INSIDE METALS

Wednesday, November 21, 2012

CHART OF THE DAY

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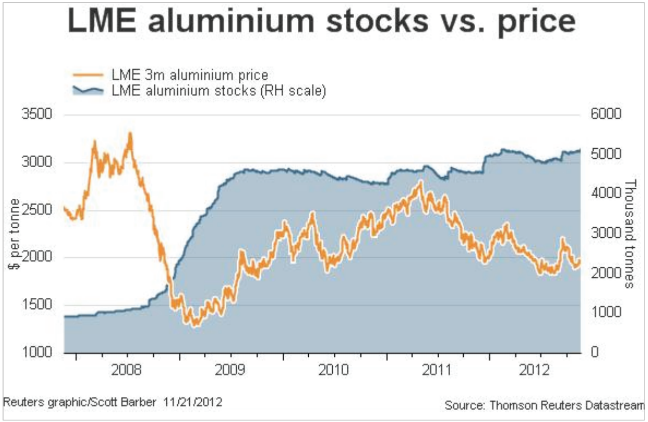

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FEATURE

COLUMN- Another false signal for the aluminium market

The latest snapshot on global aluminium production provided by the International Aluminium Institute (IAI) showed global run-rates stabilising at 122,600 tonnes per day, an annualised 44.73 million tonnes, in October.

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

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TODAY'S MARKETS

BASE METALS: London copper slipped for a second day after a warning by Federal Reserve Chairman Ben Bernanke renewed worries about the U.S. budget crisis, and as traders moved to the sidelines ahead of global manufacturing data due out this week. Prices, however, are likely to get support from hopes that demand may improve from top copper consumer China amid signs that an economic recovery is taking hold.

"Over the next four months China's economy is looking better than it was four months ago," said Matt Fusarelli, an analyst at Australia-based consultancy AME Group.

PRECIOUS METALS: Gold traded steady lacking conviction to move out of its recent trading range as investors eye truce talks over Gaza and discussions on how to avert a fiscal crisis in the world's top economy. An exchange of fire between Palestinians and Israelis continued as U.S. Secretary of State Hillary Clinton held talks in Jerusalem seeking a truce. A failure to reach a cease-fire may support gold's safe-have appeal.

"Gold seems well supported towards the $1,700 level, and the longer-term story hasn't changed much," said Nick Trevethan, senior commodity strategist at ANZ in Singapore, adding that continuously robust demand from China and official sector buying will help support bullion prices.

FOREX: The dollar extended gains against the Japanese yen to hit a 7-1/2 month high after Japan exports fell for a fifth month running in October, adding to recession worries and speculation of more monetary easing.

The dollar rose to 82.12 yen its highest since early April and breaking past a reported option barrier at 82 yen. Traders cited more stop-loss buy orders above 82.15 yen.

FEATURE

COLUMN-Another false signal for the aluminium market

By Andy Home

LONDON, Nov 20 (Reuters) - The latest snapshot on global aluminium production provided by the International Aluminium Institute (IAI) showed global run-rates stabilising at 122,600 tonnes per day, an annualised 44.73 million tonnes, in October.

While output in the world outside of China rose by an annualised 109,500 tonnes last month, that in the world's biggest producer edged lower by 126,400 tonnes.

It was the second consecutive decline in Chinese production. But the cumulative 377,000-tonne annualised drop since August flatters to deceive.

China's output of the light metal totalled 1.717 million tonnes last month, according to figures from the China Nonferrous Metals Association carried by the IAI.

That marked a 15-percent jump on October 2011, while cumulative production growth is still running at over 10 percent so far this year.

And whichever way you look at the raw statistics, China is still producing more aluminium than it can currently consume.

RETURN OF THE SRB

You don't need to take my word on that. Take instead the word of the Chinese government, which is once again soaking up surplus units.

The State Reserves Bureau (SRB), the government's stockpile manager, last week bought 100,000 tonnes of aluminium via a closed-door tender.

It may be the first of several with local observers suggesting some 400,000 tonnes of eventual purchases.

It also represents the first such intervention in the metal markets (the SRB also bought 100,000 tonnes of zinc) since early 2009.

Back then the world's manufacturing industry was experiencing the full force of the Great Contraction and prices were even more bombed out than they are now.

The SRB bought 590,000 tonnes of aluminium, 159,000 tonnes of zinc and a significant but statistically hazy amount of copper.

Since its purchases pretty much coincided with the price trough for industrial metals, it is tempting to view the return of the SRB to the markets as a major bullish indicator.

THERE'S STRATEGIC AND THERE'S STRATEGIC

Tempting but wrong.

On a macro level raw material prices at the start of 2009 were already responding to the promise of the massive infrastructure-based stimulus program announced by the Chinese government late 2008.

Any stimulus program on even remotely similar a scale is conspicuous by its absence this time around.

The Chinese government has limited itself to some fine-tuning of already-planned infrastructure spend and uncertainty about its likely impact is one of the reasons why metal markets are still see-sawing in well-trodden ranges.

At a micro level the SRB's purchases of copper follow a completely different logic from those of other metals such as aluminium and zinc.

The SRB's involvement in the copper market is strategic in the sense that copper is strategically important to the Chinese economy and China doesn't have enough of the stuff.

This natural short position is why the SRB tends to be a lot cagier about what it is doing in the copper market, although even its announcement in late 2008 that it wanted to buy more was enough to halt the price slide.

It was a clear buy signal from the most influential buyer in the world's largest collective buyer of refined copper.

However, China has no structural shortage of aluminium, or zinc for that matter. It is in fact the largest global producer of both.

So, when the SRB starts buying up metal from its own smelters, it is a different kind of "strategic" operation.

"Strategic" in the sense that the government doesn't want some of its most established producers to go out of business.

Researchers at Macquarie Bank have drawn up a list of the producers participating in the latest aluminium tender.

All five featured in the 2008-2009 tenders and all might be considered national favourites, first and foremost Chalco, which supplied the largest tonnage, just as it did three years ago.

Chalco , it is worth noting, has just announced its fourth consecutive quarterly net loss.

Moreover, last week's tender was awarded at a significant $100-equivalent premium to the domestic price as traded on the Shanghai Futures Exchange (SHFE). Also just like three years ago.

SHORT-TERM GAIN...

The Chinese government's strategy appears to be two-fold, just as it was back in 2008-2009.

