INSIDE METALS

Thursday, November 29, 2012

CHART OF THE DAY

Click on the chart for full-size image

Click here for LME charts

TRADING PLACES

- Exchanges trading curbs restrict LME in China-CEO
- ETF Securities launches precious metals funds in Hong Kong

GENERAL NEWS

- Top Republican lawmaker optimistic can avert fiscal crisis
- Obama says hopes for deficit deal by Christmas
- Indonesia says no decision on mining divestment rule

MARKET NEWS

ALUMINIUM:

- Norsk Hydro sees 2013 aluminium demand up 2-4 pct

NICKEL/STEEL:

- Rio Tinto to slash costs, boost asset sales
- India throws $15 bln lifeline to world's iron ore miners
- Talvivaara postpones mining restart
- Storm adds to chaos at troubled Italy steel plant
- ILVA closure to cost Italy firms up to 5 bln euros/yr

FEATURE

COLUMN- LME steel contract goes back to its roots

In a bid to revive its flagging steel billet contract the London Metal Exchange (LME) is taking it back to its geographical roots.

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

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TODAY'S MARKETS

BASE METALS: London copper inched up after a prominent U.S. lawmaker expressed confidence the world's top economy would avert a looming fiscal crisis, but worries China's return to growth will be sluggish weighed on sentiment.

"We expect some degree of resolution to the U.S. cliff but there will still be some drag on the U.S. economy. We are expecting growth of around 2 percent next year," said Thomas Lam, chief economist at DMG & Partners Securities.

PRECIOUS METALS: Gold steadied to trade in a narrow range, after suffering its biggest daily decline in nearly four weeks in the previous session, as investors nervously eyed a looming deadline for averting a U.S. fiscal crisis.

"Generally people are still pretty bullish on gold and last night was just a one-off correction, nothing extraordinary," said a Singapore-based trader, adding that $1,650-$1,700 would be a good buying level.

FOREX: The euro eased versus the dollar but its losses were limited after comments from U.S. policymakers rekindled hopes for a deal to avoid a sharp fiscal tightening that could hurt the global economy.

"For the moment, the U.S. fiscal cliff seems to be a dominant theme in the market," said Katsunori Kitakura, associate general manager of market-making at Sumitomo Mitsui Trust Bank.

FEATURE

COLUMN-LME steel contract goes back to its roots

By Andy Home

LONDON, Nov 28 (Reuters) - In a bid to revive its flagging steel billet contract the London Metal Exchange (LME) is taking it back to its geographical roots.

Billet remains the LME's only foray into the fast-evolving world of steel trading.

The contract's launch in 2008 should have been a case of perfect timing, given the break-down of the old iron ore benchmark system at the end of that year and the subsequent multiplication of price risk across the steel complex.

But LME billet has struggled to attract critical trading mass, even as other exchanges have launched new contracts to tap into the increased need for hedging tools to manage that price risk.

Billet's unique selling point, physical deliverability, has become its main hindrance.

The LME has now adjusted again the contract's deliverability criteria, underlining to what extent the exchange remains wedded to physically deliverable contracts.

But it really needs to make the contract work this time.

Its new owner, Hong Kong Exchanges and Clearing, has identified iron ore and steel as a key area for expansion.

That raises the stakes for the existing LME team to produce a successful launch-pad for a build-out of the exchange's portfolio in the ferrous space.

The only problem is that by taking billet back to its roots, the LME is also taking it back to its root problem.

ALL AROUND THE WORLD

To understand why the LME has decided to delist six of the 12 good delivery points for its billet contract requires a quick bit of history and a quick world tour.

Because this contract has, almost literally, been all around the world without finding a true liquidity home.

It started as two contracts.

The Far East billet contract, with delivery points at Incheon in South Korea and Johor in Malaysia, was stillborn.

China slapped export duties on steel billet in 2008, effectively removing the main source of physical liquidity in the Asian market.

The Mediterranean contract, with delivery points at the two Turkish ports of Kocaeli and Tekirdag, fared immediately better, and the two contracts were soon "merged", although it was in no sense a merger of equals.

There was another problem in Turkey, however.

The Turkish delivery points were intended to capture the physical flow of billet through the Black Sea and the eastern Mediterranean.

But Turkish steel mills, the prime targeted user-base, were disenfranchised because of a quirk of local tax law, which meant that once delivered onto warrant, Turkish billet couldn't be traded without attracting tax duties.

As of today neither port holds any LME-warranted material.

The LME's response was to extend the contract's delivery points into Western Europe.

Ravenna in Italy seemed an obvious alternative delivery hub in the Mediterranean. But a similar issue to that in Turkey arose, with the Italian authorities taking a particularly pedantic view of what constitutes a "commodity" exempt from value added tax.

The port accordingly also holds no warranted stocks of billet, nor has it ever seen a single tonne delivered into the LME system. Ditto Bilbao in Spain.

The two northern European delivery points, Rotterdam and Antwerp, have at least seen some action in terms of stocks movement.

Not enough, though, to revive trading volumes that were already showing signs of losing momentum.

So the LME added three U.S. delivery points in late 2010, possibly betting that more aggressive warehousing operators in the country would magic up some much-needed stocks liquidity.

They did. Between them Chicago, Detroit and New Orleans currently hold 21,385 tonnes of LME-registered steel.

Now the problem, though, was that no-one could work out how to arbitrage the stocks liquidity in the U.S. with the physical billet trading hub that is the Black Sea/Mediterranean.

BACK TO THE ROOT PROBLEM

The billet contract's previously enthusiastic band of supporters voted with their feet, switching to other contracts, particularly the CME's hot-rolled-coil product.

Trading volumes on the LME have dwindled steadily over the course of 2012.

Cumulative activity in the first 10 months of this year totalled 122,958 lots, equivalent to just under 8 million tonnes, down 38 percent on last year's performance.

So now the LME is taking the contract back to its roots.

From February next year no further deliveries to the U.S. locations will be possible prior to full delisting in May 2014.

Both Asian locations will similarly be delisted. So too will be Dubai, whose inclusion in the billet good delivery list was always something of a mystery.

The global billet contract will return to being a European/ Mediterranean contract.

That should at least remove the confusion as to what it is supposed to be hedgeable against in terms of physical flows of material.

FEATURE *(Continued)*

But it also marks a return to the contract's core problem, the inability of Turkish mills to use their nearest good-delivery points.

LME insiders argue that, without anyone particularly noticing, there has been significant movement from the Turkish authorities.

