INSIDE METALS

Tuesday, March 13, 2012

CHART OF THE DAY

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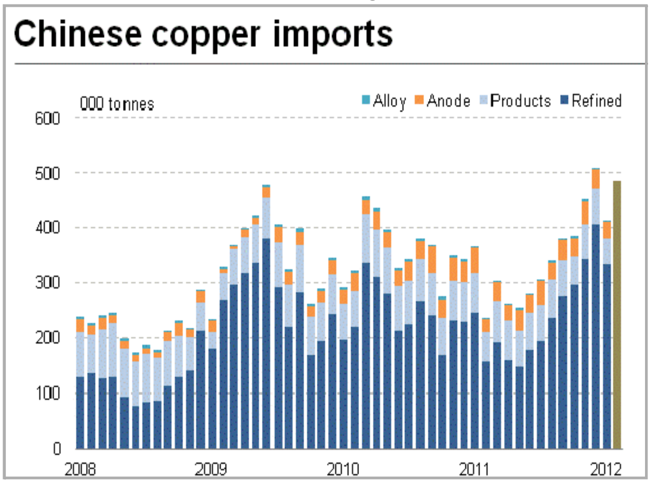

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FX COLUMN-Scarce credit aggravates pressure on FX industry

Tighter credit poses a big challenge to foreign exchange desks, which are already seeing their profit margins shaved to the bone as e-commerce platforms force them to quote ultra-competitive prices.

Neal Kimberley is an FX market analyst for Reuters. The opinions expressed are his own

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TODAY'S MARKETS

BASE METALS: London copper firmed, reversing previous session's losses, although most investors stayed on the sidelines ahead of a key U.S. Federal Reserve meeting to see which way monetary policy was headed in the world's largest economy.

"The consensus in the market is that the Fed is unlikely to announce aggressive easing today, which is in line with what it has said since February," said Chen Dixi, an analyst at Jinrui Futures, a unit of China's top copper producer Jiangxi Copper.

PRECIOUS METALS: Gold ticked higher as the euro rebounded although trading was cautious with investors waiting for the outcome of a Federal Reserve meeting, which could offer clues over the direction of interest rates in the world's largest economy.

"I think everybody is staying on the sidelines. On the investment side especially, people still try to keep more cash on hand. They have no intention to buy a substantial amount of gold right now," said Dick Poon, manager of precious metals at Heraeus in Hong Kong.

FOREX: The U.S. dollar hovered just below a seven-week high against a basket of currencies, bolstered by expectations that a string of positive economic data should persuade the U.S. Federal Reserve out of applying fresh stimulus, at least for now.

"When you look at recent U.S. economic numbers, it will be difficult to argue for an immediate easing," said Koji Fukaya, chief currency strategist in Credit Suisse in Tokyo.

THOMSON REUTERS

FEATURE

FX COLUMN

Scarce credit aggravates pressure on FX industry

By Neal Kimberley

LONDON, March 12 (Reuters) - Tighter credit poses a big challenge to foreign exchange desks, which are already seeing their profit margins shaved to the bone as e-commerce platforms force them to quote ultra-competitive prices.

The end result could spell trouble for the foreign exchange industry and mean that its daily turnover - currently $4 trillion - struggles to grow at the pace seen in recent years.

In the past, when credit was easy to come by, banks loaned firms money and counted on ancillary business, such as foreign exchange, to enhance the overall return they made from this lending relationship.

But as capital rules are tightened and industry trends squeeze foreign exchange margins, particularly in the major exchange rates, banks are becoming less keen to tie up credit for such foreign exchange trading.

Foreign exchange has long been a relatively commoditised business and it became harder still for banks to turn a profit after EBS, the electronic platform owned by the world's largest inter-dealer ICAP , introduced an extra decimal point to trades in major currency pairs in March 2011.

This move, termed decimalisation by traders, brought EBS into line with foreign exchange aggregators which act as a centralised exchange by receiving orders from various players, feeding that data into algorithmic engines and routing them into the market.

Pricing to a fifth decimal place is clearly a margin killer.

If a trader can sell 10 million euros to a company at an exchange rate of, for example $1.3125, and buy them at $1.3124, the profit is $1000 (10,000,000 multiplied by 0.0001) Suppose the same trader has to quote to five decimal places and sells at $1.31246 but still buys the euros at $1.3124. The profit then drops to $600 (10,000,000 multiplied by 0.00006)

While the trader's profit may have dropped by 40 percent, the credit line which the bank has to extend to the firm is essentially the same since the size of the deal is unchanged.

That means the bank is making less money even though the capital required to back the exposure is the same. And capital is not as plentiful as it used to be.

BEAUTY CONTEST

Banks have sought to avoid quoting exchange rates to a further decimal place to customers, especially to corporate clients, but competition is so intense and price transparency so obvious that the pressure to do so is hard to resist.

Corporates have, to a large extent, embraced e-commerce platforms as a way of channelling business to their lenders.

That has enabled them to demand "beauty contest" pricing and leave an audit-friendly paper trail to show they have dealt at the "best" price available.

Everyone loves a bargain. That also applies to corporates as they try to spread business across their lending panel.

The transparency of e-commerce helps to satisfy compliance requirements and has the added benefit that straight-through processing minimises operational risks.

In a tighter credit environment, this risks creating a vicious circle for foreign exchange desks.

Banks' search for higher-margin ancillary business could see them turn to other asset classes where margins are better, for example interest rate derivatives. Credit may therefore be diverted to these products and away from foreign exchange.

