INSIDE METALS

Tuesday, November 5, 2013

CHART OF THE DAY

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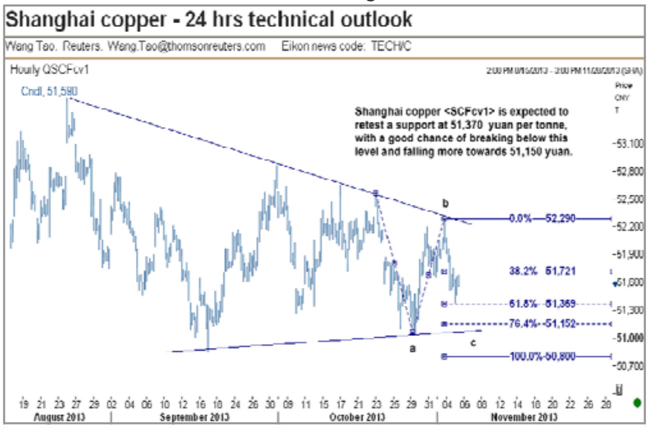

TRADING PLACES

- Goldman cautions on London Metal Exchange rule proposals

GENERAL NEWS

- U.S. Fed in no rush to cut bond buys, top policymakers say
- Pascua-Lama halt carries repercussions for Argentina, Chile
- Switzerland opens probe into gold refiner Argor for Congo dealings
- Australia's Port Hedland iron ore exports to China hit record high in Oct
- Indigenous Chileans to lodge new appeal

MARKET NEWS

COPPER:

- Zambian president threatens Vedanta unit over job cuts

STEEL:

- U.S. Supreme Court weighs fight over changing clothes at work

ZINC:

- Betting on end to glut, miners hunt for new zinc deposits

FEATURE

COLUMN- China steel PMI falls as manufacturing PMIs gain - go figure

Iron ore and steel prices were buoyed by the strength of China's manufacturing indexes, but there is a risk the market is focusing on the wrong indicator.

The official Purchasing Managers Index (PMI) hit an 18-month high of 51.4 in October, while the HSBC measure reached a seven-month peak of 50.9.

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

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TODAY'S MARKETS

BASE METALS: London copper edged up after Federal Reserve officials indicated there would be no quick end to the U.S. central bank's commodity-friendly stimulus package, with a solid manufacturing sector survey also helping. "The PMIs and some of the leading indicators have improved, but the market is still a little bit worried about ample capacity and oversupply," said analyst Dominic Schnider at UBS's wealth management arm.

PRECIOUS METALS: Gold steadied after a six-session losing streak, helped by comments from Federal Reserve officials that suggested the U.S. central bank would maintain its ultra-loose monetary policy for some time yet. "The Fed is less likely to cut back stimulus this year due to the recent government shutdown and lacklustre economic data," said Chen Min, a precious metals analyst at Jinrui Futures in Shenzhen.

FOREX: The euro eased, stalling near a seven-week low as investors were cautious ahead of the European Central Bank's policy meeting this week, while the Aussie dollar slipped after the nation's central bank talked down the currency. "We expect the ECB to leave its interest rates and forward guidance unchanged at Thursday's meeting. However, the latest decline in inflation has raised the likelihood that the main refinancing rate could be cut again by 25 basis points in December," Barclays analysts wrote in a report.

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FEATURE

COLUMN-China steel PMI falls as manufacturing PMIs gain - go figure

By Clyde Russell

LAUNCESTON, Australia, Nov 5 (Reuters) - Iron ore and steel prices were buoyed by the strength of China's manufacturing indexes, but there is a risk the market is focusing on the wrong indicator.

The official Purchasing Managers Index (PMI) hit an 18-month high of 51.4 in October, while the HSBC measure reached a seven-month peak of 50.9.

Both PMIs indicate improving conditions in China's vast manufacturing sector and this was enough to spur gains in iron ore and steel prices.

But at the same time that the manufacturing indexes were looking up, the PMI for China's steel industry was heading the other way.

The steel PMI dropped for a second month, falling to 47.5 in October from 49.2 in September, according to the China Federation of Logistics and Purchasing, which compiles the index.

The decline to well below the 50-level that separates expansion from contraction on a monthly basis was driven by falls in overall production, finished product inventories and new orders, according to a Morgan Stanley research report e-mailed on Nov. 5.

The decline in the steel PMI fits with some other evidence that not everything is rosy in the sector, with average steel output falling 1 percent to 2.107 million tonnes in the second 10 days of October.

The drop was the second consecutive decline, following a 1.1 percent fall in output in the first 10 days of October, according to data from the China Iron & Steel Association.

The volume produced was also the lowest since the 10 days ended July 31.

There are also indications that steel inventories are rising, with association figures showing stocks at 13.2 million tonnes, up 3.1 percent since the end of August.

It's likely that this inventory build-up has continued in recent weeks, meaning that the mismatch between steel output and consumption may be increasing.

It also doesn't appear that exports are taking up some of the slack, with steel product exports dropping 4.4 percent in September to 4.92 million tonnes from a year earlier, according to customs data.

Year-to-date exports are still up 14.6 percent, but this strength seems to have built on exceptionally robust shipments in July and August, which recorded gains of 19.1 percent and 44.9 percent respectively.

So, what should the market believe? The emerging strength in the manufacturing PMIs or the weakness in the steel PMI?

As is often the case, the contrasting PMIs aren't necessarily at odds with each other.

It's certainly possible to have improving conditions in manufacturing and weakening fundamentals in steel at the same time.

In theory, an improving industrial sector PMI should act as a spur to the steel industry by boosting demand for metal products, but it still may be the case that in China spare steel capacity is larger than any potential increase in consumption.

