INSIDE METALS

Tuesday, May 28, 2013

CHART OF THE DAY

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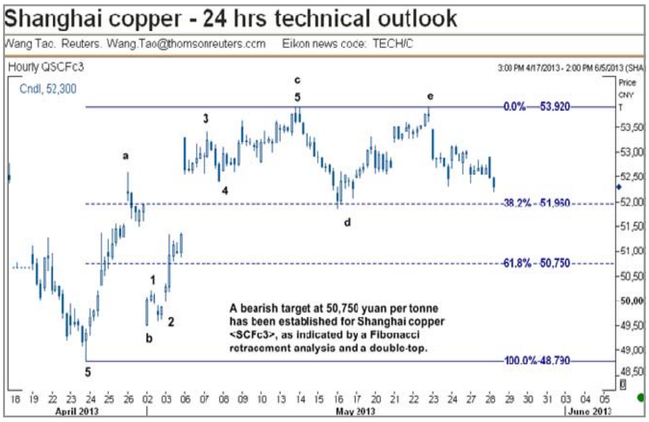

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GENERAL NEWS

- BOJ's Miyao says JGB stability vital, offers no new steps
- India cbank restricts banks lending against gold

MARKET NEWS

NICKEL/STEEL:

- Italy presses ILVA steel managers to stay after funds seizure

FEATURE

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TODAY'S MARKETS

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PRECIOUS METALS: Gold fell as Asian stock markets and the dollar firmed after a turbulent week, undermining the metal's appeal as a safe haven and prompting more selling in bullion-backed exchange traded funds.

"The paper market is dropping but we are seeing a different story in the physical market," said Zane Lim, regional manager of operations at Singapore-based dealer BullionStar. "Everybody is buying and no one is selling."

FOREX: The yen tumbled on Tuesday as Japanese shares appeared to be stabilising after sharp losses and extreme volatility in the past few sessions, easing worries that investors may have to close their yen-selling positions to make up for losses.

"The Nikkei's trading range is narrowing day by day. This is not like the panic we saw after the Lehman shock. If volatility is steadying at the current level, then dollar/yen is likely to head higher," said Kyosuke Suzuki, director of FX at Societe Generale in Tokyo.

FEATURE

Freeport able to restart Indonesia open-pit mining soon - minister

By Fergus Jensen

JAKARTA, May 27 (Reuters) - Freeport McMoRan Copper & Gold Inc's Indonesian unit should be able to restart open-pit mining operations at its remote Papua copper mine soon, a junior mining minister said, after a tunnel collapse that killed 28 people.

Despite the government assurance, it was not clear when operations will begin. While maintenance activities at the open-pit mine have resumed, the Freeport workers' union has called for continued suspension of production until all investigations into the disaster are complete.

Arizona-based Freeport suspended operations at the world's No. 2 copper mine on May 15 a day after a training area in a tunnel, away from its main operations, caved in on 38 workers, in one of Indonesia's worst mining disasters.

Deputy Energy and Mineral Resources Minister Susilo Siswo Utomo told reporters on Monday the Grasberg mine complex's open-pit operations, accounting for about two-thirds of its copper output, would be able to restart in the immediate future once a safety audit had been completed.

A separate government investigation into the collapse should end in one or two months, Susilo said, adding that the probe should not interfere with a resumption of production at the Freeport mine since the two were in different areas.

"This is a stoppage for several days in solidarity, and to carry out an inspection. Once it's cleared by the monitoring inspectors, they can operate again," he added.

Freeport Indonesia is conducting its own probe into the collapse using international experts. It is estimated that the closure is costing the company about $15 million a day in lost production.

STRAINED LABOUR RELATIONS?

The labour union, though, has been vocal about not rushing into production.

"The union welcomes the management's decision to resume maintenance activities in Grasberg open-pit mining, but not for production activities," Papua-based union leader Virgo Solossa told Reuters on Monday, pointing out that the open-pit mine also used underground tunnels to transport ore.

Some industry analysts say the mine could face a prolonged closure and further strain relations between Freeport and trade unions after a three-month strike there in late 2011.

Freeport itself has said any restarting of operations would depend on the outcome of underground safety inspections being carried out by the energy and mineral resources ministry.

