INSIDE METALS

Tuesday, May 22, 2012

CHART OF THE DAY

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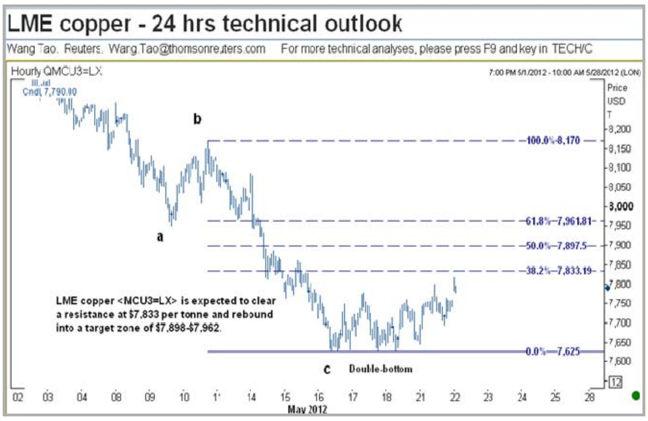

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FEATURE

COLUMN-Financiers' lifeline to aluminium producers

Global production of aluminium edged up by 131,000 tonnes annualised in April, according to figures released this morning by the International Aluminium Institute (IAI) and the China Nonferrous Metals Industry Association (CNIA).

A 212,000-tonne increase in annualised production in China offset a modest 73,000-tonne decrease in the rest of the world.

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

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TODAY'S MARKETS

BASE METALS: London copper futures touched a one-week high on Tuesday, buoyed just above $7,800 by bargain hunters betting on European and Chinese leaders taking steps to reinvigorate their economies.

"While all this news points to steps in the right direction, Beijing has been hinting for some time that it would tweak policies to stimulate the economy and embarking on more infrastructure investments," said a Shanghai-based trader with an international firm.

PRECIOUS METALS: Gold inched lower on Tuesday after failing to break above $1,600 an ounce, as investors await a European Union summit later in the week at which leaders will try to agree on action to solve the region's debt crisis.

"If the politicians fail to make an agreement, the market will get jittery - people will look for liquidity, the dollar will rally, assets being sold and gold will come under pressure," said Dominic Schnider, an analyst at UBS Wealth Management in Singapore.

FOREX: The euro's rebound from four-month lows stalled on Tuesday, failing to break above a technical resistance, though traders said selling could be limited at least until an informal meeting of European leaders this week.

"If someone is selling the euro now, I would rather use that as a chance to take profits. That's the kind of feeling in the market now," said a trader at a Japanese bank.

FEATURE

COLUMN-Financiers' lifeline to aluminium producers

By Andy Home

LONDON, May 21(Reuters) - Global production of aluminium edged up by 131,000 tonnes annualised in April, according to figures released this morning by the International Aluminium Institute (IAI) and the China Nonferrous Metals Industry Association (CNIA).

A 212,000-tonne increase in annualised production in China offset a modest 73,000-tonne decrease in the rest of the world.

That captures the twin production trends so far this year, Chinese output rising a net 954,000 tonnes annualised and offsetting a 912,500-tonne drop in annualised production outside of China.

Both parts of that supply dynamic challenge a market narrative centred on supply restraint in response to the London Metal Exchange price falling into the light metal's production cost curve.

Graphic on global aluminium output:

http://link.reuters.com/vav27s

MOVING TARGET

Since Chinese smelters are widely assessed as occupying the very top part of that cost curve, the resilience of the country's production might appear surprising.

But pinpointing exactly where China's giant aluminium sector sits on the global cost curve is no easy task.

Chinese smelter costs are a moving target, quite literally, as higher-cost capacity closes in the east of the country and is replaced by lower-cost capacity in northwestern provinces.

So far this year the net result has been a 13-percent increase in national production to 6.160 million tonnes, albeit with a high degree of monthly volatility in collective run-rates.

There is no reason to expect any significant change to this underlying dynamic, given the amount of new production capacity either in ramp-up or in pre-commissioning stage.

Analysts at Standard Bank London, for example, dismiss the Ministry of Industry and Information Technologies' 2012 target of closing 270,000 tonnes of inefficient capacity as representing less than 10 percent of the new capacity scheduled to come on stream this year.

Nor is anyone yet getting too excited about the impact on China's metal production of Indonesia's planned clampdown on exports of bauxite.

The combination of quotas and new taxes on mineral exports [ID:nL4E8G44P3] should in theory disrupt the flow of bauxite to China, or at the very least add extra costs to a sector that is already in part operating on wafer-thin or even negative margins.

But no-one is yet quite sure just how effective the new rules will be, or even how effective the Indonesian authorities want them to be.

Chinese bauxite importers, meanwhile, have rushed to stock up just in case.

Imports of Indonesian bauxite hit a new all-time record of 4.6 million tonnes in April, bringing the cumulative year-on-year increase to 53 percent.

That will provide a partial safety net over the short term at the very least.

But even in the event of a severe hit on export flows, the impact on China's metal production will be filtered through the prism of the intermediate alumina market.

WESTERN CUTBACK MOMENTUM FADES

In the world outside of China annualised production has fallen by 1.06 million tonnes since October last year. That would seem to accord with the aluminium market's narrative of price-induced production constraint.

But the numbers are deceptive.

Around half of that figure reflects involuntary cutbacks, primarily the lock-out at Rio Tinto's Alma plant in Canada and what BHP Billiton has called "a major unplanned outage" at its 715,000-tonne per year Hillside smelter in South Africa.

