INSIDE METALS

Tuesday, March 6, 2012

CHART OF THE DAY

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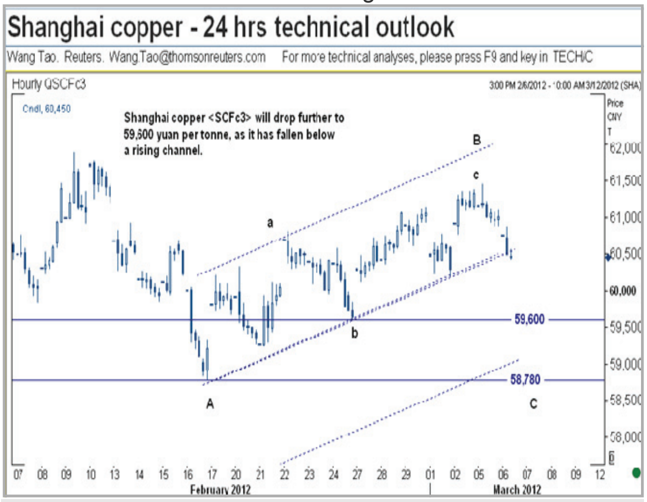

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GENERAL NEWS

- Iron Ore-China steel snaps 5-day rise after growth goal cut

MARKET NEWS

ALUMINUM:

- Hyundai Engineering in draft deal to build Saudi alumina plant

COPPER:

- Jiangxi Copper sees China demand up 7 pct in 2012

NICKEL/STEEL:

- China steel output growth seen at 4 pct in 2012 - Shougang chairman
- Rio Tinto to invest $2 bln in Indian iron ore project

FEATURE

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TODAY'S MARKETS

BASE METALS: London copper futures fell for a third straight day underlining caution among investors worried a slower growth forecast in China may curb demand from the world's biggest consumer of the industrial metal.

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PRECIOUS METALS: Gold steadied after falling 1 percent in the previous session as China, viewed by many as the engine of the global economy, cut its economic growth targets, but cheaper prices were expected to attract more buying from jewellers in Asia.

Spot gold hardly moved at $1,705.85 an ounce by 0008 GMT -- off a 1-month low at $1,687.99 struck in end-February. Bullion hit a record around $1,920 last September. U.S. gold for April delivery added 0.18 percent at $1,707.00 an ounce.

FOREX: Commodity currencies fell broadly on Tuesday after the Reserve Bank of Australia kept interest rates on hold and again left the door open for an easing should the economy weaken materially.

A second day of falls for units such as the Australian dollar and the kiwi -- hit yesterday when China announced its lowest annual growth target in eight years -- supported the yen against the dollar.

"The RBA decision was broadly in line with expectations, but we saw the yield on the two-year bond dip and that's what put the Aussie under some pressure," said Koji Fukaya, chief currency strategist at Credit Suisse in Tokyo.

FEATURE

Glencore sticks to its guns on Xstrata merger terms

By Clara Ferreira-Marques

LONDON, March 5 (Reuters) - Commodities trader Glencore brushed aside requests from Xstrata investors to improve an agreed $37 billion bid for the miner, saying its existing offer was fair to all shareholders and emphasising its own growth prospects.

Glencore's tie-up with Xstrata, in which it already owns a 34 percent stake, would be the largest deal in the mining sector since Rio Tinto's acquisition of Alcan in 2007, but has faced opposition from some key Xstrata shareholders who say the terms do not recognise the company's potential.

"This is a merger of equals. Xstrata have got most of the senior jobs. Most previous mergers of equals were done at a ratio of equals - this deal ... has been done at a premium," Glencore Chief Executive Ivan Glasenberg, who will become deputy chief executive in the combined group, told Reuters.

"We believe it is a fair deal, fair to all shareholders."

Glencore was addressing investors on Monday for the first time since the long-awaited Xstrata offer was announced in February, and ahead of a campaign of roadshows which will give Glasenberg and other executives the chance to sell the deal.

