INSIDE METALS

Wednesday, November 20, 2013

CHART OF THE DAY

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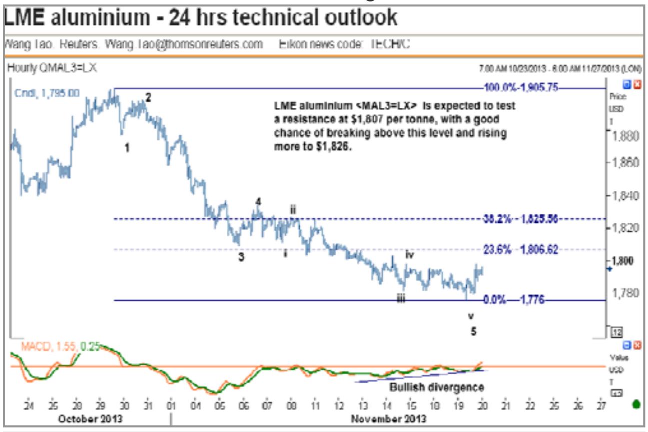

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COLUMN- China's single-handed gold support act may not last

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Clyde Russell is a Reuters columnist. The opinions expressed are his own

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TODAY'S MARKETS

BASE METALS: London copper on Wednesday climbed off three-month lows touched the session before, with Federal Reserve Chairman Ben Bernanke reaffirming support for ultra-easy monetary policy that has underpinned demand for commodities. "Today copper prices may be up because Bernanke is reassuring on tapering. But fundamentally we have been bearish on copper, and this is mostly because of the oversupply concern," said Helen Lau, an analyst at UOB Kay Hian Securities in Hong Kong.

PRECIOUS METALS: Gold was trading in a tight range on Wednesday as investors awaited the release of the minutes of a U.S. Federal Reserve policy meeting later in the session for clues on when the bank will trim its stimulus. "Gold is in a holding pattern right now and is struggling to find a catalyst to move prices either way," said Victor Thianpiriya, an analyst at ANZ.

FOREX: The dollar edged lower versus the euro on Wednesday after U.S. Federal Reserve Chairman Ben Bernanke said the Fed will maintain its ultra-easy monetary policy for as long as needed. Bernanke's speech "was enough to ram euro/dollar up through the stops and kick cross/yen higher," said a U.S.-based currency trader.

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FEATURE

COLUMN-China's single-handed gold support act may not last

By Clyde Russell

LAUNCESTON, Australia, Nov 19 (Reuters) - The most frightening concept for a gold miner or trader currently would be to contemplate a world without China.

Global gold demand fell to the lowest in four years in the third quarter, according to the World Gold Council, and the 21 percent drop from the same quarter in 2012 would have been far worse if it wasn't for China.

China is set to overtake India as the top gold consumer this year, and is already ahead on a rolling four-quarter basis.

Demand in China rose to 209.6 tonnes in the third quarter, up from 177 tonnes in the same quarter last year, largely driven by a 29 percent jump in jewellery demand.

In contrast, India's consumption slumped 32 percent to 148.2 tonnes in the third quarter from the same period in 2012, as the government's efforts to restrict imports became more effective.

The other drivers of gold demand also don't look encouraging for bulls, with investment demand down 56 percent and central bank purchases slipping 17 percent in the third quarter from a year earlier.

The best that can be said is that outflows from exchange- traded funds were nowhere near as dramatic as those in the second quarter, with the council reporting net sales of 118.7 tonnes in the third quarter, down from 402.2 tonnes in the second.

Central bank net purchases were 93.4 tonnes in the third quarter, up from 79.3 in the second. However, central bank buying is likely to be well below the levels of the prior two years.

Assuming fourth-quarter buying matches the average so far in 2013, the total for the year will be around 400 tonnes, down from the 457 tonnes for 2011 and the 544 tonnes for 2012.

The overall message from the council report is that China is really the sole bright spot for gold demand, and likely the best reason why prices have been largely stable after plunging almost 30 percent in the first half of the year to a three-year low of $1,180.71 an ounce on June 28.

The question then becomes: What is the outlook for gold demand in China? Is the higher consumption sustainable or likely to stabilise or retreat?

