INSIDE METALS

Friday, June 29, 2012

CHART OF THE DAY

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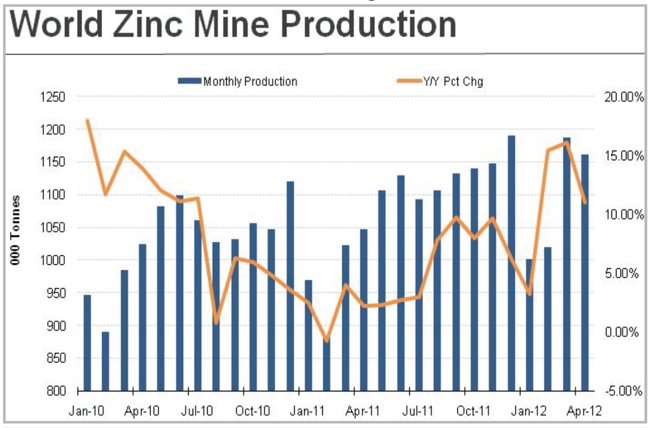

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COLUMN- New turn on the long road to zinc deficit

For a market burdened by almost a million tonnes of metal sitting in London Metal Exchange (LME) warehouses, zinc has been remarkably resilient of late.

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

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TODAY'S MARKETS

BASE METALS: Copper rose on Friday after European leaders agreed to create a single supervisory body for euro zone banks and allow them to be recapitalised without adding to government debt, easing fears of spiralling debt in Italy and Spain. The move prompted a surge in other riskier assets, including Asian shares and the euro, as it surprised many who had not expected the summit of regional leaders to produce any substantive measures to stem the bloc's spreading debt crisis.

"The markets mainly got a shot in the arm from the European Council comment, with signs of fresh longs entering Shanghai copper," said a Shanghai-based trader with an international firm.

PRECIOUS METALS: Gold rose more than 1 percent on Friday, tracking a surge in the euro after European leaders agreed on the recapitalisation of banks without boosting government debt, helping ease fears over the region's debt crisis. But heavy losses over the past three months mean gold is still on track to post its worst quarter since 2004, as a growing global economic slowdown from Europe to China pushed investors to safer havens such as the dollar.

"It still falls short of a concrete solution, but the removal of severe pessimism over what's going to come out of the EU summit is driving markets higher," said Vishnu Varathan, market economist at Mizuho Corporate Bank.

FOREX: The euro surged 1.1 percent, poised for its biggest daily jump in eight months, after European leaders agreed on Friday to emergency action to lower borrowing costs of Italy and Spain and to create a single supervisory body for euro area banks. A summit of the 17-nation currency zone agreed that its rescue funds could be used to stabilise bond markets without forcing countries that comply with EU budget rules to adopt extra austerity measures or economic reforms.

"If what he (European Council chairman Herman Van Rompuy) said was indeed agreed by EU leaders, that would clearly go beyond market expectations and should be enough to stop risk aversion in financial markets," said Hiroki Shimazu, senior market economist at SMBC Nikko Securities.

FEATURE

COLUMN-New turn on the long road to zinc deficit

By Andy Home

LONDON, June 28 (Reuters) - For a market burdened by almost a million tonnes of metal sitting in London Metal Exchange (LME) warehouses, zinc has been remarkably resilient of late.

Sure, it's been dragged lower in the cross-complex slide of recent weeks. But in terms of relative performance it is up there with copper and tin, markets in supply-side deficit, rather than down with surplus-stricken underperformers such as aluminium and nickel.

Indeed, it is once again trading at a rare premium to sister metal lead .

It has also, counter-intuitively, seen sporadic front-month tightness. The benchmark cash-to-three-months period was valued at $1.75 per tonne backwardation as of Wednesday's close.

That in part is probably down to a dominant long position, sitting on somewhere between 50 and 80 percent of LME stocks.

And in part it may reflect one of those titanic tussles for metal between stocks-financiers that has come to characterise the aluminium market.

The mass cancellation of 113,925 tonnes of LME-registered zinc showing in this morning's stocks report suggests a recent major switch of ownership.

Such are the new dynamics of the LME market-place thanks to the combination of cheap money and competition between warehouses, many now owned by banks or traders, for rental revenue streams.

ONE MORE YEAR

Fundamentalist metal bulls must pin their hopes on core underlying narratives, one of China shifting to net importer in the case of aluminium and one of looming supply deficit in the case of zinc.

After all, everyone "knows" that some of the world's biggest zinc mines are going to close over the next couple of years.

The process starts in 2013 with Xstrata's Brunswick and Perseverance mines in Canada and culminates in the 2015 closure of Century, the world's second largest zinc mine, in Australia.

Right?

Well, actually, no.

Tucked away in the annual report of Minmetals Resources , Century's owner, is the news that the mine-life has just been pushed back another year to 2016 thanks to "the inclusion of Stage 10 of the mine, which will deliver 6.6 million tonnes of ore at an average grade of 8.2 percent".

And Minmetal is still working on getting just a little bit more out of an exhausted pit, its Mine Operations Team set to "resume a number of near-mine initiatives for identification of additional feed for the processing plant."

Good news for Minmetal, which has just given itself another year's leeway between Century's closure and the development of its two new zinc prospects.

Between them Dugald River in Australia and Izok Corridor in Canada will replace around 80 percent of the feed lost when Century closes.