This reduces the potential for banks to grow their overall foreign exchange business.

Growth in foreign exchange volumes could therefore stall. Profits would then go sideways or down, leading to a further lack of interest in the currency trading business by those within banks who parcel out credit.

Tighter credit and commoditised pricing represent a potentially nasty cocktail for foreign exchange dealing.

--Neal Kimberley is an FX market analyst for Reuters. The opinions expressed are his own--

GENERAL NEWS

China c.bank eyes freer yuan, policy flexibility

By Nick Edwards and Zhou Xin

BEIJING, March 12 (Reuters) - China will encourage the value of its yuan currency to be set by the market and step back from intervention "in an orderly manner", while keeping policy flexible to support credit growth in the face of volatile capital flows, the central bank said on Monday.

Speaking days after China posted its biggest trade deficit in at least a decade, People's Bank of China (PBOC) Governor Zhou Xiaochuan Zhou said monetary policy moves would respond to liquidity conditions determined by the balance of payments, demand for yuan in markets and international capital flows.

"The closer the yuan is to an equilibrium, the bigger role market forces will play in the yuan exchange rate. We will allow and encourage market forces to play a bigger role, and the central

GENERAL NEWS *(Continued)*

bank's participation and intervention in the market will decrease in an orderly manner," Zhou said.

Zhou did not comment on speculation that China is ready to widen the yuan's trading band to create more flexibility, even as Beijing pushed the yuan sharply lower on Monday.

It has set a weaker trading midpoint for the currency in five of the last six trading sessions, fueling some speculation in financial markets that Beijing may rely more on foreign exchange policy to stimulate exports and broader growth.

Zhou's remarks support well-entrenched investor views of an imminent reduction in the amount of cash commercial lenders must keep with the central bank, following cuts of 50 basis points each in November and February that brought the required reserve ratio (RRR) down from June 2011's record high of 21.5 percent.

"There is a lot of room for RRR cuts," Zhou told the central bank's annual conference held on the sidelines of China's annual meeting of parliament, the National People's Congress.

"But we need to look at whether it's necessary... and look at market liquidity. We cannot raise or cut RRR at will when we think there is room. We need to look at the liquidity condition, which is related to FX purchases and our international balance of payments."

Data over the weekend showed China's trade balance plunged $31.5 billion into the red in February as imports swamped exports. It followed reports on Friday that inflation eased in February while bank lending, retail sales and industrial output fell below forecast, all pointing to a cooling economy.

The trade data "means a bigger need to stimulate domestic demand -- via fiscal stimulus and monetary easing," said Dariusz Kowalczyk, senior economist and strategist for Asia ex-Japan at Credit Agricole CIB, in a note.

"So we expect 200 bps more in RRR cuts and 50 bps in interest rate cuts later this year."

The central bank's cuts so far ease back some of the tightening to rein in inflation that hit a three-year high in July 2011, helping foster economic growth by easing credit strains that are exacerbated by a shrinking trade surplus and slower foreign capital inflows.

RRR CUTS ANTICIPATED

A recent Reuters poll showed analysts expect Beijing to cut the RRR by a further 150 basis points this year when the world's No. 2 economy is set to clock its slowest full year of growth in a decade of between 8 and 9 percent.

Zhou was more nuanced about whether markets should be anticipating a move in outright interest rates.

"The PBOC has always paid attention to price tools. It raised the benchmark interest rate five times from the fourth quarter of 2010 to the third quarter 2011. But when we use the tool, we need to consider some constrains. One consideration is the impact on capital flows," he said.

China is reluctant to encourage speculative inflows of money to its closed capital account financial system as they require sterilisation by the issuance of yuan-denominated bonds that can drive up money supply and increase inflationary pressures.

Substantial inflows generated by China's huge export-focused factory sector are problematic enough. The country ran a current account surplus of $201.1 billion in 2011, though it has been shrinking steadily as a proportion of GDP since around 2007.

The foreign reserves China earns will continue to be diversified to ensure safe, stable returns, the head of the State Administration of Foreign Exchange (SAFE), told the same news conference.

The portion of China's $3.2 trillion of reserves invested in euro zone assets had increased in value, making returns above the rate of inflation, and more would go into yen-denominated assets if the timing was right, SAFE chief Yi Gang said.

Yi repeated the long-standing official backing for Europe's efforts to resolve a festering debt crisis that began rumbling in 2009 and has rocked the foundations of the monetary union that underpin the single European currency.

But he gave no clear indication of whether the process of reserve diversification had seen SAFE -- which administers the world's largest stash of foreign wealth -- increase or decrease the portion that it allocates to euro zone assets.

YUAN CLOSE TO EQUILIBRIUM

SAFE chief Yi said China's trade performance last month was evidence that the yuan was close to a "balanced level."

The yuan's value has been a lightning rod for disputes between China and its biggest trade partners including the United States, who accuse Beijing of deliberately holding down the currency for trade advantage.

China has always denied those allegations, and increasingly says it is allowing market forces to have a bigger sway over the yuan as it nears its fair value, an argument reiterated by Zhou.

China wields tight control over the yuan through regular market interventions, and by having the central bank set its daily midpoint before the start of trade. It can rise or fall a maximum of 0.5 percent against the dollar from the mid-point.

But Beijing wants to relax its grip on the yuan, also known as the renminbi, to have it basically convertible by 2015 so as to expand its influence on global financial policymaking.