What the steel PMI shows is that there is still likely overproduction happening in the sector, which means the recent rebound in benchmark Shanghai Futures Exchange rebar may not be sustained.

The contract is up 2.5 percent since hitting a four-month low of 3,585 yuan ($588) a tonne on Oct. 28, closing at 3,673 yuan on Nov. 4.

Iron ore prices have outperformed steel, with spot Asian iron ore up 3.5 percent since Oct. 28 and the new Dalian Commodity Exchange's most active contract gaining 3.7 percent over the same period.

If there is a contrast in the steel sector, it's between the ongoing robust demand for iron ore and the weak profitability of steel producers.

China's iron ore imports are up 9 percent in the nine months to September over the same period in 2012, with the third quarter recording the first-, second- and fourth-highest monthly totals.

October imports are likely to be strong as well, given the 3.2 percent on-month rise in September shipments from Australia's Port Hedland, the main export port for iron ore.

However, at some point the overcapacity in China's steel sector will have to be addressed.

While the recent gains in the manufacturing PMIs provide the possibility of rising demand in coming months, the problem of structural overcapacity remains.

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

GENERAL NEWS

U.S. Fed in no rush to cut bond buys, top policymakers say

SAN FRANCISCO/BOSTON, Nov 4 (Reuters) - The Federal Reserve should scale back its asset purchases only when the U.S. economy shows clearer signs of improvement and even then it should act slowly, one senior central banker said on Monday, while two others stressed there is no need to rush.

The comments suggest the U.S. central bank will be propping up the economy and financial markets for some time to come, and they underscore Fed Chairman Ben Bernanke's repeated promise that stimulus will not be reduced according to a set timeline but rather in response to economic developments.

The three Fed officials, who are all able to cast votes on monetary policy this year, did not say exactly when they believe the stimulus should be withdrawn - a question that is front and center for investors now that the Fed's third round of quantitative easing (QE3) has entered its fourteenth month.

Governor Jerome Powell called the timing "necessarily uncertain" because it depends on the strength of the recovery, while Boston Fed President Eric Rosengren pointed to the central bank's balance sheet as a reason to be patient as it heads into a policy meeting next month.

"What it's reasonable to expect us to do is to be transparent and to move gradually when it is time to withdraw accommodation, or even to begin reducing the pace at which we add accommodation and go slowly in doing that," Powell told the Asia Economic Policy Conference in San Francisco. The Fed should also "hold to our obligation to only do that as demand does strengthen in the United States," he said. "Those are the things that we can do and we must do, should do." The Fed is buying $85 billion in long-term assets each month to boost investment and hiring by pushing down long-term borrowing costs. Last month the Fed stuck to that program, saying it needed more evidence of stronger growth before reducing stimulus. Both Powell and Rosengren voted with the 9-1 majority.

Given a gradual drop in unemployment since QE3 was launched and worries over a swelling Fed balance sheet - now at a record $3.8 trillion - investors have been speculating about when the Fed will finally move.

"For me, you don't have to be in a hurry because of low inflation," St. Louis Fed President James Bullard, who also supported the policy decision, told CNBC television.

Bullard said he wanted to see inflation heading back up toward policymakers' 2-percent goal before tapering bond buying. Inflation has been running much closer to 1 percent, he noted.

Rosengren, a long-time policy dove, highlighted data comparing two "hypothetical" approaches to quantitative easing: one in which the buying is unchanged until April 2014; and another fairly aggressive approach in which the buying is reduced to $75 billion in December, $50 billion in January, $25 billion in March, and completed altogether by April.

"Start dates differing by a quarter or two would generate only relatively small changes in the overall size of the Fed's balance sheet," Rosengren said at the University of Massachusetts Boston.

"That is certainly one reason for being patient - waiting until evidence of a more sustainable recovery is more clear-cut - before beginning any reduction in the size of the purchase program."

U.S. unemployment was 7.2 percent in September, down from 7.8 percent a year ago. Gross domestic product growth has averaged 2.2 percent since the recession ended in 2009.

BEYOND QE3: INTEREST RATES

The Fed's October decision to stand pat on the pace of QE3 followed a bitter partisan battle in Washington that led to a 16-day partial government shutdown and flirted with a devastating debt default.

A deal was eventually forged to reopen the government and raise the U.S. borrowing limit until early in the new year, meaning the fiscal showdown could resume in a matter of months.

Bullard said he did not think the shutdown in itself would do lasting harm to the economy, although he acknowledged that the political fighting had hurt confidence. But the Fed should not wait for a permanent budget deal before taking policy action, he said.

"I think we can't really wait for the political situation in Washington to be just right because, evidently, they could be bickering for ever," he said.

He also played down the impact that the central bank's leadership transition would have on decision-taking, after President Barack Obama nominated Fed Vice Chair Janet Yellen to take over the helm from Bernanke when his term expires at the end of January. Yellen's appointment must be confirmed by the U.S. Senate.

"I don't think the committee would put very much weight on anything like that," Bullard said. He also said that he expected she would help ensure policy continuity once she was in charge.

Powell, speaking in a conference room at the San Francisco Fed named after Yellen, devoted most of his remarks to debunking the idea that easy policy in the United States and other advanced economies has been primarily responsible for the massive capital inflows, currency appreciation and asset price rises in some emerging economies.

While accommodative monetary policies "likely contributed to some of these flow and price pressures," he said, and may also have contributed to the buildup of potential financial imbalances in certain emerging markets, "other factors appear to have been even more important."

Among those factors, he said, are expectations that some emerging economies will grow more slowly than before.

GENERAL NEWS *(Continued)*

A fourth Fed policymaker, Dallas Fed President Richard Fisher, told a group of economists in Sydney that he does not see the Fed continuing its bond-buying program indefinitely, or increasing it.

