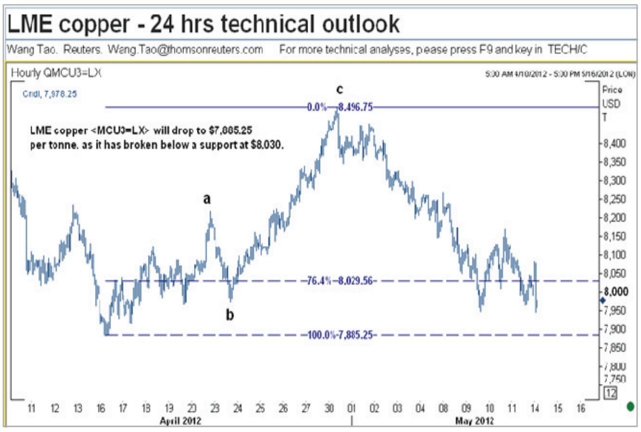
# INSIDE METALS

Monday, May 14, 2012

## CHART OF THE DAY

Click on the chart for full-size image




**Click here for LME charts**

## GENERAL NEWS

- RUSAL Q1 net drops 84 pct as aluminium prices fall
- Manila needs mine policy to reach investment target
- Indonesia plans to limit miners' exports at 2009-10 volume

## MARKET NEWS

**ALUMINIUM**:

- Tajik Jan-Apr aluminium output falls 11.6 pct yr/yr - source

**COPPER**:

- Aurubis Q2 profit beats view on output, integration
- Peruvian miners cancel plans for two-day strike
- China April refined copper output drops 3.7 pct m/m

**NICKEL/STEEL**:

- Nippon Steel revises up April-June output estimate
- MMX to invest $2.36 bln in iron-ore mine
- Brazil's CSN seeks flexibility on stake in Usiminas

## FEATURE

**Peru protests cast shadow on mining confab**

Social and environmental protests that threaten billions of dollars in planned mining exploration and project development in Peru, Latin America's biggest gold producer, will top the agenda at the Lima gold and silver symposium, set for early next week.

U.S.-based Newmont Mining Corp must decide whether to move forward with its stalled $4.8 billion Conga gold project after demonstrators worried about water supplies halted construction on what would be the most expensive mine ever built in Peru.

*Click here to read more*..

## TODAY'S MARKETS

**BASE METALS**: London copper fell to near one-month lows on Monday, giving up early gains, as investors worried about slowing growth in top copper consumer China, which some think may need more than the unsurprising weekend cut in banks' cash reserves to recover.

"I don't think the cut in the reserve requirement was something unexpected. Maybe the timing is a bit more debatable," said Thomas Lam, chief economist at DMG & Partners Securities.

**PRECIOUS METALS:** Gold edged up on Monday as bargain hunters lifted prices from four-month lows, but gains could be capped by fears about a worsening debt crisis in Europe, after an inconclusive Greek election raised the risk the country could exit the euro zone and the European Union.

"I think for as long as the crisis in Europe drags on, it's going to keep sentiment broadly in check. At the moment, gold has been painted with the risk brush. It's going to be very much a tracker of the equity markets," said Nick Trevethan, a senior commodity strategist at ANZ in Singapore.

**FOREX:** The euro hit its lowest level in nearly four months on Monday after Greek political leaders failed in their latest efforts to form a ruling coalition, keeping investors on edge over the risk of the country exiting the euro zone.

"I think they will steer the rudder that way, even if that leads to costs on the inflation front. If that is the case, the direction would be toward weakness in the currency," he said.

# FEATURE

**Peru protests cast shadow on mining confab**

By Patricia Velez and Teresa Cespedes

LIMA, May 11 (Reuters) - Social and environmental protests that threaten billions of dollars in planned mining exploration and project development in Peru, Latin America's biggest gold producer, will top the agenda at the Lima gold and silver symposium, set for early next week.

U.S.-based Newmont Mining Corp must decide whether to move forward with its stalled $4.8 billion Conga gold project after demonstrators worried about water supplies halted construction on what would be the most expensive mine ever built in Peru.

The government has made fresh recommendations on the project in hopes of appeasing protesters, who have demanded that the project be halted permanently for fear a string of alpine lakes Newmont plans to replace with artificial reservoirs will leave insufficient water supplies for farmers.

President Ollanta Humala has said Newmont should improve its environmental mitigation plan by keeping two of the lakes intact and building larger reservoirs, based on recommendations from independent European auditors. The existing environmental impact study was approved by the previous government.

If Conga is built, it will cement Humala's reputation as a friend of big business who also retains support from rural communities. But if it is abandoned, Humala could scare off $50 billion in private investment destined for mining in Peru, one of Latin America's fastest-growing economies.

"I think the precedent of revising a previously approved study and making additional demands generates uncertainty for investors," said former Mine and Energy Minister Carlos Herrera, who was replaced amid anti-Conga protests in December.