China de-pegged the yuan from the dollar in a landmark move in July 2005 and it has since appreciated some 30 percent against the U.S. currency, though some critics in the West say Beijing is still keeping too tight a grip on the yuan in order to aid the country's exporters.

GENERAL NEWS *(Continued)*

"Steady progress will be made to promote capital account convertibility," the central bank said in a statement before the news conference, adding that Beijing would work to get more firms to settle cross-border trade in yuan and expand the type of yuan investment products available.

Many analysts argue much work still needs to be done, saying China needs to free its interest rate market before it frees its currency. Some also are sceptical that China has the political will to push through rate reforms that may hurt the health of its giant state-owned banks.

Euro zone economy prospects show flicker of hope -OECD

PARIS, March 12 (Reuters) - The euro zone is showing tentative signs of improvement, the latest monthly readout from the Organisation for Economic Co-operation and Development (OECD) showed on Monday.

The OECD's leading indicator, a measure that seeks to flag turning points in economic activity, rose for the euro zone area in January and also turned positive in Britain, adding 0.2 percentage points in the common currency bloc and 0.1 percentage points in Britain.

Improvements detected in previous months in the United States and Japan continued, with rises respectively of 0.7 and 0.5 percentage points in January, the Paris-based economic think tank said in a statement.

"The United States and Japan continue to drive the overall position but stronger, albeit tentative, signals are beginning to emerge within all other major OECD economies and the Euro area as a whole," it said. Brazil and China, however, still showed signs of weakening, said the OECD, which reported a 0.6-point drop for China and 0.2-point drop for Brazil in January.

The OECD grouping of more than 30 mostly industrialised nations said its measure rose for a third straight month in January, this time by 0.4 points, marginally more than the rises of the previous months.

TRADING PLACES

Baltic sea index rises more on higher panamax rates

By Koustav Samanta

March 12 (Reuters) - The Baltic Exchange's main sea freight index, which tracks rates for ships carrying dry commodities, rose for the thirteenth day on Monday, as a spurt in coal and grain shipments pushed up panamax vessel rates.

The overall index, which gauges the cost of shipping commodities such as iron ore, cement, grain, coal and fertilizer, rose 13 points or 1.58 percent to 837 points.

"In the near term, dry bulk freight rates are expected to rebound after the Chinese industrial sector restarts post the New Year holidays, which would lead to an increase in seaborne trade and increased demand for vessels," ICICI Securities analyst Bharat Chhoda said.

"Over the longer term, freight rates are expected to remain weak due to the high level of Chinese iron ore inventory and significantly high fleet addition over the next two years."

The Baltic's panamax index rose 2.59 percent, with average daily earnings up at $7,309.

"Panamax activity saw a boost from more coal and grain cargoes in both the Atlantic and Pacific," Natasha Boyden of Cantor Fitzgerald said in a note.

Earnings for panamaxes, which usually transport 60,000 to 70,000 tonne cargoes of coal or grains, have dropped about 44 percent so far this year.

Growing ship supply has been outpacing commodity demand for sometime now and is expected to cap dry bulk freight rate gains in the coming months.

The main index, which factors in the average daily earnings of capesize, panamax, supramax and handysize dry bulk transport vessels, has fallen about 52 percent this year.

Average daily earnings for handysize and supramax ships were up at $7,258 and $9,223, respectively.

The Baltic's capesize index fell 0.47 percent to 1496 points as supply kept overwhelming demand.

"Capesize spot rates are still well below operating costs, falling 4 percent last week to $3,414 per vessel/day," Boyden added.

Average daily earnings for capesizes, which typically transport 150,000 tonne cargoes such as iron ore and coal, were down at $5,718, a drop of 79 percent this year.

Spot iron ore prices in China, the world's biggest market, edged up on Monday amid signs that steel demand is starting to pick up, but investors remained cautious.

"We see destocking of iron ore inventories combined with higher construction activity in China in spring months as a positive development for dry bulk," Arctic Securities analyst Erik Nikolai Stavseth said in a note.

"Chinese iron ores stock piles have slowly declined after peaking at over 100m tons in early-2012."

Iron ore shipments account for around a third of seaborne volumes on the larger capesizes, and brokers said price developments remained a key factor for dry freight.

THOMSON REUTERS

TRADING PLACES *(Continued)*

Total commods assets under mgt rebound in Jan-SocGen

March 12 (Reuters) - Total commodity assets under management (AUM) rebounded in January, hitting an estimated $366.8 billion, Societe Generale said in a report on Monday, adding that inflows and higher prices would likely continue to lift the amount in February.

"While a widespread rally in prices in January helped boost AUM, only energy saw new outflows - driven entirely by OTC index swap activity," analyst Jeremy Friesen said in a research note.

The exchange traded product (ETP) market continued to gain on the OTC index swap market in January on an AUM basis, Friesen added.

ETP data in February suggests further overall investment interest.

Physically-backed precious metals continued to drive inflows while paper-backed energy and index products saw the largest increase in AUM, boosted by the strong February rally in the oil and oil products markets, SocGen said.

Precious metals should continue to see strong interest as aggressive monetary policy looks set to continue through 2012, with fiscal austerity increasing and the global economy continuing to struggle, Friesen said.

"Despite the rally in grains and oilseeds since mid-December, we continue to see upside in this sector, owing to poor growing weather and still resilient demand, which could translate into a rebound in investor interest," he added.

