INSIDE METALS

Thursday, May 30, 2013

CHART OF THE DAY

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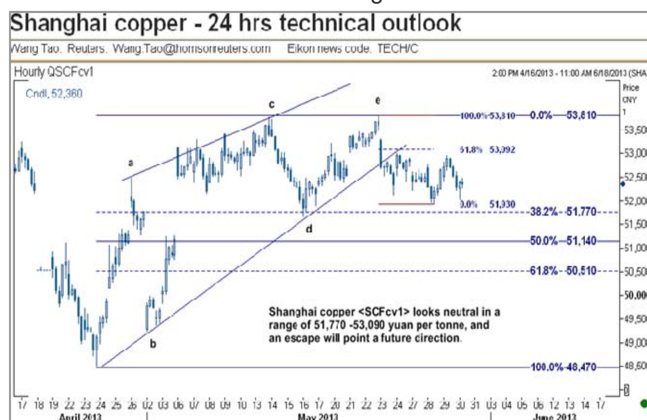

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COLUMN-Is iron ore history repeating itself?

The warning lights are flashing again in the seaborne iron ore market. Spot benchmark 62-percent grade material, as assessed by The Steel Index, slid 2.6 percent to $117.80 per tonne on Tuesday.

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

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TODAY'S MARKETS

BASE METALS: London copper fell to a two-week low on worries the United States may curb its monetary stimulus programme earlier than expected, dimming demand for metals, although steady buying from China limited losses.

Three-month copper on the London Metal Exchange hit its lowest since May 16 at $7,198.75 a tonne. By 0305 GMT, copper was trading down 0.8 percent at $7,205.50, extending an almost 1 percent drop in the prior session.

"Still, you're seeing things improve in the U.S. and the longer term story is that should be supportive to prices," she added.

PRECIOUS METALS: Gold regained strength as investors retreated from falling equity markets, but the metal still risked losing its safe-haven appeal on worries the U.S. Federal Reserve could scale back on its bullion-friendly bond buying programme.

The Fed's stimulus programme has pushed money into riskier assets such as commodities and stoked inflation fears, but signs of strength in the U.S. economy may prompt the central bank to slow its $85 billion-a-month buying pace.

"This is a very tricky issue. I don't think Fed chairman Ben Bernanke really wants to start tapering stimulus, but more and more policymakers are for it," said Joyce Liu, an investment analyst at Phillip Futures.

FOREX: The dollar remained under pressure against the yen as Japanese shares took another sharp tumble, pushing investors to unwind their dollar-hedges on the Nikkei and head for the safe-haven yen.

The greenback last bought 100.80 yen after hitting 100.56 , its lowest since May 10.

"It may seem illogical (for the forex market to follow the Nikkei), but a weaker yen led to optimism for stocks before, so right now the Nikkei's retreat has initiated a fall in the dollar-yen too," said Masashi Murata, senior currency strategist at Brown Brothers Harriman in Tokyo.

FEATURE

COLUMN-Is iron ore history repeating itself?

By Andy Home

LONDON, May 29 (Reuters) - The warning lights are flashing again in the seaborne iron ore market.

Spot benchmark 62-percent grade material, as assessed by The Steel Index, slid 2.6 percent to $117.80 per tonne on Tuesday. The price is now back at levels last seen in December 2012.

Moreover, the decline appears to be accelerating.

The price has fallen by more than 12 percent over the course of this month, putting it on track for the weakest performance since August 2012, the last time the iron ore market went into meltdown.

And now, as then, the usual accelerators are at work with Chinese steel mills said to be selling back iron ore cargoes and traders stop-loss liquidating tonnages.

But while there are plenty of similarities between the current slide and the momentous sell-off of last August, there is also a key difference.

STEEL DEMAND WEAKNESS

The root cause of the current weakness in the iron ore market is the same as the last time around, namely margin compression in China's steel sector.

The tension between a previously largely steady iron ore price and falling steel prices has been building for several weeks.

It has now become acute.

The price of steel rebar traded on the Shanghai Futures Exchange has this week slumped to its lowest level since early September. That time frame is worth noting, coinciding as it does with the trough of the Q3 2012 iron ore price collapse.

Rebar is mainly used in the construction sector but the same trend is evident in flat steel prices, which are more linked to manufacturing activity.

Indeed, Chinese hot rolled coil prices last week fell harder than rebar and are now down by a similar 17 percent on the start of 2013, according to Macquarie Bank.

Such is the physical manifestation of the slowdown in China's economic growth, a trend underlined by last week's flash HSBC Purchasing Managers' Index, which fell into contraction territory for the first time since October.

Overlaying structural slowdown is seasonality, as the Chinese steel sector starts collectively anticipating the slower summer demand period.

