INSIDE METALS

Monday, June 24, 2013

CHART OF THE DAY

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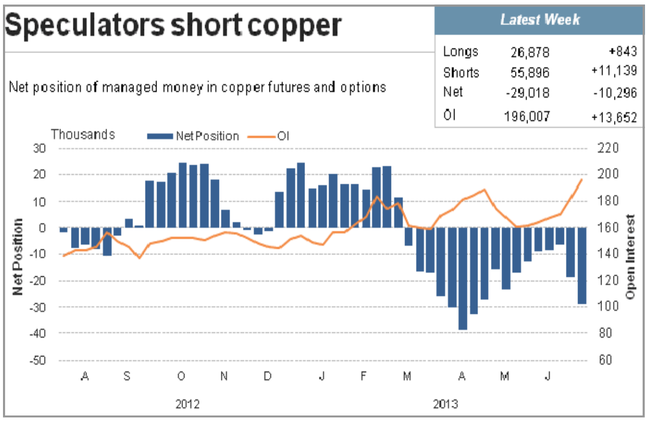

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FEATURE

Geeks oust miners among Australia's new rich as boom fades

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TODAY'S MARKETS

BASE METALS: London copper futures dro pped for a fifth session out of six and stayed near 20-month lows, hurt by a firmer dollar and worries over top consum er China where a liq uidity squeeze could curb demand already hit by slower economic growth.

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PRECIOUS METALS: Gold ext ended last week's 7-perc ent drop hurt by a stron ger dollar, worries over an earl y end to F ederal Res erve stimulus and fears of a cash crunch in China.

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FOREX: The doll ar mo unted a t wo-and-a-half week peak ag ainst a basket of major currencies and surged against its Japanese counterpart in Asia as exp ectations of scale d-back U.S. monetar y stim ulus pus hed up yields on U.S. sovereign debt.

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FEATURE

Geeks oust miners among Australia's new rich as boom fades

By Jane Wardell

SYDNEY, June 24 (Reuters) - In a country synonymous with larger-than-life mining tycoons and Outback heroes, the geeks are quietly inheriting the earth.

As coal magnate Nathan Tinkler, the poster boy for Australia's fading 10- year minerals boom, publicly battles against bankruptcy, software entrepreneurs Mike Cannon-Brookes and Scott Farquhar are riding high.

The former college buddies behind fast-growing software firm Atlassian unceremoniously bumped Tinkler off the top of Australia's "young rich list", leading a charge in the country's blooming technology industries.

The tech start-up and biotech sectors are at the forefront of a push to transform Australia from an exporter of iron ore to an exporter of ideas.

"It's a pretty primitive economy," said internet entrepreneur Matt Barrie. "We basically dig stuff up out of the ground, put it on a boat and ship it."

As part of ambitious plans to change that, the government has announced millions of dollars in new venture capital funding and large-scale reviews of the technology sector. A A$38 billion ($36.2 billion) National Broadband Network (NBN) will bring high-speed internet to almost all the 23 million population.

"As the roll out of the NBN continues, the capacity for start-up companies, particularly in the tech and digital sectors, to create game-changing businesses and applications is unprecedented," said Communications Minister Stephen Conroy.

START-UP SUCCESS

Online and high-tech start-ups account for just 0.1 percent of GDP and 9,500 jobs, but the sector is growing rapidly. A recent report by PricewaterhouseCoopers (PWC) suggests it could account for 4 percent of GDP and 540,000 jobs by 2033.

That puts Australia well behind Silicon Valley in California, the epicentre of start-ups, but growing activity in Sydney and Melbourne are putting those cities on the edge of the world top 10 that currently includes London, Tel Aviv and Singapore alongside U.S. cities San Francisco, Seattle, Boulder and Austin.

All eyes are currently on Cannon-Brookes and Farquhar, amid expectations they will list Atlassian on Nasdaq within the next year, a plan first flagged in 2010 when U.S. venture capital firm Accel Partners saw its potential and invested $60 million.

Founded by the pair straight out of university 10 years ago using a A$10,000 credit card debt, Atlassian is now a world leader in collaboration and bug tracking software, pulling in revenue of A$103 million in 2011 without a single salesperson.

Its products are used by 25,000 companies in 135 countries, including McDonalds Inc , Coca-Cola Enterprises Inc , eBay Inc , Boeing Co and the U.S. space agency NASA.

