INSIDE METALS

Tuesday, May 7, 2013

CHART OF THE DAY

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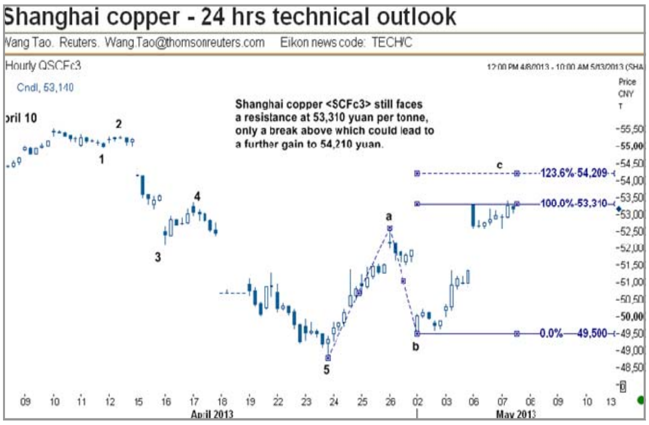

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FEATURE

Australian exports to China hit record, boost growth

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TODAY'S MARKETS

BASE METALS: Copper rose for a third straight session to its highest in three weeks, supported by signs that the global economy is in better shape than earlier thought and that demand from top consumer China may start picking up.

"The market positioned itself very negatively earlier this year and now things seem to turn and that's why you have this very nice recovery," said Dominic Schnider, analyst at UBS Wealth Management.

PRECIOUS METALS: Gold eased losing its shine as an alternative investment after stock markets rallied on hopes for a steady U.S. recovery, and as holdings on bullion exchange-traded funds slipped to their lowest in more than three years.

"I think sentiment is quite mixed. Physical demand supports gold but you can see some liquidation in the market," said Peter Fung, head of dealing at Wing Fung Precious Metals in Hong Kong.

FOREX: The Australian dollar slumped to a two-month trough after the Reserve Bank of Australia cut rates to a record low, while the euro remained capped as the common currency was unable to shake off dovish comments from the European Central Bank chief.

"I think really what seems to have driven it is inflation trending lower than expected, giving them scope to move and to cut," said Su-Lin Ong, senior economist at RBC Capital Markets.

FEATURE

Australian exports to China hit record, boost growth

SYDNEY, May 7 (Reuters) - Australian exports to China jumped to a record high in March as miners shipped a lot more iron ore, a sign of resilient demand in the Asian giant and a big positive for economic growth at home.

The strength of exports could even lean against the need to cut interest rates at the Reserve Bank of Australia's (RBA) monthly policy meeting, which is due to conclude at 0430 GMT on Tuesday.

The figures from the Australian Bureau of Statistics showed exports to China totalled an unadjusted A$7.4 billion ($7.6 billion) in March, up 17 percent on the previous month and no less than 23 percent on March last year.

Much of the improvement came in iron ore as exports of the steel-making mineral were up as much as 36 percent by volume.

The pick up in exports helped return Australia's trade account to surplus to the tune of A$307 million, ending 14 months of deficits and well above market expectations.

The turnaround for the whole quarter was even more dramatic, with the seasonally adjusted trade deficit shrinking to just A$306 million, from A$5.3 billion in the last quarter of 2012.

That in turn implied net exports, or exports minus imports, likely made a sizable contribution to economic growth in the first quarter, perhaps of half a percentage point or more.

Combine that with strong growth in real retail sales in the quarter, and gross domestic product (GDP) could have expanded by a full percentage point or more.

"We've been forecasting a rise of 1 percent in GDP, but that might be low now," said Kieran Davies, an economist at Barclays.

"Mining output is clearly picking up and consumers are responding to rate cuts already delivered. It makes us doubt why the RBA would want to cut rates today."

Financial markets are pricing around a 50-50 probability the cash rate will be cut by a quarter point to a record low of 2.75 percent this week, in large part due to concerns about the global outlook.

Analysts are more circumspect, with 18 in a Reuters poll expecting no change and just four calling for a cut.

