INSIDE METALS

Wednesday, May 22, 2013

CHART OF THE DAY

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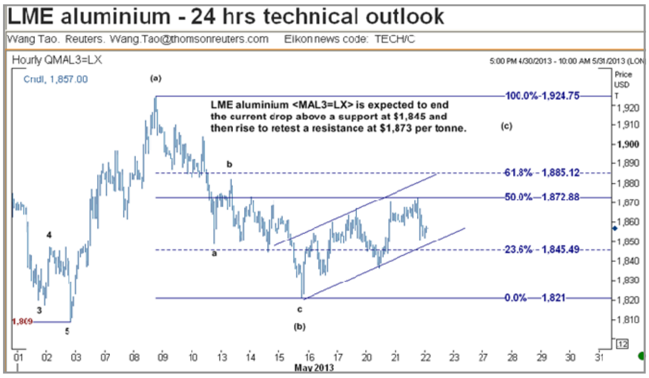

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High speed trading a stiff challenge for U.S. regulators

Financial trading in world markets has grown so lightning-fast that effective regulation is growing tougher by the second, increasing the threat of crashes sparked by hoaxes, electronic glitches or yet-unknown causes.

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TODAY'S MARKETS

BASE METALS: London copper held near a two week-high, supported by indications the U.S. Federal Reserve would continue its bond-buying scheme, a key driver of investment in global commodities.

"Fundamentally, the supply side is strong enough to stabilise copper, but not strong enough to spark a turnaround. For that we need to see a resumption in demand," analyst Dominic Schnider at UBS in Singapore said.

PRECIOUS METALS: Gold edged higher due to strong Chinese demand and after Federal Reserve officials allayed investor concerns that the U.S. central bank will soon exit its bullion-friendly bond purchases.

"We would suggest that Bernanke will hint at some sort of pullback, in which case, we could see a pickup in volatility and lower gold prices heading into the balance of the week," said Edward Meir, a metals analyst at brokerage INTL FCStone.

FOREX: The dollar languished well below last week's 4-1/2-year high against the yen, ahead of testimony from the U.S. Federal Reserve chief after two regional Fed presidents hinted that the central bank will continue its bond-buying scheme.

"Kiuchi's comments were a bit of a surprise but they didn't prompt any market reaction," said Kenichi Asada, manager of forex at Trust & Custody Services Bank.

THOMSON REUTERS

FEATURE

High speed trading a stiff challenge for U.S. regulators

By Christine Stebbins

CHICAGO, May 19 (Reuters) - Financial trading in world markets has grown so lightning-fast that effective regulation is growing tougher by the second, increasing the threat of crashes sparked by hoaxes, electronic glitches or yet-unknown causes.

The latest alarm was triggered by a fake tweet saying that the White House was bombed, prompting a U.S. market nosedive that ended minutes later when the Associated Press said its Twitter account had been hacked. In 2010 U.S. stocks plunged in a "flash crash" following aggressive sales of stock-index futures by a mutual fund.

"As technology changes, our financial system and the rules in place need to be resilient," Commodity Futures Trading Commission Chairman Gary Gensler said after the hacked AP Twitter message in late April.

At a CFTC hearing last week, the potential dangers became even more apparent. Richard Shilts, acting director of CFTC's division of market oversight, was asked whether the agency could monitor high-frequency trading in real-time.

"No," Shilts said. "Frankly, I don't see with our current resources that's something we would have the capability of doing in the near term."

The CFTC staff is not up to the task of monitoring computerized trading programs that use algorithms and powerful technology and send trades in milliseconds on a real-time basis, Shilts added. "We need more people who are familiar with algos, computer programmer types."

Proponents of high-frequency trading argue that the technology creates more efficient markets. They cite research showing improved price discovery and market liquidity, and reduced price discrepancies. Market players can manage risk more efficiently, and spreads between the bid and ask prices are narrower, they claim.

EXCHANGES CHALLENGE

With no clear verdict on how high-frequency trading should be policed, regulators and the industry remain on alert as technology continues its rapid advance.

Terry Duffy, executive chairman and president of the CME Group , said the largest U.S. futures exchange has seen no evidence of market distortions but is on the lookout.

"We can't keep blaming something unless we have concrete reasons and show they have acted nefariously in the market," Duffy told Reuters in an interview last week. "If they have, I will show you how I'm policing them to make sure they don't do anything nefariously in the markets."

A favored tool of hedge funds and other institutional traders, high-frequency trading accounted for more than 60 percent of all futures volume in 2012 on U.S. exchanges like the CME Group and IntercontinentalExchange , according to New York industry researcher The Tabb Group.

James Overdahl, an adviser to the Futures Industry Association, said the exchanges have been upgrading their systems to keep up with the surge in activity. They are tracking not just high-speed trade flow but also the frantic messaging on cancellations and reorders generated by high-speed trading, said the former economist with the U.S. Securities and Exchange Commission and CFTC.

The IntercontinentalExchange is cracking down on excessive messaging, charging fees when traders exceeded limits. By rapidly sending order messages, then quickly canceling them, traders can create an appearance of market liquidity.