Legislation governing the tax status of commodities in customs bonded zones has been changed. A decision on which products are covered by the new code, a critical next step for the LME, is still pending.

Until that changes, the billet contract's root problem, deliverability in the right location to facilitate efficient arbitrage with the physical market, remains.

TO DELIVER OR NOT TO DELIVER?

Others, meanwhile, are moving into the European steel trading space.

CME's Black Sea billet swaps contract, based on market assessments from Platts, is the most obvious competitor, although it has only notched up volumes of 880 lots since launching earlier this year.

Over-the-counter swaps cleared by London clearing house LCH.Clearnet are faring better, particularly the Turkish scrap and Southern European HRC swaps, both based on prices generated by The Steel Index.

None, however, has yet emerged as anything resembling a benchmark reference price, meaning the race for liquidity is far from over.

None is physically deliverable either. Indeed, the LME's billet contract is still the only physically deliverable ferrous contract outside of China.

There is still a strong feeling within the LME executive that deliverability remains the contract's unique selling point.

It also underlines the LME's core tenet that if a contract can be physically deliverable, it should be.

It's a tenet that is apparently unshaken by the warehousing issues that have dogged the exchange and, at times, the billet contract itself over the last year or so.

Now, if only the Turkish authorities can be persuaded to agree, the LME may still be in with a chance of regaining the initiative in the steel trading arena.

But everything still hinges on the Turkish tax code.

It's been a long journey but the billet contract is now back where it started, in more ways than one.

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

GENERAL NEWS

Top Republican lawmaker optimistic can avert fiscal crisis

U.S. House Speaker John Boehner voiced optimism that Republicans could broker a deal with the White House to avoid year-end austerity measures, saying on Wednesday that Republicans were willing to put revenues on the table if Democrats agreed to spending cuts.

"I am optimistic that we can continueto work together to avert this crisis sooner rather than later," the Ohio Republican told reporters. "We (Republicans) put revenue on the table as long as it is accompanied by serious spending cuts to avert this crisis."

The $600 billion in tax increases and spending cuts will start going into effect early next year if the Obama administration and lawmakers cannot agree on how to change the law. Top policymakers say these austerity measures could topple the U.S. economy back into a recession.

Obama says hopes for deficit deal by Christmas

WASHINGTON, Nov 28 (Reuters) - President Barack Obama said on Wednesday he hoped to reach an agreement with Congress before Christmas to avoid the looming "fiscal cliff" and shrink the budget deficit, and ramped up efforts to rally the public to press Republicans for action.

Obama encouraged Americans to use Twitter - with the hashtag #My2K - and other social media to swamp their lawmakers with requests to act quickly to keep their tax rates low.

"Our ultimate goal is an agreement that gets our long-term deficit under control in a way that is fair and balanced," he said at the White House.

"I believe that both parties can agree on a framework that does that in the coming weeks. In fact, my hope is to get this done before Christmas," Obama said.

The president and congressional Republicans are negotiating how to avoid steep automatic tax hikes and deep spending cuts that will kick in soon unless they can reach a deal to avoid them. Obama, fresh from a successful re-election effort in which he campaigned heavily on raising taxes on the wealthy, has launched an aggressive public relations campaign to support his approach.

On Wednesday, he spoke to an audience of "middle class Americans" who he said would have roughly $2,000 less to spend if Congress fails to extend middle class tax rates that will automatically rise unless lawmakers act.

GENERAL NEWS *(Continued)*

He went a step farther at a cabinet meeting later in the day, saying the tax rise would hurt the world economy.

While congressional Republicans have been willing to agree to increased revenues to achieve a broader deal to cut government red ink, they have generally been opposed to any tax rate increases. However, in recent days, some have indicated a willingness to agree to higher rates.

Obama noted that some of the resistance to his proposal is wavering.

"I'm glad to see - if you've been reading the papers lately - that more and more Republicans in Congress seem to be agreeing with this idea that we should have a balanced approach," he said.

For their part, Republican leaders are seeking to cut spending on social safety net programs, in particular the Medicare program that provides health insurance for the elderly, which they say is the key reason for yawning deficits.

The president said on Wednesday that a deal on taxes could lay the foundation for a broader deal.

"Now is the time for us to work on what we all agree to, which is let's keep middle-class taxes low," he said. "And if we get this part of it right, then a lot of the other issues surrounding deficit reduction in a fair and balanced and responsible way are going to be a whole lot easier."

The president called on his backers to pressure Congress both by traditional means and through social media. The White House has encouraged supporters to tweet how roughly $2,000 less in disposable income would hurt their spending.

"Do what it takes to communicate a sense of urgency. We don't have a lot of time here," Obama said.

The White House has used Twitter campaigns in the past to get the public to pressure Congress to lower student loan interest rates (#dontdoublemyrate) and on extending the payroll tax cut (#40dollars).

As part of his public relations campaign, Obama is due to meet with corporate executives at the White House later on Wednesday and to visit a toy manufacturer near Philadelphia on Friday.

Indonesia says no decision on mining divestment rule

JAKARTA, Nov 28 (Reuters) - Indonesia is considering whether to extend a divestment deadline for foreign mining companies beyond 10 years but no decision has been made, Chief Economic Minister Hatta Rajasa said on Wednesday.

The government of Southeast Asia's largest economy has issued a series of mining rules this year in a bid to reap more profit and promote domestic industry but investors have complained about policy uncertainty and the latest comments appeared to contradict a statement by another minister.

Energy and Mineral Resources Minister Jero Wacik said the government had already decided to extend the deadline under which companies must sell down stakes in mines and increase domestic ownership, making conditions more favourable for foreign owners.

Rajasa coordinates economic policy in President Susilo Bambang Yudhoyono's government.

Companies must sell down stakes in mines and increase domestic ownership to at least 51 percent by the 10th year of a mine's production.

The divestment rule announced in March is part of a global trend for mineral producing countries to push for more cash and clout.

Indonesia is a leader in nickel ore, thermal coal and refined tin exports, while bauxite exports have spiked. Overall, the mineral sector including coal is worth $93 billion and contributes 12 percent to Indonesia's gross domestic product.

The country is favoured by emerging market investors and recently regained investment grade status.

CONFLICTING MESSAGES

"There's an idea to extend the divestment period beyond 10 years but no decision has been made yet. The settlement of contract renegotiation remains a priority," Rajasa told reporters.