Late last week, Freeport Chief Executive Richard Adkerson said the company was prepared to restart production relatively quickly and had taken the first steps of getting workers back and having training briefings.

The company was not immediately able to comment on the matter when contacted on Monday.

The Grasberg mine normally produces around 220,000 tonnes of concentrated ore a day, with around 140,000 tonnes coming from open-pit mining and 80,000 tonnes from underground operations.

GENERAL NEWS

BOJ's Miyao says JGB stability vital, offers no new steps

By Leika Kihara

TOKYO, May 28 (Reuters) - Bank of Japan board member Ryuzo Miyao said on Tuesday it was vital to keep long- and short-term interest rates stable but offered no new prescriptions to contain the recent bond market turmoil that has threatened to undercut the central bank's massive easing campaign.

The former academic said rises in Japanese stocks and U.S. long-term interest rates have contributed to the recent rise in Japanese bond yields.

"What matters is to ensure that long- and short-term interest rates as a whole will follow a stable path," Miyao told a news conference in Tokyo.

But in terms of what the BOJ can do, Miyao reiterated the central bank's stance that it will fine-tune market operations and enhance communication with market participants.

He also voiced confidence that the central bank's aggressive monetary stimulus will help offset any rises in long-term rates that reflect expectations of an economic recovery in Japan.

"Even when there is upward pressure on long-term interest rates due to expectations for economic recovery, monetary policy will continue to put downward pressure on interest rates and therefore strongly support economic recovery," said Miyao, the longest serving member of the board.

The BOJ unleashed the world's most intense burst of stimulus last month, promising to inject $1.4 trillion into the economy in less than two years to meet its pledge of achieving 2 percent inflation in roughly two years.

Last week, the benchmark 10-year bond yield rose above 1 percent, touching the highest level in a year. This rise contributed to the biggest plunge in Japanese shares in two years, market participants said, casting a cloud over the effectiveness of the BOJ's monetary easing that aims to push down borrowing costs and brighten market sentiment.

GENERAL NEWS *(Continued)*

A decline in bond prices would hit the balance sheet of many Japanese banks that have heavily loaded up on bonds, and increase the cost of financing Japan's huge debt pile, already the biggest in the developed world at more than double the size of its economy.

India cbank restricts banks lending against gold

MUMBAI, May 27 (Reuters) - The Reserve Bank of India said on Monday banks would not be allowed to give loans against units of gold exchange-traded funds (ETFs) and gold mutual funds.

As these products are backed by bullion and primary gold, the restriction on grant of loan against gold bullion will be applicable to loan against units of gold ETFs and units of gold mutual funds, the central bank said in a statement.

The RBI also said that while giving loan against gold coins sold by banks, the lenders should ensure that the weight of the coins does not exceed 50 grams per customer.

In a separate statement, the central bank said no advances should be given by non-bank financial companies (NBFCs) against bullion, primary gold and gold coins.

The RBI also said NBFCs should not give loans for the purchase of gold in any form including primary gold, bullion, jewellery, coins, units of gold ETFs and units of gold mutual funds.

TRADING PLACES

HKEX eyes China co-listings to boost commodities business-Li

SINGAPORE, May 27 (Reuters) - Hong Kong Exchanges and Clearing is considering joint listings of commodities products on mainland Chinese bourses to capitalise on last year's acquisition of the London Metal Exchange, Chief Executive Charles Li said on Monday.

"This is about developing mutual product listing/licensing arrangements and forming strategic partnerships with leading exchanges," said Li in a blog post outlining developments for the exchange's commodities business.

"Mainland China institutions would be key partners for us given the sheer size of the mainland market and the mainland's need to internationalise. These partnerships would ultimately take us beyond metals and into other commodities," he added.

HKEX, the world's No.2 exchange operator by market value, paid $2.2 billion for the LME last year, as it seeks to expand beyond its traditional business in equities trading.

"We would also like to extend eventually to soft commodities and agriculture as opportunity permits," said Li in the blog.

Li said earlier this year that the exchange will use the LME's status as the world's biggest metals marketplace to extend HKEX's commodity platform into ferrous metals, such as iron ore, coking coal and energy.

One key sticking point in the exchange's drive to boost Asian membership has been its prequisite for members to have a London presence. The exchange is reviewing this rule, Li said.