Cannon-Brookes said the company had an annual compound growth rate of 30-35 percent, but declined to give a timeframe for listing.

"It's a logical next step for us to take," Cannon-Brookes said.

He said the company planned to add another 100 employees in the next quarter to its current staff of 700, based mainly in Sydney, San Francisco and Amsterdam.

YOUNG, RICH AND AUSSIE

The success of Atlassian propelled Farquhar and Cannon-Brookes to the top of the Business Review Weekly Young Rich List, ousting Tinkler, the former youngest billionaire in the country, whose rags-to-riches-and-back tale took another twist this month with the sale of his stake in Whitehaven Coal Ltd .

Farquhar, and Cannon-Brookes are worth A$480 million combined, on 2012 figures, ahead of Tinkler's A$400 million fortune.

The gap has widened further since then, with Atlassian growing and Tinkler dropping off the magazine's more recently calculated main Rich List of the country's wealthiest 200 people.

On current form, he will also disappear from the 2013 Young Rich List, which ranks the 100 wealthiest people under the age of 41, when it is published later this year.

While the main Rich List is still dominated by entrenched mining tycoons such as Gina Rinehart and Fortescue Metal Group's Andrew Forrest, the young list is notable for containing 24 people who made their fortunes in technology.

Close behind the Atlassian duo at No.4 was PC Tools founder Simon Clausen. No.8 was Ruslan Kogan, a serial entrepreneur specialising in online retail sites. At No.10 were Mitchell Harper and Eddie Machaalani, who built software-as-a-service platform Bigcommerce. Matt Barrie was at No.50 thanks to his rapidly growing recruitment site freelancer.com.

BIOTECH GROWTH

And it's not just the tech geeks rising through the rich ranks. Their contemporaries in the biotech sector are also poised for financial windfalls.

As the Australian population ages and Asian countries grow increasingly affluent, there is potential for significant growth in the sector, which currently has 95 listed companies valued at A$49 billion, according to research group Bioshares.

Silviu Itescu, a doctor, scientist and chief executive of stem cell research firm Mesoblast Ltd , features on the main Rich List with a A$400 million fortune, as his company reportedly considers a second listing on Nasdaq.

FEATURE *(Continued)*

Among the minnows tipped to be the next super-earners are neurodegenerative disorder specialist Cogstate Ltd, disinfection and sterilisation expert Nanosonics Ltd, IVF diagnostic test developer Universal Biosensors Inc, sleep disorder appliance maker SomnoMed Ltd.

"These are all companies that we are expecting to reach profitability in the next 12 to 18 months," said Mark Pachacz, research principle at Bioshares.

ROADBLOCKS

But industry experts warn the grand plans to use tech start-ups and biotech to help transform the economy could be stymied by a lack of funding for new ventures in both sectors, a brain drain overseas and a dearth of local science graduates.

Venture capital firms have been burned by some spectacular failures in recent years, such as regulatory hurdles that hit key products from drug maker Pharmaxis Ltd, while low government grants have been criticised by industry.

The government moved to address that last week by announcing a review of employee share scheme regulations, which companies such as Atlassian have argued have forced talented staff in new businesses overseas.

A group of industry leaders, including the Atlassian duo, recently formed Blackbird Ventures to invest A$20 million in Australian start-ups that have the potential to be global success stories.

Blackbird Managing Director Niki Scevak said it would address a funding gap between a raft of accelerator funds ploughing seed money of up to A$1 million into the market and "series A" funding of more than A$10 million for more established companies from U.S. funds like Accel.

Blackbird has so far invested in online design platform Canva and Ninja Blocks, a software developer bringing the remote controlled home to the masses by connecting home devices to web and mobile apps.

"It's a national imperative that we've got to build up the technology industry in this country," said freelancer.com's Barrie. "I can't think of another industry that could help us go into the next 20, 30 years."

GENERAL NEWS

Founders set for reduced $4.7 bln buyout bid for ENRC

By Matt Scuffham and Clara Ferreira-Marques

LONDON, June 23 (Reuters) - The billionaire founders of ENRC are close to finalising a buyout bid for the London-listed Kazakh miner, valuing the troubled group at just over 3 billion pounds ($4.7 billion), below the value of a tentative proposal made in May.