Executives from top global firms attending the biennial conference from Monday through Wednesday in the world's No. 6 gold producer and second-largest copper and silver producer will also scrutinize price outlooks.

Many analysts bet demand from emerging markets and scarce supplies of gold will compensate for concerns over the European debt crisis, keeping spot gold prices steady.

"Large quantities of gold have not been found, and with the uncertainty in Europe, I believe prices will be stable," said Jose Luis Morales, head of the gold committee at Peru's private Society of Mining, Energy and Oil.

$2,000 PER OUNCE?

Gold, normally a refuge for investors in times of economic turmoil, has recently traded in line with risk assets like base metals and stocks. On Friday it fell to $1,573 per ounce, a four-month low, on worries over debt-ridden Greece and Spain.

But Morales said solid demand from China, which could surpass India as the world's top gold consumer, would later support prices. GFRMS Thomson Reuters forecasts a record price of $2,000 per ounce for 2013.

Strong demand and record-high prices last year drew increased interest in projects like Gold Field's Cerro Corona project in Peru. The company has increased its investment in Cerro Corona to $1.2 billion from $750 million.

But to attract new projects, even with strong demand, Peru needs to show it can rally community support for mining and resolve what the national ombudsman estimates to be 200 active social conflicts, most of them over natural resource extraction.

"Obviously in Peru there is some reduced enthusiasm for exploration, because in places like Canada, where there aren't social conflicts, exploration is expanding," said Morales.

Smaller gold producers in Latin America have also faced disputes over mining. Barrick Gold's giant Pascua Lama project on the border between Chile and Argentina has spurred protests over water supplies.

Humala in September signed a law unique to the region that requires firms to consult indigenous communities about future mining and oil extraction, hoping increased participation in project development would limit opposition to firms working on their ancestral lands.

Many companies supported the law and said they are willing to improve their social and environmental programs.

"We want to continue to be part of the government's social inclusion efforts and the development of the country through responsible mining," said Newmont's Chief Executive Officer Richard O'Brien on a recent conference call.

He warned, however, that the company could invest elsewhere if its Conga project is not profitable.

# GENERAL NEWS

## RUSAL Q1 net drops 84 pct as aluminium prices fall

By Melissa Akin and Alison Leung

MOSCOW/HONG KONG, May 14 (Reuters) - Russia's UC RUSAL Plc , the world's biggest aluminium producer, posted an 84 percent drop in first-quarter net profit as prices fell, potentially fuelling a shareholder row over the company's refusal to sell its stake in Norilsk Nickel .

RUSAL's management, led by its controlling shareholder Oleg Deripaska, has resisted pressure to dispose of its 25 percent share in the world's largest nickel and palladium company to pay down debts at a time when aluminium markets are weak.

Deripaska's dreams of a mega-merger with the $14 billion stake purchase four years ago, financed through debt, were dashed when the global crisis struck.

RUSAL was forced into a debt restructuring, and shareholder and billionaire Viktor Vekselberg urged Deripaska to sell off the stake, currently worth about $7.9 billion based on Reuters calculations.

Net debt rose 0.7 percent to $11.13 billion at the end of March from December, RUSAL said in its earnings statement on Monday. The company said it has no outstanding debt obligations for this year.

In addition to the dispute over Norilsk, Vekselberg, who resigned as chairman in March, is challenging a large aluminium supply deal with a third RUSAL shareholder -- commodity trade giant Glencore.

In March, RUSAL appointed Barry Cheung, an independent director of the company and head of the Hong Kong Mercantile Exchange, to replace Vekselberg. Analysts have questioned how much influence he can exert over Deripaska, who owns 47.4 percent of the aluminium producer.

"The company has just kept creating more headwinds, more risks, and who knows how those are going to go," said Alexander Latzer, an analyst at Daiwa Securities. "The stock is only for the most risk-accepting investors."

Shares of RUSAL, which competes with U.S. aluminium maker Alcoa Inc , fell as much as 2.6 percent to HK$4.90 after the earnings announcement. That price represents less than half of the stock's 2010 Hong Kong IPO value of HK$10.80 each.

WEAK EARNINGS

While global aluminium consumption in the first quarter grew 5 percent year on year, the average price of the metal used in cars, construction and beverage cans fell 13 percent to $2,177 per tonne, RUSAL said.

First-quarter net profit, which included its share of earnings in Norilsk and non-cash items, slumped to $74 million in the three months ended March from $451 million a year earlier.

Recurring net profit fell 77 percent to $112 million, compared with an average forecast of $94 million in a poll of eight analysts by Reuters.

"EBITDA was below my estimate, net profit was kind of in line, and I don't think it's getting any better in the second quarter as aluminium prices are falling," said Latzer.

Adjusted earnings before interest, tax, depreciation and amortisation (EBITDA) dropped 38 percent to $237 million, compared with an average forecast of $257 million by analysts.