March data could see strong interest for oil and index-related products, as direct and indirect oil concerns become increasingly important for investors looking to protect themselves from oil risks as well as broader inflation risks, the report said.

MARKET NEWS

Aluminium giant RUSAL's chairman quits, alleges "deep crisis"

By Anne Marie Roantree

HONG KONG, March 13 (Reuters) - The billionaire chairman of Russia's RUSAL Plc has quit, saying the firm faces a "deep crisis" and triggering a halt to trade in shares of the world's largest aluminium maker.

Chairman Viktor Vekselberg, a Russian billionaire with an indirect stake in the Hong Kong-listed company, said in announcing his departure that RUSAL had become mired in debt.

"It is with great regret that I have to state that, due to the actions of its management, UC Rusal is presently facing a deep crisis as a result of which UC Rusal has in my opinion deteriorated from an international aluminum leader into a company overburdened with debt and entangled in numerous lawsuits and social conflicts," he said in a statement.

RUSAL immediately shot back on Tuesday, calling a temporary halt to trade in its stock and issuing its own statement, accusing Vekselberg of failing to fulfil the role of chairman and implying that he would have been removed in any case.

"Vekselberg had failed to perform his functions as a public company board chairman over the past 12 months," it said, noting that he had not attended a board meeting since February 2011.

"In this respect, the decision of Mr Vekselberg to resign as chairman of the board pre-empted the planned decision of the board," RUSAL added in its statement to the Hong Kong exchange.

RUSAL said the board would meet on Friday to appoint an independent director to replace Vekselberg, who had posted his announcement dated March 12 on the Web site of Renova Group, his investment holding group and a strategic investor in RUSAL.

The Renova statement also said Vekselberg had disagreed with a number of decisions related to RUSAL's strategic development and modernisation of production and human resources policies.

Shares in RUSAL fell 1.3 percent to HK$6.12 on Tuesday morning before being suspended, lagging a 0.8 percent gain in the benchmark Hong Kong index.

Due to report its latest earnings report on March 19, RUSAL posted a net profit of $432 million for the three months ended September, beating an average forecast of $409 million from 10 analysts polled by Reuters, on lower costs.

Analysts have flagged concerns over the debt burden of RUSAL, which is controlled by billionaire chief executive Oleg Deripaska.

Last year, there were media reports in Russia that Deripaska and Vekselberg differed over whether RUSAL should sell its stake in Norilsk Nickel to resolve a long-running dispute between the two companies. RUSAL had clashed with Norilsk over the latter's strategy and management but rejected a Norilsk offer last year to buy back some of RUSAL's stake -- despite RUSAL being under pressure to sort out its own debt burden.

"We think that with concerns over its ability to service its debt load and meet its debt covenants given the currently weak aluminium prices, its shares will continue to face pressure in the near term," BOC International said in a research note in January.

MARKET NEWS *(Continued)*

"RUSAL could fail to meet debt covenants in 2012 if the current aluminium price weakness persists. We estimate that for RUSAL to avoid breaking debt covenants, the aluminium spot needs to stay above US$2,400/t in 2012."

Aluminium prices now stand at around US$2,229.

RUSAL completed its US$9.33 billion debt refinancing in September 2011 with Russian and international banks. It is no longer bound by an international override agreement signed with lenders before its IPO, allowing it to make acquisitions and pay dividends, BOC International said.

Rusal said that at the end of September its net debt stood at US$10.91 billion.

For company statement, please read

(http://www.rusal.ru/en/press-center/news_details.aspx?id=6662&ibt=13)

Copper supply to meet demand in 2013-Southern

By Walter Brandimarte

NEW YORK, March 12 (Reuters) - The global supply of copper will fall short of demand until the second half of 2013 as environmental and financing difficulties delay new production plants, the chief financial officer of Peru's Southern Copper said.

Project delays and unexpected production halts have maintained a five-year copper supply deficit of between 300,000 and 400,000 tonnes a year, or about 3 percent of the world's production, helping prices hit an all-time high early in 2011.

Chances are that a similar gap will be seen again this year despite an expected economic slowdown in China, said Raul Jacob, CFO of Southern Copper, Peru's largest producer of the metal.

"Eventually, supply will catch up with demand at some point in the second half of 2013," Jacob told Reuters after talking to investors at the New York Stock Exchange.

News that China, which consumes about 40 percent of the world's copper production, was cutting its 2012 growth target to an eight-year low of 7.5 percent was only a "relative concern" for Southern Copper.

"The 7.5 percent growth in China's GDP will eventually convert into (growth of) 10 percent or higher in copper demand," Jacob forecast, adding that China bought "a lot of copper" in 2009, when the global economy plunged into recession following the collapse of financial markets.

The financial crisis continues to hinder new project developments, especially from smaller miners, while labor and environmental issues are a challenge for bigger players, he said.

"The financial crisis is not helping new projects to develop, it's not helping junior companies to move forward with projects. It's creating instability worldwide and these kinds of things certainly affect the market," he said.

Southern Copper, although having no trouble in obtaining financing for its projects, delayed last month the start date of its $1 billion Tia Maria mine in southern Peru to 2015 from 2013 after opposition from local farmers who feared losing control of water supplies.

The company, an affiliate of Grupo Mexico , also faces community opposition to an $800 million expansion at its Toquepala mine in Tacna, near Peru's southern border with Chile.

"We believe that local communities, once they understand what we are going to do, they will see that the environmental impact will be small," Jacob said, adding environmental issues are the biggest challenge for the company in Peru.