ENRC's co-founders - Alexander Machkevitch, Alijan Ibragimov and Patokh Chodiev - and Kazakhstan's government are seeking to acquire the roughly 46 percent of ENRC which they do not already control, offering cash plus the government's shareholding in Kazakh mining rival Kazakhmys, also listed in London.

The founders want to take the group private after more than five years of bitter boardroom battles, corruption probes and an acquisition spree that left $5 billion of debt.

In a statement on Sunday, a day ahead of the deadline for making a firm offer, the bidding consortium said it was "in the advanced stages" of preparing an offer worth $2.65 in cash and 0.23 shares in rival Kazakhmys for every ENRC share.

The offer is virtually unchanged in structure from an indicative proposal first made in May, but due to a drop in the Kazakhmys share price it is ultimately worth less for each ENRC share. At Friday's closing price and exchange rate, the offer values each ENRC share at 234.3 pence, down from the 253 pence value of May's offer, using Kazakhmys share values at the time.

ENRC's share price closed trading on Friday at 216.9 pence.

A bid at current levels will prove difficult for both ENRC's independent board members, who face the prospect of bidders who already hold more than 50 percent of the shares, and for Kazakhmys, whose shares are being used as currency by the government, but which is also ENRC's top shareholder.

Kazakhmys has a 26 percent stake in ENRC - a hangover from a failed takeover attempt before the miner listed.

As reported by Reuters on Friday, Kazakhmys's approval of the proposal has been set as a pre-condition. That means that though Kazakhmys's final backing will need to be sanctioned by its shareholders, an indication of conditional support no later than Monday will be key to whether or not an offer is made.

Kazakhmys, which has long sought to resolve the problem of having a large stake in ENRC, said last month it could back an offer. Sources familiar with the matter said then that it supported the structure of a cash-and-share proposal, which would give it around $890 million of cash for Kazakhmys as well as 77 million of its own shares.

It would also lift Kazakhmys's free float of readily tradeable shares, while removing the government as a key shareholder.

Kazakhmys declined to comment on Sunday.

No one representing the committee of independent board members of ENRC was immediately available for comment.

GENERAL NEWS *(Continued)*

Russian miner Mechel's Elga project delayed-source

MOSCOW, June 21 (Reuters) - Debt-laden Russian coal giant Mechel has been allowed to push back development of its key Elga coal asset by up to 5 years, a source familiar with the mining licence told Reuters on Friday.

The miner said on Tuesday the licensing agency had agreed to renegotiate the terms of its licence for the deposit, one of the world's largest coking coal reserves, but gave no details.

Saddled with $9.2 billion of debt that is over six times its current market capitalisation, Mechel has fallen behind with construction at Elga in Russia's Far East due to funding issues.

It must now complete the first phase of building by Aug. 1, 2017, the source said. The previous target was Dec. 31, 2013.

The firm must also ramp up capacity to 9 million tonnes of coal by Aug. 1, 2018 rather than by July 1, 2013 and reach 18 million tonne capacity by the end of 2021 compared with the original target date of July 1, 2018, according to the source.

Mechel is selling a stake in its mining unit and has asked state-owned bank VEB for between $2 billion and $2.5 billion of project financing towards Elga, a giant field whose development has for decades been blighted by inadequate transport links and difficulties delivering material.

The firm is also constrained by flagging coal prices at multi-month lows in Asia and Europe and by hefty Russian rail tariffs that squeeze profit.

Shares in Mechel, which posted a Q1 net loss of $321 million on Tuesday, have lost nearly 95 percent of their value since mid-2008 - the beginning of financial crisis in Russia - as tumbling steel and coal prices raised concerns over how it would manage its debts.

At 1416 GMT, Mechel's New York-listed shares were trading up 6.6 percent.

TRADING PLACES

Speculators slash gold longs, boost copper shorts -CFTC

June 21 (Reuters) - Hedge funds and money managers slashed their bullish bets in gold futures and options for a second consecutive week to the lowest level in a month, a report by the Commodity Futures Trading Commission (CFTC) showed on Friday.

The group also increased its net short position in copper to its most bearish in more than two months, and trimmed its net short in silver, the top U.S. derivatives regulator said in its weekly Commitment of Traders report.

The price of gold slipped nearly 1 percent in the period covered by the CFTC report, the week ended June 18, as jittery investors sold gold ahead of a U.S. Federal Reserve policy meeting.