The global economic uncertainties may continue to weigh on metal markets in the months ahead, RUSAL said. Earnings of the aluminium giant are also expected to be pressured by a strengthening ruble against the U.S. dollar and high oil prices, analysts said.

"In response to continued uncertainty in the global economy, RUSAL is currently considering the curtailment of 300,000-600,000 tonnes of high-cost smelting capacity starting from the second half of 2012," the company said.

Such a capacity cut would represent about 4 to 6 percent of overall capacity, RUSAL said. Its rival, Alcoa, surprised the market last month with a profit after a loss in the last quarter of 2011 as demand for aluminium in North America was strong in most industrial sectors except for building and construction.

But RUSAL's quarterly results beat those of Chinese competitor Aluminum Corp of China Ltd (Chalco) , which warned of a loss for the first half ending June 2012 after recording a net loss of 1.09 billion yuan ($172.73 million) in the first quarter.

## Manila needs mine policy to reach investment target

By Erik dela Cruz

MANILA, May 11 (Reuters) - Investment in the Philippine mining sector last year fell $700 million short of the government forecast, the chief of the mines bureau said on Friday, and the country risks losing more this year without providing clearer rules under a new mining policy.

The Southeast Asian country expects to attract about $2.3 billion in investments in new and existing projects this year, although some of that hinges on the removal of a moratorium on new mines, Mines and Geosciences Bureau director Leo Jasareno told Reuters in an interview at his office.

"Our assumption is it will be lifted this year, which means we will miss the forecast if it is not lifted this year," he said.

Jasareno is hopeful a new policy will be unveiled this month or in June, which would set guidelines to ensure responsible mining and pave the way for the lifting of the moratorium on new mining permits, in place since January last year.

"It's a priority of the government. The document is now being fine-tuned," Jasareno said.

Last year a Maoist rebel attack at miner Nickel Asia Corp's facilities delayed the company's additional investment of about $400 million, and another $300 million in new projects stalled because of the mining moratorium, Jasareno said. Manila had expected total mining investments of $1.4 billion in 2011.

## GENERAL NEWS *(Continued)*

The bureau expects new mining investments in the next five years to reach as much as $12 billion, including the $5.9 billion Tampakan mine in southern Philippines, Southeast Asia's biggest undeveloped copper-gold reserve which is partly owned by Xstrata Plc and Australia's Indophil Resources NL .

For more information on Philippine mining:

http://www.mgb.gov.ph/

CONTENTIOUS ISSUE

Jasareno said, however, the unresolved issue of revenue-sharing between the government and the industry, which the new policy also seeks to settle, remained a concern.

The country's only group of large-scale miners, the Chamber of Mines of the Philippines, has warned that the imposition of additional taxes on mining could kill the industry.

The group is also opposed to a possible review of existing contracts. Manila has said it wants a review of existing fiscal incentives given to miners such as income tax holidays.

Jasareno said he supported a proposal for a 50-50 sharing of profits from mining, net of taxes.

"Definitely the new policy will ensure a fair share for the government," he said.

Jasareno said he also was hopeful the new mining policy would ensure the primacy of national laws over local codes would be enforced.

But the issue is "still one of the concerns being reviewed", he said.

"Admittedly, it's a contentious matter. But the administration wants to make sure the mining policy will not backfire. The purpose of the mining policy is to find industrial peace."

Global miner Xstrata is awaiting the executive policy as it seeks clarity on its Tampakan project in southern Philippines, now under threat from a local ban on open-pit mining and the government's refusal to grant an environment clearance for construction of the mine.

Foreign and local investors seeking to explore for minerals in the Philippines are closely watching the Tampakan situation.

The government estimates that the Southeast Asian country is sitting on metal resources, mostly gold, nickel and copper, worth around $1 trillion.

Jasareno remained optimistic that growth in metal output will speed up in 2012, after record production last year worth $2.9 billion, once issues that trouble investors are cleared up.

Metallic and non-metallic mining made up 1 percent of the Philippines' gross domestic product in the last two years, up from 0.8 percent in 2009.

Jasareno said that once the moratorium on the processing of mining permits is lifted, new investors are expected to come in.

"I heard that BHP Billiton was in talks for a possible partnership with local groups," he said. He did not give further details.

BHP Billiton pulled out of a $2 billion nickel project in the southern Philippines in late 2009, partly due to problems with its local partner and after it decided to exit the nickel business.

Officials at BHP Billiton declined to comment.

### Indonesia plans to limit miners' exports at 2009-10 volume

By Fergus Jensen and Yayat Supriatna

JAKARTA, May 11 (Reuters) - Indonesia plans to introduce new quotas to limit mineral exports, as well as a 20 percent duty on mineral exports by certain companies, Indonesian government officials said on Friday.

The government is in the process of introducing new regulations intended to protect Indonesia's resources and increase state revenue, but has been criticised for creating uncertainty in the mining sector which accounted for 12 percent of GDP in 2011.