An ebullient Glasenberg dismissed concerns voiced by Xstrata shareholders, not least over the quality of Glencore's mining asset base which he says has delivered return on equity above rivals, and over the combined entity's management structure, which some see as leaving room for potentially damaging clashes. Glasenberg, the single largest Glencore shareholder, will become deputy CEO, reporting to fellow South African Mick Davis, whom he picked to run Xstrata 11 years ago and with whom he has a close but sometimes tense relationship.

"Mick has certain strengths, I have certain strengths. I will be focusing more on the trading side of the business, on relationships ... Mick (will) focus on the production base, investor relations," he said. "It is a perfect combination."

Glasenberg said there would be similar benefits further down the chain and again dismissed worries over an exit of Glencore's star traders, whom he said would instead be keen to take advantage of increased opportunities within a larger group, even after lock-up clauses dating from its IPO expire in May.

The world's largest diversified commodities trader is offering 2.8 new shares per Xstrata share it does not already own. The offer is currently worth just under 1,154 pence per share, compared to an Xstrata share price of around 1,164 pence.

Glencore shares were down 1.9 percent at 412 pence at 1220 GMT, while Xstrata's were 2.8 percent lower, just below the UK sector down 2.3 percent.Analysts said Glencore's comments were as expected, as it stuck to its position with a shareholder vote still months away, but could dampen some of the more bullish hopes of a sweetener.

"Clearly Glencore is doing its best to sell its underlying business, highlighting the growth in copper and coal assets...that is part of the firepower the company will use to argue why the current offer of 2.8 is a reasonable offer," analyst Charles Cooper at Oriel said.

"But we recognise many of Xstrata's operations have good growth too, and most of its assets are in OECD countries."

For a graphic on the deal, http://link.reuters.com/jyx46s

TRADING OUTLOOK

Glencore confirmed on Monday full-year numbers given as estimates at the time of the merger announcement, including a 7 percent rise in net income to $4.06 billion and a trading profit dented by cotton losses and lower volumes in some metals.

Operating profit in its industrial division - which includes its producing assets from mines to oil wells - rose 18 percent, and Glasenberg said Glencore would focus in conversations with investors on its long-life, low cost assets. Low-capital intensive growth has become a relative rarity among miners as costs at major projects escalate."We don't build mines for the sake of building mines. In Glencore we own a big portion of this equity - we are more focused on return on equity-type assets," he said.

Glasenberg said its trading division provided a wealth of potential deals and growth.

"We deal with 7,200 suppliers, we see opportunities before anyone else does," he said. "The Xstrata shareholders are going to tap into this mass of information, knowledge."

Glencore's trading arm saw an 18 percent drop in operating profit in 2011, largely because of cotton losses where Glencore was hit by fixed price contracts and a rollercoaster market.

Glasenberg said 2012 had started "very strongly" for the division across all commodities as the physical movement of commodities increased, adding its key growth area of iron ore was looking "a lot stronger" in 2012.Glencore traded just 10.3 million tonnes of iron ore in 2011 - less than 1 percent of the seaborne market - but the steelmaking ingredient has been pinpointed as a key area of potential growth for the combined Glencore-Xstrata. Some analysts and industry watchers, though, fret it may be too late for the group to break into a heavily concentrated business.

"We are not going to go into iron assets for the sake of growing iron ore production. It is going to be opportunistic," Glasenberg said, pointing to potential options in West Africa.

"When I was in coal, people told me it was too late to develop the coal business ... there are always opportunities, you just have to find them."

Glencore increased mineral reserves at its Kazakh Kazzinc operation, with three deposits showing a 50 percent increase in contained gold and 136 percent increase in contained copper, and said it expected to complete plans to raise its stake in the unit to 93 percent in the third quarter.