He was referring to talks between the government and some of the most prominent mining companies operating in Indonesia including Freeport-McMoRan Copper & Gold , Newmont Mining Corp and PT Vale Indonesia Tbk .

Local partners would benefit from the March divestment rules but they will hurt investment by hitting miners who had already spent potentially hundreds of millions of dollars on exploration, according to foreign miners.

"We are going to prolong the (divestment) period," Wacik said. He gave no further details.

The government's investment chief Chatib Basri told Reuters he had suggested to the mining ministry that it consider extending the divestment period to 25-30 years and carrying out a study to determine the best timeframe.

It would be hard to change the divestment rules because of their significance in terms of government policy, Standard & Poor's Asia Pacific corporate ratings associate director Xavier Jean said.

"The divestment regulation is probably the highest profile regulation in the sector and the one that strikes most chords in the Indonesian electorate because it pertains to ownership of the nation's resources," he said.

"These conflicting messages (from government officials) have blurred the picture further for potential domestic and foreign investors," he told Reuters.

TRADING PLACES

Exchanges trading curbs restrict LME in China-CEO

SHANGHAI, Nov 28 (Reuters) - China's curbs on the number of companies allowed to trade on overseas exchanges would restrict the London Metal Exchange (LME) from operating fully in China, its chief executive Martin Abbott said on Wednesday.

The LME, the world's largest metals marketplace, is in the final stages of being bought by Hong Kong Exchanges and Clearing Limited in a $2.2 billion deal that it hopes will ease business with China, the world's top consumer of metals.

More than 30 state-owned companies in China are allowed to trade on overseas exchanges, and some private Chinese companies have increased activities on overseas exchanges in the past few years through entities in Hong Kong.

"The most obvious restriction would be there are a limited number of industrial entities that have the right to trade on overseas exchanges," Abbott told a Metal Bulletin conference in Shanghai, adding that the list of approved entities had been closed for some time.

Abbott said the most open way for the Chinese industry to access the LME would be to gain the right to trade on overseas exchanges.

Abbott also said the LME was keen to extend the network of warehouses it monitors into China, and the exchange has been in regular contact with the China Securities Regulatory Commission, the regulator of securities and futures, for many years.

HKEx had not promised when the LME would be allowed to have its first LME-registered warehouse in China, Abbott added.

LME-approved warehouses in China would boost international access to the domestic metals markets of the world's largest consumer and potentially increase volumes on the LME and the Shanghai Futures Exchange.

It would also close loopholes in the LME's delivery network that have frustrated some Chinese customers.

An official at a unit of China's third-largest port said this month it was in initial discussions with the LME to be listed as a metal delivery point, a move that may signal the end of a government ban on foreign exchanges setting up storage on the mainland.

Meishan Port, which is administered by Ningbo Port, is doubling its available bonded storage area to 120,000 square metres by January, Zhang Hangfei, director of the investment cooperation bureau of the Meishan government, told Reuters.

"We have started talks with the LME looking at the possibility of a warehouse here," Zhang said, adding the port was also willing to build more facilities if asked by the LME.

Abbott did not comment on Meishan Port on Wednesday, but said there was no point in the LME opening substantial discussions with port authorities until the Chinese regulator had said such a move can go ahead.

ETF Securities launches precious metals funds in Hong Kong

SINGAPORE, Nov 28 (Reuters) - ETF Securities launched three precious metals-related exchange-traded funds (ETFs) in Hong Kong on Wednesday, as the company seeks to attract more precious metals investors in Asia.

ETFS Physical Gold ETF , ETFS Physical Silver ETF and ETFS Physical Platinum ETF started trading on the Hong Kong stock exchange, joining other funds such as Hang Seng RMB Gold ETF , SPDR Gold Trust and Value Gold ETF .

Precious metals ETFs have become increasingly popular in recent years, especially for investors chasing strong price rallies but who find it difficult or inconvenient to purchase and store physical metals.

Global economic uncertainty has boosted the safe-haven appeal of precious metals.

Total gold ETF demand in the third quarter of the year stood at 136 tonnes, its highest since the second quarter of 2010, the World Gold Council said in a recent research report.

SPDR Gold Trust , the world's biggest gold-backed ETF, said its holdings hit a record high of 1,345.813 tonnes on Nov. 27.

The new ETFs in Hong Kong will track the London PM Fix for gold, London Fix for silver and London PM Fix for platinum, the company said in a statement. The London fixing prices are benchmarks for trading of these precious metals worldwide.

London-based ETF Securities already manages a number of precious metals-related ETFs in markets including the United States, the United Kingdom, Japan and Australia, according to its website.

Its Physical Gold ETF had seen just over 1,000 lots of trading volume on its debut, and the silver ETF volume exceeded 9,000 lots. There had been no trade on the platinum fund.

MARKET NEWS

Norsk Hydro sees 2013 aluminium demand up 2-4 pct

OSLO, Nov 29 (Reuters) - Norwegian aluminium maker Norsk Hydro said it expected demand for aluminium to rise next year, and it aimed to maintain the absolute dividend level for 2012.

"Although aluminium has seen the fastest-growing demand among base metals, we have also seen a strong growth in new capacity, resulting in low prices and inadequate returns," it said on Thursday.

While the aluminium market has been weighed down by overcapacity and sluggish demand globally, Hydro repeated its view that global demand outside China would grow 2 percent in 2012, and 2-4 percent in 2013.

Hydro said the global market was expected to see growth of 4-6 percent annually over the next 10 years.

China, the largest consumer and producer of aluminium accounting for about 40 percent of the global market, was expected to continue to grow faster than the rest of the world and account for almost half of aluminium consumption in 2022.

"Our ambition is to maintain the absolute dividend level for 2012," Hydro said, in line with the forecast in a Reuters poll for the 2012 dividend to be unchanged at 0.75 crown.

Hydro said its $300 per tonne improvement program in Primary Metal, launched in 2009, was developing in line with its 2013 completion target.

Its flagship Qatalum joint venture in Qatar is producing above its annual nameplate capacity of 585,000 tonnes, it said.

The company is also changing its pricing formula for metal sales, to be based on one-month forward LME pricing rather than the current three-month formula, it said.

Rio Tinto to slash costs, boost asset sales

MELBOURNE/SYDNEY Nov 29 (Reuters) - Rio Tinto aims to axe $7 billion in costs over the next two years and sell more assets to cushion against weaker commodity prices, while at the same time beefing up output in its lucrative iron ore business.