The quotas, which will be initially introduced between June and August would apply to all mineral exporters, a Trade Ministry official said at a press conference in Jakarta.

"Mineral export quotas will be determined annually based on 2009 or 2010 export performance. For June-August 2012 we will set the mineral export quota at about one-quarter of the 2010 export volume," Trade director general Deddy Saleh said.

"For instance, in 2010 Indonesia exported 16.9 million tonnes of nickel ore and its concentrate, so for June to August we will determine the nickel ore and concentrate export quota at around 4 million tonnes."

The government also plans to issue regulations on mineral export duty next week and will expand the types of minerals affected by the duty, which will be set at a flat 20 percent rate, finance minister Agus Martowardojo said on Friday.

"In principle, the base will be expanded from the 14 mineral types so the main aim can be achieved, and the implementation and supervision will be easier," he said.

"We are focusing on (mining companies) exporting ores. We want to manage this so that the value-adding process can be done in Indonesia and protect the environment."

Martowardojo declined to elaborate on the new mineral types affected by the duty.

Last week the energy minister had said Indonesia would impose the duty on 14 mineral ores including copper, gold and tin and would work on export policy plans for the coal industry in the next month.

# MARKET NEWS

### Tajik Jan-Apr aluminium output falls 11.6 pct yr/yr -source

By Roman Kozhevnikov

DUSHANBE, May 11 (Reuters) - Tajikistan's state-owned aluminium smelter, the largest in former Soviet Central Asia, hopes a resumption of gas supplies from Uzbekistan will allow it to meet its 2012 output target despite a near-12 percent decline in the first four months.

Tajikistan Aluminium Company, or TALCO, produced 97,863 tonnes of the metal in January-April 2012, or 11.6 percent less than in the same four months last year, a source close to the company's management told Reuters on Friday.

The main reason for the decline was lower monthly production rates in early 2012 as the smelter ramped up output following a modernisation programme completed toward the end of last year.

Production was also affected in April when neighbouring Uzbekistan cut off natural gas supplies for 15 days. Tajikistan signed a deal to resume supplies from April 16 until the end of the year.

"The signing of the contract until the end of the current year gives us hope that we will meet our plans," said the TALCO source, who spoke on condition of anonymity.

TALCO is sticking to its plan to produce 332,500 tonnes of primary aluminium this year, the source said, which would restore production approximately to 2010 levels after a 20 percent decline to 277,584 tonnes in 2011.

The smelter's production is crucial to the economy of Tajikistan, the poorest of 15 former Soviet republics. The metal accounted for 45.1 percent of Tajikistan's export revenues in the first quarter of 2012.

### Aurubis Q2 profit beats view on output, integration

HAMBURG, May 14 (Reuters) - Aurubis AG , Europe's largest copper smelter, posted better than expected net profits for the second quarter of its current fiscal year as high output and the benefits of a recent takeover compensated for lower copper prices.

Aurubis said it achieved net earnings of 111 million euros ($143.7 million), down 30 percent on the year in the quarter ending Mar. 31.

Analysts polled by Reuters expected on average Aurubis to post a 52.8 percent fall in second quarter net profit to 75.5 million euros. Aurubis said says second quarter sales fell 2 percent to 3.648 billion euros. Analysts had expected sales of 3.472 billion euros. The second quarter saw a combination of positive factors in its major business areas, it said.

"Higher precious metal revenues and the integration of the Luvata Rolled Products Division ... more than compensated for lower copper prices," Aurubis said.

Aurubis produces gold, silver and other precious metals as a by-product of copper. The Luvata activities are being integrated after being taken over in 2011. Supplies of copper ore concentrate were good as the company had settled long term delivery contracts for concentrate. Scrap metal supplies were also good.

"Apart from the good situation on important raw material markets, highlights include the overall higher concentrate throughput, the higher sulphuric acid output with increased sulphuric acid prices, higher copper scrap refining charges and rising input quantities of other materials carrying treatment charges," the company said.

Aurubis had in February posted a 40 percent rise in first quarter net profits but warned the sharp increase was unlikely to be repeated.

Copper prices in the second quarter averaged $8,310 a tonne against $9,646 a tonne in the same time last year, it said.

London Metal Exchange three-month copper has hovered around $8,000 a tonne for much of this year, with weakness coming from continued concerns about the impact of the euro zone debt crisis and lower Chinese demand.

"The uncertainty regarding the economic trend in the main sales markets for copper continues," it said. "Meanwhile, the physical copper market is better than the overall economic impression indicates."

Demand for copper cathodes may develop positively overall in the countries in the northern hemisphere, though with regional differences, it said.

"We expect a good business performance for the Business Units Primary Copper and Recycling/Precious Metals for the rest of the fiscal year due to the positive situation for our procurement markets," Aurubis said." On the whole, we view the copper market as well supported despite economic uncertainties and expect volatile yet high ongoing copper prices."