A final go-ahead decision on Dugald River is due later this year. If forthcoming the mine could be in operation by 2014.

Izok Corridor is further away. A definitive feasibility study will take between 18 and 24 months to complete.

Less good news for that bullish zinc narrative of pending raw materials deficit, which has just receded a little bit further.

Graphic on world zinc mine production:

http://r.reuters.com/byv98s

Graphic on China's zinc concentrates imports:

http://r.reuters.com/cyv98s

THE CHINA CONUNDRUM

More immediately damaging to the narrative is what is happening right now in the murky world of zinc mine production.

The International Lead and Zinc Study Group (ILZSG) estimates that global mine output surged by 11.4 percent in the first four months of this year.

Just about all the growth is coming from China, where official figures show production rocketing by 22 percent over the year to date.

It's a trend that has many analysts scratching their heads, given the weak price environment, which should in theory put a cap on higher-cost Chinese mine production and has certainly affected smelters' run rates and therefore their demand for concentrate.

It is quite possible that this apparent mine surge is actually no more than a statistical quirk. It wouldn't be the first time that Chinese statisticians have changed their methodology without letting the wider world know.

What is more certain is the precipitous drop in China's imports of zinc concentrates.

At 772,000 tonnes (bulk weight) in January-May they were down by 35 percent on last year and the lowest volume in the first five months of any year since 2007.

For whatever reason, higher domestic production, lower domestic smelter demand or a combination of both, China's call on the rest of the world's zinc raw materials is sharply diminished.

The very uncertainty as to what is driving this trend should instil extra caution about that bullish narrative of pending zinc supply crunch.

Chinese mine supply is a known unknown when it comes to forecasting global supply-demand dynamics for any metal. In zinc, though, it's a particularly big known unknown.

FEATURE *(Continued)*

SURPLUS TODAY, DEFICIT TOMORROW?

Even stripping China out of ILZSG's global mine figures shows production in the rest of the world increasing by 2.5 percent in the first four months of 2012.

And that despite the price hovering around eight-month lows.

Ascertaining exactly where the cost curve bites is no easy matter with zinc, though, given it tends to be produced in tandem with both lead and silver. That means there are at least three moving parts to most zinc mines' production costs.

But wherever the zinc producer pain threshold lies, it is clear we are not there yet.

And until prices fall further, mines will keep producing and smelters will keep on churning out metal to add to that growing mountain of surplus units sitting in LME warehouses.

Metals financiers and warehouse companies will rejoice. Zinc bulls will have to keep the faith with that alluring narrative of future deficit. It is tangible enough a threat that smelters such as Canada's CEZinc are planning for the worst.

CEZinc's owner, the Noranda Income Trust (NIT) , has announced it has started setting money aside for a potential closure of the plant once its existing concentrates supply deal with Xstrata runs out in 2017.

A "wise and prudent" precaution, according to NIT, given the "uncertainty of supply of concentrate post-2017".

Uncertainty, indeed, but maybe, in light of the one-year stay of execution for Century, that should read "post-2018"?

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

GENERAL NEWS

Guatemala floats plan to take 40 pct stake in new mines

GUATEMALA CITY, June 28 (Reuters) - Guatemala's president is planning a constitutional amendment to give the government as much as a 40 percent stake in new mining projects, a government spokesman said on Thursday.

Initial news of the plan hit Canadian mining companies working in Guatemala, especially Tahoe Resources Inc which is developing a $500 million Escobal silver project southeast of Guatemala City.

Tahoe later recovered some losses, saying the government had guaranteed its operations would not be affected by any new law.

A spokesman for President Otto Perez Molina told Reuters the changes would only apply to future projects that have not begun the licensing process.

"It is an executive proposal for non-renewable resources. The government would become a partner in 40 percent of the properties," said government spokesman, Francisco Cuevas. "This is a result of looking at mining policies in Chile, Bolivia and other countries who have used a similar model."

The plan will be formalized early next month and should be presented to Congress, along with other proposed constitutional changes, including judicial and legislative reforms, on July 9.

It takes a two-thirds vote in Congress to pass a constitutional change and a public referendum to ratify.

Perez Molina, a conservative retired general, took office in January promising to boost government revenues from mining projects in the country.

Resource nationalization is a growing concern in South America.

Argentina nationalized energy company YPF in April, sending shock waves through the Latin American investment community.

While Bolivia took control of a tin and zinc mine owned by global commodities firm Glencore in June, after already seizing the country's natural gas and electricity industries.

SHARES TUMBLE

Shares of Canada's Tahoe Resources dived 39 percent after the initial media reports of Guatemala's plans. It recovered to be down more than 18 percent at C$13.16 in Thursday afternoon trading on the Toronto Stock Exchange. Tahoe's New York-listed shares fell nearly 20 percent to $12.70.

"The government has no intention of acquiring an interest in the Escobal project or other mining projects in the country," the company said.

Tahoe said Escobal construction was on track and it expects to have the project fully permitted in the second half of 2012.

Tahoe Resources is 40 percent-owned by Canadian gold miner Goldcorp Inc , which owns the Marlin gold mine in Guatemala, which produced 382,400 ounces of gold in 2011 and generated revenue of over $900 million.

A spokesman for Goldcorp said the company had also been told by Guatemalan officials that the proposed mining law changes would not impact its Marlin mine operations.