GENERAL NEWS

Draghi says ECB ready to act as economy weakens

By James Mackenzie and Gavin Jones

ROME, May 6 (Reuters) - European Central Bank President Mario Draghi departed from a prepared speech on Monday to reiterate the central bank's readiness to cut interest rates again if the euro zone economy deteriorates further.

The euro hit session lows against the dollar and the yen after Draghi said in Rome the ECB would monitor incoming data closely and would be ready to cut rates further, including the deposit rate currently at zero.

"We stand ready to act again," Draghi said.

The ECB cut its main interest rate to 0.5 percent last week after euro zone inflation fell sharply in April and unemployment hit a record high in March. It signalled then that it was ready to do more should the euro zone economy deteriorate further.

ECB Executive Board member Benoit Coeure said as much on Saturday.

Another cut could drive the deposit rate below its current level of zero. The ECB would then charge banks for holding their funds overnight, a step the ECB said it was technically ready for, but which could have major implications on funding markets.

"There are many complications and consequences to take into account that need to be studied carefully and the council has decided to study them, to analyse these consequences in order to be able to act if necessary," Draghi said, referring to negative deposit rates.

"We will also look at all the data on the euro zone economy in the coming weeks and if necessary we stand ready to act again," he said, referring to last week's rate cut, which the council did not agree unanimously.

Highlighting the opposition Draghi may face from some ECB policymakers to a further reduction, board member Yves Mersch, a hawk close to Germany's Bundesbank, said there could be limits to the effectiveness of instruments such as interest rate cuts. Data released on Monday pointed to darkening growth prospects. The first reading of the euro zone's first quarter economic performance is due next Wednesday, and economists polled by Reuters estimate output fell 0.2 percent.

On Monday, European purchasing managers indexes (PMIs) suggested the euro zone's downturn dragged on in the current quarter, with Germany now suffering a contraction in business activity that has long dogged France, Italy and Spain.

Speaking in Italy, whose new Prime Minister Enrico Letta has been calling for an EU policy switch to focus more on growth and less on austerity, Draghi said high debt countries in particular must not reverse course while trying to stimulate growth.

AMAG says weak prices, car parts unit may hit results

VIENNA, May 7 (Reuters) - AMAG Austria Metall forecast lower aluminium prices and margin pressure in its car parts business could make earnings slip in 2013, backing away from its outlook in March for flat results.

GENERAL NEWS *(Continued)*

"All in all, we expect another successful year from an operational perspective although the factors of influence mentioned above could lead to slightly weaker results as compared to the prior year," it said on Tuesday.

First-quarter earnings before interest, tax, depreciation and amortisation (EBITDA) fell 9.1 percent to 31.4 million euros ($41 million) on sales down 3.3 percent to 202.3 million euros.

AMAG's EBITDA fell 11 percent to 134 million euros in 2012.

The company said it expected full capacity utilisation in the second quarter thanks to a solid order backlog but said market uncertainty prevented it from giving a precise forecast of how things will stand by the end of the year.

Its casting division relies heavily on the European market and on automotive products.

"Shipments for the European automotive industry are forecast to decline for 2013, and we therefore anticipate high margin pressure to persist. Currently, there are no signs of the situation becoming easier," it said.

Vale receives license to build rail line in Brazil

Vale SA , the world's largest iron ore producer, obtained a government environmental operating license for a rail line to the S11D expansion at its giant Carajas mine in the Brazilian Amazon, according to a securities filing on Monday.

Vale said the permit would allow it to start construction on the line. Last month Vale obtained licenses to build a rail terminal and operate a port in Northeastern Brazil, also needed to expand capacity at Carajas, one of the world's largest iron ore mines. The S11D expansion should begin operations in 2016.

MARKET NEWS

India's NALCO floats tender to export 30,000 tonnes alumina

BHUBANESWAR, India, May 7 (Reuters) - State-run National Aluminium Co Ltd (NALCO) , India's third-largest producer of aluminium, has issued a spot tender to export 30,000 tonnes of alumina, two company sources told Reuters on Tuesday.

The last date of submission of bids is May 14 and delivery would be made at the end of this month, said the officials, who did not wish to be named.