Firstly, it is a direct subsidy to loss-making smelters struggling to finance unsold inventory.

Macquarie estimates there are around two million tonnes of aluminium stocks in the country, only a small part of which is visible in the SHFE system.

Interestingly, the premium paid at last week's zinc tender was even higher at around $200-equivalent per tonne, apparently confirming accumulating evidence that China's zinc sector is foundering in even deeper water than its aluminium sector.

Secondly, it is an attempt to bully up the domestic price to a level where even relatively high-cost smelters can eke out some margin.

FEATURE *(Continued)*

This is why these tenders, although closed-door, are still highly public. Don't expect similar light to be thrown on what the SRB is doing in the copper market, where it is primed to buy cheap on the international market at times of surplus and release metal in the domestic market at times of extreme shortage.

Evidently, if the government via the SRB is going to keep buying aluminium at above-market prices, it is going to achieve higher prices.

After all, who is going to bet against the Chinese government?

It may even provide a fillip for the rest of the world's aluminium sector.

The SRB's purchases in 2009 forced open an import-friendly arbitrage window, through which record amounts of metal flowed for several months.

...LONG-TERM PAIN

But if there is a short-term price reaction, and that will depend on just how much aluminium the SRB is prepared to buy, it will be a false signal for the aluminium market.

Because these tenders are simply another sign that China regards its aluminium smelting sector as too big to fail.

Loss-making plants operated by influential producers will not be allowed to close, even as a host of new lower-cost plants ramp up in China's northwestern provinces.

The tenders dovetail with other localised support mechanisms, such as a shadow inventory scheme operated by the government of Yunnan and power subsidies in provinces such as Guizhou, Henan and Guangxi.

Such government support will only encourage continued overproduction and the continued build-out of excess capacity, precisely the twin problems plaguing the aluminium sector, both in China and the rest of the world.

Moreover, if Chinese government intervention overrides the top end of the global cost curve, prices elsewhere will have to go lower for longer if the market is going to rebalance.

Production cuts outside of China have now largely run their course, witness the pick-up in October run-rates.

Surplus metal in the West is being soaked up not by governments but by stocks financiers and the resulting squeeze on physical premiums is acting as a critical lifeline to struggling smelters just about everywhere.

The manifestation of this process, however, is the inexorable rise in inventory, only part of which, as in China, is visible in the London Metal Exchange warehouse system.

LME stocks hit a fresh all-time record today.

It won't be the last.

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

GENERAL NEWS

Bernanke sees good 2013 if U.S. 'fiscal cliff' avoided

NEW YORK, Nov 20 (Reuters) - Federal Reserve Chairman Ben Bernanke said on Tuesday that 2013 could be a "very good year" for the U.S. economy if politicians can strike a quick deal to avoid the so-called fiscal cliff.

The powerful central bank chief said a credible long-term framework to put the federal budget on a sound path was needed, but warned against drastic action that would harm the recovery.

He repeated a warning that failing to halt the fiscal cliff's $600 billion in expiring tax cuts and government spending reductions could lead to recession, and said worries over how budget negotiations will be resolved were already damaging growth.

"Such uncertainties will only be increased by discord and delay," he told the Economic Club of New York. "In contrast, cooperation and creativity to deliver fiscal clarity - in particular, a plan for resolving the nation's long-term budgetary issues without harming the recovery - could help make the new year a very good one for the American economy."

Bernanke said it appeared likely there would be some tightening of U.S. fiscal policy next year, and that the Fed's bond purchases would help offset that drag. But he sounded a note of caution on the Fed's powers.

"The ability of the Fed to offset headwinds is not infinite," he said. "In the worst-case scenario where the economy goes off the broad fiscal cliff ... I don't think the Fed has the tools to offset that."

U.S. stocks gave up gains as Bernanke spoke, with the Dow Jones industrial average trading 43 points lower in mid-afternoon.

Bernanke appeared to be dangling the prospect of a stronger economy before Congress as an added incentive for lawmakers to strike a deal.

"I do think there is important potential for the economy to strengthen significantly if there is a greater level of security and comfort about where we are going as a country," he said.

The Fed chief even joked about his own research into the effect of uncertainty on investment spending.

"I concluded it is not a good thing, and they gave me a PhD for that," he said to laughter.

COUNT ON THE FED

The economy grew at a tepid 2 percent annual rate in the third quarter, and economists expect the final three months of the year will be even weaker. The U.S. unemployment rate remains

GENERAL NEWS *(Continued)*

elevated at 7.9 percent, which Bernanke said was still well above levels the Fed thinks are achievable without sparking waged-related price pressures.

Bernanke reiterated the U.S. central bank's guidance that it expects to keep benchmark interest rates near zero until at least mid-2015, but offered few clues as to how the Fed might tweak its bond-purchase program at the start of next year.

"We will want to be sure that the recovery is established before we begin to normalize policy," he said.

U.S. central bank officials have been debating setting numerical guideposts for policy, and Bernanke said this was a promising path for the Fed's communications strategy.

The Fed has held overnight rates near zero since December 2008 and has bought about $2.3 trillion in securities in a so-called quantitative easing of monetary policy to drive other borrowing costs lower.

In its third round of quantitative easing, or QE3, the Fed vowed in September to buy $40 billion in mortgage-backed bonds per month and to continue purchasing securities until there is substantial improvement in the outlook for jobs creation.

Despite worries that the Fed's bloated balance sheet could cause inflation, Bernanke said this is not an immediate concern given restraints on wages and subdued measures of inflation expectations.

Bernanke said it was too soon to assess the impact of the Fed's latest round of monetary easing, but he pointed to research showing prior waves of asset buys were effective in bolstering the frail economy.

The Fed chief said the 2007-2009 financial crisis may have temporarily lowered the U.S. economy's potential rate of growth, partly explaining the recovery's unusual sluggishness.

But he said a series of "headwinds" facing the economy appeared to be a more important cause, citing the damage to the housing sector and mortgage markets, and a sharp tightening in credit.

Those impediments appear to be fading, he said. The U.S. housing market has shown "some clear signs of improvement," and "gradual and significant progress" had been made toward moving toward more normal financial conditions, Bernanke said.

Even so, he warned that a third headwind, U.S. fiscal policy, could intensify in coming quarters, with the drag from a tighter federal budget likely to outweigh looser budgets at the state and local level.

