INSIDE METALS

Friday, November 8, 2013

CHART OF THE DAY

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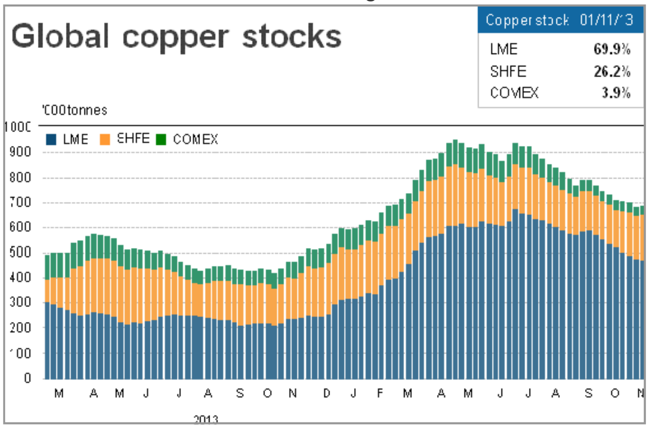

TRADING PLACES

- LME beefs up powers to tackle long warehouse queues

GENERAL NEWS

- China exports another sign of pick-up as leaders meet
- South Africa's Harmony Gold swings to profit on higher output
- China's Oct iron ore imports up 20 pct on yr; demand seen easing

MARKET NEWS

COPPER:

- China Oct copper imports fall 11.2 pct on-month
- Chile miners to dodge Bachelet reforms but face future risks
- ARCO to pay up to $20 mln to Nevada copper mine neighbors over contamination

NICKEL:

- Vale eyes Sudbury deal with Glencore to cut costs

FEATURE

COLUMN- New nickel projects ramping up...slowly

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The explanation comes on a daily basis in the form of the LME's morning stocks report.

Today's showed registered inventory rising by a net 558 tonnes to 240,408 tonnes, an all-time record high - the latest in a long series of them - as surplus units spill into exchange warehouses.

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

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TODAY'S MARKETS

BASE METALS: London copper was flat but was set for its biggest weekly fall in two months as growth in supply outpaced demand, which has been pinned back by fragile U.S. economic growth and tightening credit in China. "Production is increasing. At the same time, physical demand is not that strong, but we heard some restocking activity is going on, which is supporting the market," said analyst Chunlan Li of CRU in Bejing.

PRECIOUS METALS: Gold was trading near three-week lows and heading for a second straight weekly loss after strong U.S. economic growth sparked fears the U.S. Federal Reserve may scale back its bullion-friendly bond purchases this year. "There is not much interest in gold for the time being," said Ronald Leung, chief dealer at Lee Cheong Gold Dealers in Hong Kong.

FOREX: The dollar remained buoyant in Asian trade after the European Central Bank's surprise interest rate cut sent the euro to near eight-week lows, but its gains were tempered ahead of the key U.S. payrolls report later on Friday. "People do not want to get more dollars ahead of today's data, so that's why euro/dollar remains around $1.340," said Masashi Murata, senior currency strategist at Brown Brothers Harriman in Tokyo.

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THOMSON REUTERS

FEATURE

COLUMN-New nickel projects ramping up...slowly

By Andy Home

LONDON, Oct 7 (Reuters) - You don't need to look very far to understand why nickel has been the consistent underperformer of the London Metal Exchange (LME) base metals pack since the middle of the year.

The explanation comes on a daily basis in the form of the LME's morning stocks report.

Today's showed registered inventory rising by a net 558 tonnes to 240,408 tonnes, an all-time record high - the latest in a long series of them - as surplus units spill into exchange warehouses.

Nickel is a market in chronic oversupply resulting from systemic over-production.

Supply needs to be cut if the market is to rebalance. But this market's supply profile is complex, with at least three moving parts.

The first is China's nickel pig iron (NPI) sector. There are still few signs that the expansion momentum in NPI is slowing. Rather, price pressures are forcing producers to switch to lower-cost technology, in effect reducing the collective cost curve.

That's put pressure on existing higher-cost producers in the rest of the world.

There has been some supply-side response but up to now it has been patchy. A few Australian mines have been shuttered. Glencore Xstrata has mothballed its ferronickel operations in the Dominican Republic, while Votorantim has done the same at its Fortaleza plant in Brazil.

Then there is the third wild card, the new projects currently ramping up with the sort of bad timing that commodity markets used to be famous for.

HPAL - TWO STEPS FORWARD...

This third supply element is itself highly unpredictable, largely because four of these projects are working with high-pressure-acid-leach (HPAL) technology, which has a highly problematic track record.

And the operational challenges were again evident in the latest batch of quarterly production reports, with two downgrades to production guidance.

In the case of the Ambatovy project in Madagascar, this was the second consecutive downgrade.

Ambatovy, with nameplate capacity of 60,000 tonnes per year finished metal, was originally expected to produce 35,000 tonnes in its first full year of operation.

That figure was cut to 31,000 tonnes at the half-year stage and has just been cut again to 26,000 tonnes.