NALCO, whose tenders serve as a global benchmark, last sold 30,000 tonnes of alumina at $345 per tonne free on board (FOB) to a Dubai-based trader in March via a tender.

Top China copper firm Jiangxi shuts refined metal unit on scrap shortage

By Polly Yam

HONG KONG, May 6 (Reuters) - Jiangxi Copper Company Ltd , China's top refined copper producer, has shut a 100,000-tonnes-a-year facility over the weekend due to a shortage of scrap and will bring forward maintenance at two facilities with combined capacity of near 450,000 tonnes a year, a senior executive of the company said.

The unplanned closures at Jiangxi Copper reflect mounting pressure on refined metal producers struggling with a copper scrap shortage to shut some of their capacity in coming months as weak metal prices have restricted supply of the raw material.

Yantai Penghui Copper Industry Co Ltd, partly owned by Jiangxi Copper's parent, and North Copper have already cut output due to the scrap shortage.

China is the world's top producer and consumer of refined copper and the biggest importer of metal scrap. About a third of the country's 6 million tonnes of refined metal production comes from copper scrap.

Global copper prices are down 8 percent this year, denting scrap values and prompting overseas suppliers to curb sales to China. Domestic suppliers are also holding back stocks.

"For now, we will shut the facility for 10 days. After that, we have not decided whether or not we will reopen it," Wu Yuneng, vice president of Jiangxi Copper , told Reuters.

The 100,000-tonnes-a-year facility is in Qingyuan city in the southern province of Guangdong and uses scrap as raw material.

Wu had told Reuters in an interview two weeks ago that Jiangxi Copper could be forced to cut production because of scrap shortage and scrap suppliers were unwilling to sell when LME copper prices were below $7,500 a tonne.

Jiangxi Copper is also bringing forward maintenance at two facilities in its Guixi plant in the southern province of Jiangxi in a bid to reduce the firm's use of scrap further, Wu said.

A facility in Guixi that produces near 367,000 tonnes of copper a year would be shut between May 8 and May 29, Wu said, adding it would take another 10 days to resume normal production.

Another facility with a capacity of more than 80,000 tonnes of metal a year would be overhauled for 20 days in June. The firm had scheduled the maintenance at the two facilities in late 2013.

"Buying scrap now for refined metal production would make losses to producers. Prices of scrap now are higher than refined copper prices," Wu said.

Jiangxi Copper in March set a production target of 1.12 million tonnes for 2013. Wu did not specify by how much the company's refined metal output will be reduced for the year.

MARKET NEWS *(Continued)*

The closures would not have a big impact on Jiangxi Copper's profits for 2013 because the bulk of the firm's profits came from production that uses its own copper concentrates, the executive added.

Rio Tinto to press on with iron ore expansion plans

By James Regan and Sonali Paul

SYDNEY/MELBOURNE, May 7 (Reuters) - Rio Tinto , the world's No.2 iron ore miner, is set to press on with plans to boost production at its Australian mines by a quarter in 2015, shrugging off pressure to slow spending and conserve cash as the commodity boom cools.

In spite of forecasts of a looming global supply glut, shareholders expect Chief Executive Sam Walsh to tell the firm's annual general meeting in Sydney on Thursday that it's full speed ahead with a 70 million tonnes-per-year increase that will take output to 360 million tonnes annually by 2015.

The plan means that a major additional chunk of iron ore production will enter the world market in the next few years and will add to concerns about increased supply that could weigh on a recovery in prices.

"They should continue to expand what is a high margin, high returning project, one of the best returning mining projects in the world, because growth now will mean yield in the future," said Ben Lyons, who helps manage A$400 million ($409.42 million)at ATI Asset Management, which holds Rio shares.

Rio Tinto's board is not expected to make a final decision on the expansion plans, estimated to cost up to $5 billion, until later this year.

Walsh was named chief executive in January as part of a management shake up after a string of disastrous investments - crowned by the $38 billion acquisition of Alcan in 2007 just before aluminium prices crashed - drove Rio Tinto to its first annual loss ever in 2012.