STEEL OUTPUT STRENGTH

Of course one of the main reasons for weak Chinese steel prices is too much production relative to demand.

And what is curious about the current dynamic in China is that steel production itself shows no signs of slowing.

National output in April was running close to 800 million tonnes annualised, just a shade below February's all-time record run rate of 806 million tonnes.

The higher-frequency figures from the China Iron and Steel Association (CISA) suggest that output may have actually accelerated further in the first part of May with only the most marginal of slowdowns in the middle part of the month.

Quite evidently this is unsustainable. That's what falling Chinese steel prices are telling us.

But equally evidently there is a collective reluctance to cut run rates with China's legion of smaller mills in particular reluctant to forfeit share of a market still characterised by eternal optimism.

The disconnect between hope and reality in the Chinese steel sector was nicely captured in a recent survey conducted by researchers at Morgan Stanley ("Steeling for oversupply": May 22, 2013).

"The companies we surveyed expressed optimism about the demand outlook, expecting 7 percent growth in 2013 and 2014, vs our 3 percent forecast."

And in what might be something of an understatement, the researchers went on to state that "we think it is possible these expectations could turn out to be overly optimistic, as participants did not fulfill their targets in 2012 (4 percent below)".

PREEMPTIVE DESTOCK

Overly optimistic or not, it is this continued strength in steel production that marks the difference from last August.

Annualised steel production was already falling in July 2012 and it slumped by a massive 35 percent to 691 million tonnes in the month of August itself.

High inventory and falling prices of steel products at one end of the chain fed back up through steel production cuts to a vicious iron ore destock at the other end.

This time around, though, the steel sector appears to be embarking on a pre-emptive rather than reactive iron ore destock.

Given that record amounts of steel are still being churned out, it is a moot point as to just how much more raw material can be destocked.

Particularly since iron ore inventories have never rebuilt from the last destock. Back in August total Chinese inventory was around 99 million tonnes. As of today it is around 76 million tonnes.

That should act as a brake on the current sell-off, preventing it turning into the sort of rout seen late last year.

FEATURE *(Continued)*

UNDER STOCKED?

Moreover, China's steel mills risk leaving themselves under stocked for anything other than a doomsday demand scenario.

Analysts at Standard Bank London wrote last week that "we estimate that China's recent ore destock is assuming too much negativity" ("Commodities Daily": 23 May, 2013).

"We have to push our pig iron production rates down by a whopping 26 percent in order to equate current Chinese iron ore stocks back at the long-run industry average days-cover of around 30 days."

Macquarie Bank agrees, arguing that "the need for Chinese mills to restock can absorb" both a mid-year slowdown in steel production and the additional Australian supply expected in the second half. "The iron ore clear-out happening now reduces the potential for a collapse in H2," it notes, cautioning that "iron ore could surprise relative to expectations" ("The 10 key things to know about current metals and mining markets": May 28, 2013).

Continued high Chinese steel production coupled with already low iron ore stocks mean this current sell-off is unlikely to be a straight rerun of the August meltdown.

Or to quote Mark Twain, "history doesn't repeat itself - at best it sometimes rhymes".

So do markets.

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

GENERAL NEWS

Australia eases access to world's biggest weapon range, eyes mining

By Rob Taylor

CANBERRA, May 30 (Reuters) - Australia will ease access restrictions on the world's largest weapons test range in the remote outback - an area larger than England - to unlock an estimated $35 billion in untapped mineral resources, with legislation for the change unveiled on Thursday.

The Woomera Prohibited Area covers 127,000 square km (49,000 sq miles) of mostly barren desert and has been closed to the public since 1947, when it was used for Cold War rocket and nuclear tests by Britain, Australia and the United States.

The sprawling site, which is almost free from electronic signal interference, was also chosen this year as test site for the joint British-French unmanned supersonic stealth drone Taranis, under development by BAE Systems Plc .

Defence Minister Stephen Smith told MPs that new legislation would allow miners and some members of the public with reason to be there to share access to the land with the military, to better balance national security and economic concerns.

"The South Australian government has assessed that over the next decade about $35 billion worth of iron ore, gold and other minerals resources are potentially exploitable from within the Woomera Prohibited Area," Smith told parliament.

The change, under consideration for three years, is an attempt to ease investment concerns around land near Woomera since the government blocked Chinese company Minmetals from buying an Oz Minerals copper and gold Mine at nearby Prominent Hill in 2009, citing national security.

Parts of Woomera, which hosted British nuclear weapons tests between 1955 and 1963, also lie adjacent to the Olympic Dam site, which BHP Billiton decided not to expand last year as Australia's mining boom stalled.