Sherritt International, majority owner and operator, said that ore throughput in the third quarter declined to 39 percent of nameplate capacity from 41 percent in the second quarter.

The core problem was "planned and unplanned maintenance activities" with the refining plant, "including acid injection system failures on Autoclaves 2 and 3 that caused external damage to the shell of the autoclaves".

Production guidance at the Ramu project in Papua New Guinea has also just been cut.

Highlands Pacific, a minority shareholder in Ramu, said in its Q3 report that the Chinese operator "has advised that they will not reach the targeted production of 15,500 tonnes of nickel (50 percent of nameplate capacity) for the 2013 year".

No new figure was provided but production through September was just 7,665 tonnes of nickel in hydroxide.

The Goro project in New Caledonia, or VNC as it has now been named by owner-operator Vale, is now in its third year of operation and has come to define the challenges involved in getting consistent performance out of HPAL.

Vale has just announced that September production of 2,200 tonnes of nickel in hydroxide and oxide was the "best month ever".

But quarterly production of 5,653 tonnes was only marginally better than Q2's output of 3,400 tonnes, while finished products output, once the intermediate products have been further refined by the company's plants in Taiwan and South Korea, fell to 4,700 tonnes from 6,600 tonnes.

Only First Quantum appears to have cracked the technology. Its Ravensthorpe operation in Australia produced a record 7,560 tonnes in mixed hydroxide in Q3 with 2013 guidance of 35,000-37,000 tonnes held unchanged.

NO TURNING BACK

Now, these continued operating problems and production downgrades might be viewed as a positive, given the evident oversupply in the nickel market.

But none of these HPAL operators is going to give up. Indeed the Q3 reports amounted to a collective statement of intent to continue working towards full capacity.

"The ramp-up of VNC showed significant advances, which make us confident of achieving performance targets for next year, when we expect to close the gap in cash flow generation," said Vale.

Sherritt said it is aiming for commercial production at Ambatovy, defined as consistent throughput of ore at 70 percent of design capacity over a 30-day period, in the fourth quarter of this year.

Ramu's operator, meanwhile, remains confident that the project will reach "full production capacity by the end of 2014".

FEATURE *(Continued)*

Between them, these three projects are intended to deliver 150,000 tonnes of contained nickel per year. Cumulative production in the first nine months of this year was just 40,400 tonnes.

That means there is a lot more metal to come, if the operators' confidence is to be believed.

There is also a lot of more metal to come from two other projects that are in the process of ramping up.

Glencore Xstrata has started commissioning its 60,000-tonne per year Koniambo ferronickel project in New Caledonia, while Vale's 52,000-tonne per year Onca Puma ferronickel operations are expected to start producing again this quarter after a year's inactivity following a furnace blow-out.

The key point with all these projects is that operators need to keep pushing for full-capacity production to start recouping the massive capital costs.

There may well be more technical set-backs at the HPAL projects, given the evident challenges in achieving consistent operational performance, but the simple fact is that there are some 260,000 tonnes of capacity ramping up with incremental flow-through to a market already burdened with large and still-rising stocks.

The only real question is one of timing.

And the only real solution for this market, if it is to rebalance supply and demand, is the implementation of more and deeper voluntary curtailments.

Until that happens, today's fresh record high in LME stocks won't be the last.

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

GENERAL NEWS

China exports another sign of pick-up as leaders meet

BEIJING, Nov 8 (Reuters) - A stronger-than-expected rebound in China's exports in October added to a run of indicators suggesting the world's second-largest economy has found its footing just as Beijing prepares to lay out its reform agenda for the next decade.

Improving demand from the United States and Europe lifted exports and helped reinforce the view that China has regained some momentum since mid-year after a protracted slowdown.

"China's export numbers suggest some -- although not yet decisive -- improvement in global demand momentum," said Louis Kuijs, an economist with RBS, in a note.

Exports increased 5.6 percent in October from a year earlier, the Customs Administration said on Friday, handily beating market expectations for a 3.2 percent rise and recovering from a 0.3 percent fall in September.

Attention is now on inflation and activity figures on Saturday, which will give a clearer overall picture of the health of the economy just as top politicians meet to lay out their reform agenda at the Communist Party's third plenary session from Nov. 9-12.

China's leaders have repeatedly said they are reshaping the economy so it is driven by domestic demand rather than exports and investment, and that slower growth is acceptable while they push on with their reforms.

A Reuters poll shows inflation is expected to have risen to an 18-month high in October, retail sales and M2 money supply growth rates are seen edging up slightly, while investment and factory output tick down.

"MOMENTUM IMPROVING"

Exports have been a drag on the economy so far this year, subtracting 1.7 percent from growth in the first three quarters.

Weak global demand, a stronger yuan currency and rising labour costs have taken their toll on sales of Chinese goods abroad, but there are hopes of a sustained pick-up in global demand.

October's rebound was driven by the United States, China's largest trading partner, and a sharp turnaround in demand from the European Union where export growth jumped to 12.7 percent after a 1 percent contraction in September.