Under Walsh, Rio Tinto has already cut hundreds of jobs and marked copper, coal and aluminium operations for sale or closure. None of them have been sold so far, though Walsh has said there is strong interest in its Pacific Aluminium division, a grouping of 13 assets marked for sale.

Analysts estimate the sale of Pacific Aluminium could bring in several billion dollars.

But despite some analysts questioning whether Rio Tinto should put the brakes on investment in iron ore, the sector appears sacrosanct for now.

Iron ore has been gobbled up by Chinese steel mills at a rate of nearly 1 billion tonnes a year, with latest data indicating demand from the key consumer remains resilient.

Australian exports to China surged to a record high in March of an unadjusted A$7.4 billion, led by iron ore shipments that jumped as much as 36 percent by volume, data from the Australian Bureau of Statistics showed.

But there are concerns China will need less of the steelmaking raw material in coming years as its mills struggle with overcapacity.

Some analysts are forecasting a supply glut of as much as 120 million tonnes could surface by 2015 if expansions by Rio Tinto and other miners are completed.

FIREPOWER INTO IRON ORE

Unlike rival BHP Billiton , which is more diversified in its commodities spread and can rely on oil and gas for added revenue, Rio Tinto derives the lion's share of its earnings from iron ore.

"Rio's got little choice other than to put all the firepower they can into iron ore," said a fund manager who owns Rio Tinto stock but did not want to be named. "The alternative would be to rely on loss-making businesses they are trying to discard."

Apart from BHP, Rio's other main competitor in iron ore is Vale of Brazil, the world's biggest producer.

Iron ore prices have gone from boom to bust and partly back again - hitting a high above $190 a tonne in 2011 and a low under $90 in 2012 - in the three years since the sector switched from once-a-year fixed pricing to a spot market.

At current prices of around $128 a tonne, Rio Tinto enjoys a margin of around $80 per tonne, among the highest in the sector.

"If you're one of the lowest cost producers and you think you can actually grow your capacity and still be the lowest cost producer, that is the best protection in the long run," said Paul Xiradis, managing director of Ausbil Dexia, among the top 20 holders of Rio's Australian-listed shares.

Underscoring the global reverberations of Rio Tinto's expansion in ore, analysts at Liberum Capital forecast a delay by just one year of the plans could lift iron ore prices by $18 tonne in 2015.

A price rise of this proportion would have the added incentive of translating into an additional $3.7 billion in EBITDA to Rio Tinto, according to Liberum.

Still, Walsh is expected to use the annual meeting to reassure shareholders that Rio is still eyeing growth in profitable businesses, such as iron ore and copper, and only selling businesses that no longer fit.

He will also need to make it clear efforts are underway at the board level to maintain the company's single-A credit rating, currently on negative watch by Standard & Poor's.

Deutsche Bank analysts believe finishing the expansion to 360 million tonnes on time in the first half of 2015 represents the project that will best generate earnings at Rio Tinto.

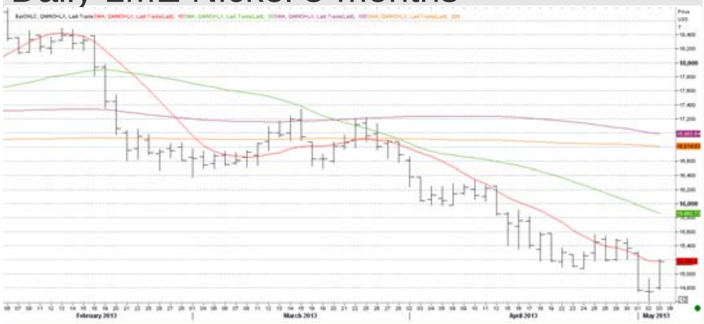
Delaying the ramp-up could have a number of detrimental effects including encouraging other producers to fill the gap, Deutsche warned in a research note this week.

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

Daily LME Aluminium 3-months

Daily LME Copper 3-months

Daily LME Nickel 3-months



Daily LME Zinc 3-months

Daily LME Lead 3-months

Daily LME Tin 3-months

Daily LME Alloy 3-months

Daily LME Nasaac 3-months

MARKET REVIEW

METALS-Copper hits 3-week high on economic optimism

By Manolo Serapio Jr

SINGAPORE, May 7 (Reuters) - Copper rose for a third straight session to its highest in three weeks, supported by signs that the global economy is in better shape than earlier thought and that demand from top consumer China may start picking up.