GENERAL NEWS

Iron Ore-China steel snaps 5-day rise after growth goal cut

By Manolo Serapio Jr

SINGAPORE, March 5 (Reuters) - Benchmark China steel futures fell on Monday, snapping a five-day climb as investors worried about the demand outlook after Beijing cut its 2012 growth target to 7.5 percent to give the economy more room to slow if needed.

Chinese Premier Wen Jiabao dropped the annual growth target from the 8 percent set in the previous eight years, citing the need to take a cautious and flexible approach and to keep prices stable.

The lower growth target, which could cap China's steel demand this year and cut the nation's appetite for raw material iron ore, also weighed on stocks in Hong Kong and Shanghai.

The most-traded October rebar contract on the Shanghai Futures Exchange eased 0.7 percent to close at 4,267 yuan ($680) a tonne.

While many in the market had expected Beijing to cut the economic growth outlook, traders say it could further hurt demand for steel.

"Demand for steel is really weak and this may be the situation for most of this year. This year would be a tough year for steel mills," said an iron ore trader in Shanghai.

While the steel market was more active this time versus the previous weeks, "we don't see how demand can be sustained when there's no news of new projects. Real estate is still slow as well as railway construction," he said. Offer prices for imported iron ore in China were steady on Monday, as sellers held off on further price increases, although the major miners continued to put up cargoes for sale tenders.

Brazil's Vale , the world's No. 1 iron ore producer, is selling 100,000 tonnes of 65.1-percent grade iron ore lumps and 135,000 tonnes of 62.75-grade sinter feed iron ore fines, traders said. Third-ranked BHP Billiton is also offering a capesize cargo of 61.5-grade MAC fines, traders said.

Prices at tenders have mostly risen, with cargoes mainly taken up by big steel mills seeking high-quality material.

"The smaller ones prefer port stocks which are cheaper," said another Shanghai-based trader.

Stockpiles of imported ore at major Chinese ports, currently at around 98.7 million tonnes, have fallen for four straight weeks after hitting a record 101 million tonnes in early February.

Iron ore with 62 percent iron content was unchanged at $143.20 a tonne on Friday, but gained for a second week in a row last week after a recent fall in spot rates drew buyers back into the market.

Reflecting slow demand, China's steel production has been mostly steady at low levels since the start of the year.

Daily crude steel output stood at 1.699 million tonnes from Feb. 11 to 20 versus 1.696 million tonnes in the previous 10 days, data from the China Iron & Steel Association showed last week.

On an annualised basis, the latest daily production rate comes to 620 million tonnes, below last year's record output of 683 million tonnes.

Global miners, nevertheless, remain confident that China's iron ore demand will stay robust longer term, as Brazil's Vale and Australian firms Rio Tinto and BHP Billiton have been investing billions of dollars to boost output.

Iron ore shipments to China through Australia's key Port Hedland rose 4 percent to 14.58 million tonnes in February from January, data released by the port authority showed.

MARKET NEWS

Hyundai Engineering in draft deal to build Saudi alumina plant

KHOBAR, Saudi Arabia, March 5 (Reuters) - Saudi Arabian Mining Co (Maaden) and U.S.-based Alcoa have signed a letter of intent for South Korea's Hyundai Engineering and Construction to build an alumina refinery at their aluminium complex in Saudi Arabia, state-run Maaden said in a stock exchange statement.

Under the 5.63 billion Saudi riyal ($1.50 billion) draft deal signed on Sunday, Hyundai is to do engineering, procurement, construction (EPC) and pre-commissioning work for the 1.8 million tonne-per-year refinery.

Construction is expected to be completed within 29 months of signing the final contract, Maaden said in the statement posted on the Saudi bourse website.

An engineering, procurement and construction management contract previously signed with Worley Parsons and U.S.-based Fluor has been amended to a project management services contract, it said.

Maaden and Alcoa teamed up in 2009 to build a $10.8 billion aluminum complex at Ras al-Khair on the Gulf coast which is fast becoming a Saudi mining centre.