"They reward good quoting behavior and penalize quoting behavior that they don't view as beneficial to market quality," Overdahl said.

CME's Duffy said the exchange also has programs in place to police trading, including excessive messaging.

But HFT critics want more, demanding an end to what they consider disruptive practices. One example is "spoofing," in which bids and offers are made with the intent to cancel them before execution.

RULES COMING?

Risks associated with high-frequency trading first drew wide attention after the stock market's "flash crash" of 2010, when the Dow Jones Industrial Average dropped by about 700 points within minutes. A regulatory study found that a mutual fund's large-scale selling of stock-index futures triggered the high-frequency trading behind that volatility.

The CFTC signaled its concerns on Thursday when commissioners voted unanimously to adopt a "guide" on what it will define as "disruptive" behavior in derivatives markets that violate the landmark Dodd-Frank market reform law. Dodd-Frank, passed after the 2008 collapse of the Lehman Bros. investment firm, addresses the activities of institutional investors in derivatives markets.

The CFTC has said it will produce a "concept release," a discussion paper about possible regulatory changes as early as next month. Such releases are viewed as a prelude to new regulation.

CME Group's Duffy said academic and industry studies have yet to prove any connection between high-frequency trading and violent market moves.

"You have to have a reason why you're doing it other than 'We think that they are making things go up and down in a fast way but we don't know why or how,'" Duffy said.

The academic work so far has focused on securities markets and responses by the SEC, while issues related to oversight by the Commodity Futures Trading Commission have received far less attention.

FEATURE *(Continued)*

The debate has intensified as the U.S. Senate Agricultural Committee is set to begin hearings on CFTC reauthorization next week. And while much of the concern over the distortions from high-frequency trading has focused on financial markets, the agricultural markets have felt the effect, too.

The National Grain and Feed Association, which represents more than 1,000 companies that handle and process crops, said many customers of agricultural futures markets are concerned.

"Especially immediately preceding and following release of important crop and stocks reports by the U.S. Department of Agriculture, we believe high-frequency trading has caused and magnified volatile market swings," the group told the U.S. Senate Agricultural Committee in a statement that it shared with Reuters.

The NGFA requested that the Senate, during CFTC reauthorization hearings, look at whether high-frequency traders should be required to register with the CFTC, and whether such traders should be required to post margin payments even if no positions are held at day's end.

Others who have studied the impact of high-frequency trading warn against any overreaction.

"It is really hard to avoid unintended consequences once policy makers start getting involved and mandating change," said Aaron Smith, a University of California researcher who has studied the effects of high frequency trading in the futures markets.

"It's always important to recognize that whatever you're doing, you'll probably be one step behind," Smith said.

GENERAL NEWS

Freeport Indonesia says death toll rises to 28 after tunnel accident

JAKARTA, May 22 (Reuters) - The death toll from a tunnel collapse at the world's second largest copper mine run by Freeport McMoRan Copper & Gold Inc's Indonesian unit was raised to 28 on Wednesday as rescuers gave up hope of finding any more survivors.

Arizona-based Freeport closed the remote Papua mine on Wednesday last week, a day after a training tunnel away from its main operations fell in on 38 workers. Ten workers were rescued, but the search for the seven still listed as missing has now turned into an attempt the retrieve their bodies.

"We continue to grieve with the families even as we close this grim chapter," Freeport Indonesia President Director Rozik Soetjipto said in a statement.

"There is still much to do for us to provide the best care and support for the injured and the families of the bereaved."

Although Indonesia's mining sector has a poor safety record, last week's tunnel accident is one of the country's worst-ever mining disasters, industry officials say.

Soetjipto said on Saturday that once the rescue efforts were finished the company would launch an investigation with the help of international experts and Indonesian government officials.

Freeport emergency response teams, who are working around the clock to try to recover the remains of the dead, have been hampered by narrow tunnels and loose rock at the site, Wednesday's statement said.

It made no mention of the investigation or the current suspension of mining operations.

A union leader last week demanded that Freeport keep the mine closed while the cause of the accident was investigated.

The incident's impact on global copper supply has so far been limited as the Grasberg mine keeps stockpiles in reserve in case of disruptions, but that would change if any investigation and closure drags on.

End of Australia's resources boom hits investment in sector

SYDNEY, May 22 (Reuters) - The end of Australia's resources boom is taking its toll on investment in the sector, with A$150 billion in planned projects delayed or cancelled since April 2012, government data shows.

China's economic slowdown has squashed a decade-long mining boom in Australia that drove gold, copper, iron ore and coal to record prices.

Mining companies now face a painful transition to lower margins brought on by the retreat in commodities markets and weak investment interest.

The drop leaves A$353 billion in investment in new work in the sector in various stages of pre-development, the Bureau of Resources and Energy Economics (BREE) said in a statement.

"In the past twelve months, around $150 billion of projects have either been delayed, canceled or have had re-assessed development plans," it said in the statement, which accompanied a report on investment.

There are now 73 projects at the committed stage with a combined value of A$268 billion, little changed from six months ago, the Bureau says.

Though this is 14 fewer projects than reported last October, the value of committed investment has remained constant because of cost increases to several high-value projects, it said.