It added: "Based on the very good half-year result and the generally stable outlook for our significant markets, we currently expect the overall annual result to be at the prior-year level."

The company had posted a 53 million euro net profit for the full year 2010/11.

### Peruvian miners cancel plans for two-day strike

LIMA, May 12 (Reuters) - Peru's federation of mining unions said on Saturday it had called off plans for a national strike on May 14 and 15 after the government implemented a law granting more retirement benefits to workers in the world's No. 2 copper producer.

"We've just had a meeting to suspend the planned show of force as the regulation of the retirement law was published today, so all the mining unions have suspended any action," Luis Castillo, the head of the National Federation of Mine, Metallurgical and Iron and Steel Workers of Peru, told Reuters.

## MARKET NEWS *(Continued)*

The federation represents the majority of the country's mining unions.

The new law was approved by Congress in July of last year but hadn't yet been implemented. It creates a special retirement fund that will be financed by 0.5 percent of mining companies' annual income and 0.5 percent of workers' gross monthly salary.

The mining sector accounts for 60 percent of export revenue in Peru, the world's second largest producer of silver and zinc and its sixth largest gold producer.

**China April refined copper output drops 3.7 pct m/m**

By Polly Yam

HONG KONG, May 11 (Reuters) - China's production of refined copper fell 3.7 percent in April from March, data from the National Bureau of Statistics showed on Friday, indicating that the weaker-than-expected domestic demand had cut smelters' operating rates.

The monthly fall was the first since January when the Lunar New Year break slowed output. China's overall industrial production growth was at 9.3 percent in April, the weakest in nearly 3 years.

China's copper consumption this year has been weaker than predicted, reducing copper arrivals to the world's second-biggest economy by about 19 percent in April from March to an 8-month low and cutting copper scrap imports by 14 percent.

The world's top consumer and producer of refined copper produced 491,000 tonnes of the metal in April after rising 16.7 percent to 510,000 tonnes in March, which itself was the second-highest level ever after a record 518,000 tonnes in August 2011.

"The fall is not a surprise but the scale is bigger than the 2 percent we had expected. Domestic demand in April was weaker than a year ago," said Fu Bin, an analyst at Jinrui Futures, a unit of the parent of China's top refined copper producer Jiangxi Copper Company Ltd .

China Trade suite: http://link.reuters.com/fut96s

China Industrial output: http://link.reuters.com/cem28s

Output of the refined metal was also hit by a shortage of raw material, Fu said.

"The supply of scrap in the domestic market was not abundant in April," Fu said, noting the bulk of new smelting capacity that came onstream in the past year used copper scrap as feed.

Lower domestic copper prices compared to the price of overseas purchases hurt demand from Chinese importers for scrap in April and prompted them to limit selling existing stocks to smelters, Fu added.

About a quarter of China's copper production capacity is currently idled due to a shortage of raw material, state-backed research firm Antaike's senior analyst Yang Changhua told Reuters last month. But the country would still add about 600,000 tonnes of smelting capacity this year. Between 1.1 million to 1.4 million tonnes of refined copper is now stored in China, the highest since 2009, traders and sources at Chinese copper smelters have estimated. The stocks excluded the stockpile of the State Reserves Bureau.

ALUMINIUM

Lukewarm domestic demand dented aluminium output as well in April. Production dropped 2 percent to 1.537 million tonnes in April, from 1.568 million tonnes in March. Output in March was the second-highest level since record 1.59 million tonnes in June 2011. China is the top producer and consumer of aluminium. But the output of alumina reached a monthly record of 3.16 million tonnes in April, as refineries continued to produce the raw material to fulfil term contracts with aluminium smelters.

**Nippon Steel revises up April-June output estimate**

By Yuko Inoue and Yuka Obayashi

TOKYO, May 14 (Reuters) - Nippon Steel Corp , the world's No.4 steelmaker, said on Monday it sees its crude steel output at 7.6 to 7.7 million tonnes in the April-June quarter, up 100,000 tonnes from its April estimate, due to stronger-than-expected domestic car output.

It said it expects its crude steel output to rise further to around 8 million tonnes in July-September as Asia's steel market is bottoming out and the domestic construction steel market will improve.

"We are seeing a bit of a tail wind as far as seasonal factors are concerned," Shinichi Taniguchi, executive vice president at Nippon Steel, told Reuters in an interview.

A sharp slowdown in China's economy and a delay in the recovery of Asia's steel market will not derail the firm's recovery scenario for the July-September quarter, he said. Nippon Steel now expects car production in Japan to grow to 5 million vehicles in the April-September first-half, 400,000 more than its original estimate but slightly less than the total for the preceding six months of 5.36 million. Nippon Steel, which is to merge with Japan's No.3 steelmaker Sumitomo Metal Industries Ltd on Oct. 1, last month booked its worst quarterly profit since effects of the Lehman credit crisis began to hit steelmakers in 2009.