Euro zone, IMF fail to strike Greek debt deal

BRUSSELS, Nov 20 (Reuters) - Greece's international lenders failed for the second week running to agree how to get the country's debt down to a sustainable level and will have a third go at resolving their most intractable problem in six days' time.

After nearly 12 hours of talks through the night during which myriad options were discussed, euro zone finance ministers, the International Monetary Fund and the European Central Bank failed to reach a consensus, without which emergency aid cannot be disbursed to Athens.

"We are close to an agreement but technical verifications have to be undertaken, financial calculations have to be made and it's really for technical reasons that at this hour of the day it was not possible to do it in a proper way and so we are interrupting the meeting and reconvening next Monday," Eurogroup chairman Jean-Claude Juncker told reporters.

"There are no major political disagreements," he said.

Nonetheless, the euro extended its fall against the dollar in response.

A document prepared for the meeting and seen by Reuters declared that Greece's debt cannot be cut to 120 percent of GDP by 2020, the level deemed sustainable by the IMF, unless euro zone member states write off a portion of their loans to Greece.

The 15-page document, circulated among ministers, set out in black-and-white how far off-track Greece is in reducing its debt to the IMF-imposed target, from a level of around 170 percent of GDP now.

The document set out various ways Greece's debt could be reduced between now and 2020, but concluded they would not be enough without euro zone creditors taking a hit on their own holdings -- something Germany and others have said would be illegal.

The document did say Greek debt could fall to 120 percent of GDP two years later -- in 2022 -- without having to impose any losses on euro zone member states or forcing through a buy-back of Greek debt from private-sector bondholders.

But International Monetary Fund chief Christine Lagarde rejected such an extension at similar talks last week.

Without any corrective measures the document said Greek debt would be 144 percent in 2020 and 133 percent in 2022, figures first reported exclusively by Reuters last week.

"To bring the debt ratio down further, one needs to take recourse to measures that would entail capital losses or budgetary implications for euro area member states," the document says.

"Capital losses do not appear to be politically feasible and would jeopardise, at least in a number of member states, the political and public support for providing financial assistance."

Juncker said at a meeting a week ago that he wanted to extend the target date to reduce Greek debt by two years to 2022, but Lagarde insists the 2020 goal should stand.

The view of the IMF, which has played a role in both Greek bailouts so far, is critical since it provides international legitimacy and credibility for the efforts the euro zone is making. If the IMF were to withdraw its support for the bailout programmes, it could have a deeply damaging market impact.

GENERAL NEWS *(Continued)*

The document appeared designed in part to convince the IMF that Greek debt could be made sustainable just two years behind schedule if only it would soften its stance.

It remains possible that Lagarde could provide further wiggle room, but she is believed to favour the idea of euro zone member states taking a writedown on some of the loans extended to Greece in order to stick to the 120 percent in 2020 goal.

DEBT BUYBACK

Among the main measures under consideration to bring Greece's debt burden down as rapidly as possible is a debt buyback under which Greece would offer to purchase bonds from private investors at a discount to their nominal value.

Several options are under consideration, officials have said and the document makes clear, including using about 10 billion euros to buy back bonds at between 30 and 35 cents in the euro.

There are also proposals to reduce the interest rate on loans already extended by euro zone countries to Greece, to impose a moratorium on interest payments and lengthen the maturities on loans, all of which would cut the debt burden.

Pressure for the euro zone to come up with a solution is high not just because Greece is running out of money and financial markets want a dependable solution, but because Athens has initiated virtually all the steps demanded of it to cut spending, raise taxes and overhaul its economy.

"Greece has delivered. Now it's up to us to deliver," Juncker said.

Because of the latest delay, the ministers were unable to give a go-ahead for the next tranche of up to 44 billion euros of emergency funds to be paid to Athens. The payment would provide short-term relief to Athens, but it is long-term debt that is the core issue.

The European commissioner for economic affairs, Olli Rehn, said as he arrived for the meeting that the euro zone should be ready to do more for Greece in the coming years, an apparent nod to the idea of government-sector debt writedowns.

"It's essential now that we take a decision on a set of credible measures on debt sustainability and, at the same time, we need to be ready to take further decisions in the light of future developments," Rehn said. He did not elaborate, but the idea of a haircut on official loans is off the table for now because many countries, including Germany, see it as politically and legally impossible.

Glenstrata deal costs chairman Bond his job

LONDON/ZUG, Switzerland, Nov 20 (Reuters) - Shareholders in Xstrata prompted the resignation of the miner's chairman on Tuesday as they voted through a $31 billion takeover by trader Glencore but twice snubbed a controversial pay plan to retain key managers.

Xstrata Chairman John Bond, formerly chairman of HSBC and Vodafone , would have been chairman of the new Glencore Xstrata.

Bond had been under fire for months over a 140 million pound ($223 million) "golden handcuffs" package for managers the Xstrata board said were key to operations, and over what some investors felt was an insufficient fight for better terms from Glencore, Xstrata's top shareholder.

It took an unprecedented, activist stance from the Gulf state of Qatar, an unexpected kingmaker and second-largest shareholder in Xstrata, to force Glencore to improve the offer - just hours before a September shareholder vote, later cancelled.

At the shareholder meeting in the lakeside Swiss town of Zug activist investor Knight Vinke, also a top 25 Xstrata shareholder, accused the board of "governance failings" and said it had no confidence in its independence and robustness.

Bond defended both the board and the retention plan.

"Right now, there is $20 billion of your money invested in 20 projects and extensions," he told investors gathered for the votes. "It is the Xstrata management team that is responsible for making sure these investments are made safely, soundly and profitably."

But hours later he resigned, citing shareholder votes that had opposed every one of the Xstrata board's recommendations.

"He's fallen on his sword," analyst Paul Gait at brokerage Bernstein said. "The Qataris basically took the running of the merger process out of his hands - and then there was essentially a vote of non-confidence passed by the shareholders in the company regarding his recommendations.

"How his position could ever have been tenable after that is beyond me."

VOTE IN FAVOUR

Following an overwhelming vote in favour from Glencore's shareholders, almost 79 percent of Xstrata's voting shareholders gave their support to the takeover - but without the pay deal.

Qatar had said it would back the main resolutions on Glencore but would abstain on the retention, making it likely that vote would fail.