That said, price-related cutbacks are starting to impact operating rates in both Europe and Australia.

Annualised production in Western Europe dropped to 3.6 million tonnes in April, the lowest level since 2009, while that in the IAI's Oceania category has also sunk back to 2009 levels.

Conspicuous by their absence, though, have been further cutback announcements since the flurry at the start of this year.

UC RUSAL has said it is "considering" cutting 300,000-600,000 tonnes of higher-cost capacity in the second half of this year, adding a little flesh to the bones of an even vaguer previous statement of (possible) intent.

Germany's 115,000-tonne per year Voerde smelter has launched insolvency proceedings, attesting to the current squeeze on producer margins, but is intending to carry on producing during financial restructuring.

More cutbacks may come but it looks like anyone expecting a wholesale global reduction in aluminium production is going to be disappointed.

FINANCIAL LIFELINE

Which begs the question. If prices really are low enough to force smelters such as Voerde into insolvency, why are so many able to hold out?

The answer is because smelters receive more than just the aluminium price for their products.

FEATURE *(Continued)*

Physical premiums provide an extra revenue boost to smelters' bottom line and right now premiums are soaring across the globe.

Those in the U.S. Midwest market, for example, hit all-time highs above the 10-cents per pound ($220 per tonne) level earlier this month.

Those in Europe are at similar levels for duty-paid metal , while Rio Tinto has just tossed a hand-grenade into the Asian market with a proposal to jack quarterly premiums from the current $121-122 per tonne up to a record $200 per tonne for July-September shipments.

Physical premiums over and above the LME basis price have historically reflected the interaction of regional supply and demand.

Not any more.

Now they reflect the global tug of war between physical and investment buyers for aluminium units.

It is a tussle which investment buyers are winning, witness the huge tonnages of metal earmarked for physical drawdown from the LME system, the accompanying load-out queues at key locations such as Detroit and Vlissingen and the consequent dearth of units for industrial buyers.

Stocks financing was explicitly referenced by Rio Tinto in its communication with Japanese buyers, according to one directly-involved source.

And, unlike fabricator demand, investment demand is almost unlimited, or limited only by the availability of metal to finance.

By underpinning rising global premiums, investment demand for aluminium is generating an important source of extra revenue, equivalent to around 10 percent of the basis price, for the world's smelters.

Stocks financiers are in effect providing a financial lifeline to aluminium producers everywhere, partly cushioning them from prolonged weakness in the terminal market price for their metal.

Good news for smelters and good news for financiers seeking ever more units to earn a turn on.

Not such good news for physical buyers, but they might console themselves with the thought that while they are being hit on physical premiums, those premiums are basis a price defined by the cost of production.

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

TRADING PLACES

Aluminium premiums highest in 2 years on tight supply

By Harpreet Bhal

LONDON, May 21 (Reuters) - A supply shortage from aluminium producers and incentives paid by warehouses for material has lifted aluminium premiums to their highest in almost two years, with traders expecting them to remain at elevated levels for the coming months.

Traders said customers are buying on a hand-to-mouth basis, taking delivery of material for immediate needs, while avoiding booking contracts for next quarter in the hope that premiums could drop.

The premium for duty-paid physical aluminium in Rotterdam was quoted at $155-170 over the London Metal Exchange(LME) cash price of around $2,003.75, compared with $130-155 late last month.

Duty-unpaid material was quoted at $220-240 compared to $205-210 previously.

"Producers are cutting short production. The tonnage produced is not enough. And the spreads are very supportive so most people who have the material are not ready to sell yet," a Europe-based aluminium trader said.

Supplies have been tight as aluminium producers are squeezed by rising power and labour costs and weak prices, resulting in smelting shutting down and output decreasing.

Russia's UC RUSAL Plc , the world's biggest aluminium producer, posted this month an 84 percent drop in first-quarter net profit as prices fell.

BHP Billiton , the world's largest miner, said this month it would consolidate its stainless steel materials and aluminium divisions into a single business unit of larger scale, ready to benefit from future growth in emerging economies.

Benchmark aluminium has shed around 13 percent since hitting a 2012 high of $2,361.50 in March.

HIGH STOCKS

Despite stocks of aluminium in London Metal Exchange(LME)-registered warehouses at nearly five million tonnes, the majority of stocks are tied up in financing deals and not available to the market.

Exchange regulations allow warehouse companies to release only a fraction of their inventories each day, much less than is regularly taken in for storage. Clients wait in queues to collect the metal, all the while paying rent to the warehouses.

The Dutch port of Vlissingen, where Glencore unit Pacorini Metals owns 27 of 29 warehouses, is already holding nearly a million tonnes of aluminium, and the queue to take the metal out currently stands at around a year.

"There is plenty of aluminium to go around, but the guys who have all that material are hurting a lot because of the low aluminium price and they are trying to squeeze up premiums.

TRADING PLACES *(Continued)*

It's easy to do so when aluminium is held in tight hands," a London-based trader said.

In a typical financing deal, a bank or trading company buys aluminium from a producer, sells it forward at a profit and strikes a warehouse deal to store it cheaply for an extended time period.

"With the contango in place they are just likely to hold on tighter to the material. People are not very keen on selling right now," the trader added.

Traders said that incentives paid by warehouses to attract metal in has also had a knock-on effect on premiums, with producers ramping up premiums to reflect the high prices paid by warehouses.