A small number of mines already exist in the area, including Prominent Hill and Kingsgate Consolidated Ltd's Challenger gold mine.

Under the new access arrangements, the military would remain in charge of the area, but a permit system would give civilians the right to enter Woomera. As well as miners, indigenous Aboriginal residents can also enter the zone, and environmental or other researchers.

The legislation sets up a series of zones, some of which would be zoned red for "continuous defence use" and others which would exclude mining and exploration for between 14 and 70 days a year, in a timeshare arrangement with the military.

"It allows users to make commercial decisions with some assurance as to when they will be required to leave the Area because of defence activity," Smith said.

It was unclear if the changes would ease national security concern about Chinese mine ownership, as foreign investment applications would still be assessed by Australia's Foreign Investment Review Board.

China-based hackers were this week accused of stealing the blueprints to Australia's new domestic spy agency in Canberra.

The government of South Australia state has estimated the vast test site holds untapped gold, copper and uranium resources

worth up to A$35 billion, while other estimates for total mineral wealth run as high as A$1 trillion.

Smith said the legislation would be passed as a priority before parliament was dissolved for September elections.

Foes of Newmont's $5 billion Peru mine in standoff with police

LIMA, May 29 (Reuters) - Hundreds of protesters were locked in a standoff with police in northern Peru on Wednesday as they vowed to stop Newmont Mining from transferring water from a lake to a reservoir as part of its $5 billion Conga gold project.

Residents and local officials said it was the second straight day of tensions near the proposed mine that would be Peru's most expensive ever.

On Tuesday, a minor clash between protesters and police marked an end to a stretch of relative calm since August, when the government of President Ollanta Humala said it would stop trying to overcome local opposition to the mine.

The new round of protests came after a top official for the Conga project - Chief Executive Roque Benavides of Newmont's partner Buenaventura - told Reuters last week that water from Perol would be transferred to a new reservoir later this year.

He said that construction of the mine would begin if the company could pump water from Lake Perol into the second of four reservoirs it is building without sparking broad local opposition.

Lake Perol is one of several alpine lakes in Cajamarca that would be affected by the proposed mine, which would essentially extend the life of the nearby Yanacocha mine the two companies run.

Newmont Mining Corp is a majority shareholder in the project and Peru's top precious metals miner, Buenaventura , owns a 43.7 percent stake.

Humala has twice shuffled his cabinet since taking office in 2011 in large part because of violent protests over Conga.

Yanacocha officials said many locals support the construction of the reservoir because it will provide water year round instead of seasonally.

"The reservoir has been received very well by the population because they want to see its benefits," said Javier Velarde, Yanacocha's general manager of corporate affairs, said on local TV.

Another representative of Newmont and Buenaventura declined comment.

Despite an extensive environmental study and revisions to the project's original plan, communities in Cajamarca still say they fear the Conga project will pollute and deplete nearby lakes and rivers.

"The mine needs water for its project and it's going to give us polluted water," said Wilfredo Saavedra, who leads a community group. "We want them to leave us alone with our lakes, which are enough for us."

Milton Sanchez, another community leader, said a group of protesters who call themselves "the guardians of the lake" were making their way by foot and horse to "inspect" Lake Perol on Tuesday when they were attacked by police officers.

Police said they fired a single rubber bullet after being pelted with rocks.

Five people were killed in clashes with police last year, and Humala faced criticism because police live rounds at protests.

South Africa labour strife creating vicious cycle

By Ed Stoddard

JOHANNESBURG, May 29 (Reuters) - Labour unrest in South Africa's mines, which threatens to spread to bigger sectors like manufacturing, is plunging the economy into a vicious cycle that may spiral into stagflation, disinvestment and more social upheaval.

South Africa's rand has lost 16 percent against the dollar so far in 2013 and hit new four-year lows this week, with mining worries triggering the latest sell-off - which picked up pace on Tuesday when data showed growth in Africa's top economy slowed to a snail's pace as manufacturing output shrank.

All of this is spooking investors and sowing the seeds of more social discontent, as data shows a strong correlation between the rand's performance against the dollar and inflation, with a time-lag of nine months.

Inflation is currently just under six percent and will accelerate, with the biggest exchange-rate impact likely on food and fuel prices, which will hit working-class households hard.

But the full impact of the rand's current weakness will only be fully felt nine months hence, after the next round of wage agreements in mining and other sectors have been hammered out.

These will be tough as worker militancy is on the rise amid a vicious turf war between a mining union linked to the ruling African National Congress and a more militant rival.

Strikes are a certainty, which will strain incomes and knock the rand further, and any wage gains wrested from companies will mostly be devoured by inflation soon after.