In the event, 78.4 percent of those voting cast their votes against pay awards described by Knight Vinke as "egregious".

Glencore was not able to vote its shares on Tuesday.

At least one Xstrata shareholder, top 10 investor Scottish Widows Investment Partnership, said the miner would still have to manage "retention risk" as it executes on a pipeline of projects, cautioning an unapproved arrangement could "offer less transparency and accountability to shareholders".

Tuesday's complex series of votes, taking over more than two hours, brought one of the sector's biggest ever deals closer to the finish line, with only antitrust clearance remaining.

GENERAL NEWS *(Continued)*

Xstrata board members, visibly relieved, exchanged handshakes and pats on the back as the voting ended.

A verdict from the European Union, the toughest of the remaining hurdles, is due later this week. Glencore has already offered concessions in its zinc operations to avoid a lengthier probe.

Approval from Brussels will all but secure a deal, ending years of on-off merger talks between Xstrata and its largest shareholder and more than nine months of often tense negotiations to create what both sides hope will be a mining and trading powerhouse.

LARGEST DEAL

The tie-up, on the cards after Glencore listed last year, looks set to become the largest deal in the sector since Rio Tinto's acquisition of Alcan in 2007.

Shares in the two sides were trading on Tuesday at prices implying a ratio of 2.97, moving towards Glencore's offer of 3.05 new shares for every Xstrata share held.

"It's like a marriage. People are afraid when the moment comes but it's good in the long term," asset manager Thomas Mitsoulis, whose clients own Xstrata shares, said in Zug.

"Shareholders want more and in the long term the merger will mean more cash and more dividends."

Analysts and industry advisers have already begun focusing on the next steps for a group that, with its spread of assets from mines, to oil wells to farms and more ships than Britain's Royal Navy, is expected to be a deal machine in frugal times.

Xstrata's own growth over the last decade has been fuelled by deals and it was set up with a $2.5 billion acquisition of Glencore coal assets. Glencore, for its part, joined the stock market last year with the intention of funding larger deals, including the bid for control of Xstrata.

"These companies have looked at doing significant acquisitions over the last year - the question is whether they buck the trend and provide more buoyancy in the industry," Alexander Keepin, partner and co-head of mining at law firm Berwin Leighton Paisner said.

Glencore and Xstrata have already proved a bright spot for the nine banks, law firms and countless other advisers, who will share a fee pot worth some $200 million.

Depending on the combined group's final weighting, Glencore Xstrata could be the 13th largest company in Britain's FTSE 100, representing more than 2 percent of the index.

It could also sell some non-core assets - not least Xstrata's chrome and platinum, analysts say, and revise Xstrata's portfolio of mining projects, some of which are ambitious greenfield mines that Glencore does not prioritise.

BNP Paribas cuts base metals price forecasts

Nov 20 (Reuters) - BNP Paribas lowered its price forecasts for base metals on Tuesday, citing worries about the Eurozone crisis, economic prospects in China, the U.S. fiscal cliff and Federal Reserve policy.

"Our downward revisions to annual average prices in 2013 and 2014 are mostly by less than 5 percent," analyst Stephen Briggs said in a note on Tuesday.

However, BNP said it estimates that world base metals demand will grow in 2012 by about 2.5 percent on average and also expects the demand growth to pick up in 2013.

Global banker BNP lowered its price outlook for aluminium by $45 to $2,010 per tonne in 2012, and by $150 to $2,200 in 2013, due primarily to the reluctance of producers to cut back in the face of poor fundamentals.

"Aluminium's progress may be relatively muted and it is likely to remain less volatile than other metals," BNP said.

It slashed its copper price outlooks for 2012 and 2013 by $150 and $175 to $7,950 per tonne and $7,825 per tonne, respectively, saying copper has underperformed since mid-October.

However, analyst Briggs said "whilst the copper market is well supplied in China, it is still tight elsewhere, and we expect the surplus in 2013 to be very modest."

"Upside risks are far from absent and include the possibilities that copper production will fall far short of expectations and that investor appetite will resurge."

BNP Paribas, which forecasts greater divergence between the base metals later in 2013, said lead and tin will outperform the sector over much of the coming year.

Industrial demand for silver seen up in 2013 and 2014-GFMS

NEW YORK, Nov 20 (Reuters) - Industrial demand for silver should rise in both 2013 and 2014, due to improving outlooks for the auto industry and the manufacturing sector, after it declined this year, GFMS, a metals research firm and Thomson Reuters unit, said on Tuesday.

Silver's use in industrial applications is expected to gain nearly 7 percent to 484 million ounces in 2013 and an additional 6 percent to a record 511.6 million ounces in 2014, GFMS said in a report Thursday for the Silver Institute, a trade group.

The report suggests that the price of silver has room to climb in the next several years because of its use in industrial applications, the biggest component in silver fabrication demand.

Total silver fabrication demand includes industrial applications, jewelry, photography, coins and metals, and silverware.

Last week, the global head of metals analytics at GFMS told Reuters that silver prices may climb as much as 38 percent in 2013 from current levels.

GENERAL NEWS *(Continued)*

Year to date, silver is up 20 percent, doubling gold's gain and is among the best-performers among all commodities.

On Tuesday, silver edged down to around $33 an ounce. In April 2011, it surged to a record near $50 an ounce only to lose about a third of its value in the following week, triggering heavy losses in many other commodities in the so-called "commodities flash crash."

For 2012, GFMS forecast silver industrial demand to be down 6 percent to 454.4 million ounces, citing a sluggish global economy particularly due to challenges posed by a three-year-old European debt crisis.

GFMS is the former Gold Fields Mineral Services.

TRADING PLACES

LME aluminium stocks hit record 5.17 mln tonnes

LONDON, Nov 20 (Reuters) - Inventories of aluminium registered by the London Metal Exchange (LME) rose on Tuesday to an all-time record of 5.17 million tonnes in a market with a structural surplus.

Stocks have surged since the 2008 financial crisis as banks spotted money making opportunities from financing deals that effectively locked material in warehouses and as top producer China kept churning out metal as it subsidised loss-making plants to save jobs.

"Globally, excess capacity continues to plague the aluminium industry," Wiktor Bielski, head of commodity research at VTB Capital, said in a note.