MARKET NEWS

Italy presses ILVA steel managers to stay after funds seizure

By Massimiliano Di Giorgio

ROME, May 27 (Reuters) - Italy's government hopes the board of ILVA, the steel giant mired in an environmental scandal, will withdraw its resignation over the latest move by magistrates against the group's owners, a senior official said on Monday.

The board of ILVA announced its resignation on Saturday over the seizure of 8.1 billion euros ($10.5 billion) in assets from the Riva family, which controls Italy's biggest steel plant in the southern city of Taranto.

"We want to understand what prompted the resignation and what the financial and management situation of the group is after the seizure," industry ministry State Secretary Claudio Di Vicenti told RAI News 24 television. "We hope that circumstances will allow a rethink."

At stake are the jobs of some 12,000 ILVA employees and at least another 8,000 ancillary workers at the plant, situated in a region already suffering from high unemployment, as well as the future of one of the mainstays of Italy's steel industry.

Magistrates ordered the assets to be seized from holding company Riva Fire on suspicion of criminal association to commit environmental offences linked to steel production at ILVA, one of the biggest industrial employers in southern Italy.

They placed the group's chairman Emilio Riva under house arrest last year and opened investigations into alleged corruption and tax evasion by the group's management.

ILVA said on Saturday it would mount a legal challenge to the asset seizure, which it said threatened its capacity to continue production. Investigative sources said the Taranto plant would continue to work normally following the asset seizure.

ILVA has been at the centre of a long judicial battle over accusations that toxic emissions of dust particles from the sprawling site have caused abnormal levels of tumours and respiratory diseases around Taranto in the region of Puglia.

MARKET NEWS *(Continued)*

Industry Minister Flavio Zanonato and the president of the Puglia Region, Nichi Vendola, are due to meet ILVA management later on Monday to discuss the situation.

"If a company of this kind closes down, we can say goodbye to the whole steel industry and we'll also have problems with the engineering industry," Zanonato said on Sunday.

Actual job losses, including those at feeder companies, could reach 40,000, according to some officials.

FUTURE IN BALANCE

The government has been caught in the middle of a complex battle over the future of ILVA since prosecutors ordered the partial closure of the plant in July last year following a damning series of environmental reports.

ILVA, which produced some 8.5 million tonnes of steel in 2011, almost 30 percent of total Italian output, has been operating under special administration ever since and has outlined a two-year cleanup plan for the site.

According to prosecution documents, emissions of dioxins, benzoapyrene and other cancer-causing chemicals caused an "environmental disaster", damaging the health of Taranto residents and affecting farming and fishing for miles around.

Italy, stuck in its longest postwar recession and fighting unemployment running as high as 40 percent among young people, can ill afford the loss of one of the few major industrial employers in its poor and underdeveloped south.

The seizure of the Riva Fire assets will not directly impact steel production in Taranto but the resignation of the two administrators in charge of ILVA - chairman Bruno Ferrante, who is now under investigation himself, and chief executive Enrico Bondi - has left its future in the balance.

Antonio Gozzi, president of steel industry association Federacciai told the daily La Stampa the asset seizure would make it impossible for the company to pay suppliers and would threaten its ability to operate.

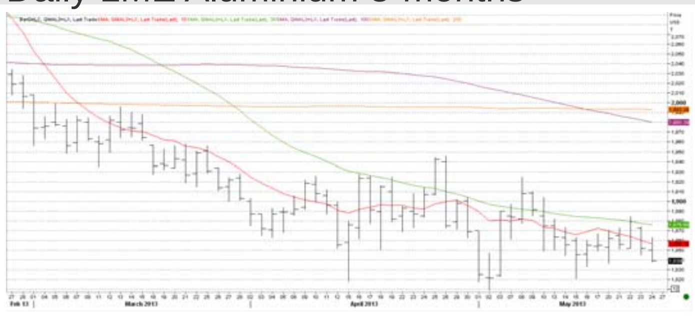
"The company will be forced to come to a halt," he said, adding that it faced the risk of acquisition by foreign buyers who would have no interest in saving domestic industry.

Magistrates operate independently of government control, which has made it difficult for ministers to criticise their actions, but industry leaders have been bitterly critical of what they see as a campaign against the company.