Shares of Goldcorp dropped 4.2 pct to C$36.78 on the Toronto Stock Exchange.

Radius Gold , which is developing the Holly-Banderas project in Guatemala, also fell in early trading before snapping back.

GENERAL NEWS *(Continued)*

Glasenberg's dealmaker renown at mercy of Qatar

LONDON, June 28 (Reuters) - By rejecting Glencore's coveted acquisition of miner Xstrata , Qatar could also put paid to the reputation of Ivan Glasenberg, chief executive of the commodities trader, as consummate dealmaker.

Those who have worked with him on takeovers - and against him defending the companies he targeted - say Glasenberg's self-belief is second to none. That, plus unbending determination, means he normally gets his way.

But this time he appears to have been wrong-footed, thinking the support of major Xstrata shareholder Qatar Holdings was in the bag.

"Did Glencore misread the Qataris? Absolutely," said one banker familiar with the mining sector, but not involved in the deal. "Qatar does not like the limelight, so they must feel pretty strongly to end up going public."

Apparently undeterred by the rejection, Glasenberg showed little relish for compromise, letting it be known he would not overpay.

Glencore's position had not changed, a person familiar with the matter said, and the company would rather walk away than offer more. Bankers said such talk was a standard M&A tactic and to be expected of any company in such negotiations.

It is not only Glasenberg's track record that is under the microscope following Qatar Holdings' surprise demand for better terms for the takeover. The bankers advising him may also have been caught napping.

The stakes are high for all involved, with banking teams working on the deal standing to lose out on a pay day worth up to $130 million if the $26 billion deal collapses. Xstrata was due to pay up to $80 million to its financial advisers, while Glencore may have to shell out up to $50 million.

With fee income in retreat after a 25 percent fall in worldwide M&A volumes in the first half of the year, such pay days are more important than ever for bankers struggling to bring in revenue for their increasingly cost-conscious employers.

The combination of Glencore and Xstrata would rank as the biggest-ever done deal in a sector littered with the skeletons of failed deals. These include the $144.5 billion hostile bid for Rio Tinto by BHP Billiton in 2008, and BHP Billiton's more recent $39.7 billion offer for Canada's Potash .

Glasenberg is not the only executive to have been exposed by the failure to get "Glenstrata" blessed by shareholders.

His opposite number at Xstrata, CEO Mick Davis, was not listening to the mood music over executive pay when he secured himself a $45 million three-year retention package to seal the miner's deal with Glencore. The mining group was forced to convert it to an all-share, performance-related package after an embarrassing shareholder outcry.

Qatar Holdings, which has remained silent for months as it built up the second-largest stake in miner Xstrata - about 11 percent - pushed the deal to the brink on Tuesday, demanding better terms before it would support the deal.

The wealth fund is part of a new breed of investors in the mining sector, focused on creating long-term value and acting on motivations that are sometimes at odds with a more numerous body of investors looking at a shorter timeframe.

Despite the apparent blow to Glasenberg's plans, hedge fund managers said it was too soon to say he had been outwitted by the Qataris.

"Glasenberg is always the smartest man in the room and always one step ahead of everyone. We don't know what is going on behind closed doors," a hedge fund manager who owns Xstrata stock said.

"Hedge funds always think they are smarter than the chief executive, but not when it comes to Ivan," he added.

A second hedge fund manager said Glasenberg would do whatever was in the best interests of Glencore, whether that was to stump up more or let the deal die.

"He is one of the most capitalist individuals I have ever seen. He will change what he needs to change to get the best outcome," the second hedge fund manager said.

BANKING ON A DEAL

The deal was already proving difficult for bankers before the Qatari move. They are facing lower fees due to the unique role of former Citigroup grandee turned independent go-between Michael Klein.

It was Klein's ability to get Glasenberg and arch-rival Mick Davis to agree on a valuation that put the deal on the table. Klein is expected to earn between $10 million and $15 million for his work and could be called upon to help smooth out the latest wrinkle, sources said.

Klein's slice of the fees will mean less for Citigroup, Morgan Stanley , Credit Suisse and BNP Paribas, Glencore's advisers.

Deutsche Bank , JP Morgan , Goldman Sachs , Nomura and Barclays , advisers for Xstrata, will also receive a smaller proportion because of Klein's intervention.

London's "mining king", Ian Hannam, the veteran rainmaker who resigned from JP Morgan last month to fight a 450,000-pound fine imposed by British regulators for passing on inside information, is also involved in the transaction, and teams at Citigroup and Morgan Stanley include veteran UK advisers David Wormsley and Simon Robey, among the biggest names in corporate finance in the City of London.

With stakes so high, all will be banking on Glasenberg showing his usual ability for getting the deal done.

"Is he the smartest man in the room? Let's see where the deal goes," the second hedge fund manager said.

GENERAL NEWS *(Continued)*

Indonesia needs 1,500 MW for new smelters -Chamber of Commerce

JAKARTA, June 28 (Reuters) - Indonesia has received 167 proposals from companies planning to build smelters to meet new government mineral export rules but only 40 are likely to go ahead, a senior official from the Chamber of Commerce and Industry (Kadin) said on Thursday. "There are 167 (mining companies) that have registered, but ... only 40 will likely be able to afford to build smelters.

If the smaller companies work together," Bambang Sujagad, the chamber's deputy chairman of industry, research and technology, told Reuters.