"There is a 9-month lag which generates the highest correlation between the depreciation of the rand and the impact on inflation," said George Glynos, managing director at financial consultancy ETM Analytics.

"Whatever disposable income you negotiate in your wage talks gets eroded away in the months that follow," he said.

This could easily fuel worker anger next year, sparking another round of strikes. Investors in turn would make another stam-

pede for the exits, undermining the rand again and reigniting the whole cycle as inflation was spurred anew.

Of course, this cycle is not set in stone. Strike fatigue may set in with workers, many of whom have high levels of debt, which could temper such action or curtail wage demands.

And the dance between the currency and prices can go two ways. The rand, a highly liquid emerging market currency, can change direction quickly and put the brakes on inflation.

WAGE-PRICE SPIRAL

But there are plenty of causes for concern. Last week, as it kept interest rates on hold, the central bank said the "risk of a wage-price spiral remains high."

The risks have probably never been higher, given the state of labour militancy and the pent-up expectations of workers at the bottom of the pay scale who have seen little improvement in their lives two decades after the end of apartheid.

The typical South African mineworker has eight dependants, many of whom live far from the shafts in remote rural areas. Despite above-inflation pay increases in recent years the worst paid still only make close to 4,000 rand ($420) a month - around half the average wage in the industry, which has vast earnings disparities.

Inflation in such circumstances works through the household pipeline in steadily corroding ways.

First, prices in mining communities jump as the workers return to work and wages spike. This means less money than anticipated is sent back to home to dependants in rural areas.

Inflation then filters through to the countryside as the affect of the rand's slide and other factors make themselves felt in rising food and fuel costs.

Discontent is simmering on the platinum belt and there is real threat of a repeat of the 2012 mining unrest which killed over 50 people, cost gold and platinum producers billions of dollars in lost revenue and led to sovereign credit downgrades.

Worryingly, there are signs the wildcat strike action that has rocked the mines could spread to other industries such as automobile manufacturing, a rare bright spot.

South Africa's main auto union last week threatened to "halt production" at a Volkswagen factory to protest against the dismissal of it members, days after the end of an illegal walkout at a Mercedes Benz plant.

Data on Tuesday showed car making was the only part of manufacturing that grew in the first quarter. Overall the sector declined by almost eight percent and economic growth braked to 0.9 percent in the quarter from 2.1 percent in Q4 last year.

Wage pressures are also costing jobs in a country with an unemployment rate of over 25 percent. In the third quarter of last year alone, 15,000 jobs were shed in the mining sector.

With the falling rand fanning inflation, growth slowing and the economy shedding jobs, stagflation - or something that looks a lot like it - is a very real prospect.

Complicating matters is politics, as attempts by mining companies to cut jobs to stay profitable have met with intense resistance from the ANC-led government.

World No. 1 platinum producer Anglo American Platinum has been forced to scale back from plans to cut up to 14,000 jobs in a bid to return to profit.

But if it continues to post losses, jobs will eventually have to go, one way or the other. If this inflamed social tensions, investors would flee again and spark another rand sell-off, setting in motion a familiar dizzying cycle.

Vale wants Thyssen to reimburse it, CSA for $550 mln in extra costs -report

SAO PAULO, May 29 (Reuters) - Vale SA wants ThyssenKrupp AG to partially reimburse it for some of the $550 million in extra costs that their CSA slabmaking partnership in Brazil incurred over the past four years, adding a potential hurdle to the sale of the money-losing steel mill, O Estado de S. Paulo said on Wednesday.

According to Estado, which did not cite any source for the information, Vale said "mistakes" by ThyssenKrupp executives managing CSA had led to significant energy and raw material purchases as well as unnecessary capital spending since 2009. The newspaper said the CSA partnership contract allowed Vale to receive compensation when "bad administration" led to management mistakes and losses.

Thyssen owns 73 percent of CSA, while Vale holds the rest.

The partners' rift may complicate ThyssenKrupp's plans to sell CSA, Brazil's biggest foreign investment project to date. ThyssenKrupp, Germany's No. 1 steelmaker, spent more than $8 billion in its Brazilian foray, which has been plagued by a weak global economy and increasing operating losses.

Spokespeople for Vale in Rio de Janeiro and ThyssenKrupp in Essen, Germany, declined to comment on the Estado report.

Brazil's Cia Siderúrgica Nacional SA, or CSN , and a consortium led by ArcelorMittal SA have emerged as leading bidders for the steel mills that ThyssenKrupp is trying to sell in both the United States and Brazil, sources told Reuters recently.

Of the total in compensation, Vale is seeking about 300 million reais, or 27 percent of the total, for itself and the rest for CSA, which is known as Cia Siderúrgida do Atlántico SA, Estado said.