"At the moment you have very high premiums being paid by LME warehouses to get metal in and the producers are saying look I can sell it there at those levels so why should I sell them to someone else for anything less," another London-based aluminium trader said.

HAND-TO-MOUTH

The jump in aluminium premiums have resulted in consumers unwilling to take large deliveries of material especially given the uncertain outlook for industry particularly in Southern Europe.

"Southern Europe isn't doing very well and the rest of Europe is more or less struggling as well. And with these high premiums people are afraid to book material (on contract) for the second half," the Europe-based trader said.

"They're waiting for prices to drop but I don't see premiums going much lower. They will probably stay at these levels or go a bit higher."

Reflecting the jump in premiums, Rio Tinto Alcan has written to Japanese buyers asking them to pay a record premium of $200 per tonne for July-September primary aluminium shipments, citing tight supplies, two sources directly involved in the talks said on Monday.

Alcan seeks record high aluminium premium from Japan buyers-sources

By Yuko Inoue

TOKYO, May 21 (Reuters) - Rio Tinto Alcan has written to Japanese buyers asking them to pay a record premium of $200 per tonne for July-September primary aluminium shipments, citing tight supplies, two sources directly involved in the talks said on Monday.

That compares with average premiums of $121-$122 paid over the London Metal Exchange cash price in the current quarter. Buyers pay a premium in addition to the LME cash price to cover freight and insurance and to reflect regional supply and demand.

The demand was made in a letter sent late last week ahead of the official start of negotiations this week.

The talks are set to continue for the coming three to four weeks.

Supplies are tightening fast after struggling aluminium producers, squeezed by rising power and labour costs and weak prices, shut down smelters and cut back on output earlier this year.

Alcan cited relatively solid demand and the low likelihood of banks releasing aluminium stocks held through financial deals, one of the sources said.

Such financial deals - in which traders buy physical metal and simultaneously sell forward at a profit, while striking a warehouse deal to store it cheaply in the interim - have recently become more profitable as the difference between nearby and forward prices has widened.

Japanese buyers are resisting such a steep increase in premiums, citing uncertainties over demand in the summer, given a potential decline in run rates at aluminium plants due to power shortages.

Japan's output of rolled aluminium products in March rose 3 percent from a year earlier, the first rise in 13 months, on strong demand from auto and tin industries.

Japan is the biggest importer of aluminium due to a lack of smelters, though its consumption of around 2 million tonnes per year accounts for only about 5 percent of global demand.

Russia's UC RUSAL Plc , the world's biggest aluminium producer, posted this month an 84 percent drop in first-quarter net profit as prices fell.

BHP Billiton , the world's largest miner, said this month it would consolidate its stainless steel materials and aluminium divisions into a single business unit of larger scale, ready to benefit from future growth in emerging economies.

Rival miner Rio Tinto announced last year it would sell 13 assets and has since taken a heavy writedown for its aluminium business.

GENERAL NEWS

Indian steelmaker Rashtriya Ispat files for IPO

May 21 (Reuters) - State-owned Indian steelmaker Rashtriya Ispat Nigam Ltd has filed a draft prospectus for an initial public offer, involving a 10 percent stake sale by the government.

The company, which is more than doubling its steelmaking capacity to 6.3 million tonnes a year, did not disclose the timeline for the IPO or the amount in the draft offer document filed with the Securities and Exchange Board of India.

The price range will be decided by the government at least two days before the offer opens, said the document posted on the regulator's website.

The offering is part of India's plans to raise 300 billion rupees ($5.5 billion) through asset sales in state-run companies in the current fiscal year that ends next March.

UBS and Deutsche Bank are the lead managers for the share sale in Rashtriya Ispat, which reported a profit of 4.96 billion rupees for the nine months to December 2011 on net sales of 90.66 billion rupees.

Vale to build second iron ore storage ship in Asia

NANTONG, China, May 21 (Reuters) - Vale will build a second floating iron ore storage vessel in Asia to feed shipments to its main market, China, a senior company official said on Monday, as the Brazilian miner works around Beijing's ban on its huge dry bulk ships.

China, the world's largest iron ore importer, has closed its ports to Vale's huge dry bulk carriers after domestic ship owners protested against the arrival of the first and only so-called Valemax into the country in December.

That has forced Vale to take a more costly route to deliver iron ore to China, opening up a trans-shipment hub in the Philippines' Subic Bay port in February.

The world's top iron ore exporter will also open a hub in Malaysia in 2014 and is considering projects in South Korea and Japan.

Vale's board of directors has approved the building of the floating storage vessel but the firm has yet to decide where it will operate when completed, said Claudio Alves, Vale's global marketing director.

"We are in the final contracting process and South Korea could be one possibility," Alves told reporters at a ceremony to name two Valemaxes. Many of the Valemaxes have been financed by Chinese banks and built by Chinese shipyards.

Vale's new floating storage unit will be similar to the Philippine-based Ore Fabrica, which is serving as a platform to transfer iron ore from Valemaxes to smaller vessels for transport to China and other Asian destinations, Alves said.

He did not say when the vessel would be completed nor how much it would cost.

Vale is counting on a fleet of 35 Valemaxes, each of which can carry up to 400,000-tonnes of cargo, to slash shipping costs to China to help it compete with Australian rivals BHP Billiton and Rio Tinto .