A better-than-forecast increase in U.S. job hirings renewed optimism in the global economy that many investors feared was bracing for another slow year amid a recent batch of disappointing data from China, the United States and Europe.

The U.S. jobs data released on Friday pushed London copper prices by more than 6 percent that day and Shanghai prices by their 5 percent ceiling on Monday.

Copper traded on the London Metal Exchange sustained the upward momentum when the bourse reopened on Tuesday after a long holiday weekend. Three-month LME copper hit a session high of $7,374 a tonne, its loftiest since April 15. By 0339 GMT, it was up 0.4 percent at $7,296.75 a tonne.

The most-traded September copper contract on the Shanghai Futures Exchange was also up 0.4 percent at 52,890 yuan ($8,600) a tonne, after hitting a similar three-week top of 53,300 yuan earlier.

"The market positioned itself very negatively earlier this year and now things seem to turn and that's why you have this very nice recovery," said Dominic Schnider, analyst at UBS Wealth Management.

"I think it has the potential still to go to 8,000."

SHANGHAI INVENTORIES SLIP

LME copper has risen more than 7 percent in the last three trading sessions but remains around 5 percent below its peak in April when slowdown fears fueled a commodities rout.

"This is quite a critical level, between $7,350 and $7,500. If we break out of this range then the rally will continue, otherwise we will be stuck around these levels," said a Singapore-based trader.

UBS' Schnider said there are tentative signs that Chinese physical demand for copper is picking up, with Shanghai copper inventories slipping.

Copper stockpiles at warehouses monitored by the Shanghai bourse stood at 213,782 tonnes last week, the lowest level since late February.

The steep fall in London copper prices in mid-April also opened the window for Chinese imports, with three-month LME copper currently trading at a discount of about $77 to Shanghai copper.

"Having the arbitrage open is an incentive, but you also need to have the right economic environment to encourage imports," said Schnider, citing recent data pointing to a slower manufacturing activity in China.

PRECIOUS-Gold ticks lower as equities gain, ETFs plunge

By Lewa Pardomuan

SINGAPORE, May 7 (Reuters) - Gold eased losing its shine as an alternative investment after stock markets rallied on hopes for a steady U.S. recovery, and as holdings on bullion exchange-traded funds slipped to their lowest in more than three years.

Although physical buying has helped gold rebound from a 2-year low hit in April, daily outflows on ETFs reflect investors' sagging interest in the metal, which has fallen more than 12 percent in 2013 after rising for each of the past 12 years.

Gold eased $6.45 an ounce to $1,462.44 by 0609 GMT. It rose to a near three-week high of $1,487.80 on Friday on safe-haven buying spurred by a cut in interest rates by the European Central Bank and the U.S. Federal Reserve's decision to stick to its stimulus programme.

"I think sentiment is quite mixed. Physical demand supports gold but you can see some liquidation in the market," said Peter Fung, head of dealing at Wing Fung Precious Metals in Hong Kong.

"Gold in the medium-term is still a little bit bearish. You can see holdings on SPDR are still down about 3 to 4 tonnes every day."

SPDR Gold Trust , the world's largest gold-backed exchange-traded fund, said its holdings fell 0.31 percent to 1062.30 tonnes on Monday - the lowest since August 2009. In terms of ounces, holdings fell to 34,153,901.

Gold plunged to around $1,321 on April 16, its lowest in more than two years, after a drop below $1,500 and fears of central bank sales led to a sell-off that stunned investors and prompted them to slash holdings of exchange-traded funds.

The price drop ignited a buying frenzy in Asia and other parts of the world, leading to a shortage of gold bars, coins and nuggets in Hong Kong, Singapore and Tokyo, and helping the metal stage a rebound.

But gold's failure to revisit the psychological $1,500 level suggested that funds were still on the sidelines.

U.S. gold for June delivery was at $1462.10 an ounce, down $5.90.