They also plan to build a 740,000 ton-per-year aluminium smelter, develop a bauxite mine with the capacity to produce 4 million tons of the raw material for the plant a year and a metal rolling mill with a capacity of up to 460,000 tons.

The first phase of the project - which includes the smelter and rolling mill - should be running by 2013, while the mine and refinery are expected to open in 2014, executives from the two companies have said.

MARKET NEWS (*Continued*)

Jiangxi Copper sees China demand up 7 pct in 2012

BEIJING, March 5 (Reuters) - Jiangxi Copper , China's top copper producer, expects market fundamentals for the red metal to remain good this year, its chairman said on Monday.

"China's copper market fundamentals will remain healthy, which will support copper prices," Chairman Li Yihuang told reporters on the sidelines of the National People's Congress, China's parliament, adding that he expects copper demand in China to rise about 7 percent during 2012.

However, overall copper prices should remain volatile due to the unstable global economy, he said.

China steel output growth seen at 4 pct in 2012 -Shougang chairman

BEIJING, March 6 (Reuters) - China is likely to see 4 percent growth in crude steel output in 2012, Zhu Jimin, chairman of Shougang Group, one of China's leading steel mills, said on the sidelines of the National People's Congress on Tuesday.

China produced 683 million tonnes of crude steel in 2011, up 8.9 percent from the previous year, but the sector has been concerned about dwindling demand growth from key steel-using sectors such as construction and automobiles.

Benchmark China steel futures snapped a five-day climb on Monday as investors worried about the demand outlook after Beijing cut its 2012 growth target to 7.5 percent to give the economy more room to slow if needed.

A Reuters poll of industry analysts last December predicted that total steel output was likely to increase 5.8 percent this year to 728 million tonnes.China's big state-owned steel mills have been struggling with declining margins caused by tepid domestic steel demand and high raw material prices. Zhu, who is also chairman of industry body the China Iron and Steel Association, said global iron ore prices were now heading downwards.

"China's crude steel output has grown at double-digit rates, causing great demand for iron ore. But overall it has now been on a downward trend since October last year, fluctuating between a range of $135 and $140 per tonne," he told reporters.

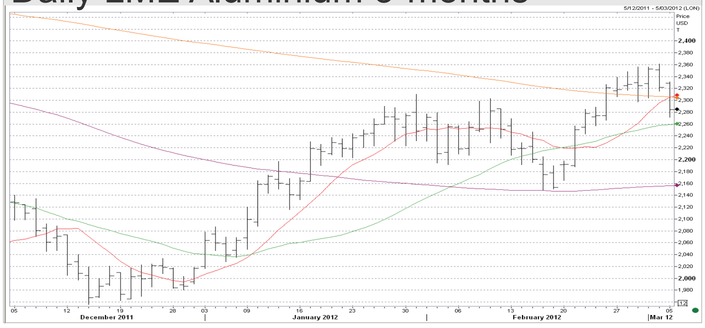
Rio Tinto to invest $2 bln in Indian iron ore project

NEW DELHI, March 5 (Reuters) - Rio Tinto plans to invest $2 billion in an iron ore project in the eastern Indian state of Orissa to supply Indian and overseas clients, Sam Walsh, head of the miner's iron ore division, told reporters.

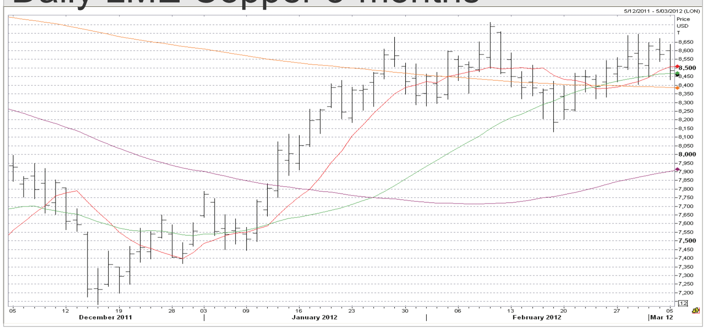
"It is a $2 billion project. We expect to ramp up quickly to 15 million tonnes per year," he said.