The firm is the only global iron ore producer that has not slowed iron ore expansion plans, forging ahead with $21 billion in mine, port and rail work to boost its Australian capacity.

But like its peers, Rio Tinto has been cutting costs, reviewing other projects and closing coal mines in Australia due to depressed commodity prices, soaring costs and the persistently strong Australian dollar.

"For me the theme for this year, next year and probably the extended period beyond that in this volatile environment will be everything having to do about cost control," Rio Chief Executive Tom Albanese told reporters ahead of an investor seminar.

With the efficiency drive, the firm has managed to find ways to lift its iron ore capacity just by tweaking mine, rail and port operations, and said it expected to find further gains without big licks of capital.

"With our available spot tonnage growing significantly with our expansions, outselling others will bring substantial business value," Rio Tinto's iron ore chief, Sam Walsh, said.

RIVALS BEWARE

For some, Rio Tinto's dependence on its iron ore business, making up 83 percent of the group's underlying earnings last year, is seen as a weakness, next to the more diversified base of top global miner BHP Billiton .

But Albanese and his lieutenants waved off concerns, highlighting the superior margins Rio reaps from iron ore, despite uncertainty over the near term outlook for demand from the biggest consumer, China.

"I do believe we have an iron ore business without peer," Albanese said. "I will never apologise for the quality of our iron ore business."

Rio's cost per tonne of iron ore would fall to just over $35.50 from $47 delivered to China, including royalties, shipping and sustaining capital costs, once its infrastructure expansions are completed, said iron ore chief Walsh.

On today's selling prices around $118 a tonne, that would give it a massive profit of $82.50 a tonne.

Despite the challenges of higher labour and service costs and the strong Aussie dollar, Rio said it has boosted the efficiency at its iron ore operations, so it now expects to reach a production capacity of 290 million tonnes a year by the end of 2013, up from a target of 283 million tonnes.

LEAN AND MEAN

The company said it is aiming to cut more than $5 billion of operating and support costs by the end of 2014, and would cut spending on exploration and evaluation projects by $1 billion over the rest of 2012 and 2013.

Much of the cost cuts would come in its coal and aluminium assets, Albanese said, adding that support costs in Australia had become the most expensive in the world, compared with five years ago when they were among the cheapest.

It also plans to cut spending on sustaining operations by more than $1 billion in 2013.

In August, the world's no.2 iron ore miner had said it expected capital spending on all its projects to peak in 2012 at $16 billion, with its share of that at $13.6 billion, as it looked to focus on fewer big projects.

"I've been very concerned over the past few years that we've seen progressive escalation in our capital cost intensity," Albanese said.

"So we're just getting to a point now where we can't run as many major capital projects around the world as we might have been a couple of years ago with the same balance sheet."

MARKET NEWS *(Continued)*

"GREEN SHOOTS IN CHINA"

While all iron ore producers are suffering from this year's drop in prices, which are now more than 20 percent below the 2012 high, the revenue blow will be cushioned for Rio Tinto as it is producing more tonnes.

"There's no doubt any marginal tonnes they can produce from the Pilbara without a capex increase is a good thing," said Tim Barker, a portfolio manager at BT Investment Management, which owns shares in Rio Tinto.

Rio was on track to reach 290 million tonnes a year by the fourth quarter of 2013 and expand capacity to 360 million tonnes by 2015, the company said, adding the project in Western Australia's Pilbara region remained on time and on budget.

Rio remained cautiously optimistic about a pick-up in growth in China, following recent stronger-than-expected economic data.

"More than a couple of months ago, I'm cautiously optimistic about the fact that we're beginning to see green shoots in China," Albanese said.

As it shrinks to focus on its largest, highest-returning businesses, Rio Tinto has been looking to cast off its Pacific Aluminium unit and its diamonds business.

The company has generated $12 billion from selling more than 20 assets since 2008 and expected to add to that next year.

"In addition to the sales we've already announced, we expect substantial cash proceeds in 2013," CFO Guy Elliott said.

Rio put the diamonds business on the block earlier this year soon after BHP Billiton, which managed to sell its Ekati diamond operation to Harry Winston earlier this month for $500 million. Harry Winston is a co-owner of Rio's Diavik diamond mine in Canada.

Rio was, however, likely to have to take another charge on its aluminium business at the end of 2012, Elliott warned.

Rio took an $8.9 billion charge on the aluminium business in February, as its Alcan unit, which it bought for $38 billion at the top of the market in 2007, has been hammered by rising input costs and weak markets over the past five years.

BHP, which has sold some 30 operations in the past 10 years and three in the past six months, may also sell more businesses, CEO Marius Kloppers told BHP's annual meeting in Australia.

"You should see us continue to comb out some of the smaller, lower profitability assets out of the portfolio," said Kloppers.

India throws $15 bln lifeline to world's iron ore miners

PISSURLEM, India/SINGAPORE, Nov 29 (Reuters) - India's efforts to clamp down on illegal mining have handed a $15 billion lifeline to global iron ore giants, and there could be more to come.

Steps taken by federal and state authorities to clean up the mining and export of iron ore have shut down output in two key producing states, slashing shipments and forcing steel mills to import a raw material the country has in abundance.

Now the Shah Commission, whose report on top exporter Goa led to the state government's ban on mining in September, has turned its attention to the last major iron ore producing state of Odisha.

The exit of the world's third-largest iron ore exporter has been perfectly timed for miners in other countries seeking alternatives for their growing supplies as appetite from top buyer China slows.

The world's biggest producers Vale , Rio Tinto and BHP Billiton have taken some of India's market share in China, Japan and South Korea, and now are even eyeing exports to their erstwhile competitor.

Smaller miners like Australia's Fortescue Metals Group also benefit, as they supply the lower-grade ore that competes directly with India in the Chinese market.

"It will be a huge bonus for big miners," said Graeme Train, commodity analyst at Macquarie in Shanghai.

"There'll also be a premium emerging for lower grade ore and India's absence will drive Chinese interest into Fortescue-type products."

Indian iron ore output, exports since 2000/01:

http://link.reuters.com/qyw83t

India's shrinking exports: http://link.reuters.com/cyt93t

Iron ore prices: http://link.reuters.com/guh32t

India's campaign to end illegal mining -- which authorities say has cost Goa and Karnataka states around 510 billion rupees ($9 billion) in lost revenue in the last decade -- has cut its iron ore output by more than 20 percent in the year to March and its exports by almost double that.

Annual exports, which in the past decade peaked at nearly 106 million tonnes, may dwindle to as low as 5 million tonnes over the next year, analysts say.

