low of 8.1 percent in the first quarter as Europe's debt crisis sapped export growth. Analysts forecast growth to slacken further to 7.9 percent between April and June.

The demand for commodity financing deals has already begun to drop off.

"We noted a decrease in copper financing deals in China since last month after bank reserve requirement ratios fell, as money has become easier to get," said Ian Roper, CLSA commodities strategist.

With Europe in the grip of a debt crisis and anaemic growth in the United States, all eyes have shifted to China, in hopes that Beijing's recent moves to boost growth will help prop up commodities prices that slumped in May on demand fears.

Apart from better credit access, rising volatility in the yuan currency and a weakening property market would also make this type of carry trade less attractive, analysts said.

BEIJING'S CLAMPDOWN

To get round curbs on credit, many Chinese firms turn to importing commodities to secure cheap financing. An importer uses a letter of credit (LC) to buy copper, and then uses the material as collateral for a bank loan. Some firms pledge inventories several times to different banks to get more funds.

Other commodities, such as steel and iron ore, can also be used. Such practices have sent China's demand for commodities soaring, with refined copper imports jumping 76 percent from a year go in the Jan-April period to 1.33 million tonnes.

Concerned about possible defaults, Chinese regulators have ordered banks to clamp down on errant trade financing and have singled out steel traders for banks to cut lending to. Such moves will dampen the country's appetite for commodities in the near term.

"It has been more difficult to do financing since the regulator tightened rules, so we're forced to cut back," said an executive at a copper trading company.

Beijing has tightened rules for trade financing since last year. Its latest move was to bar the resale of letters of credit, which stops the same letter of credit being used repeatedly to raise money.

Should Beijing be determined to choke off these errant financing deals, it could force banks to shorten the duration of letters of credit, or reduce the ratio of loans tied to collateral.

"Cutting the duration of letters of credit will have a very direct impact on shutting out this sort of commodities financing business, but it will be quite a drastic measure that could also affect real businesses," said a loans manager at a foreign bank.

MARKET NEWS *(Continued)*

Global steel production growth slows in May

LONDON, June 20 (Reuters) - Global steel production growth slowed in May, data from an industry body showed on Wednesday, with output expected to remain sluggish in the coming months as weak economic growth erodes demand.

Global steel production rose by just 0.7 percent in May compared with the same month last year, to 131 million tonnes, according to data released by the World Steel Association (Worldsteel).

Global production had risen by 1.8 percent year-on-year in March and by 1.2 percent in April.

Output in China, the world's largest producer and consumer of the alloy, rose by 2.5 percent to 61.2 million tonnes in May, a slower growth level compared with previous months.

"Output in China is still too high relative to demand and that is keeping prices in China weak and keeping exports out of China strong, which is having a bearish impact on prices generally," said Patrick Cleary, principle steel analyst at Wood Mackenzie.

"We have weak demand conditions in Europe, stagnant (demand)in Japan and the U.S. has not been as positive in terms of additional demand recently. So there are lots of bearish demand signals but the output isn't really catching up just yet."

Global steel consumption growth will slow in 2012, hit by weaker economic growth in top consumer China and uncertainties about the debt crisis in the euro zone, Worldsteel forecast in April.

Graphic on steel production: http://link.reuters.com/zyv25s

Steel production in Japan, the world's second-largest steelmaker, rose 2 percent year-on-year to 9.2 million tonnes.

In the United States, steel production in May rose 7.4 percent year-on-year to 7.7 million tonnes.

Steel demand in the world's largest economy has been relatively strong in the last few months and this has supported steel prices and production levels.

This contrasts with demand from the European Union industrial sector which remained weak due to uncertainty about the region's economy growth prospects. Steel production in the region fell 5.5 percent year-on-year in May to 15.3 million tonnes.

Australia's Grange seeks partner for iron ore project

MELBOURNE, June 20 (Reuters) - Australian iron ore producer Grange Resources is looking to sell at least a 30 percent stake in its $2.9 billion Southdown magnetite project in Western Australia to ease the funding burden, it said on Wednesday.

Grange appointed Deutsche Bank to advise on the selldown of its 70 percent stake in the project, which is designed to produce 10 million tonnes a year of magnetite concentrate for more than 30 years.

"The introduction of a third joint venture partner to the project is the best way to increase the project's certainty and viability, and reduce the risk profile that Grange currently has with this project," Grange Managing Director Russell Clark said in a statement.