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

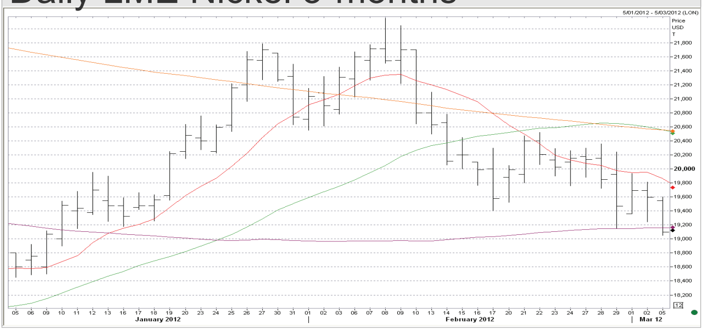
Daily LME Aluminium 3-months



Daily LME Copper 3-months

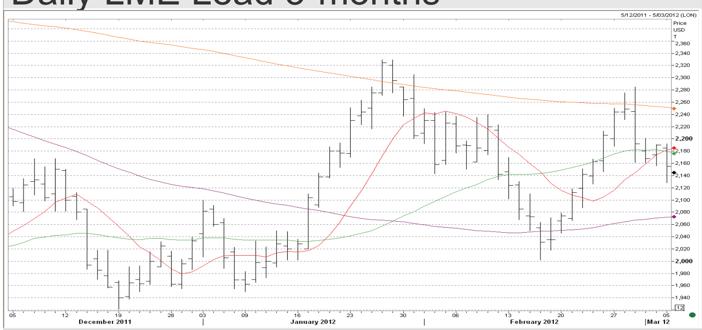


Daily LME Nickel 3-months

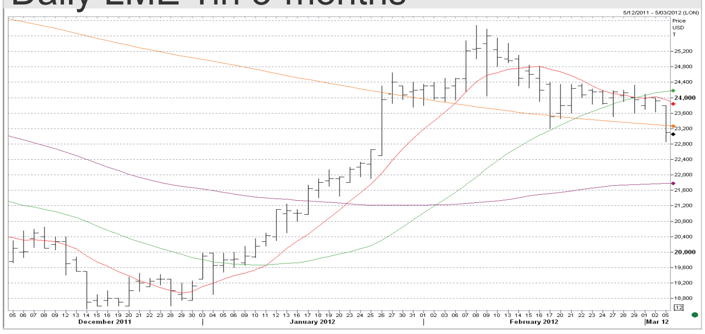


Daily LME Zinc 3-months

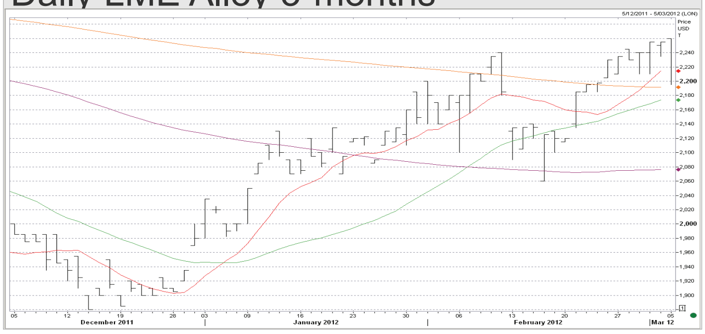
Daily LME Lead 3-months



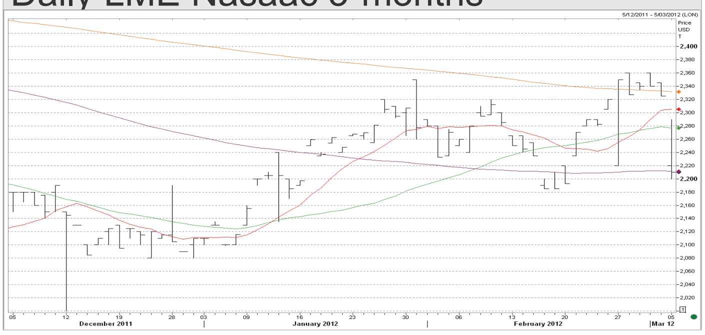
Daily LME Tin 3-months



Daily LME Alloy 3-months



Daily LME Nasaac 3-months



MARKET REVIEW

LME copper drops for 3rd day on China demand view

By Manolo Serapio Jr

SINGAPORE, March 6 (Reuters) - London copper futures fell for a third straight day underlining caution among investors worried a slower growth forecast in China may curb demand from the world's biggest consumer of the industrial metal.

China, the world's second-largest economy, cut its economic growth target to an eight-year low of 7.5 percent on Monday, sending global equities and commodities lower.

The move suggests China, which consumes 40 percent of the world's copper, may also slow on any restocking activity which has usually complemented its domestic consumption, said Dominic Schnider, executive director for wealth management research at UBS.

Chinese copper demand is likely to rise around 7 percent from last year's 7.8 million tonnes, said Schnider, which points to incremental demand of around half a million tonnes.

"If you're bullish, a similar volume can come from the restocking side. But I'm cautious in the short run because the government really doesn't want the economy to accelerate."

That could limit the upside potential for copper, which Schnider sees at $9,000 over a 12-month period.

"We have room for prices to drop, by 10-15 percent ... that would make it attractive again but not now. I do want to see copper prices trading at a discount to Shanghai. That would be, for me, one of the preconditions to really go in," he said.

Three-month copper on the London Metal Exchange dropped half a percent to $8,464.75 a tonne by 0318 GMT.

The firmer dollar versus a basket of currencies is also exerting downward pressure on copper, and other commodities including grains.

The most-traded May copper contract on the Shanghai Futures Exchange fell 1 percent to 60,410 yuan ($9,600) a tonne.

China's acceptance of a slower rate of growth rattled markets on Monday, although it also shows that the gradual rebalancing of the global economy long sought by world leaders is on track.