The roughly 100 million tonnes of lost exports at the current average price of around $110 per tonne and another potential 30 million tonnes of imports of higher-quality ore at around $140 per tonne will cost India $15 billion, according to Reuters calculations, money that goes straight into the pockets of foreign miners picking up the slack.

India's role switch is one reason for a rebound in iron ore prices, which this year fell below $87 a tonne to their lowest since 2009 due to China's slowing economic growth.

India's iron ore exports to China fell to less than 300,000 tonnes in October -- the lowest in at least two decades -- after the ban in Goa. That followed a mining ban in Karnataka in 2011, after shipments there were halted a year earlier.

MARKET NEWS *(Continued)*

Goa's once-bustling mining hubs have turned into ghost towns, with scores of empty trucks parked by the roadside. Trains, some still loaded with ore, are stopped on the tracks.

"We have been sitting idle for over two months now," said Pritesh Gawas, a 25-year-old worker at Sesa Goa's Sonshi mine.

In January-October, India's shipments to its biggest market stood at 32.6 million tonnes, down nearly half from a year ago, Chinese customs data showed, with South Africa edging it out as the No. 3 supplier.

Shipments from Australia and Brazil were up 20 percent and 12 percent, respectively.

INDIA AS A BUYER

The flipside is that India is also starting to ship in iron ore in significant quantities.

India has imported 9 million tonnes of iron ore so far in the fiscal year that began in April, estimates Basant Poddar, vice president of the Federation of Indian Mineral Industries, and could ship in 15 million tonnes for the full year.

"It is a sad situation that we cannot mine in our own country legally and supply to our own domestic steel industry," Poddar told Reuters.

Importers include big producers Essar Steel, Bhushan Steel and JSW Steel , he said.

For the next fiscal year, India's iron ore exports may be no more than 15 million tonnes, while imports could climb to 20-25 million tonnes, said Poddar, making the country a net importer for the first time ever and hurting the competitiveness of its steel producers.

"Being an iron ore-rich country like India, it doesn't make sense to be producing steel on the basis of imported iron ore. It doesn't work out economically for the steelmakers," said Gunjan Aggarwal, senior consultant at research firm CRU in Mumbai.

Of the 800 iron ore leases in the country, only around 300 are operational, said a senior mines ministry official, adding that the supply squeeze should be short lived.

"Systems are being tightened at state-level ... but once the system stabilises, the supply crunch will ease out," said the official, who declined to be named as he is not authorised to speak to the media.

NEXT STATE TARGETED

The mining bans in Goa and Karnataka, which at one point shut all mines in the two states, could now spread to the eastern state of Odisha, which was visited by the Shah Commission earlier this month.

Odisha's state government has fined several mining companies nearly 680 billion rupees ($12 billion) for excessive mining of iron ore over the past 10 years, state Steel and Mines Secretary Rajesh Verma said.

None of those fined has been paid up so far, said Verma.

Tata Steel Ltd and Aditya Birla Group-owned Essel Mining dispute the allegations.

A major difference from Goa and Karnataka is that Odisha's ore is high grade and intended for the domestic steel industry rather than export.

If mining in Odisha is stopped, Indian steelmakers may need to import 30 million tonnes of high-grade ore a year, said CRU's Aggarwal, adding that overall exports could fall to as low as 5 million tonnes.

India's federal government maintains the way to crack down on illegal mining is through better enforcement of existing laws, higher export duties and improved tracking of transport.

The mines ministry has rejected a recommendation by the Shah Commission for a blanket ban on exports.

The government instead decided to impose a 30 percent duty on all iron ore exports despite opposition from the mines ministry. It could raise this further or hike rail freight rates, where it already charges a much higher rate for ore intended for export.

The wrangling is not just within the federal government.

In Karnataka, the opposition-run state government banned shipments in 2010 in response to pressure from the federal government over illegal mining. Then its chief minister, B.S. Yediyurappa, resigned after being implicated in a $3.6 billion illegal mining scam.

State measures have otherwise been motivated by a range of concerns from damage to the environment by unregulated mining to loss of state revenues from illegal movements of the ore.

"The total learning from this is to abide by the law," said Faisal Shareef, managing partner with Nadeem Minerals, whose mine in Karnataka will restart later this week but will only be allowed to produce about a fifth of pre-ban volumes.

Talvivaara postpones mining restart

HELSINKI, Nov 28 (Reuters) - Finnish nickel miner Talvivaara postponed the restart of mining at its site in the east of the country by six months due to rain-related problems, raising fresh concerns over its future metals production.

Shares in the company fell around 5 percent in Helsinki and London by 1536 GMT and one analyst said the company may face two flat years of nickel output.

"It may be that production would not increase very much next year and there is a risk it won't pick up even in 2014," said the analyst, who declined to be named.

The Finnish company has been hit by a series of problems in the past year, including waste water leakage, production disruptions and the death of a worker.

MARKET NEWS *(Continued)*

Talvivaara halted mining and crushing operations at its Sotkamo mine in September for three to four months due to excess water and now says it will not restart operations until mid-2013, by which time the water should have been drained away.

Its chief executive said reducing the amount of water was a top priority as it was slowing metals extraction from stockpiles of ore estimated already to contain some 55,000 tonnes of nickel.

"We cannot return to normal before we have sorted out the water problems," CEO Pekka Pera told Reuters.

He added the firm was seeking a permit to release some 2.5 million cubic metres of cleaned waste water before snow melts next spring. Talvivaara's annual quota for waste water is 1.3 million cubic metres.

PRODUCTION UPDATE

"I think we will reach normal operation ... during next summer," Pera said.

Earlier on Wednesday Talvivaara gave its production update for this year, forecasting around 13,000 tonnes of nickel after production was halted in November for more than two weeks by a leakage of toxic waste water.

The company previously said it targeted 50,000 tonnes per year running at full capacity. In 2011 nickel production was 16,000 tonnes.

Talvivaara has cut its annual production target twice this year. Guidance for 2013 is due early next year.

The company swung to an operating loss of 4.3 million euros ($5.5 million) in the third quarter due to production disruption and weak nickel prices and said it was considering new funding options, including convertible bonds and equity.

Analysts have said a share issue is the most likely option since the company's debt-to-equity ratio was already high at 141 percent.

"They are bleeding cash and debt maturities are approaching," said Fredrik Agardh, analyst at Handelsbanken.