The 380,000-tonne Berge Everest was the first and only Valemax allowed into China, docking at Dalian Port on Dec. 28. Chinese shipping firms fear that Vale's vessels will be used by the miner to monopolise the lucrative iron ore trade between Brazil and China.

MARKET NEWS

Apr daily aluminium output 68,100 T - IAI

LONDON, May 21 (Reuters) - Daily average primary aluminium output in April dropped to 68,100 tonnes compared with a revised 68,300 in March and 70,400 in April 2011, provisional figures from the International Aluminium Institute (IAI) show.

Total production in April (30 days) was 2.043 million tonnes, compared with 2.118 million tonnes in March (31 days) and 2.111 million in April 2011

Xstrata sees China copper demand rebounding

By James Regan

SYDNEY, May 22 (Reuters) - Chinese demand for copper is likely to improve in the second half, the head of Xstrata's copper unit said on Tuesday, as the miner pledged to lift output by about 60 percent over three years after some rivals have put the brakes on expansion.

Charlie Sartain said the company had earmarked roughly $7 billion to beef up its copper division, mainly in Chile, Peru and Argentina, and also in Australia.

"We typically see a cyclical return to demand in the second half of the year in China. We still have a view that the first half was always going to be slower from a copper demand point of view," he told a Latin American investment conference in Sydney.

Recent data from China, the world's top consumer of base metals, iron ore and coal, show its economy is cooling at a faster-than-expected pace prompting its premier, Wen Jiabao, to call on Sunday for new measures that would bolster growth.

"From a market point of view, Europe is relevant, but not a major copper consumer. We have factored in very flat market conditions in Europe. We see some improving economic conditions in the U.S. and that is from the perspective of copper consumption there," Sartain added.

"We have an active growth plan to grow our copper production by 60 percent from projects already in our pipeline," he said.

Xstrata sells 30-40 percent of its copper to China, its largest customer.

MARKET NEWS *(Continued)*

His comments come after some miners have sounded a cautious note on expansion. Slumping commodity prices and escalating costs, particularly in Australia, have squeezed cash flows, pushing BHP Billiton to join rival Rio Tinto reconsidering the pace of their long-term expansion. BHP, the world's biggest miner, put the brakes on an $80 billion plan to grow its iron ore, copper and energy operations.

Australia has more than $400 billion in resource projects planned or in progress and mining contractors say demand for projects remained strong.

"We're still seeing a nice healthy addressable market going forward," Hamish Tyrwhitt, the chief executive of Leighton Holdings , Australia's top contractor, told reporters.

Any delays in new projects may actually make the heavy load of projects it is tendering for more manageable, he added.

"We have A$30 billion ($29.57 billion)of tenders we're undertaking and over A$8 billion where we're in a preferred position," Tyrwhitt said, adding Leighton preferred to have capital expenditures spaced out. Indicating the stress facing commodities markets, Chinese buyers are deferring or have defaulted on coal and iron ore deliveries following a drop in prices, traders said.

VALE SELLING ALL IT PRODUCES

But some miners continue to see a strong outlook and the world's largest iron ore miner, Brazil's Vale , said on Monday it was selling iron ore about as fast as it could mine it, despite China's slowdown.

"We don't have any problem concerning orders, we continue to sell all the amounts the company is producing. The scenario we see continues positive," Vale investor relations chief Viktor Moszkowicz said at an investment seminar in Rio de Janeiro.

At the same seminar, though, Brazilian steelmaker Usiminas said it was scaling back plans to expand its own iron ore mining operations.

Xstrata is the world's fourth-largest copper miner, producing 889,000 tonnes of copper in concentrate and 651,000 tonnes of copper cathode last year. Copper prices are down some 10 percent since April, weighed down by economic uncertainty in Europe and China compounded by mounting unsold inventories.

Xstrata has forecast a dip in first-half copper output as its Collahuasi Mine in Chile, a joint venture with Anglo American , faces declining ore grades, before picking up in the second part of 2012.

Usiminas scales back iron ore mining plans

RIO DE JANEIRO, May 21 (Reuters) - Brazilian steelmaker Usiminas has cut back on plans to expand its iron ore production, reducing its targeted output by 2015 to 25 million tonnes from 29 million tonnes, the company's vice-president said on Monday.

"The project is just being revised because a new shareholder has entered the company's controlling block, but the project is going ahead," Ronald Seckelmann said at the Rio Investor's Day summit in Rio de Janeiro.

Italian-Argentine steel making group Ternium bought a controlling stake in the company last year and has promised to revamp operations at Brazil's largest maker of steel products for the automobile industry. The first phase of the project, still at an early stage, will take production to 12 million tonnes by the end of this year or the start of 2013, up from 8 million tonnes at present.

The second phase will ramp up output to 25 million tonnes, which Seckelmann described as "a more adequate size" than the prior target of 29 million.

Usiminas has four iron ore sites in the Serra Azul region of major mining state Minas Gerais. Part of its mineral production is consumed at its own steel mills and the remainder is exported.

The world's largest iron ore producer, Brazil's Vale said on Monday that demand for iron ore from its top customer, China, was holding up despite signs of a slowdown in the economy of the Asian giant.

Usiminas shares traded on Sao Paulo's BM&FBovespa stock exchange rose 3.7 percent on Monday to 9.74 reais ($4.79).

Vale says iron ore sales brisk despite slower China

RIO DE JANEIRO, May 21 (Reuters) - Brazilian miner Vale is selling iron ore about as fast as it can mine it despite a slowdown in the economy of China, its top customer, the company's head of investor relations said on Monday.