But even Fisher, a stalwart opponent of the Fed's current easy policy, said he could see the Fed holding interest rates low for a very long time.

Rosengren, for his part, said that when the bond-buying is ultimately reduced, rates will need to stay at "very low levels until there is much more progress reaching full employment" of 5.25 percent joblessness in his view. The pace at which rates are raised should be "quite gradual unless the economy picks up much faster than is currently expected," he added.

Pascua-Lama halt carries repercussions for Argentina, Chile

BUENOS AIRES/SANTIAGO, Nov 4 (Reuters) - Barrick Gold Corp's decision to mothball its huge Pascua-Lama project on the border of Chile and Argentina has highlighted startling divergences between the two South American countries over mining and energy investment.

In a role reversal of sorts, nationalistic Buenos Aires is championing the now-dormant Canadian-owned project, while stricter environmental norms in business-friendly Santiago paved the way for the project’s suspension.

Last week's announcement by Toronto-based Barrick Gold Co was a blow to Argentina's government at a time when it is seeking to attract tens of billions of dollars to develop its shale oil and gas resources.

"Even if the cancellation isn't specifically related to Argentina's economic policies, it's still bad news" for the Argentine economy and the government, said Ignacio Labaqui, an analyst with Medley Global Advisors.

The estimated $8.5 billion project, already about 50 percent complete, had enjoyed the support of President Cristina Fernandez's leftist government, which is trying to change Argentina's reputation for intervention, nationalistic rhetoric and runaway inflation.

Aiming to distance itself from the decision, her government said neighboring Chile was responsible, alluding to a court decision ordering the world's largest gold miner to suspend building Pascua-Lama in the spring due to environmental harm.

"The delays the project is suffering are a product of legal conflicts Barrick has in Chile that prompted the Supreme Court there to get involved after indigenous communities filed complaints," Argentine Planning Minister Julio De Vido said in a statement. "This situation has nothing to do with the project's conditions in our country." Pascua-Lama has also been plagued by cost overruns and a sharp drop in bullion prices, and policies in Argentina or Chile did not directly trigger Barrick's decision.

"The decision to temporarily suspend construction was primarily based on economic factors, including a prolonged period of lower metal prices," Barrick spokesman Andy Lloyd told Reuters. "While the project faces a number of outstanding legal and regulatory issues in Chile, the regulatory system itself is strong and the requirements on the project are clear."

The regulatory and political environment in Argentina did not play a role in the decision, Lloyd added.

Still, Argentina's reaction to the announcement not only points to the policy priorities in Buenos Aires, but highlights a broad change underway in Chile despite its pro-business reputation.

Like much of commodities-dependent Latin America, Chile is struggling to maintain export-driven economic growth while addressing heightened environmental concerns and demands that the benefits of resource development be spread more equally.

The Chilean government pointed to Barrick's violation of the terms set out in its mining license.

"The difficulties they've had aren't due to our norms, but rather due to the breach of the conditions outlined in their environmental permit," Mining Minister Hernan de Solminihac told local radio Bio-Bio. "We regret the decision."

STRONGER REGULATORY TACK

The complex was one of the biggest mining projects planned in commodities-dependent Chile. It would also have been an economic boon to Argentina, Latin America's No. 3 economy, which is grappling with high inflation and the negative impact of currency controls on investment."

Pascua-Lama, originally expected to produce up to 850,000 ounces of gold annually in its first five years, was dogged by what the company has conceded were management problems on a tricky construction project high in the remote Andes, as well as fears the project would damage glaciers and water quality.

In April, a Chilean appeals court halted work at the request of a local indigenous group that said water polluted by construction ran off into the Estrecho River.

The complaint said high concentrations of arsenic, aluminum, copper and other elements have been found in the water near Pascua-Lama. Barrick denies it polluted the river.

Chile's new environmental regulator and Supreme Court subsequently also froze construction, setting the stage for last week's decision by the company to stop work indefinitely. Barrick said it intended to resume the project, on which it has already spent $5 billion, when conditions warrant.

Barrick's decision is likely to galvanize environmental groups in Chile, encouraging them to take on more mega mining and energy projects they deem unsound.

At stake is a third of the world's copper production and billions of dollars in investment.

GENERAL NEWS *(Continued)*

"Pascua-Lama marks a before and after for mining because of the conflicts that arose with local communities," said Juan Carlos Guajardo of CESCO, a mining think-tank in Santiago.

Public sentiment in Chile, the world's top copper producer, is strongly against the private mining industry. Around 83 percent of Chileans say they favor nationalizing copper, according to a CEP survey published last week.

Although business-friendly Chile is highly unlikely to follow the nationalizations of neighbor Argentina, Pascua-Lama illustrates that private miners need to be especially cautious and follow environmental law to the letter.

Dealing with these tensions is one of the major challenges awaiting Chile's next president. Polls show that Michelle Bachelet, the center-left former president, holds a wide lead and might attract enough support to win outright in the first round of voting on Nov. 17.

A BLOW TO ARGENTINA'S MINING DREAMS

Across the Andes, Argentina hopes to emulate its mineral-rich neighbors and position itself as an attractive destination for foreign investment in resources to supplement its powerful agricultural export industry.

Pascua-Lama was Argentina's main foreign investment project after Brazil's Vale halted a $6 billion potash project early this year because of higher costs fueled by inflation.

Fernandez, who is convalescing after an operation to remove blood from the surface of her brain, had a sobering setback in last month's mid-term elections.

Despite strong pro-environment sentiment in Argentina, Fernandez vetoed a glacier protection law in 2010 in a nod to mining and oil projects such as Pascua-Lama, on the grounds the legislation would hamper provincial economies. Argentina's Supreme Court eventually upheld the law.