Pera, previously chairman, returned to the role of CEO on Nov. 15 following public anger over the waste water leakage.

Storm adds to chaos at troubled Italy steel plant

BARI, Italy/MILAN Nov 28 (Reuters) - A violent storm hit the troubled ILVA steel plant in southern Italy, injuring dozens and adding to disruption at the huge site, which is already caught in a widening pollution scandal that could cost billions.

The tornado rolled off the sea and hit the port city of Taranto on Wednesday, bringing down a chimney stack and damaging a warehouse and lighthouse at the factory's docks, the company said in a statement.

Around 20 workers were injured out of a total of 38 people hurt in Taranto and divers searched for a worker who was unaccounted for after a dockside crane collapsed. Three others on the crane were rescued.

The sudden storm, which television pictures showed filling the sky with a dark grey swirl of cloud that ripped across the harbour, was the latest blow to ILVA, which has become one of the most pressing issues confronting the government of Prime Minister Mario Monti.

Europe's largest steel plant had already stopped production and faces the threat of permanent closure after magistrates this week seized semi-finished material and steel in a corruption investigation linked to the environmental scandal.

The particle-laden fumes and airborne waste pumped out by the plant are blamed for abnormally high levels of cancer and respiratory diseases in the region. The company denies its operations are responsible.

Environment Minister Corrado Clini insisted on Wednesday that the government would save the plant, which employs some 20,000 people in a region of high unemployment, saying its closure would have devastating effects on the wider economy.

"Risking industrial production in the steel sector means creating a domino effect in economic and social terms," he told parliament in a speech.

CLOSURES

Antonio Gozzi, the head of Italy's steel industry association Federacciai, said permanent closure would force companies to buy steel from abroad, costing the rest of Italian industry up to 5 billion euros ($6.5 billion) and sending a number of companies to the wall.

"The government must be aware of the importance of steel for Italian industry. The manufacturing sector lives because it can get steel in Italy. If it has to import, it will lose its competitive edge," he said. Clini said cabinet would pass legislation to force a clean-up of the plant, where employs some 12,000 people and keeps another 8,000 ancillary staff in work.

He said earlier that he thought a solution would be reached in time for a meeting with company management on Thursday. He said he expects the cabinet to approve a decree putting previously agreed clean-up measures into law.

"We are trying to implement what we have already decided," Clini told Canale 5 television, a day before a meeting between Prime Minister Mario Monti, unions and company management to resolve the standoff.

The two-year, 3 billion euro clean-up programme agreed last month to secure environmental clearance for the plant should be completed without interference, Clini said. He has been battling to save the plant, putting him at odds with Taranto prosecutors. "Cleaning up the site, laying down how the clean-up has to be carried out and how the site has to be managed to ensure that environmental and health protection standards are met are up to the government," he said. "It's not up to magistrates."

MARKET NEWS *(Continued)*

Magistrates placed the plant's blast furnaces under special administration in July. The crisis heightened when they seized the plant's output earlier this week. That led ILVA to shut down the cold-rolling section that transforms raw steel into plates and tubes.

ILVA produced 8.5 million tonnes of steel in 2011, nearly 30 percent of Italy's total output, and concern has grown about the effect of a shutdown on the rest of Italian manufacturing. Workers at an ILVA processing plant near Genoa in northern Italy say the plant will last just four days without steel from the southern plant.

Judges have also ordered the arrest of seven people, including the chairman of the company which controls ILVA, on suspicion that they bribed officials to cover up the scale of the health and environmental damage.

ILVA closure to cost Italy firms up to 5 bln euros/yr

By Stephen Jewkes

MILAN, Nov 28 (Reuters) - Closure of Italy's troubled ILVA steel plant would cost manufacturers up to five billion euros ($6.47 billion) of additional costs every year and send some companies to the wall, the head of Italy's steel makers association told Reuters.

ILVA was forced to stop production at its giant plant in the southern city of Taranto due to health hazards and now faces a threat of permanent closure after Italian magistrates this week seized material in a corruption investigation.

The plant produced 8.5 million tonnes of steel in 2011, of which 5 million tonnes went on to the domestic market.

But importing steel from foreign producers could bump up prices by 50 to 100 euros a tonne, Federacciai President Antonio Gozzi told Reuters in an interview.

"The additional cost for the industry would be 2.5 to 5 billion euros and it would lead to a series of business closures," Gozzi said.

He said the closure of ILVA would also hit Italy's trade balance by some 25 billion euros, if Italian companies were to purchase steel at 500 euros per tonne.

"The roughly 5 million tons of production used in Italy would have to be replaced by imports while we'd lose the 3 million tonnes that are exported," he said.

The ILVA plant accounts for nearly 30 percent of the country's total output and the issue is seen as a litmus test for Mario Monti's efforts to safeguard Italy's heavy industry and preserve jobs in Italy's poor and underdeveloped south.

Despite an excess capacity of steel in Europe, Italy's large manufacturing base, which includes carmaker Fiat , needs large quantities of the metal at competitive prices to be able to survive as it already struggles with high energy costs.

Importing steel from France and Germany would leave Italian users with longer lead times, a need to build up stock and higher transport costs.

"The government must be aware of the importance of steel for Italian industry. The manufacturing sector lives because it can get steel in Italy. If it has to import it will lose its competitive edge," Gozzi said.

Steel hot-rolled-coil in southern Europe currently trades at around 450-475 euros per metric tonne, according to the Steel Business Briefing.

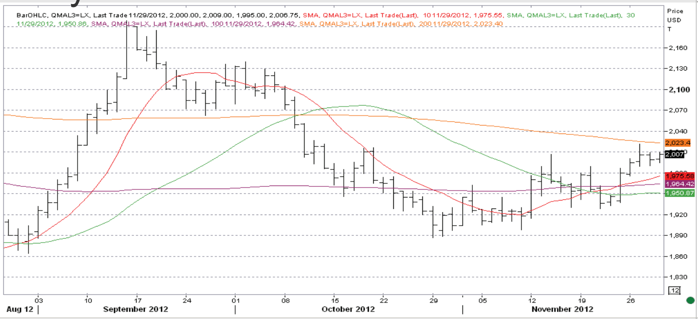
The closure would push up steel prices in the European Union, analysts at JP Morgan Cazenove said earlier this week.

"On the basis of ILVA press release and announced shutdown of Taranto plant, we see steel prices going up, at least in the short term," the broker said.