A string of economic indicators show China, the world's top iron ore consumer, is slowing at a faster-than-expected pace prompting its premier, Wen Jiabao, to call on Sunday for new measures that would bolster growth.

But Viktor Moszkowicz, head of investor relations at Vale, the world's biggest iron ore miner, said demand from the Asian giant was firm, while a Goldman Sachs analyst said China's falling stocks would soon prompt it to buy at a faster pace.

"We don't have any problem concerning orders, we continue to sell all the amounts the company is producing. The scenario we see continues positive," Moszkowicz said, speaking at the Rio Investors' Day investment seminar in the beachside city where Vale is based.

He was responding to questions about news that Chinese buyers were requesting delays to deliveries of orders they had made. Signs are growing that the broader outlook for iron ore demand in the world's most populous country may not be so bright. Traders have reported that some Chinese buyers have defaulted on deliveries of both coal and iron ore, suggesting the scenario is starting to sour for companies on the production side.

MARKET NEWS *(Continued)*

The price of iron ore has also fallen in the last few weeks, going from $150 a tonne about a fortnight ago to $135 by last Friday, Vale executives said.

At the investment event in Rio, the vice president of Brazilian steelmaker Usiminas , Ronald Seckelmann, said the company was scaling back its plans to expand its iron ore mining. The company had aimed to reach 29 million tonnes by 2015 but has cut this to a "more appropriate" 25 million tonnes, Seckelmann said.

Goldman Sachs analyst Marcelo Aguiar, who had chaired a discussion on the outlook for mining and steel at the event, told reporters he estimated iron ore prices would recover from current levels and hover around $150 a tonne on the spot market in the second half of the year.

He said prices were falling now due to the expectation that supplies would rise, not only from Brazil where heavy rains had temporarily slowed Vale's iron ore exports but also from India and Australia.

Aguiar said he expected Chinese demand to strengthen, not weaken, in the second half of the year because it was running down its stocks.

Vale's Chief Executive Murilo Ferreira and the director for ferrous metals, Jose Carlos Martins, said at a lunch event with journalists on Friday last week that they expected prices to recover in the second half.

Ordinary shares in Vale rose 3.2 percent on Monday to 36.85 reais.

Usiminas, Gerdau won't bid on ThyssenKrupp mill

RIO DE JANEIRO, May 21 (Reuters) - Brazilian steelmakers Usiminas and Gerdau SA said on Monday they would not bid for ThyssenKrupp's stake in the CSA steel slab mill outside Rio de Janeiro, amid growing signs that any sale of the $5 billion two-year old plant will be at a loss for its German parent.

Usiminas, the largest Brazilian maker of "flat" or rolled steel, used by the country's auto and appliance manufacturers, is completing a multiyear 14 billion real ($6.84 billion) expansion. The purchase of all or part of CSA "is not on the radar," Chief Financial officer Ronald Seckelmann said.

Porto Alegre, Brazil-based Gerdau, the largest steelmaker based in the Americas, whose main Brazilian mill sits alongside CSA, is too busy with its own projects to take over the operation of CSA, CFO Harley Lorentz Scardoelli said.

Last week, ThyssenKrupp, Germany's biggest steelmaker, said it was seeking a partner or buyer for its 73 percent stake in CSA and a sister mill in the U.S. South.

Potential buyers appear scarce. Vale SA , the world's largest iron-ore producer and owner of a 27 percent stake in CSA, said on Friday it had no interest in buying more.

"For now, there is nobody interested. But nobody puts an asset up for sale without having conversations at least," a senior ThyssenKrupp executive told Reuters on Monday.

"It will be difficult for a sale to go for the same 5 billion euros we paid for it (CSA)," the executive said.

ThyssenKrupp planned the mill with Vale, its iron-ore supplier, in 2005, hoping to take advantage of high-quality Brazilian ore, a favorable exchange rate, tax breaks for exporters and transportation benefits to ship semi-finished slabs to the United States and Europe for final processing.

Since then, the Brazilian real has gained as much as two-thirds against the dollar, making its steel slabs uncompetitive in foreign markets. The Chinese contractor who designed and built the mill delivered it late and over budget, and it was plagued with environmental problems during its start-up in 2010 that cost more money to fix. Vale was forced to raise its stake to 27 percent from 10 percent to keep the project moving forward.

Vale said Friday that it does not want to take over CSA but will act to defend its interests. It said it has no preference as to who buys ThyssenKrupp's stake.

Despite problems, some observers believe the mill will attract good offers.

"This is a state-of-the-art mill that had some problems during construction and start-up, but those have been worked out," a banker who helped arrange financing for the mill told Reuters last week. "I think that all the world's major steelmakers will take a look at the mill."

Global steel output sluggish; market outlook weak

LONDON, May 21 (Reuters) - Global and Chinese crude steel production growth was sluggish in April, data from an industry body showed, and could slow further in the next few months as steelmakers tackle weaker demand and falling prices in what should be the most active period of the year.

Global steel production rose by only 1.2 percent in April compared with the same month last year, to 128 million tonnes, according to data released on Monday by the World Steel Association (Worldsteel).

Steel output in China, the world's largest producer and consumer of the alloy, rose by 2.6 percent to 60.6 million tonnes in April, a slower growth level compared with most previous months.

An even steeper slowdown in production is expected in China in the next few months though, analysts said.

"It's remarkable that China is still expanding its production even though we know that demand has been low," said Patrick Cleary, principal steel analyst at Wood Mackenzie.