Traders now focus on next week's industry data after the gold market posted its biggest weekly decline since September 2011 when bullion prices fell sharply after hitting a record high.

Gold plunged over 5 percent to its lowest in three years on Thursday, leading a global market rout one day after the U.S. central bank gave its most explicit signal yet it plans to wind down the era of easy money.

In silver futures and options, speculators cut net shorts by 445 contracts to a net short of 100 contracts.

Speculators in copper increased their net short positions by 10,296 lots to a net short of 29,018, their most bearish position since the week of April 9, CFTC data showed.

MARKET NEWS *(Continued)*

Freeport resumes some output at world's No.2 copper mine

By Michael Taylor and Kanupriya Kapoor

JAKARTA, June 22 (Reuters) - Freeport McMoRan Copper and Gold Inc has restarted some operations at the world's second biggest copper mine after receiving approval from the Indonesian government, a senior company official told Reuters on Saturday.

The Arizona-based company has slowly resumed open-pit mining at its Grasberg complex in eastern Indonesia, more than a month after a training tunnel collapsed, killing 28 people in one of Indonesia's worst mining accidents. Underground production remained shut.

"The open-pit is already allowed to be open," Freeport Indonesia President Director Rozik Soetjipto said in a telephone interview. "At the beginning of course, there will only be a very, very small amount of production because we have to prepare everything and gradually increase production."

An energy ministry spokesman said the government granted its approval late on Friday after state officials completed their investigation.

Union miners, who make up three-quarters of the 24,000 Freeport workers, were returning to work at the Grasberg mine.

"What we are doing now is mainly maintaining the mine and equipment because it has been left by workers for a period of time," said union spokesman Juli Parorrongan.

The open-pit mine normally produces around 140,000 tonnes of copper ore per day, while output from underground operations is 80,000 tonnes.

Freeport was forced to declare force majeure on shipments due to the prolonged closure of the mine.

Mexico sets anti-dumping duties on China seamless steel pipes

BEIJING, June 21 (Reuters) - Mexico has set duties on seamless steel tubes from China, the Asian giant's commerce ministry said on Friday, after a Mexican steel company complained about unfair pricing practices.

The decision, effective from Friday, is a victory for TAMSA, the Mexican arm of steel company Tenaris, which had complained last year about price differences between Chinese-made seamless steel pipes and Mexican ones.

The tariff is set at $1,252 per tonne and will not exceed 56 percent of the customs duty price after tax, the commerce ministry said in a statement.

In 2010, Mexico imposed anti-dumping tariffs on Chinese seamless steel tubes, often used for oil and gas pipelines. At the time, the economy ministry said the tubes were entering the country at below-market prices, hurting the national industry.

China, the world's biggest producer and consumer of steel, has been repeatedly cited by its major trade partners, such as the United States and the European Union, for alleged dumping in its massive exports of steel products.

TAMSA had filed its probe request in late September, citing "considerable volumes of imports of seamless steel pipes from China which entered the domestic market under discriminatory price terms," Mexico's economy ministry said in the Official Gazette.

Last October, Mexico accused China of breaking World Trade Organization rules by providing tax breaks and other favorable deals to its own clothing and textile businesses.

Mexico's government has voiced worry about its massive trade deficit with China, largely caused by an influx of manufactured goods. More than 15 percent of Mexico's imports came from China last year, worth roughly $57 billion, while just 1.5 percent, or $5.7 billion, of Mexican exports went to the Asian giant.

Mexico and China have been direct competitors to supply the U.S. market with manufactured goods and Mexican producers have fought to keep the Chinese off their turf.

Japan crude steel output rises to highest since Jan 2011

TOKYO, Jan 21 (Reuters) - Japan's crude steel production rose in May to the highest since January 2011, as a decline in the yen caused by the so-called "Abenomics" stimulus programme helped boost export demand.

Crude steel output rose 4.3 percent from a year earlier to 9.62 million tonnes, the Japan Iron and Steel Federation said.

The third straight monthly gain came largely because exports are recovering, with shipments heading mostly to car and electronic factories in Southeast Asia owned by Japanese manufacturers, the Federation said.

The yen's 16 percent slide against the dollar over the past six months has been one of the most tangible effects of Prime Minister Shinzo Abe's push to end two decades of economic stagnation with a mix of monetary easing and fiscal expansion.