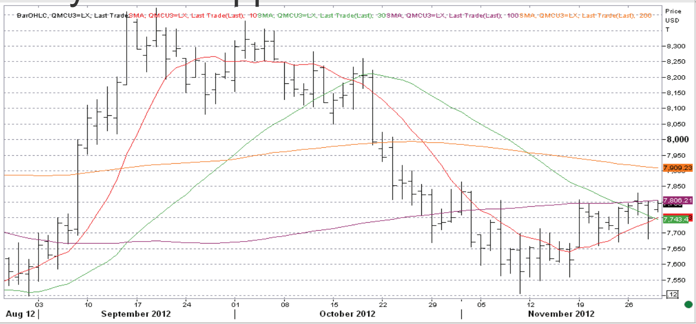
Competitors such as ArcelorMittal - currently at the centre of a row with the French government - ThyssenKrupp and Tata were seen as beneficiaries of an ILVA plant closure as alternative sources of steel for the auto industry.

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

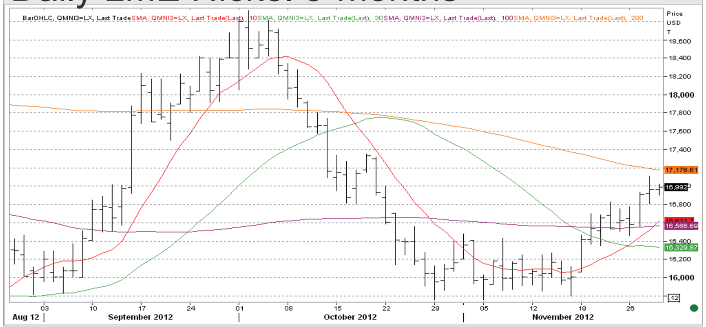
Daily LME Aluminium 3-months



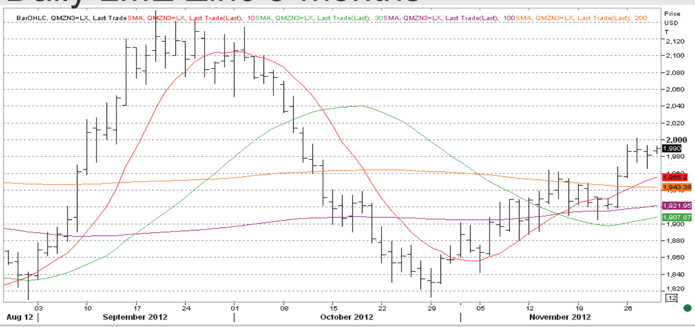
Daily LME Copper 3-months



Daily LME Nickel 3-months



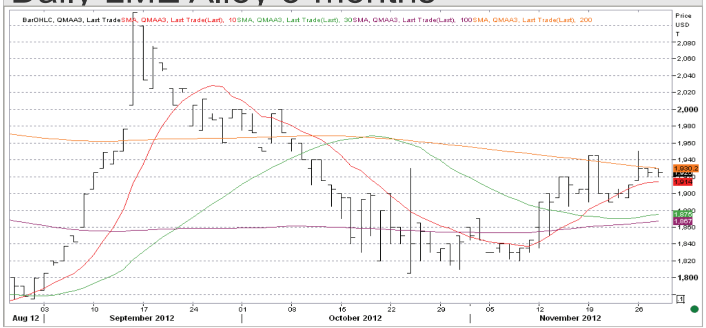
Daily LME Zinc 3-months



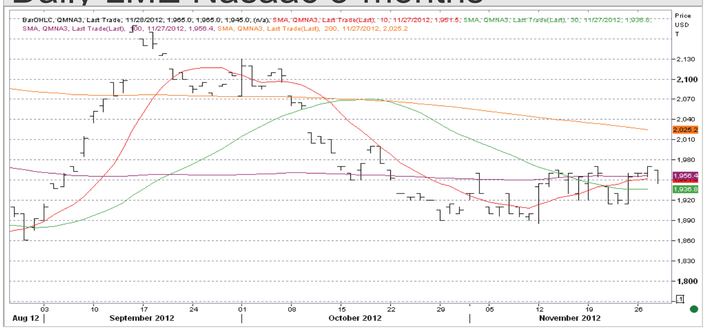
Daily LME Lead 3-months

Daily LME Tin 3-months

Daily LME Alloy 3-months



Daily LME Nasaac 3-months



THOMSON REUTERS

MARKET REVIEW

METALS-LME copper edges up, US fiscal hopes support

SINGAPORE, Nov 29 (Reuters) - London copper inched up after a prominent U.S. lawmaker expressed confidence the world's top economy would avert a looming fiscal crisis, but worries China's return to growth will be sluggish weighed on sentiment. Three-month copper on the London Metal Exchange edged up 0.35 percent to $7,792 a tonne by 0720 GMT. Prices fell half a percent on Wednesday.

Gains were subdued as investors were reluctant to make bets given the uncertainty over roughly $600 billion in year-end U.S. tax hikes and federal spending cuts known as the "fiscal cliff" that could tip the country back into recession."We expect some degree of resolution to the U.S. cliff but there will still be some drag on the U.S. economy. We are expecting growth of around 2 percent next year," said Thomas Lam, chief economist at DMG & Partners Securities.

With the United States, Japan and the euro zone focused on spending cuts, and China's patchy success in turning domestic consumption as the main driver of its economy, the global economy may find it tough to muster momentum, Lam said. "If that's the case, then that's probably going to hold back any substantial increase in demand for metals or other commodities," he added.

LME copper hit its highest in almost a month on Tuesday at $7,828.75 but is struggling to gain momentum as prospects for a year-end rally start to fade. The most-traded March copper contract on the Shanghai Futures Exchange rose 0.37 percent to close at 56,390 yuan ($9,100) a tonne.

"Lingering concerns about Greek debt and the U.S. fiscal situation are likely to limit gains to around $7,800 in the next few days," said ANZ in a research note. But U.S. House of Representatives Speaker John Boehner voiced optimism that Republicans could broker a deal with the White House to avoid year-end austerity measures, while President Barack Obama said he hoped to reach an agreement with Congress before Christmas to avoid the fiscal cliff.

"Further out we still see scope for a rally on the back of improving sentiment towards China and signs that the decline in Europe's copper demand has bottomed out," ANZ added.

CHINA

China, the world's top user of copper, 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. While signs of a pick up in China's economy may fan investor appetite for metals, the pace of real consumption growth has flattened as indicated by a rise in domestic copper stockpiles to record levels.