There was interest in Southdown from around the world, particularly China and other Asian countries, he said. The project is already 30 percent owned by a Japanese consortium made up of trading house Sojitz Corp and Kobe Steel .

Kobe Steel, Japan's no.4 steel maker, is reported to have paid between A$50 million and A$80 million when it bought its 10 percent indirect interest, which would value all of the equity in the project at A$500 million to A$800 million, Clark said.

Southdown is key to Grange's growth as it is expected to produce four times as much magnetite as its existing Savage River operation.

Grange shares rose 2 percent to A$0.51 on Thursday outpacing a 0.2 percent rise in the broader market and valuing the company at A$589 million.

Rio Tinto approves $3.7 bln Australia iron ore expansion

SYDNEY, June 20 (Reuters) - Rio Tinto will spend $3.7 billion to boost its Australian output of iron ore, its most profitable business, shrugging off forecasts of waning demand and a looming global supply glut as Chinese manufacturing slows.

The spending to increase iron ore production by 25 percent by 2016 is the lion's share of $4.86 billion in capital outlays approved by Rio's board and announced on Wednesday.

Rio, the world's second-largest miner of iron ore after Brazil's Vale , currently runs its mines at an annual rate of 230 million tonnes and had already put in place work to take output to 283 million tonnes.

At an expanded rate of 353 million tonnes, Rio's Australian mines would be supplying nearly a third of the world trade in iron ore.

Board approval comes despite pressures mounting in the sector to curb capital spending and return more cash to shareholders jittery over slowing global growth.

"We are mindful of short-term uncertainties, and remain fully committed to a balanced approach to investment, while maintaining a single-A credit rating and a progressive dividend policy," Chief Executive Tom Albanese said in a statement.

The expansion will cost $5.2 billion all up, with $1.5 billion coming from joint venture partners in the mines.

Rio also said it had committed a further $501 million to fund its share of infrastructure development at its Simandou iron ore prospect in Guinea, a joint venture with China's Chinalco.

It is also spending $660 million to mine more copper at its Bingham Canyon mine in Utah

HEFTY MARGINS

But it is iron ore that has become gold for mining companies. The ore sells for around $135 a tonne but for big producers like Rio Tinto costs only about $30 to produce, delivering hefty profit margins.

Rio is pushing ahead at the same time that BHP Billiton and Fortescue Metals have major expansions underway nearby in the Pilbara iron belt.

Along with a raft of smaller miners trying to develop projects, this has spawned worries the market will be over-supplied within the next two years.

Mining companies such as Rio, BHP and Xstrata have stressed a need to maintain investment in new projects even during downturns in commodities prices and demand cycles.

BHP last month scrapped a five-year, $80 billion capital spending plan, citing uncertain global economic conditions, but is yet to reveal which projects will get the chop.

Similar to Rio, BHP has long maintained that it is committed to keeping its single-A credit rating, another constraint on spending.

But even while indicating Rio is prepared to open its wallet wide to become an even bigger player in iron ore and copper, Albanese pointed to belt tightening as well by "retaining flexibility and taking steps to reduce and re-phase capital expenditure as appropriate."

Longer-term expectations for iron ore are positive, Rio iron ore chief Sam Walsh said in the statement, avoiding assessment of short-term demand from China, both Rio's and BHP's single biggest buyer.

"We continue to see positive prospects for medium- to long-term iron ore demand driven by ongoing growth in Chinese consumption," he said.

Creditors seek to slow RG Steel's rushed sale

June 20 (Reuters) - Unsecured creditors of bankrupt RG Steel are seeking to slow the company's rushed sale process, which they said will lead to a paltry price and a higher likelihood the company's mills will close, according to court documents.

The unsecured creditors committee, which includes the United Steelworkers, suppliers and the Pension Benefit Guaranty Corp, said the July 27 sale deadline was likely to result in the company's assets being surrendered to the existing owner.

The could happen because the current owner, Renco Group, has said it is also a secured lender, which the unsecured creditors dispute. RG Steel has said the sale schedule was mandated by its lenders. RG Steel, its lenders and unsecured lenders were urged to resolve the dispute over the sale schedule by Delaware Bankruptcy Judge Kevin Carey, who held an emergency telephone hearing on Wednesday.

"We're all accustomed to a quick sale process. Sometimes it's appropriate to slow them down and sometimes there's no need to," he said, adding that he would need to hear evidence before deciding.

If the parties cannot resolve the sale schedule, Carey will hear their arguments on Thursday.