Thyssen reported losses in 2011 and 2012 because of delays and cost overruns at CSA. Like other steelmakers in Brazil, the German company has also faced rising raw materials costs and a glut of slab that have sapped margins and hindered factory usage.

TRADING PLACES *(Continued)*

CME's New Orleans warehouse seen sucked into LME copper 'games'

By Josephine Mason

NEW YORK, May 29 (Reuters) - Copper stocks in CME Group Inc's lone warehouse in New Orleans have soared in two months, raising the risk that financing deals that have riled end users may spill into the smaller U.S. exchange, traders said on Wednesday.

While stockpiles within the London Metal Exchange's (LME) system bulged with copper, much of it used in lucrative financing deals, inventories registered against the CME's New York-based COMEX futures contract were piled up further west, near the nation's major copper smelter.

That changed on March 22 when Henry Bath, the warehousing firm owned by JPMorgan Chase & Co which runs the CME's only New Orleans site, took its first ever delivery of the metal, according to exchange data.

On March 28, the LME reported the biggest one-day cancellation of New Orleans copper stocks in at least a decade.

And on April 3, an unusually large 550 short tons (498 tonnes) of copper was registered at the CME's warehouse in New Orleans, catching traders' attention.

Metal has landed on most days since then - often in 500-short-ton lots which are close in size to those leaving LME-registered warehouses in the same port each day.

The COMEX facility in the port now has 19,852 short tons of copper, just under a quarter of total COMEX copper inventory.

To be sure, that is still small relative to the LME, whose warehouses in the Big Easy hold over ten times more copper. And it is less than the CME's two most-active COMEX locations, Tucson and Salt Lake City, the data show.

The inflows underscore the growing role of the futures contract, but traders say daily deliveries since April 3 have been conspicuous for their size, timing and location.

What's more, they have been accompanied by a similar decline in stocks leaving LME-registered warehouses.

They see a singular cause: the same financing deals that have dominated the LME's vast market for the past four years, sowing discord among industrial users who say these transactions inflate physical prices and restrict supplies.

There is no indication yet that these financing deals are limiting copper supplies on the COMEX exchange, but their emergence may raise concerns among end users that the deals that have been popular on the LME may be spreading to the smaller U.S. contract.

"The big swings are unlikely to be related to underlying demand," said Leon Westgate, Standard Bank base metals analyst. He said they are "more likely" linked to the financing deals.

Those early inflows raised eyebrows in part because they came just days after the LME increased delivery rates for warehouse locations with large stocks and big queues, its second effort to combat logjams that can be as long as a year.

One or several traders are taking delivery of metal from Pacorini Metal warehouses and moving it across town to Henry Bath in new financing deals, two market sources said.

One trader put it succinctly: "The COMEX system has become more or less part of the warehouse games."

A CME spokesman had no comment on the stock inflows.

NEW SYSTEM

In so-called financing deals, traders buy metal for cash and sell it forward at a profit based on LME futures, storing the metal in warehouses until it is time for delivery.

With interest rates low, forward prices above nearby and incentives offered by warehouses, it is profitable for traders.

But they have angered industrial users, who say they have to pay higher premiums, the price for physical delivery on top of the LME, which are not justified by fundamentals or wait months, sometimes a year, before metal is released from these deals.

Responding to complaints, the LME imposed new rules on April 1 after criticism that problems with backlogs at facilities were spreading from aluminium and zinc to other metals such as copper.

Warehouses with long queues for one metal must deliver out 3,000 tonnes a day of that metal, and the new rules mean they must add another 500 tonnes of other metals stuck in the delays.

Splitting the queues was aimed at removing metal that may be trapped behind a dominant one and followed an increase in delivery rates by the LME across all locations last year.

The latest rule applies to New Orleans, where Pacorini, owned by Glencore Xstrata PLC , has 32 of the 57 LME-registered facilities and 60 percent of LME zinc stocks are stored, three sources familiar with the matter say. Over 430,000 tonnes of the zinc, 65 percent of the location's total, are canceled and due for release. The cancellation of 27,500 tonnes of copper in New Orleans in two days in March almost tripled the amount waiting to leave facilities and means a third of LME copper is due to leave. Since April, traders say it is in a separate queue to zinc.

COMEX's New Orleans stockpile is now its third biggest after Salt Lake City and Tucson, the most liquid of the COMEX's seven locations due to their proximity to Kennecott, Rio Tinto PLC's largest smelter and the country's second-largest. They hold almost 80 percent of the exchange's copper.

Those stocks further west are tighter - inventory in those two locations are down over 17 percent in five weeks - and premiums are higher though due to a massive cut in output at Kennecott since mid-April.