"This extra production is not feeding additional demand; a lot of that has gone into stocks and additional exports and obviously this can't continue forever.

MARKET NEWS *(Continued)*

The market is oversupplied and prices are still falling. At some stage soon we should start to see some reaction in China."

Steel consumption generally peaks in the northern hemisphere spring, as construction and manufacturing activity quickens in the warm, dry months preceding the summer break.

Global steel consumption growth will slow in 2012, hit by weaker economic growth in top consumer China and uncertainties about the debt crisis in the euro zone, Worldsteel forecast last month.

Graphic on steel production: http://link.reuters.com/jec64s

Graphic on HR coil price: http://link.reuters.com/kem95s

US PMI vs. steel:http://link.reuters.com/jem95s

EU steel production was at 14.9 million tonnes in April, down 5.2 percent from the same month last year.

Although European steelmakers have been among the first to react to weakening demand by cutting their production, prices have continued to decline and the fragile economic state of the region means further production cuts are possible.

In Germany, the region's largest steelmaker, April output fell by 5.5 percent while in Italy, Europe's second-biggest producer, output fell 3.2 percent.

Electricity prices, among the highest in Europe, put Italian steel makers at a competitive disadvantage against their main rivals, especially from outside the EU, the Italian industry body Federacciai said.

All indicators remain bearish in the global steel market and in Europe in particular, analysts said.

"Weak steel demand in Europe and slowing growth in Asia has sent global steel prices plummeting recently," said Martin Evans, metals products director at the CME group, in a note.

"With fewer buyers, the trend is expected to continue over the next three months, as stocks at steel mills continue to rise, and order turnaround for steel quickens."

Production fell in the CIS too, down by 4.7 percent to 9 million tonnes.

In the United States, April steel output was 7.7 million tonnes, up 9.3 percent from April last year.

Higher U.S steel prices earlier this year pushed steelmakers to increase their output but the price trend has started to reverse in the last few weeks.

"We have seen the prices move down in the last few weeks and this is an indication that even in North America production is not quite in balance with demand," Cleary said.

Japan boosted its April steel output by 7.6 percent to 9.1 million tonnes compared with the same month last year.

Last year however, the Japanese steel industry was hit hard by the earthquake and tsunami in March.

ArcelorMittal suspends $1.5 bln Brazil expansion

RIO DE JANEIRO, May 21 (Reuters) - ArcelorMittal , the world's largest steelmaker, has suspended a $1.5 billion Brazilian expansion plan for lack of demand, Benjamin Baptista, president of the company's Brazil unit said in a Valor Economico newspaper report on Monday.

Demand for steel is not expanding fast enough in Brazil and the outlook for global demand in the face of Greece and Europe's debt problems is weak, Baptista told Valor.

Luxembourg-based ArcelorMittal, controlled by Indian billionaire Lakshmi Mittal, had planned to build a $1.2 billion wire rod plant at its mill in Monlevade, Brazil, and a specialty steel production line at its mill in Vega do Sul, Brazil, Valor said.

Wire rod, a type of "long" steel, is used to make nails, screws and wires. The specialty steel line would make "flat" or rolled steel for the auto industry.

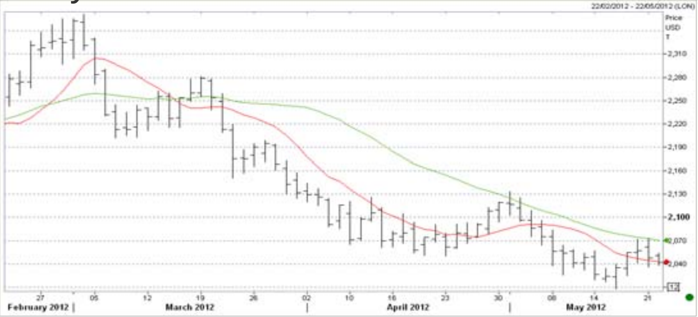
Flat steel demand in Brazil fell 1 percent and long steel demand rose 4 percent in the first quarter, Valor reported, citing Baptista.

In April, however, steel distributors recorded a 10 percent drop in sales and rising stocks, and imports rose 25 percent, Valor said. The Monlevade wire rod plant has much of its foundation work completed and all the equipment has been bought, the paper said.

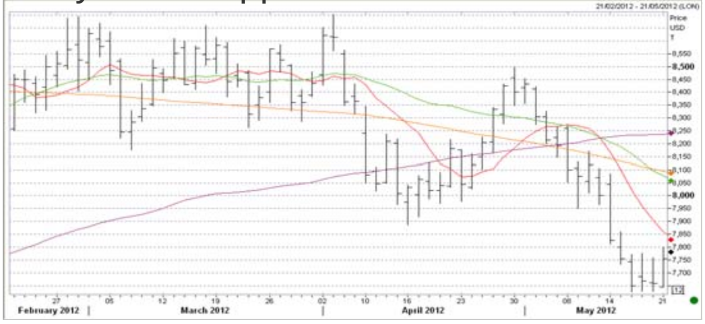
Arcelor stock rose 2.15 percent to 11.645 euros on Monday.