Last year, foreign direct investment in Argentina amounted to only about 2.6 percent of gross domestic product, whereas it accounted for 11.3 percent in Chile's far smaller economy, according to the United Nation's regional economic body.

Switzerland opens probe into gold refiner Argor for Congo dealings

GENEVA/DAKAR, Nov 4 (Reuters) - Switzerland said it had opened an investigation into Argor-Heraeus, one of the world's largest gold refiners, for suspected money laundering and complicity in war crimes.

The probe follows a criminal complaint filed by Swiss NGO TRIAL on Nov. 1 which accused the refiner of processing close to three tonnes of gold sourced from an armed group in the Democratic Republic of Congo.

The company denied the allegations and said it had already been cleared under investigations by the United Nations, the Swiss economics ministry (SECO) and financial markets regulator FINMA.

"The Swiss prosecutor's office has examined this complaint and decided to open a criminal procedure against the company in question for suspected money laundering in connection with a war crime and complicity in war crime," the Attorney General said in an emailed statement on Monday.

Under the Swiss legal system, authorities must examine a criminal complaint but are not obliged to open a probe.

TRIAL lawyer Benedict de Moerloose said Swiss law could lead to jail terms for anyone found guilty of money laundering and a fine of up to 5 million Swiss Francs ($5.49 million) for the company.

"(Argor-Heraeus) vigorously rejects all the charges for offences that had already been investigated by the U.N., SECO and control authority FINMA," the company said in a statement emailed to Reuters.

REBEL FINANCING

Congo's government, which is fighting M23 rebels near the Ugandan border, has faced a series of armed rebellions in its mineral-rich east since the end of a major war a decade ago.

Washington-based advocacy group Enough Project estimated in a report last month that approximately 12 tonnes of gold worth around $500 million is smuggled out of the country annually.

Gold is the most important commodity financing the rebel group M23, according to the report, after U.S. financial regulations helped block trade in tin, tungsten and tantalum.

According to TRIAL, the gold purchased by Argor was mined in concession area 40 by an armed group called FNI, once active in the Ituri region of eastern Congo, and sold via Uganda.

It was then bought by Argor and processed in Switzerland - a major refining hub where about two thirds of global volumes are processed - between 2004 and 2005, TRIAL said.

"Argos-Heraeus SA knew, or at the least should have assumed, that these raw materials were the proceeds of pillage, which is a war crime," TRIAL said on Monday.

Australia's Port Hedland iron ore exports to China hit record high in Oct

SYDNEY, Nov 5 (Reuters) - Iron ore exports to China from Australia's Port Hedland, which handles about a fifth of the global seaborne market, rose 10 percent in October from September, setting a record and highlighting why massive work is under way to dig more Australian mines.

GENERAL NEWS *(Continued)*

October shipments to China of 25.2 million tonnes were up 43 percent from a year before, data released by the Port Hedland Port Authority show.

Total iron ore exports from the port in October were flat compared with September at around 29.0 million tonnes but up 33 percent from a year earlier.

Port Hedland is used by BHP Billiton, Fortescue Metals Group and Atlas Iron to ship iron ore cargoes, which are expected to exceed 200 million tonnes this year.

BHP recently raised its full-year iron ore output target, aiming to capture more of the growing market for raw materials in China.

BHP's rivals are also expanding in Australia's western iron ore belt. Rio Tinto <RIO.AX RIO.L> is racing to lift annual output by 10 percent to 290 million tonnes, while Fortescue is well on its way to raising production to 155 million tonnes.

The Port Hedland figures do not include shipments by Rio Tinto, which uses different Australian ports.

Outside of Australia, the world's biggest iron ore miner, Brazil's Vale, is expanding output to a planned 480 million tonnes by 2018.

Shipments to Japan via Port Hedland in October fell to 1.6 million tonnes from 2.2 million in September. Shipments to South Korea dropped to 1.4 million tonnes from 2.9 million.

China is likely to rely more on imports for iron ore supply as its domestic iron ore production and grade are declining, according to an official with China Iron and Steel Association.

China's imported iron ore accounted for nearly 70 percent of its total consumption in 2012, according to the official.

Indigenous Chileans to lodge new appeal

SANTIAGO, Nov 4 (Reuters) - An indigenous community opposed to Goldcorp's copper and gold El Morro mine in northern Chile is poised to present at least one new legal action against the project this month, the group's lawyer told Reuters on Monday.

The $3.9 billion mine was given the green light again last month, after Chile's Supreme Court froze its environmental permit last year until the company fully consulted the local Diaguita community.

The Diaguita say the consultation, based on an International Labor Organization convention, wasn't properly conducted. The roughly 260 families involved in the case are also upset the mine is planned on what they deem their sacred ancestral land and fear the mine could pollute a local river.

"We could end up focused on one, or two or three (legal actions)," said Nancy Yanez, a lawyer with human rights NGO Observatorio Ciudadano. "In any case... it will be within the next few weeks," she added. She declined to give further details on what legal actions the group is mulling.

Goldcorp did not immediately reply to a request for comment. The company has said it continues "community engagement" and is committed to partnership with indigenous groups.

El Morro, 70 percent owned by Goldcorp and 30 percent by New Gold, had been due to begin operations in 2017.

It is one of several mining and power projects that have suffered setbacks in world No.1 copper producer Chile, where environmental and indigenous groups are increasingly taking their complaints to court.

Chile is heavily dependent on mining, with copper accounting for roughly 60 percent of export revenue. Many in the Andean country say they haven't benefited from the spoils of the copper boom and feel mining has harmed the environment.

One of the most emblematic cases is fellow Canadian miner Barrick Gold Corp's Pascua-Lama mine, which straddles the border with Argentina and is close to where El Morro is planned. Barrick said last week it was shelving the controversial gold project indefinitely.