Southern Copper is sitting on $1.5 billion it raised in international capital markets in 2010 to develop its projects in Peru -- a reason it does not intend to issue bonds again this year, the executive said.

Work resumes at Freeport Indonesia mine - union

JAKARTA, March 12 (Reuters) - Work at the Grasberg mine in eastern Indonesia run by Freeport-McMoRan Copper & Gold Inc resumed as expected on Monday for the first time since a suspension on Feb 23, according to the company and the union.

"PT Freeport Indonesia has resumed production activities, Monday, March 12, 2012. Management and the union leaders have been coordinating to mobilise the employees back to work," said a statement from the company emailed to Reuters.

Grasberg in the highlands of Papua is the largest gold mine in the world and the second-largest copper mine. Operations were suspended by Freeport on Feb. 23 because of work disruptions following a three-month strike late last year.

Attempts to return the mine to normal have been hampered by protracted disputes between management and unionised workers, as well as by security concerns.

"We need to build solid teamwork with good, fair and equal partnership so that its a victory for the company as well as the workers," union leader Sudiro told Reuters, confirming that work has resumed.

Intimidation and violence by some workers against others who did not take part in the strike disrupted operations at the mine, located in the highlands of central Papua province, the company said in an earlier statement about the disruptions that led to the stoppage in February.

THOMSON REUTERS

MARKET NEWS *(Continued)*

China March copper imports may rise in March, fed by demand hopes

By Polly Yam

HONG KONG, March 12 (Reuters) - China's arrivals of refined copper may rise this month after February's higher than expected figure, as importers scheduled more term shipments under 2012 contracts on expectations of peak domestic demand, traders said on Monday.

But demand in the world's biggest copper consumer has not picked up after the Lunar New Year holiday in late January, prompting importers to delay some term shipments, trimming the scale of increase in March, traders said.

"We have scheduled the highest amounts for March and April arrivals under 2012 deliveries," said a trading manager at a large semi-finished products producer, which uses refined copper as feedstock.

He said the firm stored excess term arrivals in February in bonded warehouses in Shanghai and would store more in March because its production was running about 70 percent of the rate a year earlier, due to fewer orders.

A trader at an international trading house said the firm's term deliveries to China would rise in March because clients had expected stronger domestic demand.

Arrivals of anode, refined metal, alloy and semi-finished copper products in February rose 17.1 percent on the month to 484,569 tonnes, the second-highest figure after a record 508,942 tonnes in December 2011.

Of the imports, 392,500 tonnes should be refined copper, the most popular type in the domestic and international markets, based on the January data. The February breakdown will be released on March 21.

Link for copper imports: http://link.reuters.com/muq96s

Many analysts and traders had expected a monthly fall in the shorter month of February and weak domestic demand, while others had argued that Chinese would build stocks ahead of the domestic consumption peak in the period from late March to May.

Jing Chuan, chief research at Citic Futures, said some spot shipments booked in December should have been delayed to February due to the January holiday and investors' term bookings were bigger than many had expected.

He was referring to investors who import refined copper as collateral loans to finance other investments, while China maintains a tight credit policy.

Some international suppliers expecting strong Chinese demand in the longer term have been moving copper from the international market to Shanghai to await a better price, Jing said.

STOCKS

Despite high arrivals last month, demand in China has worried the global market in recent weeks as it has failed to pick up after the seasonal slowdown, making some analysts question the sustainability of copper prices , which have risen above 10 percent so far this year to $8,455 a tonne by 0700 GMT on Monday.

Instead of massive shipment delays, importers preferred to take term shipments in February and March and store them in bonded warehouses to wait for domestic demand to strengthen.

"We don't care if the copper sits there for months because we can use it as collateral for U.S. dollar loans. That will give us cash," the product producer manager said.

Bonded stocks in Shanghai, not yet assessed for China's 17 percent value-added tax, were estimated by traders at about 480,000 tonnes, up by a third from mid-February. But current stocks were lower than 600,000 to 700,000 tonnes seen a year ago.

Most bonded stocks traded at $50-$70 a tonne premiums over the cash LME prices versus $120-$140 in January.

Copper stocks monitored by Shanghai Futures Exchange rose to 224,781 tonnes last Friday, their highest level since July 2002.

POSCO plays down Australia iron ore partner's family feud

SEOUL, March 13 (Reuters) - South Korea's POSCO plans to seal a deal to expand its stake in an Australian iron ore project for $1.6 billion, undaunted by a feud between its partner, Gina Rinehart, and her children over the family business, a spokesman said on Tuesday.

Rinehart, identified by Forbes magazine as the world's 29th richest person with a fortune worth $18 billion, is battling efforts by her three oldest children to eject her from the role of trustee of a multi-billion-dollar family trust.

"To our knowledge, it is a row over wealth, not mining rights. The row is a separate matter and will not have a direct impact on our plan," POSCO spokesman Chung Jae-woong told Reuters.

The family trust owns nearly 25 percent of Hancock Prospecting, which controls the Roy Hill project. POSCO owns 3.75 percent of the project and agreed in January to expand its stake to 15 percent.

Chung said POSCO, which aims to source half of its iron ore needs from its own assets by 2014, is in the final stage of sealing the deal.

"The dispute does not have an impact on our plan to buy a stake in Roy Hill. We will proceed with it (the purchase) as planned," the spokesman said.

MARKET NEWS *(Continued)*

The companies plan to start shipping from Roy Hill in 2014, with the mine expected to produce 55 million tonnes a year.