"It seems obvious to me that the decisions of the Taranto magistrates can only mean they want to force the closure of our most important steel company," Gozzi said.

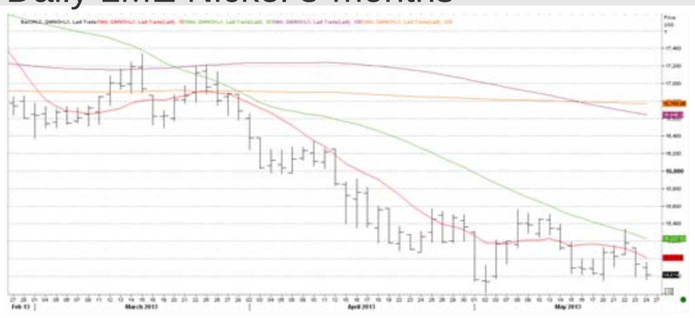
ANALYTIC CHARTS *(Click on the charts for full-size image)*

Daily LME Aluminium 3-months



Daily LME Copper 3-months

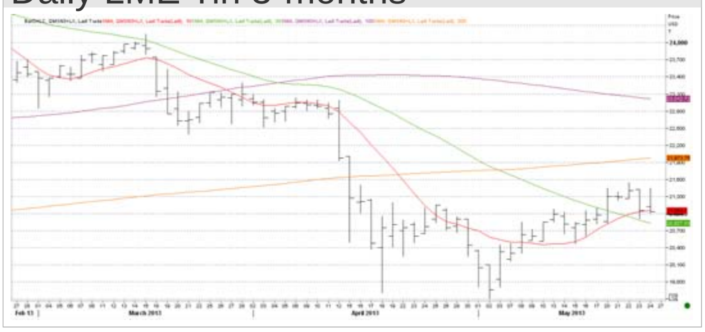
Daily LME Nickel 3-months



Daily LME Zinc 3-months

Daily LME Lead 3-months

Daily LME Tin 3-months



Daily LME Alloy 3-months

Daily LME Nasaac 3-months

MARKET REVIEW

METALS-Copper slips on growth worries; US, Britain in focus

By Melanie Burton

SINGAPORE, May 28 (Reuters) - London copper lost ground on worries over softening growth in China, with investors looking for fresh trading cues as Britain and the United States return from a holiday weekend.

Three-month copper on the London Metal Exchange was at $7,235 a tonne by 0225 GMT, down 0.88 percent from Friday's close. LME copper was mostly steady last week, but is set to close the month with gains of 2 percent -- its first monthly advance since January.

The most-traded September copper contract on the Shanghai Futures Exchange fell 0.74 percent to 52,050 yuan ($8,500) a tonne.

"I'm relatively bearish and trading that theme to clients," said Tim Radford at Sydney-based adviser Rivkin.

"Given the stream of weak macro data, especially out of the Asian region, and weakness across the Chinese economy, we expect that will onflow to copper markets."

China's factory activity shrank for the first time in seven months in May, reigniting worries over stuttering growth in the world's top metals consumer. An official report is due on June

Sentiment has also been hurt by signs China, which accounts for around 40 percent of refined copper demand, is willing to tolerate slower growth.

Radford added that a resumption of mining operations at the giant Grasberg mine in Indonesia could erode support for copper prices, which he sees trending down to around $3.10 a pound ($6,835 a tonne).

Freeport McMoRan Copper & Gold Inc's Indonesian unit should be able to restart open-pit mining operations at its remote Papua copper mine soon, a junior mining minister said, after a tunnel collapse that killed 28 people. Mining operations have been suspended since May 15.

PRECIOUS-Gold falls as stocks hold firm; physical demand stays strong

By A. Ananthalakshmi

SINGAPORE, May 28 (Reuters) - Gold fell as Asian stock markets and the dollar firmed after a turbulent week, undermining the metal's appeal as a safe haven and prompting more selling in bullion-backed exchange traded funds.

Demand in the physical market continued to hold prices near $1,400 an ounce as the recent drops in the spot market lured buyers to invest in bullion.