Woodside Petroleum shelved plans for its $45-billion Browse liquefied natural gas project in Western Australia, saying it did not make economic sense.

GENERAL NEWS *(Continued)*

Global energy firms have invested more than $190 billion in six LNG plants in just 2-1/2 years as Australia ramps up production on its way to becoming the world's largest exporter of the gas.

But investor interest in Australia's LNG sector has cooled because of huge costs overruns and competition from North America, where new supplies of gas have been exploited from shale.

The Browse decision could spell an end to new onshore gas projects in Australia in favour of offshore plants that can be built more cheaply and face fewer environmental and landowner hurdles.

The focus now turns to Australia's May 30 private new capital expenditure report, with markets keen to see if non-mining sectors respond to record low interest rates by increasing investment.

Rubber bullets fired at S.African mine strikers, several hurt

By Wendell Roelf

CAPE TOWN, May 21 (Reuters) - Ten striking South African miners were taken to hospital on Tuesday after being hit by rubber bullets, police said, as labour strife spread ahead of mid-year pay negotiations.

As well as the violence at a chromium mine, the National Union of Metal Workers of South Africa (NUMSA) said it wanted a 20 percent industry-wide salary rise after a two-day stoppage at a Mercedes-Benz plant in East London.

"If our demands are not met we will have no option but to go to the streets," union treasurer Mphumzi Maqungo told Reuters. The union, which has 230,000 members, issued the same demand to state power utility Eskom .

The events underscored the fragility of labour relations in Africa's biggest economy since last year's mine unrest in which at least 50 people were killed - including 34 shot dead by police at Lonmin's Marikana platinum mine.

The rand plunged beyond 9.50 to the dollar for the first time since early 2009, extending its two-week slide, after police said security guards had fired rubber bullets at stone-throwing wildcat strikers at a chrome mine near the town of Rustenburg, 120 km (70 miles) northwest of Johannesburg.

The mining firm, Germany's Laxness , said the guards had fired rubber bullets into the ground in self-defence and contradicted the police tally, saying only two miners had been hit and three more injured in the commotion.

With economic growth this year forecast at less than 3 percent, Finance Minister Pravin Gordhan urged the government, unions and employers to avoid turmoil in mid-year wage rounds known as "strike season".

CONFIDENCE

"If we do not resolve our labour relations challenges, we will be losers. We will see deteriorating confidence, job losses and business failures," Gordhan told parliament in Cape Town.

In previous years, unions have started the bargaining process with lofty wage demands that are then whittled down to something slightly above inflation, now around 6 percent.

However, the usual dance between workers and management has been upset by a vicious turf war between mining unions that spilled over into deadly violence last year.

Last week, Lonmin suffered a wildcat walkout at Marikana after a gunman shot dead a union official in a bar and the National Union of Mineworkers said it would push for a pay rise of 60 percent for some categories of miner.

South Africa's carmakers saw minor labour disruptions in 2012 but investors fear a repeat of the wage-related strikes that crippled the sector two years previously as the economy was struggling to shrug off a 2009 recession.

Car industry bosses dismissed NUMSA's demands, setting the stage for a showdown when a three-year wage deal worth around 10 percent a year expires at the end of next month.

"It is common cause that the employers will not settle at 20 percent," said Thapelo Molapo, chairman of the Automobile Manufacturing Employers' Organisation.

The rand's 6 percent slide in two weeks is likely to stoke inflation and has killed any hopes of a growth-boosting interest rate cut from a central bank policy meeting on Thursday.

The currency has suffered its longest run of losing sessions since June 2008, when Eskom had to impose rolling blackouts.

The power cuts cost billions of dollars in lost output but, with the southern hemisphere winter closing in and demand climbing, the utility admits it may have to flick the switch once more to prevent the system tripping out.

Rising prices, union turmoil and a limping economy could yet damage the African National Congress in an election due early next year, although there is little chance that it will lose its outright majority in parliament.

CITIC Pacific loses royalty fight against Australian tycoon

MELBOURNE, May 22 (Reuters) - China's CITIC Pacific Ltd has lost round one of a fight over royalties that Australian tycoon Clive Palmer claims he is owed from the Sino Iron project, but no longer faces the threat of losing the $8 billion mine it has just built.

The ruling means CITIC Pacific must pay A$400,000 to Palmer.

"The decision will have no impact on the development or operation of the Sino Iron project," CITIC Pacific said in a statement.

CITIC Pacific said last month it hoped to load its first shipment of magnetite from the long delayed project, China's biggest foreign mine investment, by the end of May.

GENERAL NEWS *(Continued)*

The court fight turned on the timing of when royalties are due to Palmer's company Mineralogy, which has leased its land to CITIC Pacific for the project, and hinged on the understanding of when magnetite ore is "taken".

The Supreme Court of Western Australia on Tuesday ruled in favour of Palmer's interpretation that a royalty is due when the iron ore is stockpiled.

"Although the word 'taken' in clause 8.1 is ambiguous, the best interpretation of that word, and the clause, is a construction similar to that proposed by Mineralogy," judge James Edelman said in his ruling.

He rejected CITIC Pacific's argument that the royalty is payable only when magnetite ore is delivered to the primary crusher.