The across-the-board decline came despite data showing the U.S. services sector expanded at its quickest pace in a year, suggesting investors were more concerned about what is happening in China than the sustained improvements in the U.S. economy.

Even if U.S. copper demand rises by 5 percent this year, UBS' Schnider said it is unlikely to jolt prices, given the United States' smaller annual consumption of around 2 million tonnes compared with China's.

"The U.S. will not be a game changer for the copper story," Schnider said.

But Credit Suisse said the current mixed bag of economic indicators in the United States and Europe may be fueling the recent price declines in industrial metal prices.

"We think the sector needs confirmation from hard data that the economic recovery remains on track. In this context, U.S. non-farm payroll data will be important," the bank said, adding a strong number from the data due out on Friday could put an end to the recent price falls in industrial metals.

Gold steadies, China growth worry weighs

SINGAPORE, March 6 (Reuters) - Gold steadied after falling 1 percent in the previous session as China, viewed by many as the engine of the global economy, cut its economic growth targets, but cheaper prices were expected to attract more buying from jewellers in Asia.

FUNDAMENTALS

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China's acceptance of a slower rate of growth rattled markets on Monday, but it also shows the gradual rebalancing of the global economy long sought by world leaders is on track.

The vast U.S. services sector grew in February at its fastest pace in a year, contrasting with signs of recession in Europe, while China cut its annual growth forecast to an eight-year low.

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MARKET NEWS

Commodity currencies stayed under the cosh in Asia on Tuesday, having suffered a shakeout overnight as investors cut bullish positions after China announced its lowest annual growth target in eight years. Japan's Nikkei share average edged up on Tuesday as exporters gained on the weaker yen, offsetting some concern over a near-term market correction, while attractive valuations underpinned market sentiment. Oil prices edged up on Monday in tug-of-war trading as supply risks and tensions over Iran's nuclear program provided support, but concerns about global economic growth limited gains.