Spot gold fell 0.26 percent to $1,390.71 an ounce by 0230 GMT, after gaining more than half a percent on Monday. It rose 2 percent last week - its strongest weekly percentage gain in a month - though the metal is down 17 percent for the year.

U.S. gold rose 0.22 percent to $1,389.60.

"The paper market is dropping but we are seeing a different story in the physical market," said Zane Lim, regional manager of operations at Singapore-based dealer BullionStar. "Everybody is buying and no one is selling."

Bullion is being sold at high premiums compared to spot prices as there is not enough supply in the market to meet the strong demand.

"We are not seeing any signs of slowing down. People are still thinking it is a good price to go in at," Lim said, adding that most of the bullion dealers in Singapore were sold out.

Gold prices remain near a two-year low of $1,321.35 hit in mid-April as investors flock to higher-yielding stocks.

Holdings in SPDR Gold Trust , the world's largest gold-backed exchange-traded fund, are at their lowest since mid-February 2009, falling 0.24 percent to 1,016.16 tonnes on Friday. The fund held 1,350.50 tonnes of gold at the beginning of 2013.

Russia, Turkey and Kazakhstan were among central banks buying gold in April to diversify their strategic portfolio, data from the International Monetary Fund showed on Monday.

Demand in India, the world's biggest gold market, was subdued as the peak wedding season cools off, and its central bank is taking more steps to curb gold purchases.

On Monday, the Reserve Bank of India said banks would not be allowed to give loans against units of gold exchange-traded funds and gold mutual funds.

FOREX-Yen weakens as Nikkei regains degree of stability

By Hideyuki Sano

TOKYO, May 28 (Reuters) - The yen tumbled on Tuesday as Japanese shares appeared to be stabilising after sharp losses and extreme volatility in the past few sessions, easing worries that investors may have to close their yen-selling positions to make up for losses.

While the Nikkei's fall of more than 10 percent from its 5 1/2-year peak has reminded traders how painful a correction of a one-way trade can be, the market expects the Bank of Japan's massive easing to likely weaken the yen in the long term.

"The Nikkei's trading range is narrowing day by day. This is not like the panic we saw after the Lehman shock. If volatility is steadying at the current level, then dollar/yen is likely to head higher," said Kyosuke Suzuki, director of FX at Societe Generale in Tokyo.

MARKET REVIEW *(Continued)*

The dollar rose 1.0 percent to 101.95 yen , up more than a full yen from two-week low of 100.66 hit on Friday, staying above key technical support levels, including 21-day moving average, at 100.80 yen on Tuesday.

Its kijun line on the daily Ichimoku charts, now at 100.37, is also seen as a major support, said Osamu Takashima, chief FX strategist at Citibank.

Japan's Nikkei share average was up 1.3 percent by early afternoon on Tuesday, recovering from a three-week intraday low hit earlier in the day.

"For a while, the yen is likely to take the lead from the Nikkei," said Koichi Takamatsu, a manager of forex at Nomura Securities.

The euro also gained 1.0 percent to 131.70 yen , pulling up from Thursday's trough around 129.95.

The dollar was also underpinned by expectations that the U.S. Federal Reserve is ready to scale back its massive stimulus programme.

The euro eased stood little changed at $1.2927 , though it has no sign of breaking out of its rough $1.28-1.32 range in the past few months.

Investors have clearly turned bearish on the once high-flying Australian dollar, with the market still betting on yet more interest rate cuts given slower growth in the country's single biggest export market, China.

The Aussie ticked up 0.1 percent to $0.9643 , after a test to the downside was blocked by option-related bids just under $0.9600, but it still stayed close to the 2012 nadir of $0.9581.

A break there would take it back to lows not seen since October 2011. It has fallen 9 percent from a high of $1.0583 set just last month.

Some analysts suspect the slide in the Aussie is overdone. Analysts at St. George believe the Chinese recovery will be sustained and the notion that the Fed could start unwinding its bond purchases within a few months is premature.

"This would suggest the AUD should not drift too far away from parity for too long," said Janu Chan, an economist at St George in Sydney.

"Our forecast of $1.02 by end 2013 and $1.00 by end 2014 reflects our view of a later pullback in stimulus from the Federal Reserve, the relative strength of the Australian economy and positive prospects for China."

(Inside Metals is compiled by Pradip Kakoti in Bangalore)