THOMSON REUTERS

MARKET NEWS

Moody's cuts Alcoa to junk on tough primary metals market

May 29 (Reuters) - Moody's Investors Service cut aluminum producer Alcoa Inc's main credit rating to junk on Wednesday, citing weak prices and a tough market for the company's primary metals business.

Stubbornly low prices have hurt Alcoa, especially its upstream business of mining bauxite, refining it into alumina and smelting alumina to produce aluminum.

"We believe Moody's decision is a greater reflection of macroeconomic conditions and the volatility of metal prices than a true statement of the financial and operating strength of Alcoa," the company said in a statement.

Moody's cut Alcoa's senior unsecured debt and corporate family ratings to Ba1 from Baa3. The agency said Alcoa's rating outlook is stable and confirmed its Ba2 preferred stock rating.

Companies with lower debt ratings tend to face higher borrowing costs.

Moody's noted Alcoa has cut costs and boosted productivity, but said key debt metrics are likely to fall short of investment-grade standards through 2013 and 2014, in part because of weakness in the aluminum industry.

In recent quarters, Alcoa's engineered products segment, which makes wheels, aircraft parts and other goods, has been more profitable than the company's upstream business, which has faced rock-bottom prices. That has some speculating Alcoa could offload raw material assets.

But even as the company shuts down high-cost capacity at facilities such as Baie-Comeau in Quebec, operations are ramping up at Ma'aden, the $10.8 billion, 740,000 tonne per year smelter run by a joint venture between Alcoa and Saudi Arabian Mining Co .

Prices of Alcoa bonds, which mostly trade above face value, fell after the downgrade. The 5.4 percent notes maturing in 2021 fell 0.6 cents to about 103.4 cents, boosting their yield to 4.87 percent, according to bond pricing service Trace.

In April, S&P cut its outlook for Alcoa to negative from stable and maintained a BBB- corporate credit rating. Fitch Ratings also revised its outlook to negative and affirmed its own BBB- senior unsecured debt rating.

Italy may name administrator for ILVA steel plant- minister

BRUSSELS, May 29 (Reuters) - Italy is considering appointing a special administrator to handle a clean-up at the ILVA steel plant in southern Italy that is mired in an environmental and corruption scandal, Industry Minister Flavio Zanonato said on Wednesday.

"One of the options is to make sure those responsible for the clean-up are not the ones who polluted," Zanonato told reporters in Brussels.

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 the plant in the southern city of Taranto.

Japan's Kobe Steel to shut blast furnace in 2017/18

TOKYO, May 29 (Reuters) - Japanese Kobe Steel Ltd said on Wednesday it would shut a blast furnace and other upstream equipment at its Kobe Works plant in western Japan in the year starting April 2017 to turn around its loss-making iron and steel business.

Kobe Steel's iron and steel operations posted an ordinary loss of 50.2 billion yen ($496.1 million) in the year to March 31, struggling against sluggish demand from shipbuilders and fierce competition from rivals such as South Korea's Posco and China's Baoshan Iron & Steel .

Domestic rival Nippon Steel & Sumitomo Metal Corp said in March it planned to mothball one of three blast furnaces at its Kimitsu steel mill in early 2016 and to delay the start of a new blast furnace at its Wakayama plant.

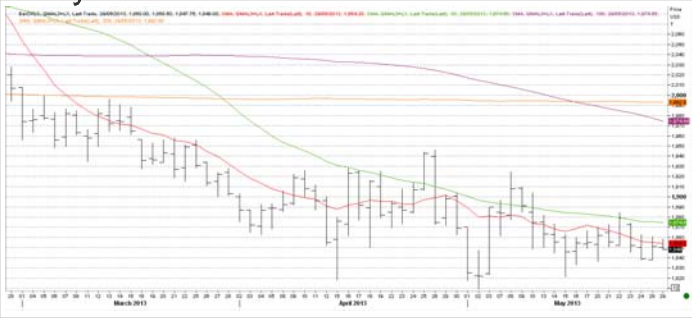
Kobe Steel expects to post 80 billion yen to 100 billion yen in ordinary income in 2015/16, including 30 billion yen from its steel business, Hiroya Kawasaki, the company president, told reporters.

The company expects to keep its domestic crude steel production capacity at 7 million tonnes, and sees domestic steel product demand at 50 million to 55 million tonnes in 2020/21, Kawasaki said, down from around 61 million tonnes now.

Kobe Steel said it will consider using the land at Kobe Works after shutting the blast furnace to pursue its power supply business. In February the company said it planned to build a 1.4 gigawatt gas-fired plant to sell power to Tokyo Electric Power Co .