RG Steel bought its three mills from Russian steelmaker Severstal for $1.2 billion last year. Since then, falling steel prices and rising raw materials costs squeezed margins and forced the company into bankruptcy on May 31.

The company's mills include Sparrows Point near Baltimore, Maryland, which is among the largest steel-making plants in the United States. It has annual capacity of 3.9 million tons of sheet, slab and tin products.

The committee's attorney, Gregory Horowitz of Kramer Levin Naftalis & Frankel, said during Wednesday's hearing that many interested parties were performing due diligence on RG Steel's assets.

Still, the company is putting its mills up for sale in a tough market.

Lakshmi Mittal, the chief executive of ArcelorMittal, the world's largest steel producer, said on Tuesday, "There is enough overcapacity in the world," adding that "this is not the time to acquire more growth."

The case is In Re: WP Steel Venture LLC, U.S. Bankruptcy Court for the District of Delaware, No. 12-11661.

China says rare earth price gap based on quality, customs

BEIJING, June 20 (Reuters) - China denied on Wednesday that it interferes with prices on the global rare earths market amid a trade dispute with other major economies, saying product quality variations account for the price gap between the metals it produces for export and domestic use.

In March, the European Union, United States and Japan complained to the World Trade Organization that Beijing, which has a monopoly over world supplies of the mineral, illegally choked exports while holding down prices for domestic manufacturers.

Su Bo, a senior official at China's Ministry of Industry and Information Technology, said that higher quality demands by foreign firms and customs costs - not a decree from Beijing - partly explained the steeper prices paid by foreign companies.

" It's like an article of clothing. It could cost 10,000 yuan or 1,000 yuan, depending on the product quality," Su said, citing industry experts.

Still, Su stopped short of a full explanation for the price difference that has upset trading partners.

"We need to search for an answer, because our government has never interfered with market prices," he told a press briefing.

MARKET NEWS *(Continued)*

Rare earths are key elements in producing modern technologies from iPhones and disk drives to wind turbines, as well as components for the defence industry.

China, which accounts for about 97 percent of world output of the 17 rare earth metals, imposes strict export quotas in what it says is an effort to curtail environmental pollution and resource exhaustion.

Su sought to emphasise the environmental impact of mining by showing large photos of barren hillsides apparently stripped during the mining process.

In a similar case on raw materials in January the WTO ruled against China, saying that environmental protection is only a valid reason to curtail exports if China is giving the domestic and international markets equal treatment.

Refining rare earths requires large amounts of acid, and also produces low-level radioactive waste.

Beijing is quick to note that other countries, notably the United States, have closed their own rare earths refineries, citing pollution concerns.

"The Chinese people believe, after years of supplying so much of the world's rare earths, that we deserve some appreciation," Su said.

Despite a 30,184 tonne export quota in 2011, China says it shipped only 18,600 tonnes last year. The squeeze on supply has led, in part, to a fourfold increase in export prices over the past two years.

The government has said the quota will remain steady in 2012.

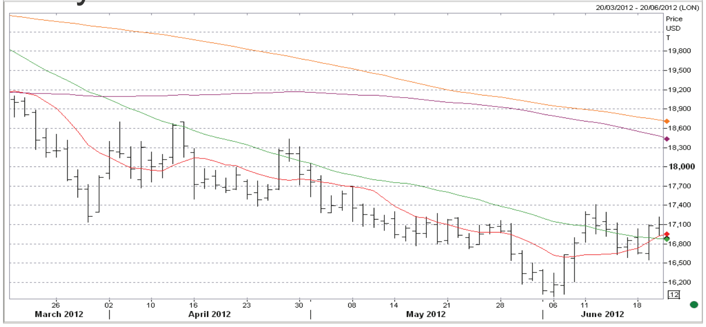
As a result of the curbs, the European Union has said foreign firms pay up to twice as much as Chinese firms for rare earth metals.

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 down after Fed disappoints, China data glum

SHANGHAI, June 21 (Reuters) - Copper hit one-week lows after investors saw their hopes for more aggressive stimulus measures by the U.S. Fed dashed and worried Spain's borrowing costs would soar, flagging the risks of shaky euro zone finances to the global economy.

While most investors expected the latest HSBC China Flash Purchasing Managers Index to fall under 50 again in June, the seven-month low number of 48.1 confirmed that economic growth in the world's top metals consumer was still slowing.