Stocks of the metal used in packaging and transport increased by a net 65,200 tonnes to 5,172,500 tonnes LME data showed, surpassing a previous record of 5,125,800 tonnes touched on Feb. 20. Most of the inflow on Tuesday, a net 56,725 tonnes, was delivered into Detroit warehouses, which have the largest stocks of aluminium, totalling 1.46 million tonnes.

The LME stocks have ballooned more than fivefold since the start of 2008, when they were at 933,750 tonnes, as banks arranged financing deals for aluminium.

In these deals, the banks simultaneously buy aluminium and sell it forward for a profit, striking a deal with cheap funding to store it cheaply in the interim. Flows into warehouses were typically stronger at the end of the year as producers tidy up their own inventories, said a metal trader in London who specialises in aluminium.

"You're probably seeing more material becoming available in the fourth quarter as the producers destock and clear the decks for year end," he said on Friday.

Graphic of LME aluminium stocks:

http://link.reuters.com/fuf35s

PRICES SLIDE

The benchmark LME three-month aluminium price has shed 10 percent since mid-September and has lost 42 percent since touching a peak of $3,380 a tonne in July 2008.

The price was virtually flat on Tuesday morning at $1,978 a tonne.

While demand has been hit by the global financial crisis, producers have kept churning out metal, especially in China, the world's biggest producer and consumer.

"Indeed, Chinese production increased by its fastest rate this year in October, up 15.4 percent year on year, and we do not expect any significant cutbacks ahead," Bielski said.

The LME, the world's largest base metals marketplace, oversees a global network of warehouses, which are meant in part to ensure that industrial consumers can take delivery of stock against the exchange's contracts if necessary - a so-called market of last resort.

Some users complain that the LME is not ensuring this role because its regulations allow long backlogs at warehouses, forcing consumers to wait months to access metal.

The LME announced proposed revised rules last week aimed at relieving some of the logjams, but analysts said they would do little to reduce the long queues of aluminium.

China bonded copper stocks at record high around 1 mln T - traders

HONG KONG, Nov 20 (Reuters) - Copper stocks in China's bonded warehouses hit a record high of over one million tonnes late last week and inventories are expected to rise by around 100,000 tonnes by the end of the year due to weak domestic demand, traders said on Tuesday.

Rising stockpiles are set to dampen China's appetite for spot imports and 2013 term shipments, and likely to weigh on benchmark London Metal Exchange copper prices.

China is the world's top consumer of copper, and most local copper buyers are preparing to hold annual contract negotiations with overseas suppliers as early as next week, traders said. Demand for industrial metals such as copper has weakened this year as China's economic growth slows, largely due to a decline in manufacturing activity as its main export market Europe remains beset with financial woes.

Traders estimate about 1.04 million tonnes of refined copper cathode are stored in bonded warehouses in Shanghai and the southern province of Guangdong. One trader, however, said stocks were at 900,000 tonnes, unchanged for early 2011 levels.

TRADING PLACES *(Continued)*

Total inventories across China - including those stored at these bonded warehouses, Shanghai Futures Exchange warehouses, smelters and fabricating plants - are currently around 1.4 million tonnes, the traders added.

Metal stored in bonded warehouses has not been assessed for 17 percent value-added tax. China does not release official data on its inventories but traders track stock levels during regular visits.

"Bonded stocks now are at historical highs in China. With stocks at that level, Chinese importers are cautious about placing yearly orders for 2013 term shipments," said a veteran trader at an international trading house which sells copper cathode to China.

The trader, who declined to be identified as he was not authorised to speak to the media, said bonded stocks were likely to rise by 100,000 tonnes at least by the end of this year as term shipments are delivered.

Bonded stocks in Shanghai are believed to be around 850,000 tonnes, while stocks at Guangdong are nearly 190,000 tonnes, said a trader at a large Chinese trading house and a sales manager at a large Chinese copper smelter.

"We estimate total stocks of refined copper cathode in China would rise to 1.5 million tonnes," the sales manager said, adding that already thin demand for copper may weaken further as firms cut back on purchases to repay their loans before the end of the year.

The growth of China's imports of anode, refined metal, alloys and semi-finished copper products in October fell for the first time since August 2011, with the total volume of around 320,000 tonnes being the lowest amount in 15 months. Analysts have said that the steep decline could mark the start of several months of weak imports.

China, the world's second-largest economy, could stage a tepid economic rebound in the fourth quarter as higher public infrastructure spending nudges it out of seven consecutive quarters of slowdown, but growth will remain lethargic through 2013 a Reuters poll showed.

MARKET NEWS

Maaden to start production at aluminium smelter

JEDDAH, Saudi Arabia, Nov 21 (Reuters) - Saudi Arabian Mining Company (Maaden) will start inintial production at its aluminium smelter next month.

Maaden and Alcoa teamed up in 2009 to build a $10.8 billion aluminum complex at Ras al-Khair on the Gulf coast, which is fast becoming a Saudi mining centre.

The smelter will have a capacity of 740,000 tonnes per year and production will be ramped up gradually to that level, Maaden said on Wednesday.

In addition, the partners are developing a bauxite mine with the capacity to produce 4 million tonnes of the raw material for the plant a year, and a metal rolling mill with a capacity of up to 460,000 tonnes.

The first phase of the project, which includes the smelter and the rolling mill, should be running by 2013, while the mine and a refinery are expected to open in 2014, executives from the two companies have said.

India's NALCO raises aluminium prices by 2,500 rupees/T

BHUBANESWAR, Nov 20 (Reuters) - India's state-run National Aluminium Co Ltd (NALCO) has raised aluminium prices by 2,500 rupees per tonne across all products in the domestic market, company sources said on Tuesday.

The basic price of standard aluminium ingots after the latest revision increased to 139,200 rupees per tonne.

NALCO, which is India's third-largest producer of aluminium, revises prices of its products from time to time to mirror LME prices.

It had raised aluminium prices across all products by 1,500 rupees earlier this month.

World copper market in 522,000 T deficit Jan-August -ICSG

SINGAPORE, Nov 21 (Reuters) - The world refined copper market was in a 522,000 tonne deficit from January to August, the International Copper Study Group (ICSG) said on Wednesday.

This compares with a production deficit of 77,000 tonnes in the same period of 2011, it said.

World refined copper production stood at 13.14 million tonnes in the first eight months of the year, compared with refined usage of 13.662 million tonnes, the group said in a statement.