Both sides claimed victory, with Palmer winning the royalty fight, while he dropped a threat to terminate the mining rights and services agreements governing CITIC Pacific's hold on the project.

CITIC Pacific said it would study the court's decision and consider its next step.

A CITIC Pacific source said the company's main concern, termination of agreements over Sino Iron, was no longer an issue.

Two other disputes between the Chinese and Palmer, one over "Royalty B", potentially involving around A$200 million owed, and one over port access, remain to be heard.

"Palmer is hoping the two parties can now work towards a long and mutually beneficial relationship together," Palmer's spokesman, Andrew Crook, said.

UK lawmakers to probe transparency of oil, mining firms

By Clara Ferreira-Marques

LONDON, May 21 (Reuters) - Britain's parliament is to probe UK-based mining and oil firms, delving into areas such as transparency and disclosure after troubles at two mining companies burnt some investors' fingers.

Parliament's Committee for Business, Innovation and Skills will meet next month to set the terms of reference for the inquiry and could hear evidence before the beginning of lawmakers' summer recess in July.

Troubles at Kazakh miner ENRC and Indonesia-focused Bumi have sparked a debate in London around corporate governance and the issue of owners with controlling majorities.

ENRC is being investigated by the Serious Fraud Office (SFO), while shares in Bumi, battered by a standoff between founder investors, are suspended until it can conclude a review of the accounts of a key Indonesian unit, and publish its 2012 earnings.

ENRC shares have slumped from a peak of 1,276 pence set in early 2010 to trade at 265.8 pence by 1515 GMT on Tuesday, while Bumi had dropped from a 1,215p high to be suspended at around 259p.

"We have formally agreed to go ahead with the inquiry. It will be much more wide-ranging than the issues around Bumi and ENRC," committee chairman Adrian Bailey said, adding the probe would aim to not cut across work already being carried out by the SFO.

Parliamentary committees often bring political pressure to bear on companies by calling witnesses to give evidence and then publishing reports. While their findings have no legislative weight, findings are aimed at influencing government policy.

Bailey said the committee would look at the economic benefits of having oil and mining firms headquartered in London, as well as other issues such as skills, transparency, protection of the natural environment and community relations.

Scandals at Bumi and ENRC have overshadowed some of the successful stock market listings in the industry over the past decade, prompting a debate over stock exchange rules.

The UK Listings Authority, which supervises the terms on which companies join the London Stock Exchange , has already proposed stricter entry rules, hoping to create a higher hurdle for companies wanting to access the London market.

The revised rules, on which it consulted with the market last year, could be published in the coming weeks.

REUTERS SUMMIT-Buenaventura sees output up; has hopes for Conga

By Teresa Cespedes and Mitra Taj

LIMA, May 21 (Reuters) - Peru's top precious metals miner, Buenaventura, sees a rise in output in 2013 and said the stalled $4.8 billion Conga gold mine project it owns a stake in could advance after a community reservoir is built at the end of the year.

Buenaventura's Chief Executive Roque Benavides said on Tuesday during the Reuters Latin America Investment Summit that the mines the firm owns directly will produce at least 13 percent more gold and nearly 6 percent more silver.

In 2012 Buenaventura produced 440,996 ounces of gold and 17 million ounces of silver, he said.

"Looking ahead (past 2013) we expect to maintain the level of production if not raise it slightly, but there won't be any big jumps in output," Benavides said.

He also said the proposed Conga gold mine in northern Peru - put on hold last year amid community opposition could go forward after construction of the second of four reservoirs for local towns wraps up at the end of this year.

Newmont Mining Corp is the majority shareholder in the Conga project, which would be Peru's biggest mining investment ever. Buenaventura owns a 43.65 percent stake.

GENERAL NEWS *(Continued)*

Communities say they fear the mine would pollute and deplete nearby lakes, and Newmont and Buenaventura have halted construction of mining facilities while they build reservoirs to assure locals of water supplies.

"We think showing people that they will have more water than they have today will convince them we're building a good project," said Benavides.

He said construction of the first reservoir was scheduled to finish on Monday and that pumping water into the second reservoir will be a turning point.

The second reservoir will draw water in part from a nearby lake that locals want to protect.

"If that is viable from a social standpoint we can go forward with construction of the mine," he said.

Buenaventura, which operates 12 mines in Peru directly, has been focusing on trimming costs and boosting efficiency as global metal prices have slipped, Benavides said.

He said he thinks market speculation has driven down the price of gold.

"I don't see anything that has changed in the gold market to merit the price falling like this," said Benavides. "I think there has been an overreaction and am convinced the fundamentals are there for the price to go up again."

Benavides also said lengthy government approvals and widespread social conflicts are holding up mining investments in Peru and contributing to an economic slowdown in recent months.

Peru is a top global producer of copper, gold, silver and zinc, but its traditional mineral exports have been hit by lower metal prices. Earlier this month the Andean nation posted its first quarterly trade deficit in more than four years.

MARKET NEWS

EXCLUSIVE-Glencore's top aluminum exec to leave, first exit since takeover-sources

By Josephine Mason

NEW YORK, May 21 (Reuters) - Glencore Xstrata's head of aluminum, Gary Fegel, is set to leave the company, three sources said, the first high-profile departure since commodity trading giant Glencore closed its purchase of miner Xstrata this month.