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

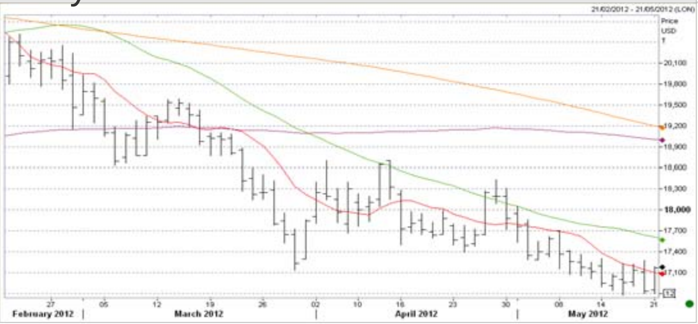
Daily LME Aluminium 3-months



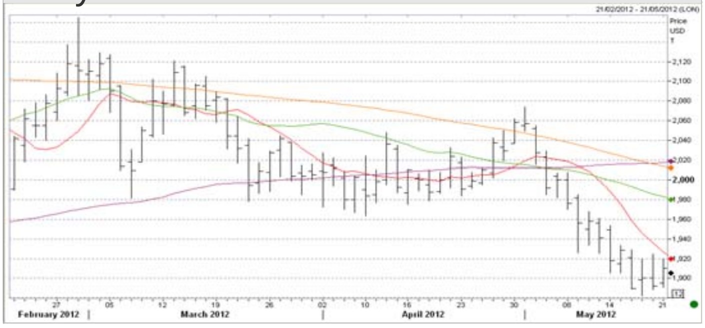
Daily LME Copper 3-months



Daily LME Nickel 3-months



Daily LME Zinc 3-months

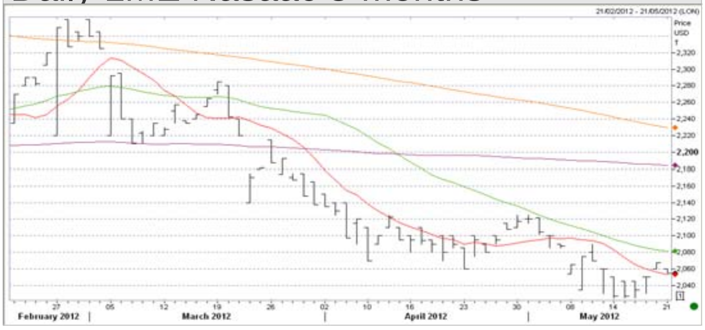


Daily LME Lead 3-months

Daily LME Tin 3-months

Daily LME Alloy 3-months

Daily LME Nasaac 3-months



MARKET REVIEW

METALS-LME copper gains for third day on EU summit hopes

By Carrie Ho

SHANGHAI, May 22 (Reuters) - London copper futures touched a one-week high on Tuesday, buoyed just above $7,800 by bargain hunters betting on European and Chinese leaders taking steps to reinvigorate their economies.

Uncertainty about the euro zone and the overall global economy are however likely to cap copper's gains. The metal is on track to lose over 7.5 percent this month, sharply cutting its year-to-date gains to around 2 percent from as much as 15 percent in February.

Three-month copper on the London Metal Exchange touched a week-high of $7,816 a tonne in the session, before paring gains. It was up 0.6 percent to $7,775 by 0343 GMT.

The most-active September copper contract on the Shanghai Futures Exchange edged down 0.1 percent to 55,830 yuan ($8,800) a tonne, after short-covering pushed the contract up to a session high of 56,100 yuan shortly after the open.

Investors are hoping to see fresh measures from Wednesday's EU summit, which is intended to focus on specific steps to spur growth and create jobs across the bloc.

Among the ideas to be raised at the summit will be French President Francois Hollande's proposal for mutualising European debt, as European leaders struggle to restore market confidence after investors started mulling the possibility of Greece exiting the region a month ago. In top copper consumer China, Premier Wen Jiabao called for additional efforts to support growth, signalling Beijing's willingness to take action after recent data suggested the world's No. 2 economy will slow further in the second quarter.

Backing up Wen's stance, the state-run China Securities Journal reported on Tuesday that the Chinese government will fast track its approval of infrastructure investments to combat slowing growth and a sluggish property sector.

The market is also keenly waiting for the possible roll out of subsidies for home appliances by as early as June, which could boost the amount of copper China uses up in manufacturing the products.

"While all this news points to steps in the right direction, Beijing has been hinting for some time that it would tweak policies to stimulate the economy and embarking on more infrastructure investments," said a Shanghai-based trader with an international firm.

"We are looking out for concrete signs of improved demand outlook, such as downstream industries reporting a surge in orders. Copper is boosted by short-covering and equities the session," he added.

The head of major miner Xstrata's copper unit believes Chinese demand for copper is likely to improve in the second half on the year, as they typically see a cyclical return to demand in the second half of the year in China. The miner also pledged to lift output by about 60 percent over three years after some rivals have put the brakes on expansion.

In the United States, a top Federal Reserve official said circumstances were not ripe for more quantitative easing as the world's biggest economy needs "measured" efforts to bolster growth. Atlanta Federal Reserve Bank President Dennis Lockhart also urged the central bank to make more effort to give the public and financial markets a better understanding of how it would react to incoming information on the economy.

PRECIOUS-Gold stalls below $1,600/oz; EU summit eyed

By Rujun Shen

SINGAPORE, May 22 (Reuters) - Gold inched lower on Tuesday after failing to break above $1,600 an ounce, as investors await a European Union summit later in the week at which leaders will try to agree on action to solve the region's debt crisis.

Gold made attempts to break above the key resistance level at $1,600 in the past two days but failed, and has since been drifting around $1,590 as investors remained cautious when the fate of Greece and euro zone remains in limbo.