Indonesia has asked all miners to submit plans to build smelters or process ore domestically by 2014, when a total ban on raw mineral exports kicks in, or face an immediate ban on raw ore exports. It also imposed a 20 percent tax on ore exports.

The rules have hit many smaller miners hard and resulted in mass layoffs.

TRADING PLACES

JPMorgan keeps up suspense over metal exchange sale

LONDON, June 28 (Reuters) - Top shareholder JPMorgan is reluctant to vote in favour of a 1.4-billion-pound offer for the London Metal Exchange (LME) from the Hong Kong stock exchange, sources familiar with the matter said, and the deal could fail if smaller members also hold out.

Many smaller shareholders have voiced objections to the takeover of the LME, the world's largest marketplace for metals like copper and aluminium. If the deal falls through, the potential value of the exchange could fall below 1 billion pounds.

Three separate sources associated with the deal said that the bank was keeping the metal exchange community guessing on its stance in the voting due by the end of July. None wished to be quoted by name.

JP Morgan, which has kept publicly silent on its voting intentions while many other shareholders have declared their position, declined to comment. The LME also declined comment.

Sources said JPMorgan had preferred U.S. commodities giant InterContinental Exchange (ICE), which lost out to Hong Kong Exchanges and Clearing in the final stage of an auction that started last September.

"They fell strongly behind the ICE bid, they felt it was better suited to their own business model," a senior executive close to the matter said.

If the deal with HKEx is scuppered, ICE could re-enter the fray but would probably offer less than the current Hong Kong proposal, equivalent to around $2.2 billion.

"Everyone has a Plan B," said one source at a shareholding company. "But if this sale fails it will destroy the LME's value. 1.4 billion pounds is extracting the maximum value from the LME, and it will be worth less than one billion if the sale doesn't go through."

HKEx investors have voiced concern the exchange is overpaying for the LME, which made a net profit of just 7.7 million pounds last year due to its policy of restricting profits to keep fees low for its member-owners.

FEARS

Many shareholder members who own and use the 135-year old exchange fear a sale might alter its unique, complex structure of futures trading and end the low fees system.

Due to a voting structure designed to preserve the influence of smaller shareholders - often industrial users and producers of metal - the deal could fail if many of them oppose the bid, which has to be approved by 75 percent of shares and 50 percent of shareholders.

The largest shareholders are banks.

"We are not in favour of a sale because there is no need and we don't understand the reasons to change," said a source at a European company that has a small shareholding in the LME.

"We support the business model and we think that the business model that the LME has today is pretty much ideal for the industry."

HKEx Chief Executive Charles Li has promised that until at least Jan. 1, 2015, his exchange will preserve the LME brand, the open-outcry trading and the structure.

Until the same date it will also refrain from increasing fees for contracts currently traded on the LME, beyond levels that kick in next month. HKEx said the acquisition would add to earnings after three years.

Sources familiar with the deal have said the LME and the HKEx had spoken to shareholders holding a total of 60 percent of shares, and were continuing to meet with others.

And the mood among shareholders does mostly appear to be shifting in favour of the HKEx deal, other shareholders have said over the past week.

JPMorgan, the sources say, could also be persuaded to support the Hong Kong deal, especially as it needs funds due to its recent multibillion-dollar trading loss. The LME sale would net it around 150 million pounds.

"I believe when it comes to the crunch there will be a pretty good endorsement of the sale. My gut feeling is it will receive significant support that will take us over the 75 percent threshold," the senior executive said.

TRADING PLACES *(Continued)*

Goldman Sachs , the LME's second-largest shareholder, is believed to favour the deal, which was unanimously endorsed by the LME's board. A Goldman Sachs representative is on the LME board.

LME Chief Executive Martin Abbott said this week he is confident that shareholders, with some persuasion, will approve HKEx's offer. "I think we will (get shareholder approval)," Abbott said on the sidelines of a conference in London on Tuesday.

"It's a board recommendation and we wouldn't have recommended something we weren't confident about. But it doesn't mean it's a done deal. We have to get out there and talk to shareholders."

Trafigura, Masteel in $156 mln steel supply deal

LONDON, June 28 (Reuters) - Commodities trading firm Trafigura has signed a three year offtake agreement worth 500 million Malaysian ringgit ($156.47 million) with Malaysia Steel Works for the supply of steel billets and bars. The agreement, signed earlier this week, is expected to commence in the second half, as Trafigura solidifies its expansion eastwards in a bid to tap into the booming demand for resources in Asia.

"Trafigura has identified Malaysia as a key country for our growth in Asia, and the signing of this agreement with Masteel accurately reflects that commitment," said Trafigura Pte Ltd managing director Dominic Watters.

He added: "In recent years, we have witnessed a major shift in our customer base, one which is moving eastwards. Trafigura is responding to that shift by increasing our activities in the Asia Pacific region."

Trafigura, which says it is the world's third biggest trader of raw materials, has also in the last few years been expanding into ferrous metals, attracted by the development of derivatives contracts like steel and iron ore swaps.

Masteel Managing Director and Chief Executive Officer Dato Sri Tai Hean Leng said: "We are continually expanding our upstream and downstream steel production capacity.

This expansion would allow us to comfortably meet the demands of Trafigura's clients in the Asia-Pacific region."