Fegel's departure from one of the most powerful jobs in the global aluminum market will come as a surprise to many since he was reconfirmed in the post just weeks ago, and aluminum is one of the few areas of Glencore's mining portfolio that has no overlap with Xstrata.

The specific timing and reason for his exit - after 12 years at Glencore - are unclear, and discussions over possible succession continue, the sources said.

His leaving comes as Chief Executive Ivan Glasenberg undertakes a three-month review of the division, a source familiar with the company's operations said.

A successor is expected to be named this summer, around the time Glasenberg completes his 100-day review, the source added.

"He's there until the merger has bedded down," said another source who spoke to Glencore traders about the change.

A spokesman for Glencore Xstrata declined to comment.

Fegel, one of Glencore's most senior executives and among its largest shareholders, has run the division alone since the departure of co-head Steven Blumgart in January 2012.

He was reconfirmed as head of the aluminum arm early this month when the group unveiled the merged entity's management team. His departure will come as an unwelcome surprise just as Glencore begins its biggest ever integration challenge.

The departure may also raise questions about the retention of top talent at the merged miner and trader. The takeover led to the departure of all but one of Xstrata's divisional heads. Glencore bosses have taken 12 of 14 top divisional jobs.

Fegel is a long-time top trader at Glencore. He joined the firm in 2001, took over co-management of the aluminum division in 2006, and became a paper billionaire when Glencore went public in 2011. He now owns a 1.2 percent stake in Glencore Xstrata, worth almost $800 million at current prices.

With Fegel's departure, attention will focus on his key lieutenants, Matthew Lucke and Andrew Caplan, who are viewed as the company's top traders for aluminum and alumina, respectively. Both would be considered contenders for the top job, but there could be further departures, sources said.

The source familiar with the company's operations said the change reflected Glencore's natural "evolutionary process," where ambitious traders in a division jostle to move up when a top executive "is perceived to be easing off." The source said Fegel's departure was "really no surprise."

As part of the 100-day review, Glencore's top managers may consider a shake-up of the department, one source said. The aluminum group, one of the firm's six mining and metals divisions, has seen more turnover at the top than other parts of Glencore, a company in which loyalty is fiercely prized.

Lucke, who has been with Glencore for 17 years, worked as a senior trader on the U.S. aluminum team in the firm's Connecticut office until he moved to headquarters in Zug, Switzerland, last year, a step seen as a promotion, according to people who know him. He also runs the trading book for caustic soda and coke, both used to produce aluminum.

Caplan is a more recent hire. He joined Glencore as an alumina trader from Trafigura in 2007 and now runs the firm's global trading book for the material. He is listed as a director of Century Aluminum, a primary aluminum producer with plants in the eastern United States and Iceland.

(For a graphic on Glencore's current management structure, click on: http://link.reuters.com/juz77t)

XSTRATA OVERLAP

The change in leadership comes at a tumultuous time in the primary aluminum market, and follows a period in which Glencore has reduced its ownership of producing assets.

LME prices are languishing at close to four-year lows due to global overcapacity and concerns about weakening demand from China, the world's No. 1 aluminum consumer.

Unlike the other metal and mining divisions, there is no overlap with Xstrata in Glencore's aluminum business, which includes bauxite and alumina, raw materials for aluminum production. Xstrata focused on producing copper, nickel, zinc and some steelmaking raw materials.

In a three-way deal in 2007 that created Russia's United Co RUSAL Plc , the world's largest aluminum producer, Glencore offloaded its alumina assets in exchange for an 8 percent stake in the Russian company.

But Glencore is still the most influential player in the 50 million tonne a year aluminum market. Two years ago it estimated that it controlled 38 percent of the "addressable" global market - a figure that excludes supplies that are not freely traded - of alumina, and 22 percent of aluminum.

In 2009, Glencore saved RUSAL from collapse after agreeing to buy the Russian producer's output for cash over several years. That deal was renewed in 2011 and gives Glencore a big portion of RUSAL's production, traders said.

The acquisition of warehousing group Pacorini in 2010 strengthened Glencore's grip on the physical metal trade, giving it access to low-cost storage and a vast logistics network. London Metal Exchange warehouses in the Dutch city Vlissingen, most of them owned by Pacorini, hold about a third of all LME-registered aluminum stocks.

Its only remaining stakes in aluminum and alumina assets are a major share in Century Aluminum and Sherwin Alumina in Texas, which extracts alumina from raw material bauxite.

India copper smelter closures put cable makers in tight spot

By Krishna N Das

NEW DELHI, May 22 (Reuters) - India's cable makers face a severe shortage of copper and potential manufacturing delays after the closure of the country's two biggest copper smelters, which has pushed up prices and led to a spike in imports.

India's biggest smelter, owned by Sterlite Industries , was shut on March 30 after local residents complained of emissions that led to breathing difficulties, forcing top copper users to rely on rival Hindalco Industries for almost all their copper needs.