Copper stocks in China's bonded warehouses hit a record high of over 1 million tonnes earlier this month.

Consumption of copper cathode is likely to grow more slowly in China next year, cooling further after the pace of growth looks set to drop by at least a third this year, senior metals executives said on Wednesday. In Europe, copper product demand is sluggish but the downtrend seen earlier this year has halted, Aurubis , Europe's biggest copper smelter, said this week.

PRECIOUS-Gold steady after sell-off, US fiscal talks eyed

SINGAPORE, Nov 29 (Reuters) - Gold steadied on Thursday to trade in a narrow range, after suffering its biggest daily decline in nearly four weeks in the previous session, as investors nervously eyed a looming deadline for averting a U.S. fiscal crisis.

While gold has been unable to break a heavy resistance at $1,750 an ounce over the past week and briefly plunged to as low as $1,705.64 an ounce on Wednesday, general bullish sentiment for bullion remained intact as indicated by a rise in gold-backed exchange traded funds to a record high.

And the threat of the U.S. economy slipping off the "fiscal cliff" may support the precious metal further, although the strength in the dollar - a more popular safe haven - may take some of gold's lustre off. U.S. lawmakers are engaged in talks to avert $600 billion worth of tax hikes and spending cuts, or the so-called "fiscal cliff" due to start in the new year that threatens to push the economy back to recession.

House Speaker John Boehner voiced optimism that Republicans could broker a pact with the White House to avoid the fiscal cliff on Wednesday. "Generally people are still pretty bullish on gold and last night was just a one-off correction, nothing extraordinary," said a Singapore-based trader, adding that $1,650-$1,700 would be a good buying level.

But he said Asian physical demand was disappointing.

"We aren't seeing much physical demand, which is quite bad for this time of the year," he said. Spot gold was nearly flat at $1,719.60 an ounce by 0722 GMT, after tumbling 1.3 percent in the previous session due to a heavy bout of stop-loss selling.

U.S. gold inched up 0.2 percent to $1,719.70, after dropping 1.5 percent on Wednesday.

Technical analysis suggested spot gold could retrace to $1,692 an ounce during the day, said Reuters market analyst Wang Tao.

Spot gold 24-hour technical outlook

http://graphics.thomsonreuters.com/WT1/20122911095058.jpg

Graphic: Gold-silver ratio

http://link.reuters.com/sut34t

Graphic: Gold-platinum spread

http://link.reuters.com/wut34t

CME SAYS NO "FAT FINGER"

The CME Group, which operates the U.S. COMEX gold futures market, said Wednesday's plunge in gold was not the conse-

MARKET REVIEW *(Continued)*

quence of a "fat finger", or a human error. "It was not a 'fat finger'. The market sold off. No stop logic triggered either, which meant the price decline wasn't even fast enough to trigger a pause on Globex," said a spokesman for CME, referring to the group's electronic trading platform. Holdings of the SPDR Gold Trust , the world's biggest gold-backed exchange-traded fund, hit a record high for a second consecutive day, underlying buoyant investment interest. Its holdings stood at 1,347.018 tonnes on Nov. 28, up nearly 11 tonnes so far this month, on course for its fourth month of straight gains, even though gold prices barely budged compared to the end of last month. Spot silver lost 0.4 percent to $33.59, and the gold-silver ratio stood at 51.2, hovering above a two-month low.

Spot platinum was up 0.1 percent to $1,605.25, and the spread between gold and platinum dropped to a more than one-month low of $114.

FOREX-Euro eases but supported by U.S. fiscal hopes

SINGAPORE, Nov 29 (Reuters) - The euro eased versus the dollar but its losses were limited after comments from U.S. policymakers rekindled hopes for a deal to avoid a sharp fiscal tightening that could hurt the global economy.

"For the moment, the U.S. fiscal cliff seems to be a dominant theme in the market," said Katsunori Kitakura, associate general manager of market-making at Sumitomo Mitsui Trust Bank.

U.S. House Speaker John Boehner, the top Republican in Congress, voiced optimism that Republicans could broker a deal with the White House to avert a fiscal crisis, even though he repeated his opposition to raising income tax rates on high earners.

President Barack Obama said on Wednesday he hoped to reach an agreement with Congress before Christmas.

Investors fear the planned tax increases and spending cuts due to start at the beginning of next year totalling about $600 billion could tip the world's biggest economy into recession and depress the global economic outlook.

The euro eased 0.1 percent from late U.S. trade on Wednesday to $1.2947 , but still held well above Wednesday's intraday low of $1.2880, supported by an improvement in investors' risk appetite. A drop in the 10-year Italian government bond yield to its lowest level since February 2011 on Wednesday was another supportive factor for the euro, as it suggests that investor jitters over the euro zone's sovereign debt crisis are diminishing.

The single currency faces resistance from the daily Ichimoku cloud top around $1.2994 but a break there could open the way for the euro to test a four-week high of $1.3010 hit on Tuesday after Greece's international lenders agreed to unblock aid funds to Athens. Market players, however, remain concerned about some elements of the latest aid deal for Greece, agreed to by euro zone finance ministers and the International Monetary Fund earlier this week, with Greece's ability to fully implement a debt buy-back a looming issue. Against the yen, the euro held steady at 106.34 yen , not too far from a seven-month high of 107.135 yen hit on Monday.

DOLLAR/YEN

The dollar edged up 0.1 percent to about 82.15 yen , inching away from a one-week low of 81.68 yen hit on Wednesday.

The greenback has seen a corrective pull-back since hitting a 7-1/2 month high of 82.84 yen last Thursday.

"I can feel a bit of long dollar/yen fatigue setting in," said Jeffrey Halley, FX trader for Saxo Capital Markets in Singapore.

There were some dollar offers near 82.50 yen, while dollar bids were lurking in the 81.60 yen to 81.80 yen area, he said.

The yen has come under pressure recently due to market speculation about the chances of aggressive monetary easing in Japan following a likely change in government next month.

Main opposition leader Shinzo Abe, a front-runner to become prime minister after the Dec. 16 election, has called for radical change in monetary policy, including unlimited easing, sparking a four-percent fall in the yen earlier this month.

The dollar is likely to trade in a 81.00 yen to 83.00 yen range ahead of Japan's election, said a trader for a Japanese bank in Singapore.

"Dollar/yen continuing to see some short-term players building on longs," the trader said, adding that most market players he had contact with were expecting that sort of range for now.

(Inside Metals is compiled by Shruthi G in Bangalore)