Hancock Prospecting is also a 50-50 partner with global miner Rio Tinto in the Hope Downs mines in the Pilbara, Australia's iron ore-rich region which Rinehart's father, Langley Hancock, is credited with discovering.

Rio Tinto declined to comment on the family feud or its potential impact on the ownership of Hope Downs.

The Rinehart family row has dominated the front pages of Australia's newspapers, with Australia's richest woman accusing her children of being greedy while the children have accused their mother of misconduct in running the family trust, which she disputes. .

(**http://www.caselaw.nsw.gov.au/action/PJUDG?jgmtid=156531**)

Media-shy Rinehart made her billions from iron ore and coal holdings, and has now built stakes in two of Australia's largest media companies, newspaper publisher Fairfax Media and television broadcaster Ten Network Holdings .

She has tried to keep the family row out of public view, but a court lifted a suppression order last Friday, clearing the way for details of the feud to be aired.

The case is Welker & Ors v Rinehart & Anor, file number 2011/285907 in the New South Wales Supreme Court.

US to challenge China on rare earths curbs at WTO

WASHINGTON, March 12 (Reuters) - The United States, Japan and European Union plan to bring a new trade case against China over its export restrictions on rare earth minerals used in a variety of high-tech and clean energy products, senior administration officials said on Monday.

They were responding to a published report by the Associated Press which said President Barack Obama would announce on Tuesday that the United States would ask China for talks on the issue at the World Trade Organization, the first step in filing a trade case, and be joined by the EU and Japan.

The move appears to be part of a broader effort by Obama to toughen his stance on trade with China as he seeks re-election in November.

He recently created a new interagency trade enforcement center, which is expected to be up and running in the coming months. A primary focus is to make sure China honors WTO rules.

Obama administration officials also have been considering a WTO complaint against anti-dumping and countervailing duties that China imposed late last year on U.S. auto exports.

U.S. lawmakers have vigorously protested the duties, which they say were unwarranted and appear to have been imposed in retaliation for legitimate trade curbs the United States has imposed on Chinese products, such as tires.

China accounts for around 97 percent of the world's output of the 17 rare earth metals, which are crucial for global electronics production and the defense and renewable-energy industries. They are also used in a wide range of consumer products, from iPhones to electric cars.

Beijing's restrictions on exports of the valuable minerals became a flash point in 2010, when China halted rare earth shipments to Japan during a diplomatic dispute.

The United States and the EU have long been expected to file a WTO case against China's rare earth mineral export curbs, but appeared to be awaiting the outcome of a separate case against Beijing's exports on a long list of other raw materials.

That dispute was finally decided in favor of the United States, EU and Mexico in January after China lost an appeal to keep its raw material export curbs. Beijing has not yet announced how it intends to comply with the January ruling.

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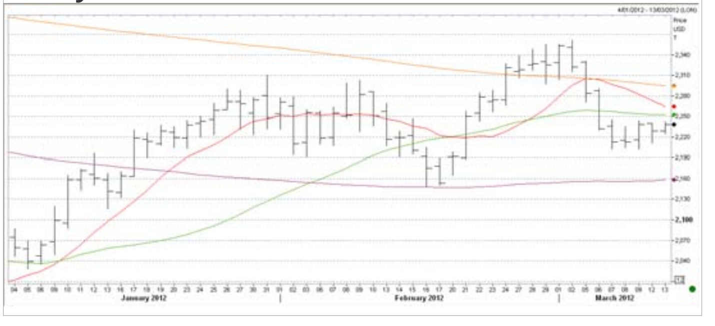
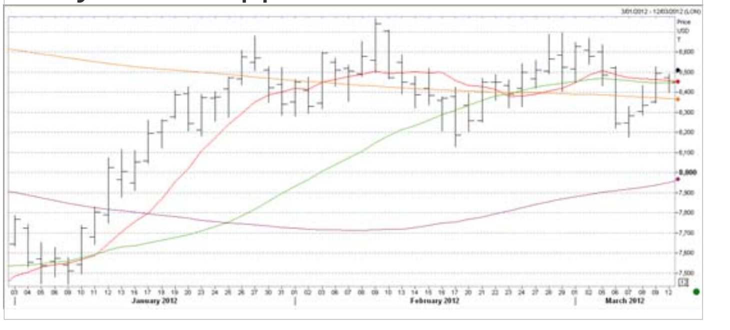
ANALYTIC CHARTS *(Click on the charts for full-size image)*