China leads global steel output rise in October

LONDON, Nov 20 (Reuters) - Global crude steel output rose year-on-year in October, as a sharp increase in China's production outweighed a drop in output in Europe and the United States where demand remains weak, data from the World Steel Association (Worldsteel) showed on Tuesday.

Output of steel, used in automaking and construction, was 126.15 million tonnes in October versus 124.55 million a year earlier, representing a rise of 1.3 percent, Worldsteel figures showed.

MARKET NEWS *(Continued)*

In top producer China, where production has been encouraged by improved margins, crude steel output for October rose 6 percent year-on-year to 59.1 million tonnes.

"We may see output levels increase in China throughout November as producers try and take advantage of renewed market impetus and the lagged effects of infrastructure stimulus kick in which will add further support to higher prices," said Kashaan Kamal, commodities analyst at Metal Bulletin Research.

"But this all depends on buyer appetites as they may choose to destocking over buying."

Production in Western economies was hit by a gloomy outlook for demand, with the European Union registering a 6.2 percent year-on-year drop in output while production in the United States fell 3.3 percent.

Production is expected to remain around the current level for the rest of this year as global demand remains subdued due to sluggish economic growth.

"The (European) region is still struggling with oversupply and sluggish demand so we expect November crude steel output to register similar figures," Kamal said.

Elsewhere in Asia, Japan's output decreased 6.7 percent compared to the same month a year earlier, Worldsteel data showed.

Global demand growth for steel will slow next year because of weaker consumption growth in China and uncertainties from the European debt crisis, Worldsteel said earlier this month.

China refined nickel stocks seen up at 200,000 T by year-end - Antaike

HONG KONG, Nov 21 (Reuters) - China's commercial inventories of refined nickel may end the year at about 200,000 tonnes, an 18 percent rise from current levels, as domestic demand remains weak, influential state-backed research firm Antaike said on Wednesday.

The expected year-end amount is equivalent to more than 100 days of China's total nickel consumption this year, which is estimated at 683,000 tonnes, said Antaike senior analyst Xu Aidong.

High nickel stocks would dampen China's appetite for spot imports and for 2013 term shipments. Imports have already fallen by 28.5 percent year-on-year to 110,972 tonnes in the first three quarters of this year.

"There are no signs domestic demand will pick up soon," said Xu, who estimated current inventories at about 170,000 tonnes.

Xu said inventories were more than sufficient to cover the 150,000 tonne deficit forecast for 2013, which means imports were likely to continue to fall into the new year.

Antaike expects China's nickel consumption to rise 2.5 percent to about 700,000 tonnes next year, while domestic production is likely to rise 9.3 percent to 550,000 tonnes.

Some traders said they were already reducing import deals for 2013, even though suppliers were willing to cut premiums to $140-$180 a tonne from $190-$250 a tonne this year.

The premiums are paid by Chinese importers to overseas suppliers to obtain physical metal and are calculated over London Metal Exchange prices. .

"We will cut 2013 term shipments by 20 percent. There is little hope for spot imports next year," said a senior executive at a large trading house in Shanghai, who declined to be identified as he was not authorised to talk to the media.

PRICE DIFFRENTIALS

China is the world's top metals consumer. Demand for industrial metals such as nickel, used in stainless steel production, has weakened this year as China's economic growth slows, largely due to a decline in manufacturing activity as its main export market Europe remains beset with financial woes.

In addition to weak demand, nickel inventories are expected to rise in December because local firms are cutting purchases to repay loans before the end of the year, traders said.

Some merchants, however, are taking advantage of arbitrage opportunities between Chinese and London Metal Exchange prices.

A sales manager at a large nickel producer said bonded stocks had fallen by around 8,000 tonnes in the past two weeks after merchants paid the value-added tax and resold the metal in the domestic market, where prices were higher than the LME.

"Around 60,000 to 70,000 tonnes of refined nickel are stored in bonded warehouses in Shanghai now," the manager said. Cash LME nickel was at about $16,375 a tonne on Wednesday, down nearly a quarter from this year's high, reached in February.

Demand for spot refined nickel from stainless steel mills, the top users of nickel in China, has also remained thin. The bulk of spot metal had changed hands among merchants, who earn margins from physical transactions or store the metal in warehouses as a collateral for loans, traders said.

Australia state to consider royalty relief for magnetite iron ore

PERTH, Nov 21 (Reuters) - The state of Western Australia may give producers of magnetite iron ore a concession on royalty rates in a bid to jumpstart projects stalled by a recent slump in the steel-making raw material, its premier said on Wednesday.

Magnetite ore is a low grade that requires expensive processing before being exported, making such projects much harder to justify, compared with the ore produced by giants Rio Tinto and BHP Billiton .

Colin Barnett said the state, which produces nearly all of Australia's iron ore, would consider lower royalty rates in the start-up phase of magnetite projects, but the plan still needed to be approved.

"We will sit down with each of the iron ore producers and discuss with them and provide a royalty concession through the initial start-up stages," Barnett told a conference in Perth.

At $120 a tonne, iron ore prices have recovered from a slump in September to a three-year low below $87, but are down almost 13 percent this year, after a loss of more than 18 percent last year.

Development of Western Australia's magnetite projects is key to spurring development of the A$5.9-billion ($6.1 billion) Oakajee Port and Rail project, which Japan's Mitsubishi Corp put on ice two weeks ago after failing to find a partner, despite talks with Chinese companies.

Barnett, who faces re-election next March, has long flagged the development of Oakajee as a new industrial hub as one of his top priorities.

"It's a big day for magnetite because for the premier to announce that there will be a blanket concession rate for start-up projects, it is really going to help with investment attraction," said Megan Anwyl, executive director of mining industry body the Magnetite Network.

"The premier has made it clear that the state government wants to get behind the magnetite industry," Anwyl told Reuters.

Barnett said senior government officials agreed they wanted to show financial support during the expensive start-up stages for magnetite projects.

A royalty concession would benefit Citic Pacific's $8-billion Sino-Iron project, which is on the verge of starting up, two years behind schedule, and Gindalbie Metals , which recently started commissioning at its Karara iron ore project, co-owned with China's Angang Steel .

Other miners studying magnetite projects include Mitsubishi, which has slowed its $3.7-billion Jack Hills magnetite project, Fortescue Metals Group with Baoshan Iron & Steel , and Grange Resources .