**MMX to invest $2.36 bln in iron-ore mine**

By Sabrina Lorenzi

RIO DE JANEIRO, May 11 (Reuters) - MMX Mineração e Metálicos SA plans to invest 4.6 billion reais ($2.36 billion) over two years to complete Serra Azul, a mining project expected to more than triple the company's iron ore output, the company's chief executive told Reuters on Friday.

## MARKET NEWS *(Continued)*

The company has already spent 200 million reais on the project, located in Brazil's southeast highland state of Minas Gerais, and expects to produce 29 million tonnes of iron ore from its mines, CEO Guilherme Escalhão said.

Rio de Janeiro-based MMX, part of Brazilian billionaire Eike Batista's EBX mining, energy, naval construction and transportation group, is seeking to cash in on rising world demand for and shrinking supplies of high-quality iron-ore, especially in China.

The company plans to produce 8.4 million tonnes of iron ore this year and produced 7.5 million tonnes last year from its other mining projects in Brazil.

MMX recently raised its outlook for Serra Azul to 29 million tonnes of ore a year from 24 million and increased the total amount it will spend on the project 20 percent to $4.8 billion from $4 billion. It is scheduled to open in 2014.

"Moving ahead with our geological knowledge of the mine, in the process of certifying reserves, in the engineering, we identified some opportunities to improve the project," Escalhão said. "This obviously resulted in adding new equipment."

The mine has an estimated 1.9 billion tonnes of iron reserves, enough for more than 65 years of output at full capacity.

Serra Azul is also being designed to produce marketable ores even at relatively low iron-content levels. As the most promising mines in Brazil and abroad become depleted, iron content is dropping in many mines.

Serra Azul is expected to produce ore with about 57 to 58 percent iron, he said. That compares with 65 percent or more at many Brazilian mines run by Rio de Janeiro-based Vale SA , the world's largest iron-ore producer.

The mine and its facilities will be capable of dealing with iron-ore with only a 36 percent iron content, Escalhão said.

"We will recover minerals that would not be recoverable in a normal mine, allowing us to recover more ore by using less," he said.

An environmental license granted in April allows the beginning of construction of an ore-processing plant at Serra Azul.

When complete, Serra Azul, located in the "Iron Quadrangle" area of Minas Gerais, will have a railway terminal linked to the mine by long-distance conveyor belt, electricity systems and water works.

The increase in spending on the project is also part of plans to link Serra Azul to the neighboring Pau de Vinho mine and both mines to MMX's Superport Sudeste, an iron-ore export terminal being built outside of Rio de Janeiro.

Owned by Usiminas , the Brazilian steelmaker, Pau de Vinho will be operated for 30 years by MMX.

Superport Sudeste will be able to export 50 million tonnes of iron ore a year to markets worldwide in a first phase scheduled to begin in 2013.

MMX has plans to later double capacity to 100 million tonnes, or about a third of Brazil's current iron ore exports and about 10 percent of the world's total sea-borne iron-ore exports.

MMX shares rose 1.25 percent to 8.13 reais in Sao Paulo trading on Friday. The benchmark Bovespa index of the Sao Paulo exchange's most-traded stocks fell 0.48 percent.

### Brazil's CSN seeks flexibility on stake in Usiminas

SAO PAULO, May 11 (Reuters) - CSN , Brazil's second-largest producer of flat steel products, said on Friday it is seeking to roll back a regulatory decision capping its stake in rival Usiminas .

"We respect the decision, but we find it very harsh. We're trying to negotiate some flexibility on that decision," David Salama, head of investor relations at CSN, said on a conference call. "Our aim is to exercise our rights under the law, and we think that's possible."

In April Brazil's antitrust regulator Cade prohibited CSN from increasing its stake in Usiminas, heading off a stock-buying spree triggered by Italian-Argentine Techint's takeover of Usiminas.

Cade also suspended shareholder rights associated with CSN's stake, such as naming board members.