Formerly based in Switzerland, Trafigura announced last month that Singapore would become its main trading centre. Trafigura Pte Ltd is the group's long established Singaporean entity.

MARKET NEWS

Alcoa says grant to help keep Aus smelter running

CANBERRA, June 29 (Reuters) - Alcoa on Friday said it expects to keep its Point Henry aluminium smelter in Australia operating until at least mid-2014 but warned losses at the 190,000-tonnes-per-year plant were mounting as market conditions deteriorate.

The news coincides with the granting of a government assistance package totalling more than A$40 million aimed at preserving most of the 600 jobs at the smelter as Alcoa grapples with a severe downturn in market conditions and reviews its aluminium-making operations worldwide.

"The way things are right now, two years is a long time in our industry," Alcoa of Australia Managing Director Alan Cransberg said in a statement.

"No one can predict exactly what's going to happen with the global economy or where exchange rates and the price of aluminium will move," he said.

When the review was announced, the smelter was facing substantial losses, Cransberg said.

"Since then global market conditions, such as exchange rates and the aluminium price, have made the situation worse," he said.

Norsk Hydro last month said it was shutting its 180,000-tonnes-per-year Australian aluminium smelter, also citing low metals prices and a dismal economic outlook.

The country's smelters have been hammered by high costs that make it difficult to compete with Chinese producers, as well as falling metals prices.

With the overhang of high inventories and a 20 percent drop in prices since March, aluminium producers are losing money. Benchmark three-month London Metal Exchange aluminium stood at $1,855 a tonne on Friday.

Production cuts aimed at attacking a global supply glut total around 1 million tonnes worldwide so far this year.

Alcoa has ruled out Australia's looming carbon tax on emissions playing a major role in adding to future losses at the smelter.

The tax takes effect on July 1. Under the plan, the carbon price will be set at A$23/tonne for three years, before moving to a full trading scheme with a floating price from July, 2015.

Vedanta Aluminium sells ingots at $242/T premium

MUMBAI, June 28 (Reuters) - Vedanta Aluminium, a unit of Vedanta Resources Plc , said on Thursday it has sold 3,000 tonnes of aluminium ingots at $242 per tonne, a 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 tonnes each from July to September 2012, the company said in a statement.

MARKET NEWS *(Continued)*

Last week, the company sold the same quantity of aluminium ingots to an Asian buyer at a premium of $220 per tonne over the average LME cash price on CIF basis.

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.

Japan May copper exports to China double

TOKYO, June 28 (Reuters) - Japan's exports of copper cathode to China continued to increase at a robust pace in May, reflecting strong appetite for the metal from the world's biggest consumer, customs data from the Ministry of Finance showed on Thursday.

Japan's exports to China nearly doubled to 17,014 tonnes during the month from 8,645 tonnes a year earlier, helping to push up Japan's overall refined copper exports, including billet and other products, by 94 percent to 46,124 tonnes.

China's copper imports, such as anode, refined metal, alloy and semi-finished copper products, surged 65 percent in May to 419,741 tonnes despite worries that weak domestic demand, high stocks and strong spot prices on the London Metal Exchange could weigh on imports. Taiwan and Indonesia are also the key export markets for Japanese copper.

Iron ore developers turn to unconventional backers

LONDON, June 28 (Reuters) - Iron ore mine developers are turning to unconventional finance providers as many banks withdraw support on likely medium-term price weakness, according to an executive at Sweden-based Nordic Iron Ore.

Benchmark iron ore rose to almost $200 per tonne in early 2011, supported by tight supply and booming demand in top consumer China.

Since then it has softened by about 30 percent as sagging economic growth tempered China's hunger for the steel ingredient, and as additional supply came onstream.

As analysts forecast further decline, many banks have become reluctant to lend money to iron ore project developers such as Nordic, forcing them to seek different backers.

"We are having discussions with an unusual mix of guys, including sovereign and private funds and industrial investors. We are looking outside the conventional financing environment," Nordic's technical sales and marketing director Paul Marsden told Reuters in an interview.

"Most banks do not want to finance projects because they see prices going down, but if they don't finance new projects, and new production fails to come onstream, prices are going to stay strong."

Nordic is aiming to reopen and develop iron ore production at mines in Ludvika, Sweden. Mining stopped there in 1979 because iron ore prices made operations unprofitable.

It raised about $8 million via a private placement to existing and new investors this month, and is looking for a further $20-$22 million in the next few months from financial investors and, potentially, industrial partners.

Nordic plans to start iron ore production of 1 million tonnes per year from the beginning of 2015, and to ramp this up to 2.4 million tonnes within a year, while continuing to explore the area near the operating mines.

Nordic estimates its production costs will be $52 per tonne for iron ore concentrate with iron content of 67 percent or above.

This compares with a spot iron ore price - with 62 percent iron content - at about $140 a tonne.

Rio Tinto , the world's second-largest iron ore miner, expects a moderation in prices in the medium-long term as additional supply comes onstream.

According to mining consultancy the Raw Materials Group, supply and demand are likely to be balanced in two years.

That is later than previously expected, as new projects are constrained by political risk, logistical problems and financial constraints.

Nordic withdrew a proposed listing on NASDAQ OMX First North this year, because demand from investors was insufficient to ensure a successful existence on the stock exchange.