China Gold Group Corp, the country's largest producer, isn't overly optimistic, with Du Haiqing, a vice general manager, saying at a conference earlier this month that while gold consumption would climb above 1,000 tonnes this year, it would decline thereafter.

Gold demand received a boost this year from the slide in prices as largely Western investors exited ETFs, but Du said this was "abnormal" and Chinese buying would return to more usual patterns next year.

Even if Chinese demand remains at current levels, it won't be adding to growth in 2014, and thus at best be supportive of prices rather than being a bullish factor.

It also appears that Indian demand won't be making a comeback in the short- to medium-term, despite evidence that there is pent-up demand for the metal because of the government restrictions.

India has progressively hiked the import tax on gold to 10 percent and imposed a 20 percent re-export requirement as part of its efforts to lower its current account deficit.

Gold has been second to crude oil on the South Asian nation's import bill, and unlike oil, it isn't essential for the economy.

Physical premiums have increased in India, reaching $120 an ounce above London prices this week, up from $80 last week, according to the All India Gems and Jewellery Trade Federation.

Indian gold imports are also weakening despite the traditional wedding and festival season, which normally boosts demand.

About 23 tonnes of gold was imported in October, the Economic Times reported on Nov. 12, citing traders.

With Indian imports curtailed and Chinese buying likely to ease after the Lunar new year early next year, it's hard to see why gold prices should rally.

Certainly, the overall market doesn't buy into the fear story of indefinite U.S. monetary easing eventually resulting in uncontrolled inflation and bankrupt governments.

While the tapering of quantitative easing does appear to have been pushed back to sometime in 2014, it would take a further delay to provide gold with any real impetus.

For now, China appears to be single-handedly holding up gold, making figures on its buying all the more crucial in the next few months.

--Clyde Russell is a Reuters market analyst. The views expressed are his own.--

GENERAL NEWS

Bernanke: Fed committed to easy policy for as long as needed

WASHINGTON, Nov 19 (Reuters) - Federal Reserve Chairman Ben Bernanke said on Tuesday the Fed will maintain ultra-easy U.S. monetary policy for as long as needed, which could mean holding interest rates near zero until "well after" U.S. unemployment falls under 6.5 percent.

In a speech to the National Economists Club that echoed dovish comments by his nominated successor, Janet Yellen, Bernanke also said that while the economy had made significant progress, it was still far from where officials wanted it to be. "The FOMC remains committed to maintaining highly accommodative policies for as long as they are needed," he told the club, referring to the policy-setting Federal Open Market Committee.

President Barack Obama nominated Yellen, the Fed's current vice chair, to replace Bernanke when his term ends on Jan. 31.

The Fed has held interest rates near zero since late 2008 and quadrupled its balance sheet to $3.9 trillion through three massive rounds of bond buying. It decided in October to maintain asset purchases at an $85 billion monthly pace. Bernanke said officials want evidence of durable job growth before scaling back buying. "The FOMC still expects that labor market conditions will continue to improve and that inflation will move toward the 2 percent objective over the medium term. If these views are supported by incoming information, the FOMC will likely begin to moderate the pace of purchases," he said. Fed officials meet next on Dec. 17-18, although most economists don't think they will begin to scale back the bond buying until their meeting in either January or March.

FORWARD GUIDANCE

However, possibly indicating some wariness with the bond buying, Bernanke said policymakers were not quite sure of the impact on the economy of changes in the pace of purchases, or in the size of the Fed's balance sheet.

The Fed has also promised to hold rates near zero until unemployment hits 6.5 percent, provided the outlook for inflation stays under 2.5 percent. But Bernanke said the Fed could be patient in waiting to start raising rates. "The target for the federal funds rate is likely to remain near zero for a considerable time after the asset purchases end, perhaps well after the unemployment threshold is crossed." Economists felt the distinction that the chairman drew between bond buying and its so-called forward rate guidance was telling. "His remarks indicated a clear preference for forward guidance over asset purchases as a means to stimulate growth, and several references were made to the costs and risks of asset purchases," wrote JP Morgan economist Michael Feroli in a note.

MESSAGE RECEIVED

The Fed stunned markets in September when it decided to keep buying bonds, after Bernanke said back in June it expected to start scaling the program back later this year. Those expectations were allowed to harden over the summer.