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

## Daily LME Aluminium 3-months

## Daily LME Copper 3-months

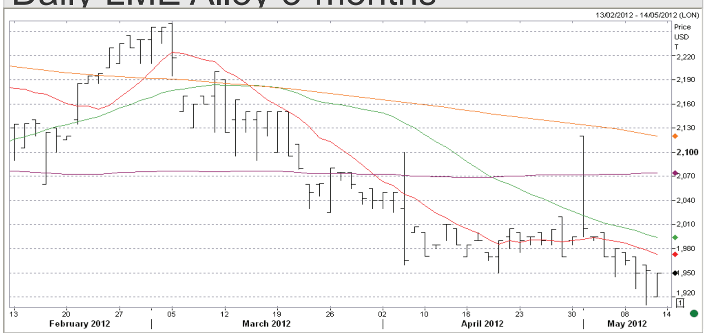
## Daily LME Nickel 3-months

## Daily LME Zinc 3-months

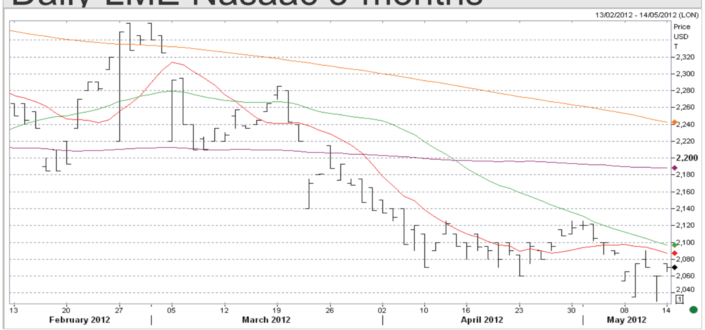
## Daily LME Lead 3-months

## Daily LME Tin 3-months

## Daily LME Alloy 3-months



## Daily LME Nasaac 3-months



# MARKET REVIEW

**METALS-Copper hits near 1-month low on China doubts**

By Manolo Serapio Jr

SINGAPORE, May 14 (Reuters) - London copper fell to near one-month lows on Monday, giving up early gains, as investors worried about slowing growth in top copper consumer China, which some think may need more than the unsurprising weekend cut in banks' cash reserves to recover.

A deepening crisis in the euro zone, with the failure of talks to form a new government in debt-laden Greece, also weighed on sentiment, prompting investors to shun risky assets, from oil to equities.

Copper opened firmer in Asia after China cut on Saturday the amount of cash banks are required to hold as reserves in a bid to boost lending after data showed the world's No. 2 economy slowed further in April since posting the weakest first-quarter growth in nearly three years.

But the metal soon lost its bearings, and slid as Chinese sellers emerged. Three-month copper on the London Metal Exchange dropped 0.6 percent to $7,962.75 a tonne by 0408 GMT, after falling as low as $7,943.25, its weakest since April 17. It hit a high of $8,085.50 earlier.

"I don't think the cut in the reserve requirement was something unexpected. Maybe the timing is a bit more debatable," said Thomas Lam, chief economist at DMG & Partners Securities.

China rate, RRR moves http://link.reuters.com/sud26s

China trade http://link.reuters.com/fut96s

LME copper to drop to $7,885.25

http://graphics.thomsonreuters.com/WT1/20121405101538.jpg

The most-traded August copper contract on the Shanghai Futures Exchange dropped 1.4 percent to 56,540 yuan ($9,000) per tonne.

NOT BULLISH

"The early short covering in COMEX was reversed when it became clear the Chinese speculators were going to sell copper back down," said a Singapore-based trader.

"There has been some solid selling out of the U.S. via COMEX that sliced through any scaled down bids."

The July COMEX contract eased 0.8 percent to $3.6185 per lb.

Traders saw China's reserve requirement ratio (RRR) cut as confirmation that Chinese demand would be slow and weak along with its overall economy. There was already evidence of weakening demand in April when China's copper imports fell nearly 19 percent to an eight-month low, while its output of refined copper fell for the first time since January. "In this environment, the RRR cut is not bullish," said the trader.

But Lam believes the troubled euro zone, where Greece's political fate is in doubt and a German vote pointed to growing opposition to austerity steps, remains the main risk factor for markets.

"The key here for the euro zone is really credibility and I think they're finding ways to maintain and improve credibility of the euro zone," said Lam.

"As long as this credibility remains shaky there is no reason for markets to move in a more predictable fashion."

**PRECIOUS-Gold ticks up on bargain hunting; off 4-month low**

By Lewa Pardomuan

SINGAPORE, May 14 (Reuters) - Gold edged up on Monday as bargain hunters lifted prices from four-month lows, but gains could be capped by fears about a worsening debt crisis in Europe, after an inconclusive Greek election raised the risk the country could exit the euro zone and the European Union.

Gold was behaving more like risk assets this year as the turmoil in Europe sent the euro to m ulti-month l ows and investors turned to the safety of the dollar, said analysts.

The U.S. dollar has also been supported by optimism that more positive labour market numbers will be seen soon.

Gold added $3.39 an ounce to $1,581.69 by 0248 GMT, having hit a low around $ 1,573 o n Friday, its weakest since early January, on fears that the debt crisis in Europe will hurt global economic growth.

"I think for as long as the crisis in Europe drags on, it's going to keep sentiment broadly in check. At the moment, gold has been painted with the risk brush. It's going to be very much a tracker of the equity markets," said Nick Trevethan, a senior commodity strategist at ANZ in Singapore.

"The range should be from just below $1,580, up towards $1,600. The market really needs to get back towards $1,600 or above in order the confirm we have bottomed."

U.S. gold for June slipped $1.90 an ounce to $1,582.10.

Money managers in gold futures and options cut their net long positions by 20 percent to the lowest level since December 2008, as investors aggressively unwound their bullish bets in the precious metal after a sharp price pullback.