Both Chile's supreme court and the new environmental regulator suspended the project earlier this year on environmental grounds.

An indigenous community had also led the opposition to Pascua-Lama, and Barrick's decision may galvanize environmental opposition to such projects.

"El Morro is the same as Pascua-Lama. What you have is a decision by authorities to go against fundamental indigenous rights... and give the green light to a project without having the environmental and social safeguards necessary to having good mining practices in Chile," Yanez said.

TRADING PLACES

Goldman cautions on London Metal Exchange rule proposals

LONDON, Nov 4 (Reuters) - The London Metal Exchange's proposals to cut queues to get metal out of the warehouses could increase price volatility and reduce transparency as more metal moves off the exchange, Goldman Sachs said in a research note.

The LME, the world's largest metals marketplace, has come under regulatory and legal scrutiny over its metal storage practices, with complaints about months-long queues to withdraw physical metal from its warehouses.

Clients of the warehouses say the system inflates the cost, or premium, to secure metal. This is particularly so for aluminium, which is used in packaging and transport, even though the market is in global oversupply.

In July, the LME proposed new rules to overhaul the delivery system from next April that would force warehouses to release more stocks once the wait-time breaches 100 days.

The exchange, acquired by Hong Kong Exchanges and Clearing last year, said last month it had made a decision on its proposal, and would reveal details at a later date.

Goldman, which owns metals warehousing firm Metro but has Chinese Walls between its research, banking divisions and warehousing operations, said premium volatility had indeed increased the cost of using the LME as a hedge against physical prices.

"Clearly, should these costs increase, the demand for the LME as a hedging tool against physical price risk may decline," Goldman said.

"But going too far in the other direction in managing this basis (premium) risk may also impact the economic role of the exchange market - reducing transparency, liquidity and impacting the ability of the LME to create a buyer of first resort and seller of last restort."

To support the mechanism of physical delivery of its futures contracts the LME approves and licenses a network of around 700 warehouses across 36 locations around the world.

"Increasing the load-out rate potentially lowers transparency and increased LME rents and delivery-out charges as warehouses attempt to recoup the costs of investing in additional capacity to load out," Goldman Sachs said.

And limiting the load-in rate reduces the LME's ability to create a market of last resort in times of surplus, it said.

"We find that ‘managing’ the queue by the LME could have significant direct costs in the proper functioning of the exchange which can increase price volatility and indirect social costs by reducing transparency as more metal moves off exchange," it said.

LME warehouses hold 5.4 million tonnes of aluminium, but it is concentrated in only two locations: Detroit, where Goldman's Metro dominates, and Vlissingen in the Netherlands, Glencore-Xstrata's Pacorini stronghold.

Metal buyers' complaints have resulted in U.S.-based lawsuits by consumers, distributors and others alleging aluminium price-fixing and anti-competitive behaviour by investment banks, large trading houses and the LME.

Goldman, a defendant in some of the lawsuits, has dismissed the lawsuits against them as without merit.

MARKET NEWS

Zambian president threatens Vedanta unit over job cuts

LUSAKA, Nov 4 (Reuters) - Zambian President Michael Sata threatened on Monday to revoke the licence of Konkola Copper Mines (KCM), owned by London-listed Vedanta Resources, if it goes through with a plan to lay off more than 1,500 workers.

Lusaka made a similar ultimatum last month against South African retailer Shoprite, raising investor concerns in Africa's top copper-producing country.

"If he is threatening to lay off people let him lay off one and we will take away the licence from him," Sata told state-run ZNBC radio, referring to Konkola chief executive Kishore Kumar, who announced the plan to cut jobs last week.

The company said on Friday that it plans to trim away about 7 percent of its work force of 22,000, including contractors, by March as it begins to mechanise operations. "We have been informed of the president's statement and we shall endeavour to engage the head of state over the matter," a Konkola spokeswoman told Reuters.

Sata is a populist swept to power two years ago on an activist platform that promised to defend workers in the impoverished southern African country.

"Sata’s interventions are getting ridiculous and really clouding the investment outlook for particularly FDI (foreign) investors," said Chris Becker, Africa market strategist at ETM Analytics.

"Although Zambia’s labour laws on paper are quite liberal and give companies significant flexibility, Sata is getting increasingly dictatorial and populist in his interventions."

If Vedanta were to pull out - and KCM is an underperforming asset - it would have huge consequences as it is the biggest private sector employer in Zambia.

Vedanta, an Indian oil and gas and mining conglomerate, bought KCM a decade ago after the exit from Zambia of previous owners Anglo American.

MARKET NEWS *(Continued)*

But the business, which was intended as part of a push beyond India and as an effort to boost copper exposure, has repeatedly disappointed the market, its margins dragging behind more lucrative Vedanta divisions like zinc or oil and gas.

Most recently, it downgraded production expectations for the full year after mined metal dropped by a fifth in the first half. Zambia accounted for just 5 percent of Vedanta’s core profit in the year ended in March 2013.

The government last month threatened to shut Shoprite stores after the South African company fired 3,000 workers who went on strike over pay. Shoprite, Africa's biggest retailer, subsequently backtracked on the sackings.

BONDS VERSUS FDI

Zambia now aims to borrow nearly $2 billion from domestic and foreign markets to fund its 2014 budget deficit and is becoming more reliant on portfolio versus FDI inflows after a successful debut $750 million Eurobond launch last year.

ETM's Becker said Sata's moves "will continue to result in a changing structure of Zambia’s external financing from FDI to more volatile and unpredictable inflows to sovereign bonds".

Zambia is not alone when it comes to heavy state or political intervention to protect jobs in a region where unemployment levels are high and much of the work force is still comprised of subsistence farmers, putting a high social premium on a regular wage.