Three-month copper on the London Metal Exchange dropped 1.4 percent by 0416 GMT to $7,437.50 a tonne, its cheapest level in a week after falling 0.8 percent on Wednesday.

The most-active October copper contract on the Shanghai Futures Exchange fell 0.9 percent to 54,400 yuan ($8,600) a tonne by its midday close. It hit a low of 54,260 yuan earlier in the session, its lowest since June 14.

"Commodities are down mostly due to disappointment that the Fed did not introduce another quantitative easing programme," said a trader based in Shanghai with an international firm.

The U.S. Federal Reserve on Wednesday announced it was expanding its "Operation Twist", dashing hopes of some who were betting on a more aggressive quantitative easing programme. The central bank will sell $267 billion worth of short-term securities to buy longer-term ones to keep down long-term borrowing costs. The program, which was due to expire this month, will now run through the end of the year.

Adding to investor worry was expectations that Spain's borrowing costs will probably hit a new euro-era high at an upcoming debt auction, a few hours before it sheds light on the dire state of its weaker banks and possibly makes a formal request for European Union funds to rescue them.

Spain's problems underscored the International Monetary Fund's latest warning, in which it singled out the euro zone as the most immediate threat to global financial stability.

The IMF also drew attention to the risks to the world economy from the European debt crisis and excessive fiscal tightening in some rich nations, urging collective action to lower unemployment. China's factory sector contracted for an eighth straight month in June, with export orders and prices turning in their weakest showing since early 2009, the HSBC Flash Purchasing Managers Index showed on Thursday.

The seven-month low index of 48.1 in June fell from a final reading of 48.4 in May and marked the eighth consecutive month that the HSBC PMI has been below 50, indicating contraction.

The new orders sub-index also fell in June and the new export orders sub-index dropped even more sharply, to 45.9, its lowest level since March 2009, the data compiled by Markit Economics Research shows.

While the gloomy data gave further evidence of slowing growth in China, traders said it was within expectations.

"I'm not particularly worried: it's natural for PMI to be down in June as we enter the summer season, which is traditionally the lull for industrial activity," said the trader.

"New export orders are weaker in June but if you consider how much they have grown in May, the overall picture isn't so bad."

On a positive note, Wall Street's top bond firms still see a 50 percent chance the Federal Reserve will begin a third round of quantitative easing (QE) to boost the U.S. economy even after it extended its current stimulus program on Wednesday.

The trader agreed that chances of a third round were high, "I believe QEIII is inevitable since major economies, including the euro zone and China, should be looking at further monetary easing, given current global economic circumstances."

PRECIOUS-Gold falls for 3rd day, Fed disappoints

SINGAPORE, June 21 (Reuters) - Gold slipped for a third straight day after the U.S. Federal Reserve stopped short of launching another round of quantitative easing to stimulate the economy, a move that could have boosted bullion's appeal in times of uncertainty.

But lower prices were expected to attract purchases from jewellers in Asia, while a fragile U.S. economy and the debt crisis in Europe may eventually prompt the Fed to adopt more aggressive measures to help the economy.

A Reuters poll showed Wall Street's top bond firms still see a 50 percent chance of a third bout of quantitative easing or "QE3", under which the Fed effectively creates money to fund large asset purchases, to stimulate the economy.

Cash gold fell $5.62 an ounce to $1,599.76 by 0214 GMT. Gold rallied to its highest level in 2012 of around $1,790 in February after the Fed at the time said it would keep interest rates near zero until the end of 2014 at the earliest.

"The fact is that the Federal Reserve's attitude hasn't really changed at all," said Yuichi Ikemizu, head of commodity trading, Japan, at Standard Bank.

"I mean if you read Bernanke's speech, he's still very worried about unemployment. I am still bullish," said Ikemizu, who expects gold to hold around $1,580 to $1,590 on the downside.

Fed Chairman Ben Bernanke, speaking at a news conference after a two-day policy meeting, said the central bank was concerned Europe's prolonged debt crisis was dampening U.S. economic activity and employment.

The Fed expanded its bond-buying scheme dubbed "Operation Twist" by $267 billion to keep long-term borrowing costs down. The programme, which was due to expire this month, will now run through the end of the year.

MARKET REVIEW *(Continued)*

U.S. gold for August delivery fell more than 1 percent to a low of $1,598.10 an ounce before recovering slightly to $1,600.90, still down $14.90.