"Actual export momentum is definitely improving and that is very much consistent with improvements in the U.S. and European economies," said Wang Tao, an economist with UBS.

Still, there remain some clouds over the outlook, including a strong yuan currency. And manufacturing and services sectors surveys for October painted a mixed outlook for trade.

"I believe there are several indicators already showing a weakness," said Shen Jianguang, an economist with Minzhuo Securities.

"I think the most important is the lagged impact of renminbi (yuan) appreciation, especially against the Indian and Indonesian currencies, where it is around 15 percent higher."

Exports directly create about 30 million jobs and add another 100 million in related industries, according to official estimates.

Earlier this year, export data was found to have been inflated by currency speculation and shipments to warehouses that were booked as trade payments and sales, and some economists expect the exaggerated figures to weigh on annual figures in coming months.

GENERAL NEWS *(Continued)*

South Africa's Harmony Gold swings to profit on higher output

JOHANNESBURG, Nov 8 (Reuters) - South African gold producer Harmony Gold Mining Company Ltd on Friday posted a quarterly profit after two previous quarterly losses as it improved production and grades.

Harmony, one of South Africa's top four gold producers, reported headline earnings of 5 cents a share for the three months to end September compared with a third-quarter headline loss of 186 cents a share.

Headline earnings per share is the main profit measure in South Africa and excludes some one-time items.

Production was up 12 percent at 309,773 ounces on higher tonnage and better grades, which helped drive down costs and offset increased wages.

"As gold prices have weakened, gold mines world-wide remain under pressure with their rising costs," said Harmony chief executive Graham Briggs in a statement.

"Our only means of remaining profitable is to reduce costs, improve our productivity and produce more gold."

The spot gold price has fallen 22 percent so far this year, forcing gold producers globally to book impairments and reshape their business to survive.

Separately, Harmony and Sibanye Gold agreed to swap mining rights to properties in the Free State province, a move that will extend the life of both companies' mines.

Sibanye said it would swap two mining rights at its Beatrix mine for two at Harmony's Joel mine.

Consolidation has been touted as the way to halt the decline in the country's gold industry, an industry which laid the foundations for Africa's largest economy.

South Africa's gold industry accounted for 79 percent of world production in 1970 and was ranked sixth in global production in 2012, producing just 6 percent of the world total.

China's Oct iron ore imports up 20 pct on yr; demand seen easing

SHANGHAI, Nov 8 (Reuters) - China's October iron ore imports fell from the previous month's record high due to a week-long national holiday, but shipments still jumped by a fifth from a year before thanks to a stronger economy and a pick-up in construction activities.

Iron ore imports by China, the world's top steel producer and the largest buyer of the steel-making ingredient, stood at 67.83 million tonnes in October, down 9.05 percent from the record high of nearly 75 million tonnes in September, data from China's customs authority showed on Friday. The customs office did not give a year-on-year growth figure for October, but Reuters calculations, based on historical trade data, showed shipments jumped 20 percent from last October.

Total iron ore imports rose 10.1 percent in the first 10 months of 2013 from the same period a year earlier, helped by a rebound in property investment since the second quarter. After a stellar run in the third quarter, imports are expected to weaken through the rest of the year as steel demand typically falls in the winter and mills have already started to scale back production. "Going forward, imports will continue to fall as China curbs steel production due to slow demand and the anti-pollution campaign. Imports may be at 64-65 million tonnes in November," said Helen Lau, an analyst at UOB-Kay Hian Securities in Hong Kong. China's average daily steel production fell to 2.098 million tonnes in late October from 2.128 million tonnes at the start of the month, data from the China Iron & Steel Association showed. Buying interest from China also waned after the week-long National Day holiday as a growing steel glut at home has hit prices and made expensive iron ore unattractive, traders said, adding that mills were now drawing from port inventories.

Still, shipments are expected to be supported by the arrival of earlier booked cargoes, traders said. Compared to a year ago, miners have also boosted shipments from newly expanded mines. Imports of steel products stood at 1.14 million tonnes in October, while exports rose to 5.07 million tonnes, up 3 percent from the previous month, customs data showed.

TRADING PLACES

LME beefs up powers to tackle long warehouse queues

LONDON, Nov 7 (Reuters) - The London Metal Exchange, aiming to appease critics of its global storage network, on Thursday slashed the maximum queues for metal, beefed up its powers to act against market abuse and will review its agreement with warehouse owners.

The world's largest and oldest metals marketplace is under intense regulatory and legal pressure over its storage system, with complaints about queues of more than a year and large surcharges to withdraw material from its warehouses.

The crisis has drawn scrutiny from British and U.S. regulators and complaints from industrial users, including brewer and can maker MillerCoors LLC and Novelis Inc, which manufactures sheet used to make drinks cans.

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

Its new plan will cut that to 50 days and the LME said it would keep that figure "under active review".

The exchange also said it had given itself the power to act swiftly to prevent abuses of the system and it will have the authority to probe whether warehouses are manipulating flows of metal to create backlogs.