"We expect the physical demand to support the market, but (that) could prove difficult to maintain in the face of rallying equity markets, ETF outflows and speculative financial shorts," said ANZ in a report.

"Additionally, global inflation concerns that could support gold are benign. We expect to see a pick-up in prices through the second half of 2013, where gold should trade in the mid-high 1,500 an ounce area."

ANZ, which cut commodity price forecasts on Tuesday, sees gold averaging at $1,573 in 2013 and $1,648 in 2014.

MARKET REVIEW *(Continued)*

But it said gold would drift lower in the near term.

Spot gold is expected to revisit its May 1 low of $1,439.74, according to Reuters technical analyst Wang Tao.

"Physical supply is still a bit tight. The world is happy to buy gold, especially when prices were below $1,400. But gold is reluctant to go above $1,475 because of the ETFs," said a dealer in Hong Kong, referring to the outflows in exchange-traded funds.

FOREX-Aussie slides to 2-month low after RBA cut, euro tripped by ECB

By Ian Chua and Hideyuki Sano

SYDNEY/TOKYO, May 7 (Reuters) - The Australian dollar slumped to a two-month trough after the Reserve Bank of Australia cut rates to a record low, while the euro remained capped as the common currency was unable to shake off dovish comments from the European Central Bank chief.

The yen bounced back from a 10-day low versus the dollar on Japanese exporters' buying after a long weekend in Japan, though many traders expect the currency to stay under pressure after a solid U.S. job report last week.

The big mover was the Australian dollar, which fell 0.7 percent to $1.0181 after RBA cut rates by a quarter of a percentage point to 2.75 percent citing a historically high Aussie dollar.

The market had been evenly divided on the chance of policy easing on Tuesday.

The Aussie broke through a support around $1.0220 and fell as to $1.0178, its lowest since March 4. The low that day of $1.0116 is seen as an important support.

"I think really what seems to have driven it is inflation trending lower than expected, giving them scope to move and to cut," said Su-Lin Ong, senior economist at RBC Capital Markets.

"I think in an environment where you've got pretty modest growth in Australia, risk reward favours lending a bit more support. They've just done it a month earlier than we thought."

The common currency was at $1.3084 , little changed on the day after having pulled back from Monday's high of $1.3141. It fell as far as $1.3053 after the head of the European Central Bank (ECB) reiterated the central bank's readiness to cut interest rates again if needed.

In a speech in Rome, ECB President Mario Draghi said the bank would monitor incoming data closely and be ready to cut rates further, including the deposit rate currently at zero.

"For southern European countries, a euro above $1.30 would be too high for their economy. Among major central banks, the ECB has been the only bank that is not expanding its balance sheet. But It will likely consider such a step," said Minori Uchida, chief FX analyst at the Bank of Tokyo-Mitsubishi UFJ.

Initial support for the euro is seen around $1.3024, the 76.4 percent retracement of its April 24-May 1 rally and the 55-day moving average at $1.3021.

Vassili Serebriakov, strategist at BNP Paribas, said further downside risks for the euro are likely to be limited thanks to ongoing significant support from European market sentiment.

"Both European financial equities and the core-periphery spreads have been moving in a favourable direction and indicate that EUR/USD can potentially strengthen to the 1.34-1.35 area."

The common currency also ceded a bit of ground against the yen, slipping to 129.72 from Monday's session high of 130.40 and off a 3-year high of 131.10 set last month.

The pullback in the euro saw the dollar index drift up to 82.244 from Monday's low of 81.982, helping keep it well away from last week's 2-month trough of 81.331.

The greenback gave up some of its recent gains against the yen as Japanese traders returned to the market after the four-day long weekend.

The dollar slipped 0.2 percent to 99.11 yen , after having risen as high as 99.455 on Monday on the back of the upbeat U.S. jobs data last Friday.

Still, many market players think the currency is gearing up for another go at tough resistance at the 100 level, which it has failed twice to pierce last month even as the Japanese currency came under constant pressure from the Bank of Japan's aggressive monetary easing last month.

(Inside Metals is compiled by Pradip Kakoti in Bangalore)