The chairman noted this decision caused market volatility -- which many economists blame on poor communication by Bernanke himself -- but he said market expectations for future rate hikes were now better aligned with the Fed's own forward guidance on future rate hikes. Fed fund interest rate futures currently indicate a higher than 50 percent chance of a first rate hike in September 2015, and the move is not fully priced in until November, 2015. Before September's Fed announcement, markets had pulled expectations for the first rate hike forward into 2014. "Although the FOMC’s decision came as a surprise to some market participants, it appears to have strengthened the credibility of the Committee’s forward rate guidance," Bernanke said. "Following the decision, longer-term rates fell and expectations of short-term rates derived from financial market prices showed, and continue to show, a pattern more consistent with the guidance."

SPEAKING AND WRITING

The Senate Banking Committee, which held a hearing for Yellen last week, will vote on her nomination on Thursday to pass it to the full Senate for consideration. Yellen, who is seen as a dove who is less concerned about inflation than some peers, is expected to win confirmation with relative ease. Bernanke, in his first public comments on what life after the Fed will hold for him, suggested that he might follow in the footsteps of his predecessor, Alan Greenspan, by writing and hitting the highly lucrative speakers circuit. "I look forward to writing and speaking and having a little more time to contemplate some interesting issues," he said.

Gold Fields sees no major impact from Eskom power crunch

JOHANNESBURG, Nov 20 (Reuters) - Global gold producer Gold Fields GFIJ.J said on Wednesday it saw no major impact from South African power utility Eskom's ESCJ.UL declaration of a power emergency the previous day. Chief executive Nick Holland told Reuters the company halted hoisting for several hours at its South Deep operations after Eskom urged key industrial customers to reduce consumption by 10 percent to ease pressure on the grid.

China's Jan-Sept gold output up 6.8 pct on year

BEIJING, Nov 20 (Reuters) - China, the world's top gold producer, produced 37.642 tonnes of the precious metal in September, bringing total output in the first nine months of the year to 307.809 tonnes, the industrial website China Gold Association said on Wednesday. Total gold output in the first nine months of this year was up 6.8 percent compared with the same period a year ago, the Association said.

MARKET NEWS

Novelis sells North American aluminum foil business to Reynolds

NEW YORK, Nov 19 (Reuters) - Novelis Inc NVLX.UL said on Tuesday it has agreed to sell its North American consumer aluminum foil business to Reynolds Consumer Products Inc for $35 million as part of its drive to focus on higher-margin markets such as automotive.

The Atlanta-based company said the sale includes plants which make household foil and wrap in Toronto and Vancouver, and sales offices and distribution facilities in Montreal and Mississauga, Canada and in LaGrange, Georgia.

"It is not aligned with Novelis' growth strategy," said Marco Palmieri, Senior Vice President and President of Novelis North America, in a statement.

The world's largest rolled aluminum products maker has increased its focus on making value-added products for the automotive and beverage can sectors.

The deal comes after the company sold three European aluminum foil and packaging plants in July last year and closed its British plant, which made confectionary packaging, in 2011.

Codelco offers 2014 China premiums at $138, highest since 2005

HONG KONG, Nov 20 (Reuters) - Chile's Codelco, the world's top copper producer, has raised the premium for 2014 term shipments to China by 41 percent to a nine-year high, four trading sources said, reflecting strong Chinese demand.

The proposal to clients in private meetings in Shanghai on Wednesday to increase the premium by $40 to $138 per tonne -- the highest since 2005 -- offers potential support for copper prices which have fallen about 4 percent this month.

Codelco Chief Executive Thomas Keller told Reuters he expected term negotiations with the company's biggest customer and the world's biggest copper consumer to wrap up fairly quickly.

The offered premiums reflected spot market conditions, where premiums have risen sharply since last year, Keller said in Shanghai after the firm announced the premium to clients. He declined to give details of the offer.

Chinese traders and end-users said the offer was likely to be accepted.

The offered premium is in line with the $135-$145 range expected by buyers, and is still lower than spot premiums of $190-$200 per tonne for bonded stocks in Shanghai or shipments due to arrive China soon.