A U.S. group of metals users called for tougher, quicker reforms on Thursday, while major producer Alcoa -- which has resisted changes that could cut into its revenues -- lauded efforts to improve transparency while stopping short of endorsing the plan. Its shares tumbled 7 percent.

LME Chief Executive Garry Jones said the exchange was determined to press ahead with the changes, despite a trickle of early criticism of the new rules.

"There may well be legal challenges but we are going ahead as planned," Jones told a news conference at the 136-year-old exchange's headquarters on Leadenhall Street in the City, London's financial district. "We are not going to hang back from the process."

Britain's regulatory watchdog, the Financial Conduct Authority, said the LME's new plan was a step towards increasing transparency in the metals market.

The LME acknowledged, however, that there was "a very significant polarisation of opinion" on the issue. Industry insiders were also divided on the outcome.

"The overall plan sounds like a very reasonable step. But some people will be very unhappy because it takes the floor out of their business model," a senior metals industry source said.

A second industry source said: "They have turned the supertanker around and pointed it in the right direction. This is unequivocally going to reduce metal in bottleneck locations in the LME. The bottlenecks are so large, and the warehouses are so full, it's going to take us a long time to get to that destination."

Customers and U.S. lawmakers have accused warehouse owners, including Goldman Sachs, JPMorgan Chase & Co, Glencore-Xstrata and Trafigura, of artificially inflating waiting times and lines to boost rents for warehouse owners and cause metal costs to rise.

MillerCoors, a major customer, has estimated the delays have cost consumers more than $3 billion.

"Frankly I think it (the plan) is a very good paper," a third senior industry source said. "The only problem is that it begs the question, why has the LME maintained for years that there wasn't a problem."

Warehouse owners and former LME CEO Martin Abbott have said the complaints over long lines are unjustified, arguing there is no shortage of metal.

Instead, they have said the long lines have been created by traders trying to move metal to rival warehouses that are offering financial incentives in a bid to boost their own rental income.

Goldman Sachs and Glencore declined to comment on the LME's new plan. JPMorgan, which is in the process of selling its physical commodities assets including its warehousing business, also declined to comment.

Trafigura's head of non-ferrous and bulk commodities, Simon Collins, said the trade house welcomed the LME's "bold reforms to its warehousing policy".

LEGAL REVIEW

The LME also said it had started a legal review of what steps it can take on high storage charges including rent, and is looking with lawyers at the effectiveness of the agreement it has with warehouse companies.

The LME urged warehouses to show self-discipline in terms of rents, but warned the firms it would consider using its new powers to cap rents if they were hiked in response to the new rules. (Full Story)

Alcoa, a critic of changes to LME warehousing policy which have pressured physical aluminium prices, did not endorse the newly beefed-up rules.

Analysts say falling premiums, which are paid for physical delivery on top of the benchmark aluminium price, will hurt producers' profits while LME prices are close to or below many smelters' cost of production.

Novelis Chief Supply Chain Officer Nick Madden, one of the LME's fiercest critics, welcomed the plan. "At first review, the rule changes outlined by the LME appear to be a significant step in the right direction," he said.

But a group of U.S. aluminum users, including Novelis, MillerCoors and Coca-Cola Co KO.N, called for even more stringent

TRADING PLACES *(Continued)*

rules to repair the damage to the world's biggest metals marketplace.

"We believe further reforms could be immediately implemented to return the LME to a proper, free-market function of global aluminum price discovery," it said in a statement.

It did not say what those changes would be, but for some, 50 days is still too long to wait for metal.

"Any day over one day is a disgrace to a free market," metals trader Anthony Lipmann said.

"There is no proportion of days for getting your titled goods that you own from a warehouse that is right beyond immediate delivery. The metal trade for its safe and orderly function requires nothing less than immediate delivery."

MARKET NEWS

China Oct copper imports fall 11.2 pct on-month

HONG KONG, Nov 8 (Reuters) - China's copper arrivals fell 11.2 percent in October, coming off an 18-month high in the previous month due to poor price differentials between domestic and international copper markets and as a week-long holiday cut shipments.

Arrivals of anode, refined metal, alloy and semi-finished copper products hit 406,708 tonnes in October, down from 457,847 tonnes in September, Chinese customs data showed on Friday.

Analysts and traders in China had expected fewer arrivals of copper in October given that the long national holiday had cut working days on customs checks.

The arrivals were up 26.4 percent from a year ago, according to Reuters' calculations based on customs data for October 2012.

Benchmark three-month London Metal Exchange copper price rose slightly to $7,158.25 per tonne after the release of Chinese data.

"The key reason for lower arrivals of copper in October was that price differentials were not good in the month, discouraging spot purchases by importers," said Zhou Jie, a trading manager at China International Futures (Shanghai).

He added that the week-long holiday at the start of the month also had slowed arrivals. The October imports were still the third-highest this year due to steady consumption in the world's top consumer of copper. Importers have been keen to use copper as collateral for short-term loans, expecting a cash crunch in the domestic market ahead of the year-end, according to the traders. Traders said increased interests by importers had cut the availability of copper in bonded warehouses in Shanghai, pushing buyers to get shipments from the international market.