Daily LME Aluminium 3-months

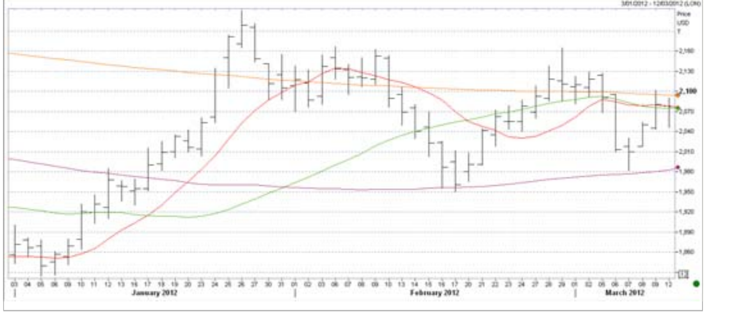


Daily LME Copper 3-months



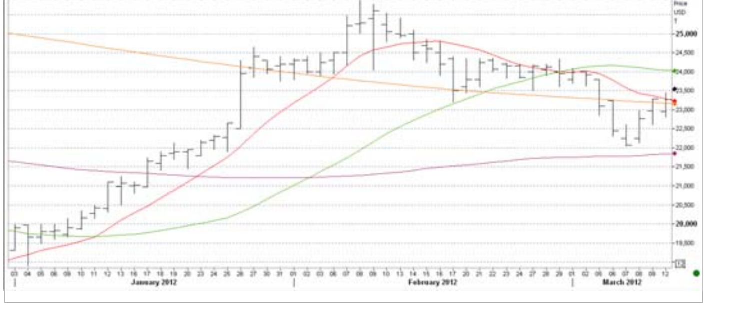
Daily LME Nickel 3-months

Daily LME Zinc 3-months

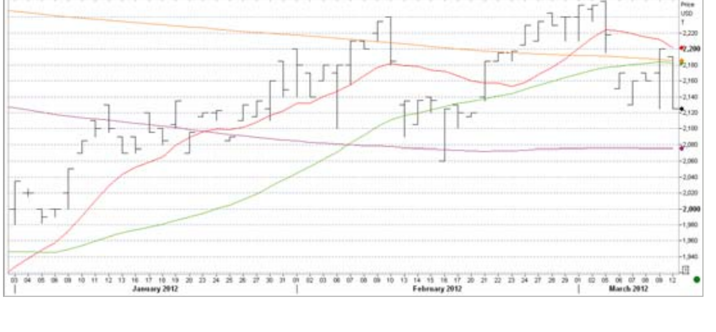


Daily LME Lead 3-months

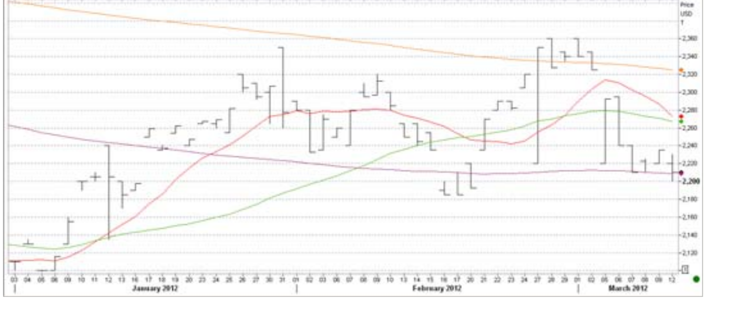
Daily LME Tin 3-months



Daily LME Alloy 3-months



Daily LME Nasaac 3-months



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MARKET REVIEW

METALS-Copper firms in light trading ahead of Fed meeting

By Rujun Shen

SINGAPORE, March 13 (Reuters) - London copper firmed on Tuesday, reversing previous session's losses, although most investors stayed on the sidelines ahead of a key U.S. Federal Reserve meeting to see which way monetary policy was headed in the world's largest economy.

Economists polled by Reuters believed the Fed would launch a stimulus programme despite recent signs of an improving labour market, but cautioned that the scale might be smaller than initially expected. Last month Fed Chairman Ben Bernanke stopped short of signaling further quantitative easing in a congressional testimony, which triggered a sell-off in gold and silver, pressured copper and shored up the dollar.

"The consensus in the market is that the Fed is unlikely to announce aggressive easing today, which is in line with what it has said since February," said Chen Dixi, an analyst at Jinrui Futures, a unit of China's top copper producer Jiangxi Copper.

"If we don't see any surprise, copper will continue to seesaw with a bias towards the downside on concerns of slower economic growth in China."

Trading volumes, however, were light. "There is really not a clear direction and people want a fresh stimulant," said a Shanghai-based trader, adding that copper could be trading in the range of $8,100 and $8,600 in the near term. The dollar index stepped off a seven-week high hit in the previous session, helping support sentiment in dollar-priced commodities by increasing the purchasing power of buyers holding other currencies.

Physical copper consumption in China has ticked up in March, but the improvement has been overwhelmed by the rapid increase in copper supply, analysts said. China's copper imports in February recorded a surprise jump of 17 percent on the month to 484,569 tonnes. "The strong February imports number added to concerns of rapid supply increase," said Chen of Jinrui Futures. "We are now facing high stockpiles, lukewarm physical demand and lowered growth target -- all these would put pressure on prices." Peru's Southern Copper , a major global copper producer, expected the global copper supply to fall short of demand until the second half of 2013 as environmental and financing difficulties delay new production plants.

PRECIOUS-Gold gains ahead of Fed meeting, euro helps

By Lewa Pardomuan

SINGAPORE, March 13 (Reuters) - Gold ticked higher on Tuesday as the euro rebounded although trading was cautious with investors waiting for the outcome of a Federal Reserve meeting, which could offer clues over the direction of interest rates in the world's largest economy.

Easing expectations for the Fed to signal the need for more measures to keep interest rates low could eventually weigh on gold, which has risen around 9 percent so far this year on a near-zero U.S. rate outlook.

Gold added $5.04 to $1,704.09 an ounce by 0250 GMT, with support at the 200-day moving average of around $1,680 an ounce. Bullion rallied to an all-time high around $1,920 an ounce last September. "I think everybody is staying on the sidelines. On the investment side especially, people still try to keep more cash on hand. They have no intention to buy a substantial amount of gold right now," said Dick Poon, manager of precious metals at Heraeus in Hong Kong.