For a 24-hour gold technical outlook:

http://graphics.thomsonreuters.com/WT1/20121405095512.jpg

Asset returns in 2012: http://link.reuters.com/muc46s

Commodity returns in 2012: http://link.reuters.com/faz36s

Greece's president will continue talks with the country's political leaders on Monday to try to form a government after an inconclusive election left parliament divided between supporters and opponents of the 130 billion euro EU/IMF bailout.

Investors had turned to gold as a safe haven during the debt crisis last year, sending prices to an all time high of around $1,920 an ounce. But this year, gold is trading more in line as a commodity that moves in the opposite direction to the U.S. dollar.

## MARKET REVIEW *(Continued)*

The euro broke an option barrier at $1.2900 and dipped to as low as $1.2881 at one point on trading platform EBS, its lowest level since Jan. 23 after Greek political leaders failed in their latest efforts to form a ruling coalition.

The Nikkei rebounded to above 9,000 after China's decision to slash bank reserve ratios on Saturday, countered the unease surrounding the euro zone. Shares outside Japan slipped.

In the physical market, jewellery makers and speculators took advantage of last week's drop in prices.

"We've seen physical buying interest. But people are still bearish about the market because of the strong dollar and worries that Greece won't be able to solve its problems," said a dealer in Hong Kong.

"Investors are not so aggressive, and I think the jeweller sector is more important. Supply is a bit tight in the physical market."

**FOREX-Euro hits 4-mth low on Greece jitters; Aussie dips**

By Masayuki Kitano

SINGAPORE, May 14 (Reuters) - The euro hit its lowest level in nearly four months on Monday after Greek political leaders failed in their latest efforts to form a ruling coalition, keeping investors on edge over the risk of the country exiting the euro zone.

Coalition talks in Greece hit an impasse on Sunday and Greece's radical leftist leader spurned an invitation from the president for a final round of talks on Monday, all but ensuring a new election.

Adding to the negative tone, German Chancellor Angela Merkel's conservatives suffered a crushing defeat on Sunday in an election in Germany's most populous state, a result which could embolden the left opposition to step up attacks on her European austerity policies.

The euro seems likely to head lower in coming weeks, especially since the European Central Bank may eventually adopt further monetary easing steps to support the region's economy, said Akira Hoshino, chief manager for Bank of Tokyo-Mitsubishi UFJ's foreign exchange trading department in Tokyo.

"I think they will steer the rudder that way, even if that leads to costs on the inflation front. If that is the case, the direction would be toward weakness in the currency," he said.

The euro dipped to $1.2878 at one point on trading platform EBS, its lowest level since Jan. 23. It last stood at $1.2896, down 0.2 percent from late U.S. trade on Friday.

The euro has come under pressure after Greece's two main pro-bailout parties failed to win a majority in elections earlier in May, leaving questions over the country's ability to avert bankruptcy and stay in the euro.

Underscoring increasingly bearish market sentiment toward the euro, data from the U.S. Commodity Futures Trading Commission showed currency speculators increased their net short positions in the euro in the week ended May 8 to the highest level since mid-February.

Traders and analysts say the speed of the euro's fall versus the dollar is likely to remain relatively slow.

"Corporates based in the euro zone are still strong buyers of the euro (versus the dollar)," said Gareth Berry, G10 FX strategist for UBS in Singapore, adding that such demand has helped cushion the single currency's decline.

AUSSIE BREACHES PARITY

The safe haven dollar rose broadly, while currencies sensitive to shifts in risk appetite came under pressure.

The New Zealand dollar hit a four-month low of $0.7795 , while the Australian dollar dipped below parity versus the U.S. dollar for the first time in about five months, slipping to as low as $0.9996.

The Australian later pared its losses to stand at $1.0023 , steady from late U.S. trade on Friday.

The Aussie dollar sagged even after China's central bank cut the amount of cash that banks must hold as reserves on Saturday, freeing an estimated 400 billion yuan ($63.5 billion) for lending to head-off the risk of a sudden slowdown in the world's second-largest economy.

"There was no real surprise in the required reserve ratio cut," said a trader for a European bank in Singapore. "I think the general take on this is that China is slowing down and that this will be the next focus after the Greek charade," he added.

The U.S. dollar edged up 0.1 percent versus the yen to 79.98 yen , supported by dollar buying by Japanese importers.

Traders said the dollar also gained some support versus the yen after Japanese Prime Minister Yoshihiko Noda told The Wall Street Journal over the weekend that all options were on the table for dealing with the strong yen, although he stopped short of saying that the currency was overvalued.

(Inside Metals is compiled by Shashwat Sharma in Bangalore)

For questions and comments on Inside Metals click here

Your subscription:
To find out more and register for our free commodities newsletters, click here

Privacy statement:
To find out more about how we may collect, use and share your personal information please read our privacy statement here

To unsubscribe to this newsletter click here

For more information:
Learn more about our products and services for commodities professionals, click here
Send us a sales enquiry, click here
Contact your local Thomson Reuters office, click here