But a routine shutdown at Hindalco's Birla smelter this month has raised fears that firms such as Finolex Cables Ltd , India's largest electrical wire and cable maker, may have to turn to costly imports or slow manufacturing.

Hindalco has declined to say how long the Birla smelter will be closed, although industry sources expect a 35-day shutdown.

A fast-track environmental court will resume hearing a case into Sterlite's closure on Wednesday and is expected to hear further arguments. Lawyers in the case say a judgment should come by end-May.

"I think the next period of 5-15 days is very critical," Deepak Mehta, executive director at cable maker Precision Wires India Ltd , told Reuters.

Copper makes up about 80 percent of the raw material costs for cable manufacturers such as Finolex and Precision.

"If the Sterlite smelter comes back on in the next few days, the situation will improve. If it does not, it will be a serious supply issue," Mehta said.

Irrespective of when the smelters reopen, June would be far more challenging than May in terms of supply as the plants would take time to ramp up and inventories would be exhausted, he added.

The Sterlite and Birla smelters account for about 90 percent of India's total copper output of 690,000 tonnes. The telecom and electrical sectors take up more than half of the country's annual consumption of 610,000 tonnes.

Sterlite parent Vedanta Resources Plc is exporting 4,000 tonnes of refined copper a month from Dubai to help some of its customers offset the supply loss, Sterlite Copper Chief Executive P. Ramnath told Reuters last week.

Premiums for the purest form of copper have doubled since the Sterlite shutdown, while imports have also doubled to about 8,000 tonnes a month from countries like Russia, Ramnath said.

Since the closure of the Sterlite smelter, premiums on copper rods have shot up from $165 to about $290 per tonne, and might go up to $350 per tonne, a trader with a Mumbai-listed metals trading firm said.

"Importers are being aggressive and trying to cash in on it," said Satyajit Misra, head of sourcing at Finolex, adding there have been delays in delivery from Birla because of the sudden surge in demand. "Until next month I am comfortable, after that I don't know."

Finolex uses about 4,000 tonnes of copper a month, while Precision Wires consumes about half as much, but the smelter closures are also affecting smaller users.

MARKET NEWS *(Continued)*

Crompton Greaves , a $2-billion engineering firm which is part of Indian conglomerate Avantha Group and makes everything from transformers to toasters, relies on Sterlite for its 9,000 tonnes per year copper needs in India.

"We are facing acute shortage of copper and fear production loss," a company spokesman said via email.

Iran moves to impose steep export duty on iron ore

By Ruby Lian and Silvia Antonioli

SHANGHAI/LONDON, May 21 (Reuters) - Iran's government is negotiating a tax of up to 40 percent on iron ore exports to take advantage of a surge in sales to China, aiming to replace revenue from oil and other sources eroded by sanctions.

Iran's iron ore exports to top steel producer China jumped 48 percent in the first quarter from a year ago to a level that would generate annual revenue of about $3 billion at current prices.

The government is now talking with local miners about an export tax, trading and industry sources said.

"A few iron ore cargoes were earlier banned from leaving the port as the government is looking to impose a 40 percent export duty based on free-on-board prices," said a trader in Shanghai, who imports Iranian iron ore.

The negotiations may lead to agreement on a smaller number than 40 percent to enable miners to absorb the extra costs and continue selling, given fears that the tax could otherwise end up cutting Iran's exports.

"They are putting the tax in place because the government wants to get a share of the profit. Forty percent is outrageous, but I think eventually they will come down to a more reasonable number," a spokesman for the Iran Iron Ore association said.

Several attempts to contact the Iranian ministry of industries, mines and trade were unsuccessful.

Iran's revenue from exports of oil and other goods has decreased since the United States and the European Union imposed trade sanctions in an effort to pressure Tehran about its disputed nuclear programme. The sanctions have also cut the number of its potential customers for iron ore.

As for China, traders do not expect the duty to be much of an issue in a buyer's market. Chinese demand for steel has slowed recently, which has knocked iron ore prices to their weakest in almost six months. Iran has grown in importance to become China's fourth-largest supplier largely because India, formerly a major supplier, has constrained exports in an effort to crack down on illegal mining.

Iran exported 5.68 million tonnes of iron ore to China in the first quarter, but that still amounted to only 3 percent of China's total iron ore imports.

By comparison, China took in 89.8 million tonnes in the first quarter from Australia, its top iron ore supplier, up 8 percent on the year.

"The heavy duty would have a much bigger impact on Iran's own export business, while China should not be affected too much," a second iron ore trader in Shanghai said.

China steel supply growth offsets cuts elsewhere in April

By Silvia Antonioli and Maytaal Angel

LONDON, May 21 (Reuters) - Top steel producer and consumer China boosted its steel output in April, more than offsetting production cuts in most other countries, where steelmakers are trying to battle oversupply and price weakness.

Global crude steel production rose 1.2 percent to 132 million tonnes in April, compared with the same month a year earlier, data from the World Steel Association (Worldsteel) showed on Tuesday.

Production in China, which makes up for almost half of the global steel supply, rose 6.8 percent to almost 66 million tonnes in the same period.

"The aggressive production increase in China is more than offsetting cuts elsewhere. The pressure is just building overtime from overproduction in China," Wood Mackenzie steel consultant Patrick Cleary said.