EU steel industry in terminal decline - sector chief

BRUSSELS, June 28 (Reuters) - The European Union's steel industry may need to shut three quarters of its capacity in the next two decades because of declining demand, rising costs and cheap imports, a European sector chief said on Thursday.

"It is foreseeable in the next 10, 15, 20 years, at least for normal grade steel, that production in Europe will not be competitive any more," Wolfgang Eder, president of European steel industry body EUROFER told Reuters in an interview.

Eder, also chief executive of Austrian group Voestalpine , said the competitive threat came less from producing giants such as Brazil and China, kept at bay by high shipping costs, but from nearby Russia, Turkey and Ukraine.

"They will extend their deliveries into the European Union and we think that commodity steel making will not be viable any more in the EU," Eder said.

The industry, employing some 360,000 people in the EU, already faces overcapacity, with 210 million tonnes of output potential against annual demand that has dropped to between 150 and 160 million since the 2008 crisis.

MARKET NEWS *(Continued)*

Many companies have idled capacity, but permanent shutdowns -- such as ArcelorMittal's plan for two blast furnaces in Liege, Belgium -- are an exception.

Normal grades, such as those used in bulk by the construction industry, make up three-quarters of EU steel production.

"In the long run, this is the volume that might be questioned ... We are talking about a timeframe of 20 years so in 2030 I would not be surprised to see steel production in Europe to be somewhere around 60 million tonnes," Eder said.

In the short-term, Eder was hopeful in April of a pick-up, but this optimism has waned with the euro zone debt crisis destroying confidence and stalling steel price increases.

"Suddenly in April-May (steel) prices started to stabilise and in June started deteriorating because everyone was hesitant," Eder said.

On a positive note for the sector, iron ore and coking coal costs have declined, albeit with a time lag, which has led to margin squeezes for now.

Iron ore prices have dropped from some $190 per tonne in October to $135. Eder said he saw a further drop from "artificial" levels, possibly below $100 over the next 12 to 18 months.

He said Chinese steel demand growth had dropped to 6-7 percent per year from 9-10 percent, U.S. demand was steady, but not spectacular and European consumption was likely to decline, with infrastructure investments delayed and no further upturn seen for cars.

"I think the boom in steel consumption is coming to an end."

Eder said that a lot of new entrants had been drawn to mining by the high profitability of recent years and a lot of new capacity was coming on stream in the next three years.

"This means we are running into overcapacity, especially in iron ore. This will lead to a further deterioration of prices... I think a fair price for a tonne would be $75 to $90," he said.

Japan's May imports of Indonesia nickel ore jump

TOKYO/JAKARTA, June 28 (Reuters) - Japanese imports of nickel ore from Indonesia jumped 80 percent from a year earlier in May, government data showed on Thursday, as importers rushed to buy ahead of expected disruptions to shipments by suppliers in coming weeks.

The Indonesian government in May ordered all miners to submit plans to build local smelters or process ore domestically by 2014, when a total ban on raw mineral exports kicks in. It also imposed a tax of 20 percent on ore exports.

Imports of nickel ore, used to make stainless steel, rose to 200,176 tonnes in May, monthly customs data from Japan's Ministry of Finance showed.

"It came in during May, but it might be a cargo which has been loaded in April," Dominic Schnider, executive director for wealth management research at UBS. "We need to see another month -- I would assume a month from now you are going to see some of the volumes dropping.

"It is people trying to get ore as quick they can, ahead of any further tightening in regulation."

Graphic on Japan/China's ore imports from Indonesia:

http://link.reuters.com/rat98s

http://link.reuters.com/ruk88s

The Indonesian government's drive is intended to squeeze more domestic revenue from an industry that contributes around 12 percent to the GDP, and drawing nearly a fifth of foreign direct investment in the first quarter.

But as of last week, Indonesia had awarded mineral export permits to 13 companies after restrictive rules on such shipments kicked in, marking a slow approval rate that threatens to leave its customers scrambling for supplies.

The new export regulations in Indonesia, which is home to some of the globe's richest mineral deposits, is estimated to be costing the country's export industry up to $164 million a month in lost sales of nickel and bauxite.

"They are not against export," Schnider added. "You saw similar things on the palm oil side - yes you can export palm oil but they wanted you to do a little more added value."

The world's fourth most populous country has also imposed similar duties on cocoa and palm oil exports.

"The problem is, where do you get the energy, the infrastructure," he added. "That could in the short run cause a little bit of concern but medium-term it is the proper way to go for it."

Indonesia produced 14 percent of world nickel ore output, as well as 15 percent of bauxite ore and 3 percent of copper ore in 2011, according to industry data.

Most is exported raw to be processed into metals and products overseas, with Indonesia a major supplier to China, Japan and the United States.

The export rule changes have sent shockwaves through the sector, triggering a spike in exports as Chinese buyers scrambled to import bauxite and nickel ore before the new curbs take effect.

In the first five months of 2012, Japan's imports of nickel ore from the Philippines more than doubled to 512,509 tonnes, rapidly catching up with top supplier Indonesia's 838,205 tonnes, as Japanese buyers sought to diversify supply sources.

Indonesian ore imports during the five months were almost flat compared to the same period a year ago.

Japan last year got more than half of its nickel supply from Indonesia.