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

Daily LME Aluminium 3-months



Daily LME Copper 3-months

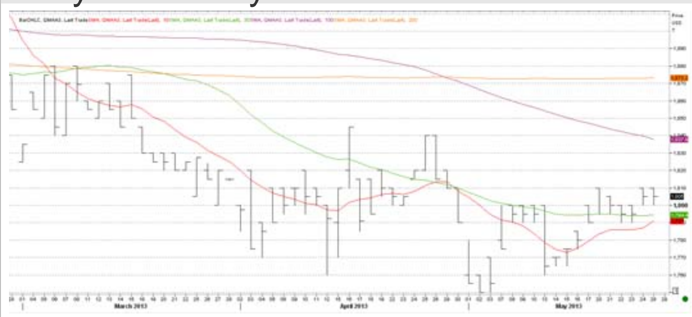
Daily LME Nickel 3-months

Daily LME Zinc 3-months

Daily LME Lead 3-months

Daily LME Tin 3-months

Daily LME Alloy 3-months



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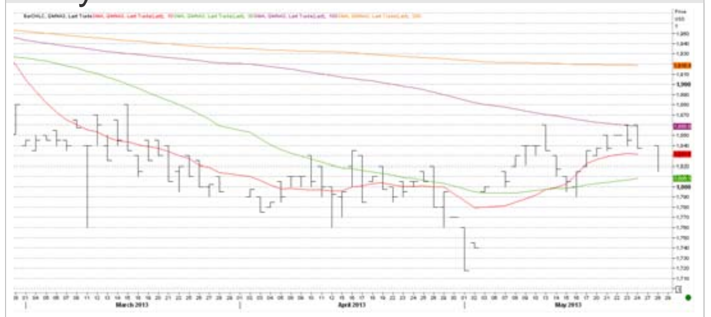

MARKET REVIEW

METALS-Copper at near 2-week low on fears over stimulus end

By Melanie Burton

SINGAPORE, May 30 (Reuters) - London copper fell to a two-week low on worries the United States may curb its monetary stimulus programme earlier than expected, dimming demand for metals, although steady buying from China limited losses.

Three-month copper on the London Metal Exchange hit its lowest since May 16 at $7,198.75 a tonne. By 0305 GMT, copper was trading down 0.8 percent at $7,205.50, extending an almost 1 percent drop in the prior session.

Prices have fallen 9 percent for the year on worries over a slowdown in global growth, and have been pegged for the past month between $7,100 and $7,500 a tonne.

The most-traded copper contract on the Shanghai Futures Exchange, for September , fell 1.29 percent to 51,940 yuan ($8,500) a tonne.

Markets are worried an earlier-than-expected end to bond buying could erode copper demand in the United States and also affect countries such as top consumer China, said economist Alexandra Knight at National Australia Bank in Melbourne.

"Still, you're seeing things improve in the U.S. and the longer term story is that should be supportive to prices," she added.

The U.S. job market and the economy as a whole may be strong enough in a few months' time to allow the Federal Reserve to pare its bond buying by a small amount, one of the central bank's most dovish policymakers said on Wednesday.

The recession-hit euro zone will fall further behind a generally improving United States and a rebounding Japan this year, the OECD also said on Wednesday, cutting its global growth forecasts.

Reflecting still solid purchases from Chinese consumers, premiums for bonded copper in Shanghai were heard as high as $150, according to China price provider SMM. Traders said China was set to boost its refined copper imports for May and June.

PRECIOUS-Gold off intraday low; Fed stimulus uncertainty weighs

By Lewa Pardomuan

SINGAPORE, May 30 (Reuters) - Gold regained strength as investors retreated from falling equity markets, but the metal still risked losing its safe-haven appeal on worries the U.S. Federal Reserve could scale back on its bullion-friendly bond buying programme.

The Fed's stimulus programme has pushed money into riskier assets such as commodities and stoked inflation fears, but signs of strength in the U.S. economy may prompt the central bank to slow its $85 billion-a-month buying pace.

Gold hit an intraday low around $1,388 an ounce and stood at $1,393.91 by 0334 GMT, up 0.1 percent, after investors shifted some money back to bullion following a drop in equities.

Gold, which has fallen more than 16 percent this year, sank to a 2-year low around $1,321 in April on signs of global economic improvement and amid fears that central banks could start to curtail easy money policies.

"This is a very tricky issue. I don't think Fed chairman Ben Bernanke really wants to start tapering stimulus, but more and more policymakers are for it," said Joyce Liu, an investment analyst at Phillip Futures.

Strong premiums for gold bars in Asia indicated jewellers and retail investors are happy to buy bullion on dips. In Singapore, supply constraints have sent premiums to all time highs at $7 to spot London prices.

"It seems that every time there's a dip, people will start coming to the market to buy," said Liu at Phillip Futures.