Many Chinese steelmakers, most of which are owned by the state, have incurred losses in the last year but very few plants have shut down or cut output as the government keeps them alive to avoid social unrest which could follow heavy job losses, analysts said. Beijing however is now preparing new rules to tackle overcapacity and vice-premier Zhang Gaoli recently said China must "strictly prohibit" the further expansion of bloated industrial sectors like steel and aluminium.

In the meantime, slower economic growth in the Far Eastern country is pushing many producers to sell more aggressively abroad, affecting steelmakers in other areas. "We are seeing more and more comments and complaints about Chinese exports. Even Korea and Taiwan are really suffering from Chinese competition," Cleary said.

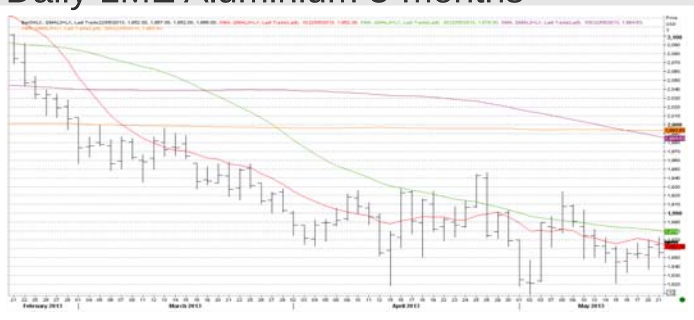
South Korea and Taiwan slashed their production by 6.3 percent and 10.3 percent respectively in April from the same month last year as they try to battle weaker prices and increased competition from China and Japan.

Japan posted a 1 percent steel output growth in the same period as a weaker yen helped boost its exports in recent months.

India also registered an increase in production, up 3.5 percent to 6.6 million tonnes in April.   Output in the United States fell by 7.3 percent to 7.26 million tonnes, in the CIS (Commonwealth of Independent States) slipped by 6.9 percent to less than 9 million while European Union production fell 4.9 percent to 14 million tonnes.

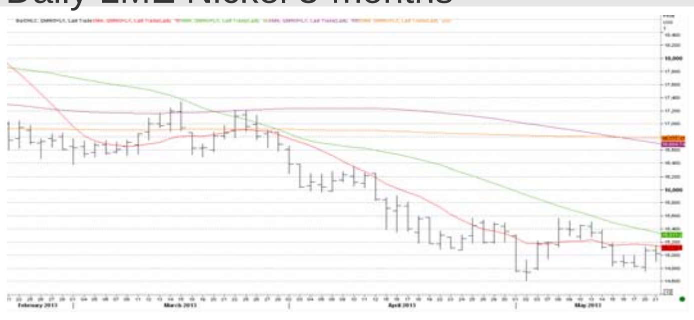
ANALYTIC CHARTS *(Click on the charts for full-size image)*

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 near 2-week top on hints Fed stimulus will stay

By Melanie Burton

SINGAPORE, May 22 (Reuters) - London copper held near a two week-high, supported by indications the U.S. Federal Reserve would continue its bond-buying scheme, a key driver of investment in global commodities.

Concerns that the world's No.2 copper mine in Indonesia, Freeport McMoRan Copper & Gold Inc's Grasberg mine, could face a prolonged closure after one of the country's worst-ever mining disasters also supported prices.

"Fundamentally, the supply side is strong enough to stabilise copper, but not strong enough to spark a turnaround. For that we need to see a resumption in demand," analyst Dominic Schnider at UBS in Singapore said.

Low inflation could encourage the extension of the Fed's bond buying program, which is likely to provide near-term support for metals, he added.

Two senior Fed officials on Tuesday played down the chances the U.S. central bank would signal a readiness to reduce its bond buying at its meeting next month.

More liquidity allows greater scope for investment in commodities, while a dollar weakened by debasement props up assets priced in the greenback as they become cheaper for holders of other currencies.

Three-month copper on the London Metal Exchange was barely changed at $7,377.75 a tonne by 0213 GMT, holding near a two-week high of $7,450 hit in the previous session.

The most-traded September copper contract on the Shanghai Futures Exchange was also steady, at 53,250 yuan ($8,700)a tonne.

Other supply disruptions -- such as a landslide at Rio Tinto's Bingham Canyon mine in Utah, the shutdown of India's top copper smelter and some smelters in China cutting output due to a shortfall in their feedstock scrap metal -- also cushioned copper prices.

But analyst Schnider cautioned that markets may surrender gains if a round of global manufacturing surveys on Thursday -- from China, the United States and the euro zone -- add to recent signs that a global economic revival was flagging.

PRECIOUS-Gold gains on China demand, hopes of U.S. stimulus continuing

By A. Ananthalakshmi

SINGAPORE, May 22 (Reuters) - Gold edged higher due to strong Chinese demand and after Federal Reserve officials allayed investor concerns that the U.S. central bank will soon exit its bullion-friendly bond purchases.

Gold has been pressured in recent weeks by fears the Fed could scale back or halt its monthly $85 billion bond purchases that have buoyed bullion's appeal as a hedge against inflation.