RBA keeps growth currencies under cosh, yen gains

By Antoni Slodkowski

TOKYO, March 6 (Reuters) - Commodity currencies fell broadly on Tuesday after the Reserve Bank of Australia kept interest rates on hold and again left the door open for an easing should the economy weaken materially.A second day of falls for units such as the Australian dollar and the kiwi -- hit yesterday when China announced its lowest annual growth target in eight years -- supported the yen against the dollar.

MARKET REVIEW *(Continued)*

But market participants noted there were many investors waiting to scoop up the greenback on any dips as they expect it to resume its rally on the Japanese unit.

"The RBA decision was broadly in line with expectations, but we saw the yield on the two-year bond dip and that's what put the Aussie under some pressure," said Koji Fukaya, chief currency strategist at Credit Suisse in Tokyo.

The Australian dollar slipped by around 0.4 percent to the session trough of $1.0612 , pushing lower after it triggered some stop losses on the way south.

A drop below its Feb. 23 low of $1.0597 would take it to the lowest level in about a month. The Aussie also shed 0.6 percent versus the yen, last fetching 86.45 yen .

That saw the yen strengthen against the dollar which has retreated after failing to break above a nine-month high of 81.86 for a second time. It was last at 81.39, some 20 pips below late New York levels.

"The dollar uptrend against the yen remains largely unscathed," said Credit Suisse's Fukaya. "We have quite a few major events this week, including U.S. jobs data, so people are simply taking profits on its massive rally for now," he said.

The dollar has muscled up nearly 7 percent on the yen since late January, helped by a surprise Bank of Japan easing and Japan's trading deficit.

PRESSURE OFF

The fall in commodity currencies took some pressure off the euro, which recovered from a two-week low against the greenback as it rose on the Australian and New Zealand dollars.

The euro stood at $1.3198 , having slid as low as $1.3160. Against the Aussie, it fetched A$1.2418 after climbing nearly 1 percent on Monday. It jumped 0.6 percent on the kiwi to NZ$1.6199.

The euro was also supported by a rare piece of good news from Europe, where major Greek bondholders voiced their support for a deal that will more than halve the value of their holdings as their contribution to keeping the country afloat.

Ahead of the Thursday deadline, Greece and its creditors are in the final stages of talks aimed at a deal that would cancel more than 100 billion euros ($132 billion) of its private sector debts - a key part of a 130 billion euros bailout, the second rescue Athens has required.

"Notable is that the New Zealand dollar, the risk darling of early 2012, is currently suffering more than Australian dollar, suggesting that a broader risk-off, not just commodity price, story is at play here," BNP Paribas analysts wrote in a note.

China's growth target of 7.5 percent barely caused a ripple in financial markets when first announced in Asia on Monday as Beijing is known to set the bar low so as to easily exceed it.

But investors in Europe and the United States appeared to have used the lower target as an excuse to take profits on long positions in commodities like copper and currencies linked to global growth.

"I'm seeing this as a significant correction after a strong rally at the beginning of the year.

There is potential to see the Aussie get back down to 1.05," said Greg Gibbs, strategist at RBS in Sydney. But Gibbs expects the Aussie to recover in the second half of the year, believing it will again re-test $1.10.

Traders said the bigger picture hasn't really changed. Liquidity injections from the major central banks and ultra-low interest rates in the United States and Europe meant there was still a lot of money chasing after higher yielding assets.

Highlighting this, German Chancellor Angela Merkel expressed understanding for problems facing emerging countries due to a flood of cheap money from leading industrial nations, shortly before meeting Brazil's President on Monday.

But analysts said markets are reaching a point where they no longer expect further stimulus from major central banks, at least for the time being, and this could make risky assets more vulnerable to waves of correction.

(Inside Metals is compiled by Akanksha Mohanty in Bangalore)

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