Senior officials with South Africa's ruling African National Congress threatened the licences of Anglo American Platinum earlier this year over its plans to cut up 14,000 jobs as it crafted a plan to restore profits.

Amplats, a unit of Anglo American, has since rowed well back on this target under intense government and union pressure.

U.S. Supreme Court weighs fight over changing clothes at work

Nov 4 (Reuters) - Steel workers who do their jobs wearing flame-retardant gear tried to convince the U.S. Supreme Court on Monday that they should be paid for the time they spend “donning and doffing” such items before and after their shifts.

In a case that could effect unionized workers in poultry processing, meat packing and other sectors, roughly 800 current and former workers at the United States Steel Corp plant in Gary, Indiana, are seeking the extra pay.

A crucial point in the case is the difference between "clothes" and "protective gear."

In high court arguments, the nine justices struggled to clearly differentiate between the two - a task that the U.S. Labor Department has only made harder over the years.

The distinction is important because unionized employees are not entitled to pay for the time it takes to change clothes before and after each shift if their union and their employer have agreed to this by custom or agreement.

Under the law, workers do have to be paid for the time it takes to put on and take off essential protective workplace gear that is not "clothes," regardless of what their contract says.

The U.S. Steel workers say that flame-retardant jackets and pants, work gloves, wristlets, hard hats and other items they have to wear are "personal protective equipment," not clothes.

U.S. Steel disagrees, saying any wearable item is clothes. As a result, the company says, it should not have to pay unionized employees for "donning and doffing."

The court seemed to approach the case with the big picture in mind, said Jessica Schauer Lieberman, a lawyer at Seyfarth Shaw, who attended the hearing but was not involved in the case.

"The justices were clearly looking to make a broad rule. They weren't looking to treat this as a narrow case where they just decide the specific items worn by the plaintiffs at the U.S. Steel plant," she said afterward.

A decision from the court is expected by late June 2014, when the court's current term ends.

JUSTICES WEIGH IN

Conservative Justice Antonin Scalia told Lawrence DiNardo, the attorney representing U.S. Steel, that the company's interpretation of the law is too broad.

"The word of the statute is 'clothes,'" Scalia said during the arguments. "And nobody would consider eyeglasses or a wristwatch or some of this other specialized equipment to be clothes. I mean, the word is what it is."

Justice Sonia Sotomayor, a liberal, told Eric Schnapper, the attorney representing the workers, that while the company's definition "might go too far," she had "a problem with things that look like clothes."

Schauer Lieberman said the justices appeared to be skeptical of the plaintiffs' argument "that any item that is intended to protect you from a workplace hazard is excluded from clothing, but I think that they were also having trouble with what the right rule would be in its place."

Justice Elena Kagan questioned why the court was being asked to sort out the issue, instead of the Labor Department, which has in the past issued conflicting guidance. "It seems the quintessential question of statutory interpretation to which we would normally defer to the agency," Kagan said.

Scalia countered: "Too complicated is why."

MIXED MESSAGES FROM LABOR DEPT

MARKET NEWS *(Continued)*

The U.S. Steel case came from Chicago's 7th U.S. Circuit Court of Appeals, which took note of the Labor Department's conflicting stances on workplace clothing. The 7th Circuit concluded that the items donned by the U.S. Steel workers were not clothes, but safety gear.

During the Clinton administration, the department's position was that protective equipment such as hats, boots and gloves were not clothes. Then during the Bush administration, a 2002 Labor Department letter stated that such gear actually was clothing. This changed again in 2010, under President Barack Obama, when the 2002 letter was revoked, reverting the official position so the items were viewed again as protective gear.

"It would be a considerable paradox if, before 2001, the plaintiffs would win because the president was a Democrat; between 2001 and 2009 the defendant would win because the president was a Republican; and in 2012 the plaintiffs would win because the president is again a Democrat," 7th Circuit Judge Richard Posner wrote.

The 7th Circuit panel concluded that, even though some of the items donned by U.S. Steel workers were not clothes, it took the workers so little time to pull them on and off that they were not entitled to compensation.

GROCERY COSTS

Narrowing the definition of "clothes" could be costly to the grocery industry, another sector that could be affected, Littler Mendelson attorney Tammy McCutchen said in a friend-of-the-court brief filed with the court on behalf of the Grocery Manufacturers Association.

If that industry's 2.5 million workers were entitled to back pay of just 10 minutes a day each, the cost to employers would be $1.6 million for every thousand affected employees.

"It doesn't sound like much, but it adds up really quick," McCutchen told Reuters.

McCutchen, while at the Labor Department, signed the 2002 letter during the Bush administration that revised the agency's definition of protective gear versus clothing.

Shares in U.S. Steel closed up 4.4 percent at $26.91 each in moderately bullish New York Stock Exchange trading.

The case is Sandifer v. United States Steel Corporation, U.S. Supreme Court, No. 12-417.

Betting on end to glut, miners hunt for new zinc deposits

SYDNEY, Nov 5 (Reuters) - A global hunt is on to find new deposits of zinc as China buys more of the metal to rust-proof new cars and coat steel used to build bridges and skyscrapers.

Multinationals such as Swiss-based Glencore Xstrata, Belgium's Nyrstar and China's MMG are funding new mines from Africa to the Yukon on expectations that an oversupply of zinc will turn into a deficit.

Along with mining veterans such as former Newmont head Pierre Lassonde, who holds a stake in Canada's Foran Mining, they are also investing just as ageing mines accounting for a tenth of world consumption start to shut.

Even old workings are being rehabilitated, including silver-zinc mines built by Hunt brothers Nelson and William in Canada in the 1970s. The Texan duo famously hoarded silver to corner the market and control global prices, only to go bust when silver prices crashed in 1980.