Market participants will closely watch an informal EU summit on Wednesday, during which French President Francois Hollande is expected to push for mutualised European debt, an idea that Germany has opposed.

Equities extended gains, partly riding on optimism about fresh action at the Wednesday meeting, but some analysts were less sanguine about its influence on gold, at least in the short term.

"If the politicians fail to make an agreement, the market will get jittery - people will look for liquidity, the dollar will rally, assets being sold and gold will come under pressure," said Dominic Schnider, an analyst at UBS Wealth Management in Singapore.

A worsening situation in the euro zone would eventually prompt the European Central Bank to print more cash, which benefits gold as a non-yielding asset, he added. If European leaders agreed on new effort to address the debt crisis, gold may falter as its safe haven appeal diminishes.

Spot gold inched down 0.2 percent to $1,589.93 an ounce by 0351 GMT. U.S. gold was nearly flat at $1,589.80.

Spot gold 24-hour technical outlook:

http://graphics.thomsonreuters.com/WT1/20122205090140.jpg

Physical market activities were slow as prices stalled below $1,600, as buyers were not convinced of a return to the uptrend despite a swift rally that pulled prices up from a 2012 low less than $1,530 last week.

"If we break above $1,600 and even go higher to confirm the bull trend, we will see more buying," said a Hong Kong-based dealer. "Otherwise the market will be quiet."

MARKET REVIEW *(Continued)*

The gold bar premium in Hong Kong was steady from last week at $1.20 to $1.70 an ounce above London prices, while in Singapore, premiums eased to $1 from $1-$1.20 last week as buying slowed, dealers said.

Indian rupee rebounded from a record low hit in the previous session against the dollar.

The weakness in the rupee has dented gold demand in India, which until recent quarters was the world's top gold consumer.

The most-active gold for June delivery on the Multi Commodity Exchange rose to 29,174 rupees per 10 grams on Monday, its highest since early May, just 0.9 percent below its historical high while dollar-priced spot gold traded 17 percent below its all-time high above $1,920 hit last September.

FOREX-Euro rebound stalls, focus shifts to EU summit

By Hideyuki Sano

TOKYO, May 22 (Reuters) - The euro's rebound from four-month lows stalled on Tuesday, failing to break above a technical resistance, though traders said selling could be limited at least until an informal meeting of European leaders this week.

Traders have been reducing their massive bets against the common currency in the past couple of days, taking note of prospects - however slender - that EU leaders may agree measures to bolster investor confidence in the euro zone on Wednesday.

With speculators' short positions on the euro at a record high, traders were wary of the potential for short-squeeze, despite worries about stability of the banking system in Spain and political gridlock in Greece.

"If someone is selling the euro now, I would rather use that as a chance to take profits. That's the kind of feeling in the market now," said a trader at a Japanese bank.

In Asian trade, the euro slipped 0.2 percent to $1.2794 , as short-term players sold the currency after it had failed to make a clean break above the technical resistance at $1.2811 from a tenkan line on the daily Ichimoku charts.

Still, it kept some distance from a four-month low of $1.2642 hit last Friday with many traders wary of further selling after data from U.S. watchdog showed speculators' short euro positions climbed to a record high of 173,869 contracts.

France's new President Francois Hollande is expected to push for a joint euro zone bond at the EU meeting in Brussels, a measure backed by Italy, Spain and the European Commission. Germany, the EU paymaster, opposes any early move.

"I don't think Germany can do an about-face. But we'll have to see whether it will subtly change its stance towards joint bonds," said Teppei Ino, currency analyst at the Bank of Tokyo-Mitsubishi UFJ.

"The market has been sort of supporting the German line of tough austerity. But that may be changing as well.

Investors who have risk assets want their prices to rise and it's becoming clear austerity measures alone are not going to bring about that," he added.

Against the British pound, the euro changed hands at 80.93 pence , near its highest level in over two weeks, having risen for the past four sessions after hitting a 3 1/2-year low of 79.505.

But market participants are also cautious about getting their hopes up too high on the EU summit, which could well show a deep divide between the German-led drive for austerity and the efforts to put more focus on growth, a key pledge of the new French president.

"Talk about growth is fine. But it comes down to question of who will shoulder the bill for it. Unless it becomes clear, the fog on the euro zone won't disappear," said Katsunori Kitakura, associate general manager at Sumitomo Mitsui Trust Bank.

"I don't expect the euro to recover above $1.29. It could well peak out at the current levels," Kitakura added.

As the euro recovers from lows, the dollar's index against a basket of currencies stepped back from a four-month peak hit on Friday.

The dollar index stood at 81.048, about one percent below Friday's high of 81.758.

Against the yen, the dollar moved little at 79.38 yen , off three-month low of 79.002 hit on Friday, with traders focusing on the Bank of Japan's two-day policy meeting starting on Tuesday.

Although most market players expect the BOJ to keep its policy on hold after an easing last month, there is some speculation about further easing, raising the possibility the dollar could fall on disappointment if the BOJ stands pat.

That could push the dollar below 79 yen, which could set it on course to test an important support level of its 200-day moving average, now at around 78.53 yen.

The Australian dollar fetched $0.9901 , about a full cent above six-month low of $0.9794 hit last week thanks to broad recovery in risk assets on Monday.

MARKET REVIEW *(Continued)*

(Inside Metals is compiled by Shashwat Sharma in Bangalore)

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