Bonded stocks in Shanghai have stayed at a 1-1/2-year low of around 400,000 tonnes over the past month, traders estimated, compared with a record of about one million tonnes in the first quarter. The bulk of the stocks were not offered on the market.

Spot standard grades of refined copper in bonded warehouses in Shanghai or metal due to arrive soon traded at premiums of $190-$200 a tonne this week, compared with $175-$200 at the end of September, traders said.

Some end-users received more orders in November, driving up their purchases of spot copper.

"Our orders in November rose 10 percent from October. November usually is not a peak consumption season for our products," said a trader at a producer of copper tubes.

Copper imports dropped 7 percent to 3.67 million tonnes in the first 10 months of 2013, compared with the same period last year, the data showed.

ANALYSIS-Chile miners to dodge Bachelet reforms but face future risks

SANTIAGO, Nov 7 (Reuters) - Chile's presidential election front-runner, Michelle Bachelet, is unlikely to radically shake up the giant copper industry in the short-term but there are signs that some of the favorable terms miners have enjoyed in past decades could be watered down.

Bachelet, a center-leftist who led Chile from 2006 to 2010, is poised to crush her rivals in this year's election, thanks to her affable style and a vow to hike corporate taxes to fund an educational overhaul. That raised concerns that her government might seek to tap the profitable metals industry in the world's No. 1 copper producer, though aides say the sector will not be significantly affected by her reform blitz beyond a planned across-the-board corporate tax increase to 25 percent from 20 percent. Her program is scant on details but some suggested constitutional changes could pave the way for a greater state role in the industry and an end to miners' sweet deals on water use in the future, mining industry executives and local analysts say. Still, Bachelet has emphasized that Chile must "recover" its competitive edge in mining, chiefly by taming high power prices and improving the concessions system to facilitate the creation of new mines and encourage exploration.

There has been no mention of higher mining royalties or hints that Bachelet - a moderate in her first term although with a more left-leaning agenda this time around - will take a firm stand against controversial mining and power projects.

"There's no fear of a big change in mining," a high-level mining industry executive told Reuters, speaking on condition of anonymity to avoid ruffling the feathers of Bachelet's team.

MARKET NEWS *(Continued)*

Around 47 percent of Chileans said they would vote for Bachelet, while 14 percent backed right-wing candidate Evelyn Matthei, a CEP poll showed last month. It suggested that Bachelet may win enough votes to triumph in the first round on Nov. 17. If she fails to pocket more than 50 percent of votes, the election will go to a second round runoff on Dec. 15. Even then, she would be a hot favorite to win. Chile produces around 5.7 million tonnes of copper a year and roughly $112 billion in mining investments are planned in the country over the next eight years.

Beyond its coveted ore, Chile has also attracted mining investment due to its political stability, business-friendly tax terms for foreign companies and generous water usage rights.

LONG TERM CHANGES?

While mining firms are confident that they will dodge the bullet for now, some worry that Bachelet may be laying the ground for some more sweeping changes in the long-term.

Her program mentions that a planned new constitution, slated to replace one drawn up under a military dictatorship, will "recognize full, absolute, exclusive, unalienable and unlimited public control over water (and) mining". "The state has the right to royalties for the exploitation of natural resources, especially mineral ones," it says. Outgoing President Sebastian Pinera, a conservative, increased royalties to help pay for rebuilding after a devastating earthquake in 2010. The rate was set at between 4 and 9 percent on companies' margins on a sliding scale and was set to reach 5 to 14 percent starting in 2018.

The industry fought back at first, before agreeing to the increase in late 2010. With metal prices down and costs creeping up, miners would likely have been fiercely averse to a fresh hike under Bachelet. Water, meanwhile, is a major issue after a series of annual droughts, with much mining taking place in the Atacama, the world's driest desert, where communities often feel they have to compete with mines for their water supply.

Mining firms currently have the right to use any water found during their work, according to Chile's water code, which dates from General Augusto Pinochet's 1973-90 military rule. Critics say this is a form of privatizing water.

Bachelet also wants to strike down so-called 'Decreto Ley 600' for future investments. The law, another Pinochet-era creation, seeks to give foreign companies certain tax guarantees to spur investments. Bachelet says the statute is antiquated and that Chile has proven over the last two decades that it doesn't suddenly change the rules of the game. Investors say the regulation helps shield them from tax changes. Enshrining new natural resources rules in the constitution could pave the way for a stronger state presence in the mining sector, costlier water or higher taxes, some say, though significant doubt persists over the fine print of Bachelet's plan.

"This opens a massive door, which can be very well administered or can be completely screwed up. It would allow the state to do many things it can't do today," said Gustavo Lagos, mining professor at the Universidad Catolica. "(But) it's unclear what they want. To me it appears to be a program that is seeking votes instead of precision. The program is very vague."

POLITICAL LEVERAGE

Foreign miners have little political leverage in Chile, which produces a third of the world's red metal. Many in the economically unequal country are frustrated that the spoils of the mining boom haven't reached them, and feel mega mining has had a high toll on the environment and health.