MARKET NEWS *(Continued)*

Japan July-Sep crude steel demand seen up slightly yr/yr

TOKYO, June 28 (Reuters) - Demand for crude steel in Japan is expected to rise 0.6 percent in the third quarter from a year ago, the trade ministry said, as appetite from the construction sector picks up following last year's earthquake.

Demand for crude steel in Japan, the world's No.2 producer of the construction material, is seen at 27.1 million tonnes for the July-September quarter, the ministry estimated, based on a survey of steelmakers and inventory levels at the end of June.

"Exports were at a very low level a year ago, when the yen stayed at a record high level of 76 yen," said Ryuichi Yamashita, director at the Ministry of Economy and Trade and Industry.

Exports of carbon steel products are seen rising 6.4 percent from a year ago to 6.99 million tonnes.

Third quarter crude steel output is down 1.9 percent from the preceding quarter, however, as a decline in Asia's steel market is seen curtailing exports by 1.9 percent from the previous three months, Yamashita said.

The ministry expects domestic demand for carbon steel products to fall 1.2 percent from a year ago to 12.52 million tonnes, as demand from shipbuilders remains weak.

Japan's May zinc exports up 68 pct yr/yr

TOKYO, June 28 (Reuters) - Japan's May zinc exports to Asia rose 68 percent from a year earlier as smelters resumed work following earthquake-related closures last year.

Taiwan is the biggest buyer of refined zinc from Japan last month, totalling 2,120 tonnes and up 11 percent from a year earlier, customs-cleared trade data showed on Thursday. Among other importers are Indonesia, up 44 percent at 1,941 tonnes, and China, up 69 percent at 1,170 tonnes.

Zinc is mainly used as an anti-corrosive coating in galvanised steel production and in plating.

Japan's zinc smelters lost nearly 70 percent of their output capacity after the quake in March 2011 damaged facilities

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 rises toward $7,500/T on EU bond support

SHANGHAI, June 29 (Reuters) - Copper rose on Friday after European leaders agreed to create a single supervisory body for euro zone banks and allow them to be recapitalised without adding to government debt, easing fears of spiralling debt in Italy and Spain.

The move prompted a surge in other riskier assets, including Asian shares and the euro, as it surprised many who had not expected the summit of regional leaders to produce any substantive measures to stem the bloc's spreading debt crisis.

Despite the relief rally, lingering worries over the global economy, including concerns about a fragile economic recovery in the United States, are still expected to put a cap on gains, keeping copper on track for its worst quarter since the second half of 2011.

Three-month copper on the London Metal Exchange was up 1.4 percent at $7,491 per tonne by 0412 GMT, after losing 0.3 percent in the prior session. It is down more than 11 percent on the quarter, its worst since Q3 2011.

The most-active October copper contract on the Shanghai Futures Exchange rose 1.5 percent to 55,010 yuan ($8,700) per tonne, after gaining 0.9 percent in the previous session. It is also headed for its worst quarter since Q3 2011.

"The markets mainly got a shot in the arm from the European Council comment, with signs of fresh longs entering Shanghai copper," said a Shanghai-based trader with an international firm.

European Council chairman Herman Van Rompuy said the aim of the latest initiatives by the region's leaders was to create a supervisory mechanism involving the European Central Bank by the end of this year, and to break the "vicious circle" between banks and sovereign governments.

The announcement could not have come at a better time, with Italy and Spain battling searing market pressure in the euro zone's widening debt crisis and having earlier demanded urgent action from the euro bloc to bring down their borrowing costs.

In the Chinese physical copper market, buyers have been restocking on a hand-to-mouth basis, capitalising on cheaper prices after Shanghai copper lost more than 7,000 yuan from the year's high of more than 62,000 yuan in February and a the LME-over-ShFE copper spread narrowed.

"There's some limited restocking going on, but overall copper demand is still weak. Also helping to support refined copper prices is the tight supply of copper scrap. Scrap producers are holding back from selling due to low prices," said an analyst with a large trading firm.

A Chinese finance ministry official said the government was confident China, the world's top consumer of metals, could meet its 2012 economic growth target of 7.5 percent, despite early economic indicators suggesting growth did not pick up in June.

Latest data out of the United States point to an erratic economic recovery, fuelling investors' concerns about the vulnerability of the world's largest economy as global growth slows.

Following recent positive data, a report on Thursday showed only modest first-quarter economic growth, and while a separate report showed the number of Americans filing new jobless benefit claims edged down last week, it remained in a range that shows the job market struggling to gain traction.

PRECIOUS-Gold rises on EU pledge, but eyes worst quarter in 8 yrs

SINGAPORE, June 29 (Reuters) - Gold rose more than 1 percent on Friday, tracking a surge in the euro after European leaders agreed on the recapitalisation of banks without boosting government debt, helping ease fears over the region's debt crisis.

But heavy losses over the past three months mean gold is still on track to post its worst quarter since 2004, as a growing global economic slowdown from Europe to China pushed investors to safer havens such as the dollar.

Spot gold was up 1 percent at $1,566.84 an ounce by 0415 GMT, after hitting a session high of $1,569.20. U.S. gold gained 1.1 percent to $1,567.60.

Gold jumped as the dollar wilted against the euro after European leaders agreed to create a single supervisory body for euro zone banks and to allow them to be recapitalised directly by the currency area's rescue fund without adding to government debt.

That provided a big relief to investors in markets from commodities to equities, who had low expectations the ongoing summit of European leaders would yield concrete solutions to solve the euro zone debt crisis how running into its third year.