Most buyers in China paid a term premium of $98 per tonne over the cash London Metal Exchange copper price in 2013, with smaller firms paying above the mark but less than $105 to Codelco. The premium includes insurance and freight.

Codelco was widely expected to raise the 2014 term premium after a $27 per tonne increase for buyers in Europe. Chinese buyers had also agreed to higher premiums from Japanese suppliers due to rosy forecasts of economic growth in China and consumption of refined copper.

"$138 is about right. We had expected $135," a trader at a large Chinese buyer and importer of refined copper said.

Traders and end-users were keen to increase bookings of 2014 shipments as they were growing more confident on the economic outlook and demand for the metal as a financing tool remained strong, trading sources said.

The buyers wanted to hold more metal next year after a rise in domestic demand in the second quarter of this year led to a rundown in stocks at bonded warehouses.

Stocks fell from a record of about 1 million tonnes in the first quarter to about 400,000 tonnes at present, pushing spot premiums to four-year highs.

Copper importers also found it easier to obtain letters of credit for banks in August, boosting demand for metal used as a collateral for short-term loans.

But some global suppliers had told Chinese buyers that they wanted to cut term shipments to China in 2014 because they expected demand from Europe to grow faster than 2013, a manager at another large Chinese end-user and importer said.

"Chinese importers don't have much choice but to accept high premiums from Codelco," he said.

World copper demand to grow 4.5 pct in 2014 -industry group

SHANGHAI, Nov 20 (Reuters) - Global copper demand is expected to grow 4.5 percent on the year in 2014, mostly due to demand for refined copper from China, the world's leading consumer of the metal, the International Copper Study Group (ICSG) said on Wednesday.

Don Smale, secretary-general of the organisation, also said at an industry conference in Shanghai that apparent refined copper consumption in China was expected to rise 6 percent on the year.

The industry group has forecast a copper surplus of 390,000 tonnes in 2013.

Zambia-Tanzania copper railway shut after accident

LUSAKA, Nov 20 (Reuters) - The Tanzania-Zambia Railway Authority has suspended the transportation of freight and passengers between the two countries for at least week after an accident dislocated a rail line, a company spokesman said on Wednesday.

MARKET NEWS *(Continued)*

The TAZARA line is a key route for copper exports through the Tanzanian port of Dar es Salaam from Zambia, Africa's top copper producer, and the neighbouring Democratic Republic of Congo.

Cross-border operations were halted on Monday after a truck hit a railway bridge in Tanzania, Zambia's privately owned Post Newspaper reported.

"The rail line was dislocated and tentatively declared impassable for the next seven days," TAZARA spokesman Conrad Simuchile said.

In March, the national railways of Zambia, Democratic Republic of Congo and Tanzania signed an agreement to make it easier to transport goods such as copper by rail between the countries.

ThyssenKrupp postpones results as deal on U.S. plant nears

FRANKFURT, Nov 19 (Reuters) - German steelmaker ThyssenKrupp pushed back the publication of its annual financial results as talks to sell a steel plant in the United States entered the home stretch.

"ThyssenKrupp is in exclusive negotiations on the potential sale of the U.S. steel plant in Calvert, Alabama," the company said late on Tuesday, adding it was postponing publication of its earnings to Dec. 2 from Nov. 21.

ThyssenKrupp has been trying for more than a year and a half to find a buyer for its Steel Americas business - comprised of the Calvert plant and a steel mill in Brazil - which has caused losses and sapped capital at Germany's biggest steelmaker for the past few years.

The book value of Steel Americas as a whole has shrunk to 3.3 billion euros ($4.5 billion) from more than 7 billion euros, with analysts estimating Calvert accounts for about 45 percent.

ArcelorMittal said earlier this month it was interested in the Calvert plant and Handelsblatt newspaper reported on Wednesday a consortium led by the world's largest steelmaker was close to signing a deal.

Brazil's Cia Siderurgica Nacional SA (CSN) was originally seen as the most likely buyer of both Steel Americas mills, but price and ThyssenKrupp's future involvement are believed to be sticking points.

A source familiar with the situation told Reuters in September that ThyssenKrupp could give up trying to sell the plant in Brazil, having made no progress in sales negotiations with CSN.