The metal had fallen for eight sessions out of the last nine as of Tuesday and is down nearly 18 percent for the year.

Spot gold rose 0.2 percent to $1,377.7 an ounce by 0314 GMT, but remains not far off a two-year low of $1,321.35 reached during a sell-off last month.

Spot silver gained 0.5 percent to $22.49 an ounce, regaining more ground after dropping to 2-1/2-year lows earlier this week.

"Chinese buying is mainly pushing up gold prices," said a trader in Tokyo, adding that bullion could go up to $1,385.

Shanghai gold prices fell slightly on Wednesday but were still more than $30 higher than spot gold, indicating that demand in China - the world's No. 2 consumer after India - was strong because it would be cheaper for Chinese buyers to purchase gold from overseas.

U.S. gold was little changed at $1,376.4 an ounce.

BERNANKE EYED

Investors are eyeing Fed Chairman Ben Bernanke's testimony in Congress about the state of the U.S. economy later in the day for clues to his stance on ending the monetary stimulus this year. The Federal Open Market Committee also releases the minutes of its April 30-May 1 meeting on Wednesday.

New York Fed President William Dudley and St. Louis Fed chief James Bullard, who will both vote at the central bank's next scheduled meeting on June 18-19, made clear further economic progress was needed before they would support curtailing bond purchases.

Some officials are calling for an early end to the monetary easing given recent gains in the U.S. jobs sector.

"We would suggest that Bernanke will hint at some sort of pullback, in which case, we could see a pickup in volatility and lower gold prices heading into the balance of the week," said Edward Meir, a metals analyst at brokerage INTL FCStone.

Persistent outflows from exchange-traded funds as well as technical charts suggest gold may have more downside pressure. Holdings of the largest gold-backed exchange-traded-fund, New York's SPDR Gold Trust , fell 0.8 percent on Tuesday to 1,023.08 tonnes, the lowest in more than four years.

FOREX-Dollar treads water as investors await Bernanke testimony

By Sophie Knight and Lisa Twaronite

TOKYO, May 22 (Reuters) - The dollar languished well below last week's 4-1/2-year high against the yen, ahead of testimony from the U.S. Federal Reserve chief after two regional Fed presidents hinted that the central bank will continue its bond-buying scheme.

MARKET REVIEW *(Continued)*

Moves were muted, with the dollar adding just 0.1 percent to 102.57 yen , off Friday's high of 103.32 yen, as investors awaited Ben Bernanke's testimony to Congress at 1400 GMT, as well as the minutes of the Fed's last policy meeting.

Both will be parsed for clues to officials' intentions.

The Bank of Japan kept its own policy steady on Wednesday as widely expected despite concerns over recent volatility in the Japanese government bond market. It upgraded its assessment of the economy, saying it "has started picking up."

BOJ board member Takahide Kiuchi proposed that the central bank make its 2 percent inflation target a medium- to long-term goal, and commit to intensive easing in the next two years. This would differ from the BOJ's current commitment to hit its inflation target within two years. Kiuchi's proposal was rejected in an 8-1 vote.

"Kiuchi's comments were a bit of a surprise but they didn't prompt any market reaction," said Kenichi Asada, manager of forex at Trust & Custody Services Bank.

The BOJ might end up pursuing its massive monetary easing for up to five years before achieving inflation levels conducive to unwinding its aggressive stimulus, a Reuters poll of BOJ watchers suggested.

"I think the trend for a weaker yen will continue. But of course we also have events on the U.S. side today," Asada said.

On Tuesday, St. Louis Fed President James Bullard told an event in Frankfurt the Fed should maintain its policy, adjusting the pace of its bond buying according to incoming data, and said U.S. inflation has recently been below target.

New York Fed President William Dudley said the economy's ability to tolerate less government spending and higher taxes in coming months will be key as to whether the Fed opts to reduce its bond purchases.

"Given words from other Fed members ahead of Bernanke's testimony, we're not expecting Bernanke to signal taking a step back from bond-buying anytime soon, so that could be a short-term negative for the dollar," said Andrew Wilkinson, chief economic strategist at Miller Tabak & Co. in New York.

"I would expect him to be upbeat about the economic assessment but cautious about headwinds, which is what he's been previously," he added.

Central bank balance sheets: http://link.reuters.com/jyx65s

Abenomics - Japan snapshot: http://link.reuters.com/tam37t

Investors shrugged off data released early in the session that showed Japan posted a trade deficit of 879 billion yen ($8.6 billion) in April, with a pick-up in exports narrower than expected, despite the yen's 20 percent tumble against the dollar in the past six months.

Against a basket of currencies, the dollar lost just 0.03 percent to 83.841, while the euro added 0.04 percent to $1.2910 .

The Australian dollar slackened 0.4 percent to $0.9766 after earlier climbing as high as $0.9842, as it resumed pulling closer to an 11-month low of $0.9711 plumbed earlier this week.

The Aussie has lost more than 5 percent so far this month, pressured by fears of a Chinese slowdown and lower commodity prices as well as recent signs of a U.S. economic recovery.

(Inside Metals is compiled by Pradip Kakoti in Bangalore)