For a 24-hour gold chart analysis:

http://graphics.thomsonreuters.com/WT1/20122106085318.jpg

Previous rounds of asset purchases by the Fed to drive down interest rates and stimulate the economy had weakened the U.S. dollar, boosted global stock markets and prompted investors to turn to gold.

Shares in Asia edged down on Thursday after the Fed's decision disappointed some investors, while the U.S. dollar held off a one-month low against a basket of major currencies.

The physical market noted buying interest overnight, keeping premium for gold bars steady at $1.20 an ounce to the spot London prices in Hong Kong.

"We may see a bit of bargain hunting from jewellers later. People are waiting for the downside. Premiums haven't changed yet, but let's see what happens in the next few days," said a dealer in Hong Kong. "It's seems that central banks are on the buying side nowadays."

Kazakhstan's central bank plans to boost the share of gold in its gold and foreign currency reserves to 20 percent from 14-15 percent, deputy bank chairman Bisengali Tadzhiyakov.

Kazakhstan is one of a number of countries, including Russia, Mexico, Colombia and South Korea, that have built up their official gold holdings in recent years.

FOREX-Dollar resilient after Fed largesse, euro slips

SINGAPORE/SYDNEY, June 21 (Reuters) - The dollar held above a one-month low against a basket of major currencies, no worse for wear even after the Federal Reserve delivered another dash of monetary stimulus and said it was ready to do more if necessary.

Dollar bears were stopped from rampaging by the fact the Fed stopped short of launching a more aggressive programme of buying bonds outright, or QE3, which some in the market had expected, traders said.

The central bank expanded its "Operation Twist" by $267 billion, meaning it will sell that amount of short-term securities to buy longer-term ones to keep long-term borrowing costs down. The program, which was due to expire this month, will now run through the end of the year.

Analysts said the outlook for the dollar remained clouded with more market players likely to position for fresh stimulus from the Fed following the central bank's move to downgrade its U.S. growth forecast.

"We expect more monetary easing down the road," Rabobank's senior U.S. strategist Philip Marey wrote in a client note.

"The unemployment rate is still far above its target and expected to remain above target at least until 2014. What's more, the recovery remains fragile and uneven."

The dollar index stood at 81.579, staying above a one-month low of 81.186 hit earlier in the week. The euro dipped 0.2 percent to $1.2675 , having risen to a high of $1.2744 the previous day, near a one-month peak of $1.2748 set on Monday. A focal point for the euro is the possibility of further policy steps to contain the euro zone's debt crisis.

The single currency got a lift on Wednesday after German Chancellor Angela Merkel said that both of Europe's bailout programmes included mechanisms for buying state debt on the secondary bond market.

Merkel stressed that this was a "purely theoretical" question and was not being discussed. Her comments, however, were taken by traders as leaving the door open for such bond purchases, said a trader for a major Japanese bank in Singapore.

"Merkel's remarks seem to be leaning toward doing whatever it takes, so I was expecting to see a further unwinding of risk-off positions today," the trader said, adding that the market's moves so far on Thursday had caught him off guard.

Against the yen, the euro slipped 0.1 percent to 100.94 yen , backing away from a one-month high of 101.42 yen hit on Wednesday.

Euro-selling by Japanese exporters helped drag the single currency lower against the yen, said a trader for a European bank in Tokyo. The dollar inched up 0.1 percent against the yen to 79.63 yen , getting some support after U.S. Treasury yields edged up the previous day.

SURVEY SHOWS CHINA WEAKNESS

The Australian dollar dipped 0.3 percent to $1.0157 , retreating from a seven-week high of $1.0225 hit the previous day.

The Aussie dollar hit an intraday low after a private-sector survey showed that China's factory sector contracted for an eighth straight month in June, with export orders at their weakest since early 2009.Still, the Aussie dollar's reaction to the signal of weakness in China was relatively subdued.

"I think the indications from China at least, are that they are taking the slowdown a bit more seriously. So I don't think the number is going to be a huge driver," said Todd Elmer, currency strategist at Citi in Singapore.

If the weakening in Chinese data is sustained, however, market players may start to question the effectiveness of Chinese policy steps to support its economy, Elmer said.

China is Australia's top export market and developments there tend to affect the Australian dollar. Earlier on Thursday, the New Zealand dollar jumped above $0.8000 for the first time since early May after data showed New Zealand's economy grew 1.1 percent in the January-March quarter, more than double what economists had expected.

(Inside Metals is compiled by Shruthi G in Bangalore)

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