Analysts have said a partial sale of Steel Americas would still be better than no sale at all, though it would be a disappointment if the plant in Brazil remains on ThyssenKrupp's books. The plant, known as CSA, is 73 percent owned by ThyssenKrupp while the rest is held by Brazil-based iron ore miner Vale SA.

A sale of just the U.S. plant could bring in proceeds of between $1.5 billion to $2 billion and result in a further writedown on the value of Steel Americas, analysts say.

Earlier on Tuesday, two bankers familiar with the matter told Reuters that ThyssenKrupp was stepping up preparations for a capital hike in a bid to shore up its strained balance sheet.

ThyssenKrupp said on Tuesday its talks to sell the Calvert plant also included a long-term contract for CSA, "a solution that would secure the value of the Brazilian steel mill."

"Whether the transaction will be brought to a successful conclusion is still open at present," it said, without naming the companies it was negotiating with.

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

London copper climbs as Bernanke reaffirms stimulus

SINGAPORE, Nov 20 (Reuters) - London copper on Wednesday climbed off three-month lows touched the session before, with Federal Reserve Chairman Ben Bernanke reaffirming support for ultra-easy monetary policy that has underpinned demand for commodities.

Copper prices have been tracking expectations over when the Fed could curb its stimulus, with investors hoping it will hold off for now. But prices have trended lower in the last week as worries mount over growing supply and cooling demand from China towards year-end.

"Today copper prices may be up because Bernanke is reassuring on tapering. But fundamentally we have been bearish on copper, and this is mostly because of the oversupply concern," said Helen Lau, an analyst at UOB Kay Hian Securities in Hong Kong.

Bernanke said on Tuesday the Fed would maintain ultra-easy U.S. monetary policy for as long as needed and would only begin to taper bond-buying once it is assured that labour market improvements would continue.

UOB Kay Hian sees a copper averaging at $6,800 a tonne next year.

Three-month copper on the London Metal Exchange had climbed 0.49 percent to $7,004 a tonne by 0729 GMT from the previous session when it finished barely changed.

LME copper sank to its lowest since Aug. 7 on Tuesday at $6,910 a tonne, having last week finally broken out of a $7,000-7,420 range in place for the past three months.

The most-traded February copper contract on the Shanghai Futures Exchange jumped 1.13 percent to 50,360 yuan ($8,300) a tonne.

Swelling mine supply has fed China's copper smelters as the market moves into a surplus towards the end of the year.

China's production of copper surged by 23 percent in October to 637,958 tonnes and is up nearly 14 percent for the year, although smelter sources have said the stats bureau is double counting some production.

Chile's Codelco, the world's top copper producer, has raised the premium for 2014 term shipments to China by 41 percent to a nine-year high, four trading sources said, reflecting strong Chinese demand.

More support may also come from China's economic reform, which was buoying the country's sharemarkets on Wednesday.

China's officials indicated on Tuesday how they plan to steer reforms on interest rates, the currency and stock markets, following a top-level party meeting that promised sweeping changes over the next decade.

Open interest for copper has declined in the past few days, alongside LME prices, suggesting short position holders are taking profits - rather than opening new short positions, indicating prices may find a more stable footing soon.

Gold rangebound as markets await Fed minutes for stimulus clues

SINGAPORE, Nov 20 (Reuters) - Gold was trading in a tight range on Wednesday as investors awaited the release of the minutes of a U.S. Federal Reserve policy meeting later in the session for clues on when the bank will trim its stimulus.

Bullion failed to make any headway despite dovish comments from Fed Chairman Ben Bernanke about the bank's bond purchases as a lack of major U.S. economic data and lacklustre physical demand prevented investors from taking any big positions.

"Gold is in a holding pattern right now and is struggling to find a catalyst to move prices either way," said Victor Thianpiriya, an analyst at ANZ.

Thianpiriya said the next major event that could move prices was the release of nonfarm payroll data, which is expected only in early December.

"Physical demand is not weak but it is not explosive either for the shorts to cover their positions," he said.

Spot gold was largely unchanged at $1,274.24 an ounce by 0708 GMT after ending flat in the previous session. The U.S. dollar was under pressure but global shares held steady after Bernanke's comments.