"It still falls short of a concrete solution, but the removal of severe pessimism over what's going to come out of the EU summit is driving markets higher," said Vishnu Varathan, market economist at Mizuho Corporate Bank.

"It also shows that, at least, an immediate crisis in the region triggered by the banking sector could be averted."

Euro zone crisis in graphics: http://r.reuters.com/hyb65p

FIRST GAIN IN 5 MTHS

Friday's rise has helped gold erase losses for June, and it is on course to post its first gain in five months.

But for the second quarter, bullion is still down more than 6 percent, its steepest loss since 2004.

Gold has fallen more than 12 percent from the 2012 peak of around $1,790, and 18 percent from an all-time high above $1,920 reached in September 2011.

MARKET REVIEW *(Continued)*

There is strong support for gold at $1,523, and if that holds, the precious metal may have the momentum to match last year's high, said Lynette Tan, an analyst at Phillip Futures.

"In the long run we're still bullish on gold. It's still likely to hit last year's high of $1,920. The global economy is not doing well and we expect safe-haven demand to be back for gold," said Tan.

What would support gold's strength in the second half of 2012 would be possible further weakness in the dollar, with the U.S. central bank likely to support a patchy recovery in the world's top economy with more stimulus measures, analysts say.

FOREX-Euro rallies most in 8 mths on bond support for Italy, Spain

TOKYO, June 29 (Reuters) - The euro surged 1.1 percent, poised for its biggest daily jump in eight months, after European leaders agreed on Friday to emergency action to lower borrowing costs of Italy and Spain and to create a single supervisory body for euro area banks.

A summit of the 17-nation currency zone agreed that its rescue funds could be used to stabilise bond markets without forcing countries that comply with EU budget rules to adopt extra austerity measures or economic reforms.

"If what he (European Council chairman Herman Van Rompuy) said was indeed agreed by EU leaders, that would clearly go beyond market expectations and should be enough to stop risk aversion in financial markets," said Hiroki Shimazu, senior market economist at SMBC Nikko Securities.

The common currency soared more than 1.2 percent on a flurry of stop-loss buying to as high as $1.2628 , pulling away from a low of 1.2407 marked on Thursday. It later settled around 1.2573.

The leaders also agreed that the bloc's future permanent bailout fund, the European Stability Mechanism (ESM), would be able to lend directly to recapitalise banks without increasing a country's budget deficit, and without preferential seniority status.

The preferred creditor status of the ESM worried markets, piling pressure on Spanish bonds, because investors were concerned that if Spain were to default, the ESM would get paid back first and there would not be enough money left to repay private bondholders.

"Because market expectations on the summit were so depressed, it was a bit like there was a drop of rain in the desert," Ayako Sera, senior market economist at Sumitomo Mitsui Trust Bank.

"Van Rompuy suggested that the EU is considering direct bank recapitalisation of banks through the ESM. It seems like the summit is moving in a favourable direction for markets," Sera said.

Chartists pointed out, however, that the euro failed to decisively move above the immediate resistance at 1.2617 - the 61.8 percent retracement of its slump over the past two weeks. A clear break above the resistance and then 1.2630 would pave the way for a return to last week's high at 1.2748.

Countries that request bond support from the rescue fund would have to sign a memorandum of understanding setting out their existing policy commitments and agreeing on a timetable. But they would not face the intrusive oversight of a "troika" of international lenders to which Greece, Ireland and Portugal have been subjected, Italian Prime Minister Mario Monti said.

Spain and Italy had earlier withheld their agreement to a growth package at a European Union summit to demand emergency steps to bring down their spiralling borrowing costs, which threaten to force the third and fourth largest economies in the euro zone out of the capital markets.

Euro zone crisis in graphics: http://r.reuters.com/hyb65p

Against the yen, the euro jumped 1.1 percent to 99.86 yen, pulling away from a low of 98.37 plumbed on Thursday.

But the Japanese unit held its ground against the dollar as Japanese exporters offloaded the U.S. currency in vast quantities in end-of-quarter transactions, traders said.

As a result, the dollar dropped to a 1-1/2 week low against the yen of 79.31 .

High-beta Australian dollar hit a one-week high on the euro zone news. The Aussie jumped 1.1 percent to $1.0152 .

It has broken above solid resistance at $1.0128 - the 61.8 pct retracement of its June 20-25 fall - opening the door for a return to last week's high of $1.0225.

With risk currencies and the yen on the offensive, the dollar index - the gauge of the greenback's performance against a basket of major currencies - dropped 1 percent to a one-week low of 81.82, before steadying at 82.00.

WAITING FOR CHINA

After the summit euphoria drops off, markets will have to contend with the latest reading on China's manufacturing sector. Due on Sunday, the official survey of China's factories is likely to show activity fell to seven-month lows in June.

Such an outcome would compound market concern that the world's second-largest economy is stuck in a deeper and longer downturn than previously expected, a negative for risk sentiment.

Markets will also be bracing for a slew of U.S. data in a holiday-shortened week ahead, culminating in the closely watched non-farm payrolls data on Friday, July 6.

The latest jobless benefits claims report indicated the U.S. job market was still struggling to gain traction. It came as government data confirmed the U.S. economy grew only modestly in the first quarter.

(Inside Metals is compiled by Shruthi G in Bangalore)

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