Around 83 percent of Chileans are in favor of nationalizing copper, according to the CEP poll released last month, which one of the other eight presidential candidates, Marcel Claude, an underdog left-wing economist popular with students, has proposed. Her closest opponent, however, the ruling Alianza bloc's Matthei, is in favor of continuity in mining.

Bachelet's mining program-- outlined in about two of the roughly 200 pages of the broader manifesto-- actually prompts more questions than it answers, said some in the industry.

For instance, the program says that her government would continue to fund cash-strapped state miner Codelco. However, it does not mention how.

World No.1 copper miner Codelco hands all its money over to the state, which then decides how much to award back to fund its investments. After the government returned less money than Codelco wanted this year, many in the company are lobbying for more structured, predictable financing.

"Codelco will be financed, but I think the funding mechanism will be discussed during the beginning of her government," said Juan Carlos Guajardo, the head of mining think tank CESCO.

Much rests on how much clout Bachelet's diverse coalition, which ranges from the Communist Party to the more conservative Democracia Cristiana party, has in Congress.

Most of her political capital will likely be spent wrestling with opposition lawmakers over her flagship education and tax reforms, leaving little time to make sweeping changes in other areas. Many of the mining industry problems in Chile go beyond politics - namely dwindling ore grades and lower metal prices.

That said, miners are clamoring for lower power costs and clearer regulation to avoid unexpected, dramatic setbacks to multi-billion dollar investments. Communities, on the other hand, are demanding stronger environmental safeguards.

Last week, Barrick Gold Corp shelved its roughly $8.5 billion Pascua-Lama gold project. Chile had suspended work on the unpopular mine due to environmental harm after a nearby indigenous group said the project had contaminated a local river and harmed glaciers. A nebulous regulatory framework has also left several major energy generation projects in limbo.

Bachelet will likely make liquefied natural gas the backbone of her energy policy to ease the mounting power crunch, though

MARKET NEWS *(Continued)*

some mix of coal, hydropower and renewables will probably also be used.

ARCO to pay up to $20 mln to Nevada copper mine neighbors over contamination

Nov 7 (Reuters) - Residents of a small Nevada city won up to $20 million in a class action lawsuit that claimed Atlantic Richfield Company and its parent corporation allowed a defunct copper mine to leak harmful chemicals into nearby soil and drinking water.

Atlantic Richfield (ARCO) and BP America, part of BP Plc, agreed to pay $6.3 million in property damages and between $6.5 million and $12.5 million to reroute water supplies to select residents of the city of Yerington, about 80 miles (129 km) southeast of Reno, to settle the case, according to a lawyer for the plaintiffs.

“We’re very proud of this settlement,” Allan Kanner, lead attorney for the plaintiffs, said of the agreement reached late last month and revealed publicly this week. Kanner said he was “pleasantly surprised” to have reached an agreement with ARCO and BP without a long-term legal battle. “I was expecting trench warfare.” About a dozen families, representing more than 900 neighbors in Yerington, filed the lawsuit in 2011, alleging that uranium, arsenic and other harmful chemical from the ARCO-owned Anaconda Copper Mine had seeped into their private soil and water wells for more than two decades.

ARCO acquired the mine, built in 1918 as the Empire Nevada Mine, from the Anaconda Company in 1977 and permanently ceased operations five years later. The Environmental Protection Agency and state agencies began issuing reports as far back as 1982 that said the Anaconda mine could have been contributing to dangerous levels of uranium found in local groundwater and dirt, but ARCO did little to address the problem, the complaint says. In their original complaint, the plaintiffs argued that consuming and touching the chemicals could lead to multiple forms of cancer, neurological, kidney, and liver damage, as well as behavior and learning problems. ARCO and BP did not admit wrongdoing under the agreement, which also requires that they establish a $900,000 fund for residents to receive medical screenings and other preventative medical costs possibly associated with Anaconda mine toxins.

“Atlantic Richfield is pleased that the court has approved the settlement as fair and reasonable,” ARCO said in a statement. “The company supported settlement in this narrow case because it delivers a good outcome for the community by guaranteeing the availability of a reliable, clean source of drinking water,” the statement said. Kanner said the agreement, approved by the U.S. District Court of Nevada, does not bar residents from filing personal injury claims against ARCO or its parent company due to Anaconda mine contamination in the future.

Vale eyes Sudbury deal with Glencore to cut costs

RIO DE JANEIRO, Nov 7 (Reuters) - Brazil's Vale confirmed on Thursday it is in talks with Glencore Xstrata over potential cooperation between the mining groups' nickel operations in Canada's Sudbury basin, in an effort to cut costs as prices languish.

Vale said on Thursday it was not planning "a corporate joint venture" in Sudbury, but was looking at other options to join forces in mining, milling and smelting to save cash.

Nickel prices have fallen by around a fifth since January and are languishing around four-year lows, weighed down by oversupply.

"We are looking at the synergies now and plan to start negotiating next year," Vale's chief executive Murilo Ferreira told analysts in a quarterly earnings call, adding an eventual deal would not involve a full merger.