"There's not much going on, especially on the physical side," said Poon, adding that investors were also scrutinising Europe's current efforts to solve the debt crisis. The euro bounced from a one-month low to $1.3178 on Tuesday, finding support at its 55-day moving average around $1.3082 as euro zone finance ministers gave their final approval to a second bailout for Greece -- the source of the currency bloc's debt crisis.

But Tuesday's focus would be on the Fed's policy statement after last week's data showed an encouraging gain of more than 200,000 jobs in February for a third straight month.

Recent signs of improvement in the U.S. labour market are spurring economists at major Wall Street firms to rethink how aggressive the Fed needs to be in applying further monetary stimulus, a Reuters poll showed. U.S. April gold rose $5 to $1,704.80 an ounce, but some bullion investors were cautious after last week's U.S. data showed net long futures positions held by money managers, including hedge funds, posted the biggest one-week drop since August.

The dollar was on the defensive, having retreated from a seven-week high against a basket of major currencies on some caution the Fed might sound more dovish than expected at its policy meeting. A softer dollar makes commodities priced in the greenback cheaper for holders of other currencies.

Physical gold trading also slowed to a trickle in Singapore, where buyers such as Indonesia and Thailand waited for clues from other markets ahead of the Fed meeting.

"It's all about wait-and-see. I think we can expect to see good physical demand if gold price falls below $1,700. On and off, we are still seeing some buying, but it's not much," said a dealer in Singapore. "Indonesia was a good buyer last week."

In the stock market, the Nikkei share average rose 0.5 percent due to a softer yen, while MSCI's index of Asia Pacific shares outside of Japan also added 0.5 percent after slipping on Monday on concerns about a moderation in Chinese demand.

MARKET REVIEW *(Continued)*

FOREX-Dollar supported ahead of Fed on brighter economic outlook

By Hideyuki Sano

TOKYO, March 13 (Reuters) - The U.S. dollar hovered just below a seven-week high against a basket of currencies on Tuesday, bolstered by expectations that a string of positive economic data should persuade the U.S. Federal Reserve out of applying fresh stimulus, at least for now.

The yen was buried near a 11-month low against the U.S. currency, with some traders on edge over whether the Bank of Japan may take fresh easing steps at the end of its two-day meeting, after its surprise easing last month. A decision was expected around midday.

The dollar's strength saw the euro hitting one-month low on Monday. The common currency is still smarting from fears that the European debt crisis could worsen again, despite Greece's success in debt-cutting swap deal.

The dollar index stood at 79.74, almost flat from late U.S. levels after having risen as high as 80.132 on Monday, its highest in seven weeks.

"When you look at recent U.S. economic numbers, it will be difficult to argue for an immediate easing," said Koji Fukaya, chief currency strategist in Credit Suisse in Tokyo.

While there could be a bit of profit taking ahead of the Fed's announcement at 1815 GMT, the dollar is seen supported by signs of improvement in the world's biggest economy. Data last Friday showed an encouraging gain of more than 200,000 jobs in February for a third straight month.

The dollar's strength has been most striking against the yen, which has been falling sharply after the BOJ's monetary easing last month. While the Japanese central bank is expected to refrain from further policy easing on Tuesday, its surprise decision last month to boost asset purchase by 10 trillion yen ($121 billion) and to set inflation goal kept traders cautious.

"I don't think the BOJ will ease today, in which case, there will likely be some profit-taking in the dollar. But the market is nervous after their easing last month," said Teppei Ino, currency strategist at the Bank of Tokyo-Mitsubishi UFJ.

The U.S. currency fetched 82.28 yen , down from Monday's high of 82.54, appearing to consolidate after the run-up to an 11 -month high of 82.65 touched on Friday. Yet many expect further gains in the dollar, with one near-term target seen at 83.11 yen, a 76.4 percent retracement of the dollar's decline from April to record low in October last year.

AFTER GREECE

The euro stood at $1.3181 , having recovered a full cent after hitting one-month low of $1.3079 on Monday, helped by technical support at its Ichimoku cloud top at $1.3087 and 55-day moving average around $1.3084. While the euro has gained a tad in Asian trade on minor stop-loss buying, its outlook remained shaky given that the euro zone economy is slipping into recession, in contrast to a brightening economic picture in the United States.

In addition, while the euro is supported by relief after Greece's successfully swapped most of its privately held bonds and cut its debt by more than 100 billion euros, many market players are not sure about whether other southern European countries can escape a similar fate. Portuguese government debt yields have been edging up in the past month while Spanish shares are also coming under pressure. "The big question will be whether they can firewall other countries, whether they can show that Portugal is not Greece," Credit Suisse's Fukaya said. The Australian dollar bounced back after hitting a seven-week low of $1.0475 on Monday, where it had a key support of a 38.2 percent retracement of a 10-cent rally from December to February.

While its latest rebound could open the way for a test of resistance around $1.0670, the currency is for now struggling at $1.0552 , capped by its 55-day moving average around that level. Some chartists say the Aussie could be in for further adjustment after it has formed a double-top around $1.0850 last month while concerns about slowing growth in China, Australia's single largest export market, had weighed broadly on the Aussie in the last few sessions. The combination of worries about China and relative economic strength in North America helped to push the Aussie to a 10-week low against its fellow commodity currency, the Canadian dollar, to around C$1.0400 on Monday. The Aussie changing hands at C$1.0445 .

(Inside Metals is compiled by Richa Gour in Bangalore)

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