The state wanted to send a signal to China and Japan that it was not going to tax the magnetite industry out of existence, Barnett said.

"We're going to do exactly the opposite and we're going to lower royalty rates during those start up years to give a positive endorsement and to see this industry get underway," he said. His office declined further comment on the measure.

U.S. Steel likely to quit Slovakia, country's PM says

BRATISLAVA, Nov 20 (Reuters) - U.S. Steel Corp. looks determined to quit Slovakia whoever ends up bidding for its business there, the Slovak prime minister said on Tuesday after meeting the head of the company's local operations.

Pittsburgh-based U.S. Steel said last week it had received expressions of interest from investors eyeing its subsidiary in the eastern Slovak town of Kosice.

It did not name the potential suitors or say what it would do if a sale was not secured.

Slovak Prime Minister Robert Fico, whose government fears heavy job losses in the town if the U.S. company were to leave, said talks were still under way on a possible sale.

"I rather think they will sell and leave, based on the talks (today with U.S. Steel)", Fico told reporters after his brief meeting with U.S. Steel Kosice CEO David Rintoul in Bratislava.

Rintoul left the meeting without commenting on the talks.

U.S. Steel Kosice is the small euro zone nation's largest private employer with 11,000 staff and is an important supplier to the booming Slovak car industry, a key export sector.

The unemployment rate in the Kosice region was 21.3 percent in October, far above the national average of 13.69 percent.

Indonesia's Timah sees steady refined tin output in 2013

JAKARTA, Nov 21 (Reuters) - Indonesia's top tin miner PT Timah expects its refined tin output to drop as much as 29 percent this year as it adjusts to new regulations on ore, and then for production to be steady in 2013, a company official said on Wednesday.

Timah sees output of between 27-30,000 tonnes in 2012, versus a forecast last month for 30,000 tonnes, said the firm's corporate secretary Agung Nugroho. This is lower than 2011's 38,132 tonnes because Timah is no longer allowed to buy tin concentrate from contractors, he said.

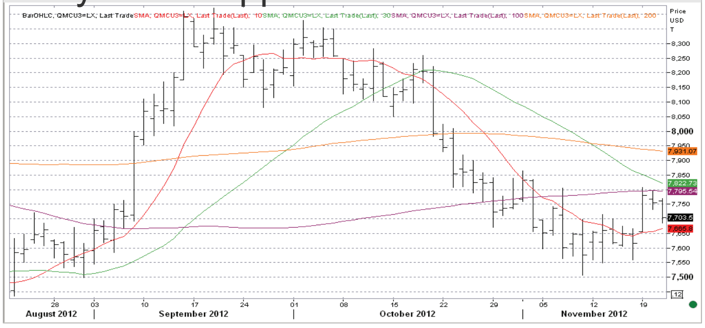
Output is seen holding at 27-31,000 tonnes in 2013, when the firm will revise its map of deposits, Nugroho said.

Indonesia is the world's top exporter of refined tin.

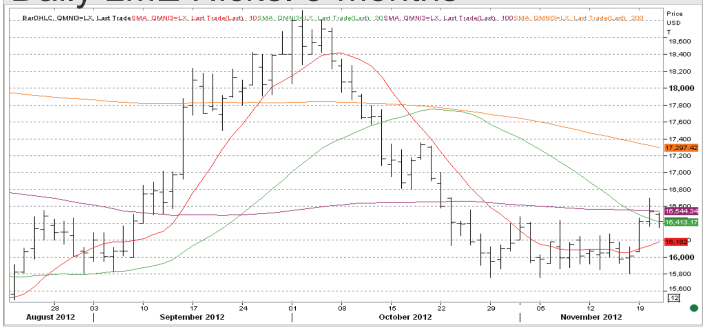
ANALYTIC CHARTS *(Click on the charts for full-size image)*