Minutes of the October 29-30 Fed meeting are due to be released later on Wednesday, with investors looking for detail of Fed discussions on the timing of any tapering.

Bernanke said on Tuesday the Fed will maintain ultra-easy U.S. monetary policy for as long as needed and will only begin to taper bond buying once it is assured that labour market improvements would continue.

While the economy had made significant progress, it was still far from where officials wanted it to be, Bernanke said, supporting expectations that the Fed would not immediately roll back its $85 billion in monthly bond purchases.

The Fed may need to wait until next year, possibly until March, before beginning to wind down its stimulus program, Chicago Fed President Charles Evans said.

The bond purchases had been a key support for gold prices until recently as investors sought a hedge against inflation. However, the metal has dropped nearly 25 percent so far this year as an improving economy prompted investors to channel money towards stocks.

Holdings in SPDR Gold Trust, the world's largest gold-backed exchange-traded fund and the best measurement of gold market sentiment, fell 1.50 tonnes to 863.01 tonnes on Tuesday - their lowest since February 2009.

MARKET REVIEW *(Continued)*

Dollar slips vs euro after Bernanke's comments

SINGAPORE/SYDNEY, Nov 20 (Reuters) - The dollar edged lower versus the euro on Wednesday after U.S. Federal Reserve Chairman Ben Bernanke said the Fed will maintain its ultra-easy monetary policy for as long as needed.

The euro rose 0.1 percent to $1.3554. Earlier on Wednesday the single currency touched a high of $1.3584 on trading platform EBS, its loftiest level since Nov. 1.

Traders said the euro's rise gained a bit of added steam due to stop-loss buying, adding that its push higher versus the dollar helped lift it against the yen as well.

Bernanke's speech "was enough to ram euro/dollar up through the stops and kick cross/yen higher," said a U.S.-based currency trader.

In a speech that echoed dovish comments by his nominated successor, Janet Yellen, Bernanke said that while the economy had made significant progress, it was still far from where officials wanted it to be.

Bernanke said officials want evidence of durable job growth before scaling back the Fed's bond-buying stimulus. He added that interest rates were likely to remain near zero for a considerable time after the asset purchases end.

The euro held steady against the yen at about 135.54 yen, having set a four-year high of 135.95 earlier, its highest level versus the Japanese currency since October 2009.

The dollar eased 0.1 percent to 100.03 yen, backing away from a two-month high near 100.43 yen set last Friday.

Analysts said the low-yielding yen is still the preferred funding currency for carry trades, with the Bank of Japan expected to maintain its ultra-loose monetary policy at its policy decision on Thursday. Later on Wednesday, the yen may take its cues from a report on planned reforms to Japan's public pensions including the Government Pension Investment Fund.

People familiar with the process say the final report will likely add details and a clearer direction to a preliminary September report that recommended the GPIF shift away from very low-yielding Japanese government bonds. The report is expected to be released at around 0830 GMT.

AUSTRALIAN DOLLAR

The Australian dollar slipped 0.2 percent to $0.9413 AUD=D4, after having met solid offers at levels near $0.9450.

Not helping were comments from Reserve Bank of Australia Assistant Governor Guy Debelle that a fall in the Aussie would be preferable, an oft-stated position by the central bank.

The U.S. dollar had already been unsettled after China signalled on Tuesday it was willing to tolerate a stronger yuan, meaning it is less likely to buy U.S. dollars to keep its currency pinned down.

China's central bank chief, Zhou Xiaochuan, vowed to quicken the process of full yuan convertibility that will see the bank exit from regular intervention on the currency market.

For years, the central bank has bought up foreign currency, mostly U.S. dollars, to curb strength in the yuan fuelled by the country's export engine.

"Although no timeline was provided, the news should be supportive of further yuan appreciation," analysts at Barclays Capital wrote in a note to clients.

"We continue to forecast USD/CNY at 6.00 in one year. The impact of further CNY FX changes for other Asian currencies is more ambiguous. That said, the recent flurry of reform news out of China has helped boost Asian currencies and equities."

Later on Wednesday the focus will be on a batch of U.S. data, including retail sales and consumer prices, as well as the minutes of the Fed's October policy meeting.

(Inside Metals is compiled by Vikas Vasudeva in Bangalore)