Reuters reported last month that Glencore and Vale had revived talks over long-debated cooperation in Sudbury, with the companies considering a number of options for their mining and processing operations in the area.

Sources familiar with the situation said then that talks were at an early stage."We are looking at ways to create synergies for our non-ferrous operations," Peter Poppinga, Vale's head of non-ferrous metals, said.The two main operators in Sudbury have held talks on joining forces on more than one occasion before, both as Inco and Falconbridge and, later, as successor companies Vale and Xstrata.

Analysts have long said a tie-up would make sense for two operators mining the 60 km-long, oval-shaped formation known as the Sudbury basin.

The sources had said a tough nickel market, pressure on Vale over nickel difficulties at its Goro nickel-cobalt mine in New Caledonia and elsewhere could make a deal more likely this time than in the past. Equally, the problems across Vale's nickel division could prove distracting.

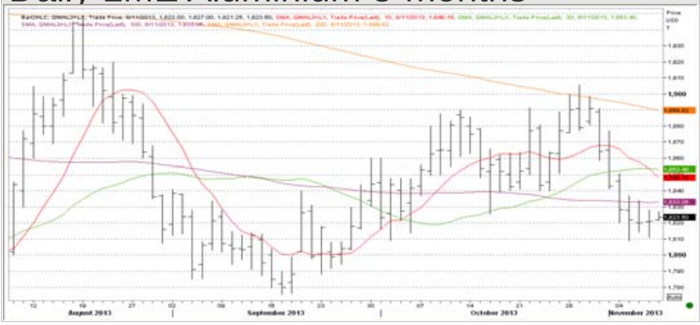
Vale, the world's second-largest nickel producer, said on Thursday it did not expect to have to take a writedown on the value of Goro. The company is targeting 40,000 tonnes of output from Goro in 2014, "mostly refined nickel" Poppinga said, a factor that will help the mine break even. That level will be higher than the expected 60 percent refined nickel this year.

Poppinga expects Goro, also known as Vale Nova Caledonia, to produce earnings before interest, taxes, depreciation and amortization (EBITDA) of $500 million to $600 million a year over the long term. Another of Vale's trouble-hit nickel mines, Onca Puma in northern Brazil, is ramping up and should hit 60 percent of capacity next year, it said.

Vale has faced furnace design problems and was forced to shut down the operation in June 2012. Vale took a $2.85 billion writedown on Onca Puma last year.

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 set for biggest weekly fall in two months

SINGAPORE, Nov 8 (Reuters) - London copper was flat but was set for its biggest weekly fall in two months as growth in supply outpaced demand, which has been pinned back by fragile U.S. economic growth and tightening credit in China.

Volume was thin as traders waited for a U.S. labour report that may sway expectations on the timing of a reduction in the Federal Reserve's huge bond-buying programme, as well as a weekend Chinese leadership meeting that may offer clues on economic policy.

"Production is increasing. At the same time, physical demand is not that strong, but we heard some restocking activity is going on, which is supporting the market," said analyst Chunlan Li of CRU in Bejing.

China's imports of copper totalled 406,708 tonnes in October, down from 457,847 tonnes in September, Chinese customs data showed on Friday. Its copper production reached a record high in September.

Three-month copper on the London Metal Exchange was barely changed at $7,150 a tonne at 0717 GMT.

Prices have slid around 1.3 percent this week, putting copper on course for its weakest performance since the week to Sept. 13.

The most traded January copper contract on the Shanghai Futures Exchange edged up by 0.2 percent to close at 51,490 yuan ($8,500) a tonne.

Reflecting fragile global conditions, U.S. economic growth accelerated in the third quarter as businesses restocked, but the slowest expansion in consumer spending in two years suggested an underlying loss of momentum.

The European Central Bank cut interest rates to a record low on Thursday and said it could take them lower still to prevent the euro zone's recovery from stalling as inflation tumbles.

In industry news, the London Metal Exchange, aiming to appease critics of its global storage network, has slashed queues for metal, beefed up its powers to act against market abuse and will review its agreement with warehouse owners.

Reflecting a shortfall of nearby supply, cash copper traded on Thursday at a $5.50 premium against the November contract, the highest in around four months.

But in China the market appeared amply stocked, with physical metal trading at a discount to the front month futures contract for most of the past week.

The front month Shanghai futures contract was trading at its weakest premium against the most active contract in around six months on Thursday.

For the week, LME nickel was the biggest loser, facing a drop of nearly 4 percent. On Thursday it touched its lowest since Oct. 16 at $13,901.

Brazil's Vale confirmed that it was in talks with Glencore Xstrata over cooperation between the mining groups' nickel operations in Canada's Sudbury basin, in an effort to cut costs as prices languish.

Potentially easing supply of nickel and copper, Indonesia's ban on shipping unprocessed mineral ore should cut export revenue by no more than 10 percent next year, the country's investment chief said, as the controversial rule is relaxed to limit the impact on Southeast Asia's largest economy.