"After peddling the zinc story for so long I'm hopeful we'll soon have our day in the sun," said Jonathan Downes, who is managing director of Ironbark Zinc Ltd.

The Australian prospector is digging a zinc mine in Greenland with help from international producers.

London Metal Exchange zinc prices have tumbled as much as 15 percent this year, one of the worst performers among base metals, but the outlook is turning, thanks in part to a growing appetite for the metal among China's steel producers.

Within five years prices could almost double if the pace of Chinese demand growth continues.

Already the world's largest consumer, China still needs more zinc to lift rust-proofing of its steel closer to international levels. Typically, steel manufactured in China contains only a quarter of the zinc found in western steel.

Chinese car makers need to buy more steel coated with zinc, known as galvanising, to make their vehicles more rust resistant.

The issue of rust problems with Chinese-made cars was highlighted in a consumer programme by state broadcaster CCTV.

The programme drove home the idea that if Chinese automakers want to effectively compete against the global manufacturers they will have to use more zinc, said an auto-industry insider.

Headway is being made. Growth in China's automotive sector, the world's biggest, is already encouraging steelmakers to put more zinc in their steel.

One of the latest developments has been the expansion of a joint venture between Thyssenkrupp Steel and Anshan Iron and Steel.

Under the plan announced in September, output of galvanised steel from the partnership in Liaoning Province will be boosted by incorporating two existing galvanising lines with a combined capacity of 800,000 tonnes a year at Anshan's main Chinese site.

"MONSTER MINES" SHUTTING

China's refined zinc imports rose more than 10 percent in the first nine months of 2013, trade data shows.

MARKET NEWS *(Continued)*

And the pending shut down of older zinc mines will collectively eliminate 1.7 million tonnes of production, or 11 percent of world consumption.

MMG's 500,000-tonnes-per-year Century mine in Australia, the biggest of those set to close, runs out of ore in 2016.

Ireland's Lisheen mine, owned by Vedanta Resources and producing 170,000 tonnes a year, shuts in 2014.

Others including Anglo American of South Africa's Skorpion mine and Rathdowney Resources' Pomorzany-Olkusz mine in Poland are also shutting inside three years.

"You've got a lot of monster mines that are departing from the trade," said UBS commodities analyst Tom Price.

"The sorts of operations that are going to replace them are small ones, so there is a risk that there could be a shortfall of mined zinc supply," Price said.

The International Lead and Zinc Study Group forecasts a world awash with too much zinc through at least 2014, but sees the global oversupply shrinking to 120,000 tonnes this year and 115,000 tonnes in 2014 - below each of the previous four years.

That compares with a Reuters poll of analysts pointing to a 110,000 tonne surplus in 2013, dropping to just 52,000 tonnes in 2014.

BNP Paribas analyst Stephen Briggs believes zinc is already in short supply and forecasts a 20,000 tonne deficit this year and a 15,000 tonne deficit next year.

The last time zinc entered a supply deficit, its value more than quadrupled. The price went from under $0.40/lb in 2003 to over $2/lb in 2006.

Wood Mackenzie predicts zinc will average more than $1.59/lb from 2016-18 versus $0.88/lb so far this year.

China produces more zinc than any other country and stands to benefit the most from any price uplift.

ZINC MINING IN GREENLAND

Ironbark's Downes will this week accompany Greenland's minister for mines to a business conference in China, where he hopes to encourage more foreign zinc mining in Greenland.

China Nonferrous has already agreed to engineer and construct Ironbark's mine and to arrange funding from banks in China. Glencore Xstrata meanwhile is providing Ironbark with a $50 million convertible note.

China Nonferrous has also agreed to buy a 50 percent stake in a joint venture to develop the Ozernoye deposit in Russia's Republic of Buryatia - one of the world's largest by zinc reserves - and build an ore mining and processing plant.

South African Mike Oppenheimer favours Burkina Faso. Oppenheimer is acting chief executive of Blackthorn Resources, which this month made its first shipment via neighbouring Ivory Coast. It is Burkina Faso's first zinc mine.

Glencore Xstrata owns 62.2 percent of Blackthorn and has agreed to buy all the zinc the company can mine.

In Canada's Northwest Territories, Canadian Zinc wants to rehabilitate ground worked by the Hunt brothers. Costing $185 million, the plan is to produce about 76 million pounds of zinc annually, along with silver and lead.

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

Copper underpinned by Fed bond-buying plans, global factory pick-up

SINGAPORE, Nov 5 (Reuters) - London copper edged up after Federal Reserve officials indicated there would be no quick end to the U.S. central bank's commodity-friendly stimulus package, with a solid manufacturing sector survey also helping.

Prospects for copper demand have improved, if by fits and starts, keeping a floor under prices around the $7,000-a-tonne mark, although looming oversupply is capping gains above $7,420 a tonne. Those prices have set the range since early August.

By 0710 GMT, three-month copper on the London Metal Exchange had inched up 0.37 percent to $7,175.50 a tonne from the previous session, when it fell 1.4 percent.

Lending support were comments from several Federal Reserve officials. The Fed should scale back asset purchases only when the U.S. economy shows clearer signs of improvement and even then it should act slowly, one senior central banker said on Monday, while two others stressed there was no need to rush. (

Global manufacturing activity increased in October at its fastest pace in more than two years, according to JPMorgan's Global Manufacturing Purchasing Managers' Index.

On top of that, growth in China's services industry edged up in October, offering further indications that the economy had stabilised.

"The PMIs and some of the leading indicators have improved, but the market is still a little bit worried about ample capacity and oversupply," said analyst Dominic Schnider at UBS's wealth management arm.

"There's still for me the chance we will trade below $7,000 at the end of the year," he said.