Steel output has now recovered to levels seen before the March 2011 earthquake and tsunami hit demand as carmakers and other manufacturers were forced to halt production.

April marked the sixth straight month of increase in Japan's steel exports, the Federation said earlier this month.

Crude steel output, which is not seasonally-adjusted, increased 5 percent from April, the industry body said, adding that steel demand for construction in Japan was also strong.

Output for the April-May period - the first two months of Japan's fiscal year - grew 2.7 percent from the same period a year earlier. The increase compares to a 4.1 percent drop predicted for the April-June quarter by Japan's trade ministry in early April. The ministry said at that time the decline was expected due to weak demand from shipbuilders and carmakers.

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 falls for 5th day in six on China woes, dollar

By Manolo Serapio Jr

SINGAPORE, June 24 (Reuters) - London copper futures dropped for a fifth session out of six and stayed near 20-month lows, hurt by a firmer dollar and worries over top consumer China where a liquidity squeeze could curb demand already hit by slower economic growth.

Copper dropped the most in two months last week given the concerns about China and a roadmap from the U.S. Federal Reserve on scaling back its stimulus that has boosted market liquidity for years and helped commodities scale historical peaks.

But the bigger worry now is China where the economic recovery could be stalling and may be exacerbated by a potential credit crunch.

China's central bank said on Monday that the overall liquidity in the financial system is at a reasonable level after interest rates for short-term funds spiked to extraordinary levels last week as big commercial banks held back on lending in the inter bank market.

"The economic slowdown and the liquidity squeeze will pressure copper prices going forward," said Helen Lau, senior mining and metals analysts at UOB-Kay Hian Securities in Hong Kong. "This will squeeze copper fabricators who need to borrow money from banks to buy copper," said Lau, adding it will also hit the use of the metal in trade financing.

Three-month copper on the London Metal Exchange dropped 0.7 percent to $6,770 a tonne by 0414 GMT, not far from a low of $6,692 hit on Friday, its weakest since October 2011.

The industrial metal lost nearly 4 percent last week in its biggest weekly loss since mid-April.

Lau expects copper to drop below $6,500, a level last seen in July 2010.

The most-traded October copper contract on the Shanghai Futures Exchange was down 0.8 percent at 48,730 yuan ($7,900) a tonne.

Chinese equities fell more than 4 percent after official news reports over the weekend suggested Beijing will crack down on shadow banking, blamed for the cash crunch in the mainland.

The stronger dollar also hurt copper and other commodities priced in the greenback, including oil and gold, by making them more expensive for holders of other currencies.

The dollar hit a two-week high against a basket of major currencies, adding to its best weekly gain in 19 months that was triggered by the Federal Reserve policy plan.

Another dampener for copper was the resumption of some operations at the world's No.2 copper mine.

Freeport McMoRan Copper and Gold Inc has restarted some operations at its Grasberg mine in Indonesia after receiving approval from the government, more than a month after a tunnel collapsed and killed 28 people.

PRECIOUS-Gold falls on stronger dollar, physical demand muted

SINGAPORE, June 24 (Reuters) - Gold extended last week's 7-percent drop hurt by a stronger dollar, worries over an early end to Federal Reserve stimulus and fears of a cash crunch in China.

But the fall in prices failed to revive physical demand as much as when bullion tumbled its most in 30 years in April.

Investors also continued to dump holdings in gold exchange-traded funds, despite the metal's usual appeal as a so-called safe-haven asset.

"The market is very bearish at the moment and we continue to see more liquidation," said a trader in Hong Kong. "We can see some physical buying interest but not enough to support prices."

Spot gold had lost 0.5 percent to $1,290.65 an ounce by 0253 GMT, not far from a near-three year low touched last week. It rose over 1 percent on Friday but recorded its worst weekly performance since September 2011.

Comex gold fell $2 to $1,290.10.

Markets were roiled last week after Fed Chairman Ben Bernanke laid out a strategy for the U.S. central bank to start scaling back its $85 billion monthly bond-buying programme.

Elsewhere, China's central bank faced down the country's cash-hungry banks on Friday, letting interest rates again spike to extraordinary levels of some 25 percent for some banks, stoking worries of a cash crunch in the world's No.2 economy.