Daily LME Aluminium 3-months

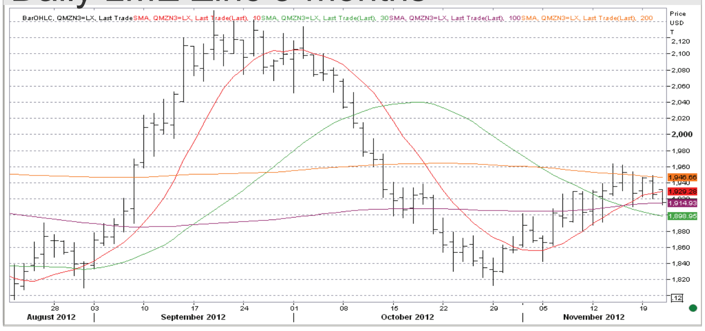
Daily LME Copper 3-months



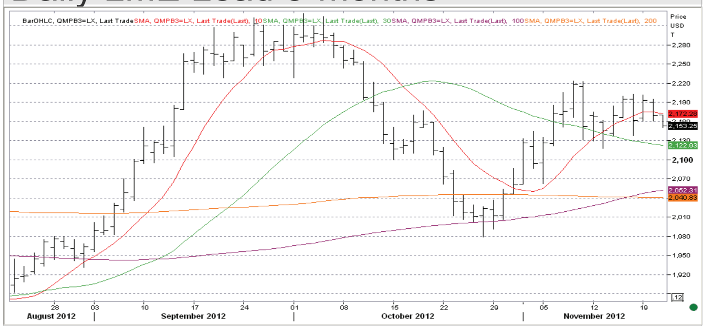
Daily LME Nickel 3-months



Daily LME Zinc 3-months

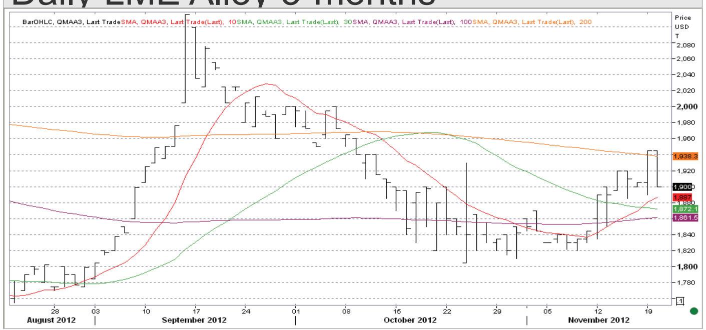


Daily LME Lead 3-months

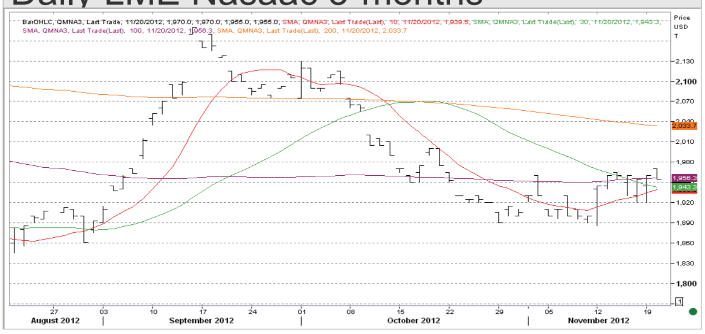


Daily LME Tin 3-months

Daily LME Alloy 3-months



Daily LME Nasaac 3-months



MARKET REVIEW

METALS-Copper slips on U.S. fiscal cliff fears

SINGAPORE, Nov 21 (Reuters) - London copper slipped for a second day after a warning by Federal Reserve Chairman Ben Bernanke renewed worries about the U.S. budget crisis, and as traders moved to the sidelines ahead of global manufacturing data due out this week.

Prices, however, are likely to get support from hopes that demand may improve from top copper consumer China amid signs that an economic recovery is taking hold.

"Over the next four months China's economy is looking better than it was four months ago," said Matt Fusarelli, an analyst at Australia-based consultancy AME Group.

"It's unlikely we would see Chinese PMI fall back below 50 going forward into November, December and January, ahead of the Lunar New year," he added.

China's industrial output, exports and retail sales were all better than expected in October, while inflation eased more than expected.

Traders, however, were waiting for more manufacturing data from China, Europe and the United States to provide a clearer picture of global growth and metals demand into next year.

China's HSBC flash PMI for November is due to be released on Thursday, the same day as European data. U.S. manufacturing figures are also due later on Wednesday.

Three-month copper on the London Metal Exchange eased 1.14 percent to $7,694 a tonne by 0702 GMT.

The most-traded February copper contract on the Shanghai Futures Exchange edged down 0.78 percent to close at 55,900 yuan ($9,000) a tonne.

Copper has lost momentum after staging its biggest once day rally since September on Monday, when hopes U.S. lawmakers would be able to avert a looming fiscal crisis boosted markets.

Bernanke's comments that failing to halt the "fiscal cliff" -- $600 billion in tax increases and spending cuts due to start in January -- could lead to recession dented appetite for riskier assets. Patchy global growth prospects also clouded the outlook for commodities. U.S. housing starts rose to their highest rate in more than four years in October, but permits for future construction fell. Japan's exports fell in annual terms for a fifth month in October.

Copper is facing additional pressure from record high stockpiles in China, which accounted for 40 percent of global demand for the metal last year.

"The market is short here so could see some short covering into year end on any move up. Below $7,550, we will see the corporates coming back in. I can't see any break out of a $7,600-7,800 range before year end," a Singapore-based trader said.

METALS TO RALLY IN COMING WEEKS

In the short term, base metal prices will be driven by sentiment over the euro zone crisis, economic prospects in China, the fiscal cliff and associated dollar moves, BNP Paribas said in a note.

"Our house view on these issues is fairly positive, with the dollar expected to weaken ... This leads us to expect base metals to rally in the coming weeks and into early 2013," the bank said.

"Copper's window of opportunity may be open for only a few months more and our earlier target of USD 9,000/t may now be out of reach. But the market is sufficiently tight for copper to drive the sector again and to drag the weaker metals up with it," it added.

The world refined copper market was in a 522,000 tonne deficit from January to August, the International Copper Study Group (ICSG) said on Wednesday.

The ICSG expects a 458,000 tonne surplus next year as mine supply grows.

PRECIOUS-Gold steady; eyes on US fiscal woes, Mideast tension

SINGAPORE, Nov 21 (Reuters) - Gold traded steady lacking conviction to move out of its recent trading range as investors eye truce talks over Gaza and discussions on how to avert a fiscal crisis in the world's top economy.

An exchange of fire between Palestinians and Israelis continued as U.S. Secretary of State Hillary Clinton held talks in Jerusalem seeking a truce. A failure to reach a cease-fire may support gold's safe-have appeal.

Gold has settled in a range between $1,700 and $1,740 an ounce in the past two weeks, after the re-election of U.S. President Barack Obama cheered gold buyers who expect a continued loose monetary policy to keep gold attractive as an inflation hedge.

But Federal Reserve Chairman Ben Bernanke said on Tuesday the central bank does not have the tools to offset damage caused by the looming "fiscal cliff", a $600-billion tax hike and spending cut due to roll in early next year if the Congress fails to reach an agreement. Traders and analysts expect gold to remain rangebound while the budget talks continue, but say the longer-term outlook for gold remains upbeat.

"Gold seems well supported towards the $1,700 level, and the longer-term story hasn't changed much," said Nick Trevethan, senior commodity strategist at ANZ in Singapore, adding that continuously robust demand from China and official sector buying will help support bullion prices.

Spot gold was little changed at $1,726.60 an ounce by 0317 GMT.

U.S. gold inched up 0.2 percent to $1,726.70.

MARKET REVIEW *(Continued)*

Physical demand in Asia remained lacklustre as potential buyers held the purse strings with the market showing no clear direction."Physical demand is very, very bad," said a Singapore-based trader, "If prices drop another $30 to $50, we will probably see investors and physical buyers return."

Investors are also watching a meeting of euro zone finance ministers, who are considering allowing Athens to buy back up to 40 billion euros of its own bonds at a discount as one of a number of measures to cut Greek debt to 120 percent of GDP within the next eight years.

FOREX:-Dollar rises to 7-1/2 month high vs the yen

The dollar extended gains against the Japanese yen to hit a 7-1/2 month high after Japan exports fell for a fifth month running in October, adding to recession worries and speculation of more monetary easing.

The dollar rose to 82.12 yen its highest since early April and breaking past a reported option barrier at 82 yen. Traders cited more stop-loss buy orders above 82.15 yen.

(Inside Metals is compiled by Shruthi G in Bangalore)

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