The most-traded January copper contract on the Shanghai Futures Exchange fell 0.31 percent to close at 51,510 yuan ($8,400) a tonne.

Market sentiment in China was also dampened by comments from Premier Li warning against further expansion of already loose money policy, traders said.

China's consumption of refined copper is expected to grow more quickly in 2014, although not fast enough to boost imports significantly as production increases more quickly, state-backed research firm Antaike said, feeding worries about oversupply.

China's total output is expected to rise 12.7 percent to 6.33 million tonnes this year, as more smelters turn to concentrates.

Across other metals, zinc and lead have better prospects for next year, Schnider at UBS said.

"We are still a little more positive on the zinc side. You see zinc ore production declining quite significantly. There's a lot still around but I think the trends are good. Still, if we see a move up, it's just going to be modest," he added

A global hunt for new deposits of zinc has kicked off as China buys more of the metal to rust-proof new cars and coat steel used to build bridges and skyscrapers.

LME nickel, zinc, lead and tin all hit their lowest in two to three weeks on Monday, when the dollar marked its highest in more than a month.

LME zinc and aluminium broke below key technical areas of support at the 200- and 100-day moving averages respectively, setting the metals up for further falls, traders said.

Gold steadies on Fed stimulus outlook; US jobs report in focus

SINGAPORE, Nov 5 (Reuters) - Gold steadied after a six-session losing streak, helped by comments from Federal Reserve officials that suggested the U.S. central bank would maintain its ultra-loose monetary policy for some time yet.

Spot gold was steady at $1,314.42 an ounce at 0729 GMT after hitting a session high of $1,317.96 earlier.

The metal has lost about a fifth of its value this year on fears that the Fed would start to wind down its bullion-friendly policy plus worries about outflows from gold-backed exchange-traded funds.

The metal is now trading in a narrow range and investors were refraining from taking big positions ahead of a crucial U.S. jobs report later this week.

The Fed said last month that it would stick with its monthly $85 billion bond purchases until the economy improved further and budget issues in Washington were resolved, raising expectations that the tapering would not begin until next year, although some still believe it may start this year.

One senior central banker said on Monday the Fed should scale back its asset purchases only when the U.S. economy shows clearer signs of improvement and even then it should act slowly, while two others stressed there was no need to rush.

"The Fed is less likely to cut back stimulus this year due to the recent government shutdown and lacklustre economic data," said Chen Min, a precious metals analyst at Jinrui Futures in Shenzhen.

"We hold that the Fed will start scaling back in the first quarter of next year and therefore remain bearish on gold prices."

A strong U.S. nonfarm payrolls report on Friday could rekindle fears that the Fed might start "tapering" its stimulus buying from December, which would put downward pressure on gold prices.

Gold traders were also watching the euro on Tuesday. The European currency reversed early gains to trade near a seven-week low as investors were cautious ahead of a European Central Bank policy meeting this week.

A drop in the euro makes it more expensive for holders to buy dollar-denominated gold.

MARKET REVIEW *(Continued)*

A sharp slowdown in inflation has raised the risk the ECB may be forced to cut interest rates or at least lay the groundwork for a move, which could depress the euro. (

"Should the euro weakness resume, bullion prices may fall back onto the defensive and test $1,300 per ounce," HSBC analysts said in a note.

However, a fall below $1,300 could provide a boost to physical demand, which has been subdued lately.

Euro inches lower; Aussie sags after RBA statement

SYDNEY/SINGAPORE, Nov 5 (Reuters) - The euro eased, stalling near a seven-week low as investors were cautious ahead of the European Central Bank's policy meeting this week, while the Aussie dollar slipped after the nation's central bank talked down the currency.

The euro eased 0.1 percent to about $1.3499, managing to stay just above a seven-week trough of $1.3442 set the previous day.

The single currency had bounced on Monday after a survey showed euro zone manufacturing activity accelerated in October as new orders increased for the fourth month in a row.

Still, a sharp slowdown in inflation last week has raised the risk the European Central Bank may be forced to cut interest rates as early as this Thursday's policy meeting, or at least lay the groundwork for a move.

"We expect the ECB to leave its interest rates and forward guidance unchanged at Thursday's meeting. However, the latest decline in inflation has raised the likelihood that the main refinancing rate could be cut again by 25 basis points in December," Barclays analysts wrote in a report.

The dollar index inched up 0.1 percent to 80.627, but still down from Monday's seven-week high of 80.930.

Against the yen, the dollar eased 0.2 percent to 98.45 yen.

Not helping to inspire dollar bulls, several U.S. central bankers said on Monday the Federal Reserve is in no hurry to scale back its bond-buying stimulus program and will only do so when the economy improves.

With the Fed seen likely to hold off from tapering its stimulus until next year and expected to keep interest rates low for an extended period, some analysts say downside risks for the euro might be limited despite the speculation about possible ECB monetary easing.

"If you ask whether there will be a shift to a trend of dollar strength and euro weakness, I don't think that will be the case," said Teppei Ino, an analyst for the Bank of Tokyo-Mitsubishi UFJ in Singapore.

The euro's recent drop should probably be regarded as a corrective move that came after some market players piled up long positions in the single currency, he said.

The Australian dollar slipped after the Reserve Bank of Australia (RBA) said the currency was uncomfortably high.

In its statement accompanying its widely-expected decision to hold rates steady at a record low 2.5 percent, the RBA said that a lower Australian dollar was likely to be needed to achieve balanced growth in the economy.

The Australian dollar fell 0.4 percent on the day to $0.9470, giving back some of its roughly 0.8 percent gain made on Monday, when the Aussie rose on strong local retail sales data.

(Inside Metals is compiled by Vikas Vasudeva in Bangalore)

THOMSON REUTERS