"But looking at the chart, we still have to break $1,400 before I will say there's a reversal in the trend."

Shares in Asia and the U.S. dollar weakened on Thursday, undermined by an overnight pullback in global equities as investors assessed the potential softening of the Fed's stimulus programme.

The physical gold market was subdued, with dealers in Singapore awaiting the return of Thai and Indonesian consumers.

"If you are talking about immediate delivery, supply is still tight. Demand in Hong Kong has started to ease, but I would say premiums for gold bars in Asia are still pretty strong," said a dealer in Singapore.

Asian gold demand from April to June will reach a quarterly record as the region's bullion consumers take possession of supply freed up by selling from exchange-traded funds (ETFs), the World Gold Council said on Wednesday.

FOREX-Slump in Nikkei weighs on dollar-yen, Aussie bounces

By Sophie Knight

TOKYO, May 30 (Reuters) - The dollar remained under pressure against the yen as Japanese shares took another sharp tumble, pushing investors to unwind their dollar-hedges on the Nikkei and head for the safe-haven yen.

The greenback last bought 100.80 yen after hitting 100.56 , its lowest since May 10.

The fall came a day after it lost 1.2 percent as U.S. Treasury yields toppled from a 13-month high as investors wavered over whether the U.S. Federal Reserve will wind down its monthly bond buying.

MARKET REVIEW *(Continued)*

Trading of the dollar-yen in U.S. trading hours is dominated by investor sentiment on whether a pullback in monetary stimulus is imminent or not. But market participants in Tokyo say that volatility in the Japanese equity and debt markets have a larger impact during Asian trading hours.

"It may seem illogical (for the forex market to follow the Nikkei), but a weaker yen led to optimism for stocks before, so right now the Nikkei's retreat has initiated a fall in the dollar-yen too," said Masashi Murata, senior currency strategist at Brown Brothers Harriman in Tokyo.

On Thursday, the dollar-yen held steady even as the Nikkei dropped 3.5 percent by mid-afternoon thanks to dollar bids from importers and pension funds.

"My guess is that the trust banks need to buy dollars right now. The pension funds that were buying until the end of March have come back again and are trying to do a kind of price-keeping operation," said a trader at a major Japanese bank.

However, it could not stay immune to the Japanese benchmark's slide to 5.2 percent by the close that took it further away from a 5-1/2 week high hit on May 23.

Volatility in the bond market has also thrown a spanner in the works for Bank of Japan Governor Haruhiko Kuroda, who said the audacious easing scheme he launched on April 4 was aimed at pushing down rates across the yield curve.

Instead, concerns about decreasing liquidity pushed the 10-year Japanese government bond yield to 1 percent last Thursday, its highest in over a year. With rising U.S. Treasury yields keeping it elevated, it hovered stubbornly at 0.900 on Thursday.

Some market participants had expected the BOJ's easing would pressure JGB yields and send Japanese investors in search of higher yields abroad. But finance ministry data on Thursday showed they sold 1.117 trillion yen ($11.1 billion) worth of foreign bonds last week, the second straight week of net selling, as they resumed repatriating overseas investments.

"Kuroda plays a key role for 'Abenomics', and he has been persistently sticking with the same message since April 4. But market participants are getting frustrated and starting to distrust him - they want him to stabilise the bond market," said Murata of Brown Brothers Harriman.

On Thursday, Kuroda said the BOJ will try to stem volatility in the JGB market to push down long-term yields.

The dollar index dropped 0.3 percent to 83.594 on Thursday, pulling away from a 3-year high of 84.498 hit a week ago after benchmark U.S. 10-year Treasury yields eased to 2.12 percent on Wednesday.

Federal Reserve Chairman Ben Bernanke told a congressional panel last week that a decision on whether to scale back the Fed's current monthly pace of $85 billion in asset purchases could come at one of the central bank's "next few meetings" depending on economic data.

But most strategists expect rising expectations of QE tapering to lift Treasury yields and bolster the greenback in the months ahead. Societe Generale expects the U.S. benchmark yield to rise to 2.75 percent by the end of the year, from its current level of around 2.12 percent.

Against a weaker dollar, the euro added 0.3 percent to $1.2952 , just a tad away from May 22's one-week high of $1.2998, after being bolstered by a bigger-than-expected rise in German inflation.

The Australian dollar staged a small recovery rally after data showed upbeat business investments in 2013/14, prompting investors to trim their bearish bets for further policy easing. The Aussie rose 0.5 percent to $0.9678.

Against the New Zealand dollar it also pulled away from a 4-1/2 -year low of 1.811 struck on Wednesday to 1.1923.

(Inside Metals is compiled by Akanksha Mohanty in Bangalore)

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