Gold set for second weekly loss as US data sparks stimulus fears

SINGAPORE, Nov 8 (Reuters) - Gold was trading near three-week lows and heading for a second straight weekly loss after strong U.S. economic growth sparked fears the U.S. Federal Reserve may scale back its bullion-friendly bond purchases this year.

U.S. gross domestic product grew at a 2.8 percent annual rate in the third quarter, the quickest pace in a year, after expanding 2.5 percent in the second quarter.

Investors are now waiting for U.S. nonfarm payroll data later in the day for further direction and clues on the timing of the tapering of the Fed's economic stimulus.

"There is not much interest in gold for the time being," said Ronald Leung, chief dealer at Lee Cheong Gold Dealers in Hong Kong.

"Everyone is waiting for the nonfarm payroll data today. There doesn't seem to be much good news for gold lately."

Spot gold edged up 0.15 percent to $1,309.56 an ounce by 0737 GMT, supported by a drop in Asian equities.

The metal has lost 0.4 percent for the week, having hit a three-week low of $1,298.31 on Thursday.

Gold has lost about a fifth of its value this year due to fears the Fed would begin cutting back its $85 billion monthly bond purchases. The metal's inflation-hedge appeal has been burnished by the bond purchases and low interest rates.

Investors had believed a prolonged budget battle in Washington in October would prevent the Fed from withdrawing support for the economy and possibly push the tapering into next year. However, Thursday's GDP data rekindled fears of a roll-back at the Fed's December meeting.

"We expect relatively subdued trading today around the current level of $1,309 until closer to the nonfarm payrolls tonight," ANZ analysts said in a note.

A stronger-than-expected report would probably see expectations for Fed tapering pulled forward from the first quarter of 2014 and push the U.S. dollar higher, they said.

MARKET REVIEW *(Continued)*

Dollar's rise tempered by caution ahead of U.S. jobs data

TOKYO, Nov 8 (Reuters) - The dollar remained buoyant in Asian trade after the European Central Bank's surprise interest rate cut sent the euro to near eight-week lows, but its gains were tempered ahead of the key U.S. payrolls report later on Friday.

A strong jobs report would give the U.S. Federal Reserve a reason to taper its monthly purchases of $85 billion in assets sooner rather than later, particularly after a much better-than-expected U.S. gross domestic product report on Thursday.

"People do not want to get more dollars ahead of today's data, so that's why euro/dollar remains around $1.340," said Masashi Murata, senior currency strategist at Brown Brothers Harriman in Tokyo.

A reduction in U.S. stimulus would contrast sharply with the ECB's accommodative stance. The ECB on Thursday slashed borrowing costs to a record low of 0.25 percent and said it could cut further to prevent the euro zone's recovery from stalling in response to a sharp drop in inflation.

The euro was also hit in Asian trade after U.S. rating firm Standard and Poor's downgraded its credit rating on France's sovereign debt to AA from AA+.

The single currency was down about 0.2 percent at $1.3395, after falling as low as $1.3295 on Thursday, according to Reuters data, matching the low set on Sept. 16.

Against the yen, the euro was down slightly from late U.S. levels at 131.47 yen after plumbing a one-month low of 131.18 yen on Thursday.

The dollar gained about 0.1 percent against the yen to 98.15 yen after a volatile session on Thursday which saw it spike to a near seven-week high of 99.41 yen and drop to a one and a half week low of 97.63 yen.

The dollar index which tracks the greenback against a basket of currencies, was last up slightly at 80.872, after rising as high as 81.460 on Thursday, its highest since Sept. 13.

Economists polled by Reuters estimated the unemployment rate rose to 7.3 percent in October, while non-farm payrolls likely grew by 125,000 jobs, though the payroll figures would likely show some impact of the 16-day partial government shutdown in the first half of the month.

"The upside risk for the dollar is just as high as the downside risk," said Kathy Lien, managing director of BK Asset Management.

"If payrolls are strong, the string of positive surprises would harden the case for earlier tapering, though we still believe the Fed will move in 2014 and not 2013," she said in a not to clients.

Even if payrolls are weak, she added, investors will expect revisions and a bounce-back in November.

A fall in weekly jobless claims on Thursday likely tipped expectations toward the positive side. Initial claims for state unemployment benefits fell 9,000 to a seasonally adjusted 336,000 last week. Economists polled by Reuters had expected first-time applications to fall to 335,000.

Other data on Thursday showed the U.S. economy expanded at a 2.8 percent annual rate in the third quarter, the quickest pace since the third quarter of 2012, beating economists' expectations of a 2.0 percent growth rate.

But inventory gains accounted for 0.8 percentage point of that growth, which economists say suggests third-quarter growth could evolve to slower growth in the fourth quarter.

The Australian dollar was up about 0.1 percent at $0.9458, after earlier rising as high as $0.9482 after bullish export data from China, Australia's biggest trading partner.

China's export growth rose 5.6 percent in October from a year earlier, beating market expectations for a 3.2 percent rise and adding to a run of indicators suggesting that the economy is stabilizing.