Hedge funds and money managers slashed their bullish bets in gold futures and options for a second consecutive week to the lowest level in a month, a report by the Commodity Futures Trading Commission showed on Friday.

Holdings in SPDR Gold Trust, the world's largest gold-backed exchange-traded fund, fell a further 0.54 percent to 989.94 tonnes on Friday - the lowest in over four years.

"The main problem for gold is the current lack of investment interest," Credit Suisse analysts wrote in a note. "The $1,300 mark is a key level to watch and a sustained break to the downside would worsen the technical picture."

Bullion is down 23 percent for the year, heading for its worst annual performance since 1981.

Physical demand in the top two gold consumers India and China was muted, unlike the mid-April sell-off in gold which prompted a frenetic rush, pushing up premiums and tightening supplies.

MARKET REVIEW *(Continued)*

FOREX-Dollar rises broadly as Treasury yields soar on Fed exit plan

By Lisa Twaronite

TOKYO, June 24 (Reuters) - The dollar mounted a two-and-a-half week peak against a basket of major currencies and surged against its Japanese counterpart in Asia as expectations of scaled-back U.S. monetary stimulus pushed up yields on U.S. sovereign debt.

Federal Reserve Chairman Ben Bernanke said last Wednesday that the U.S. central bank could taper its monthly $85 billion in asset purchases later this year if the economy continues to improve as it expected. The Fed chief's remarks helped push up the benchmark 10-year U.S. Treasury yield, which touched its highest in almost two years in Asia on Monday.

That in turn lifted the dollar index, which added 0.4 percent to 82.661 after rising as high as 82.692, its highest since June 5. The gains built on last week's 2.2 percent rally, its biggest weekly rise in 19 months.

"The higher Treasury yields lead to a stronger dollar, of course," said Masashi Murata, senior currency strategist at Brown Brothers Harriman.

But higher U.S. yields could lead to risks of their own, as they threaten to weigh on lending and sap growth, Murata said, adding that the yen could be bought back on such concerns, and the dollar will likely be capped ahead of the 99-yen level for now.

The good news for the greenback has been bad news for emerging market assets and commodity currencies, which had benefited most from the Fed's liquidity injection.

"We see little relief this week to the pain inflicted on markets from tapering fears," Mitul Kotecha, the global head of foreign-exchange strategy in Hong Kong at Credit Agricole, wrote in a research note.

On top of concerns about the impact of the Fed's exit plan, a recent spike in interbank borrowing costs had raised fears that stress in China's banking system could weigh on already slowing growth.

"Weaker growth and funding concerns in China added another layer of uncertainty to the market psyche although comments from China's central bank the PBoC about 'fine tuning' may help to allay fears of a wider credit crunch," Kotecha said.

Persistent fears of tighter Chinese credit weighed on regional equities markets on Monday, even as short-term interest rates fell and the central bank said there were sufficient funds in the market but banks needed to improve their cash management and control their lending.

Against the yen, the dollar put on 0.7 percent to 98.49 yen after earlier touching 98.72 on the EBS trading platform, its highest since June 11.

Diverging monetary policy outlooks between the Fed and Bank of Japan could push the spread wider between yields on Treasuries and Japanese government bonds and in turn fuel further dollar gains, some strategists and market participants say.

"The focus is on U.S. interest rates. We see Japanese real-money investors mostly waiting on the sidelines, and its mostly overseas hedge funds that are taking the dollar higher today," said an advisor at a foreign exchange market research firm in Tokyo.

The euro fell 0.2 percent to $1.3097 after dropping as low as $1.3085, a level not seen since June 6.

The common currency has given back about 50 percent of its mid-May to mid-June rally, bringing in focus support at $1.3034, which represents the 61.8 percent retracement of that advance.

The Australian dollar remained under pressure, down 0.4 percent at $0.9182 after falling as low as $0.9170, not far from its 33-month low of $0.9160 struck last week.

The Aussie is the biggest underperformer in the dollar bloc, given the added worry of slowing growth in China, Australia's single largest export market.

JPMorgan now has a year-end target of $0.9000 for the Australian dollar, compared to its previous expectations of parity, reflecting disappointing Chinese data since late March and an outlook for higher U.S. Treasury yields.

(Inside Metals is compiled by Pradip Kakoti in Bangalore)

THOMSON REUTERS