

FEATURE

PREVIEW-China's Sept oil, iron ore imports rise as plants boost output

By Fayen Wong

SHANGHAI, Oct 10 (Reuters) - China's crude oil imports likely rebounded in September from the previous month as the refinery maintenance season drew to a close, while iron ore shipments are also expected to climb as steel mills ramp up production.

But arrivals of copper and soybeans, where China is the world's top consumer, likely fell as higher prices dented demand, traders and analysts said.

The world's top commodity buyer is showing signs of a stabilising economy after growth had slowed for nine of the past 10 quarters, with robust production from steel mills and manufacturers helping to boost consumption of raw materials.

Preliminary trade data is due for release on Saturday at 0200 to 0300 GMT, while third-quarter GDP and activity data is due on Oct. 18.

Analysts expect exports to rise 6 percent from a year ago, slower than growth of 7.2 percent in August, while import growth was seen at 7.0 percent, steady with the previous month's rate.

"Oil imports will rise in September as refineries return online after a busy maintenance schedule in summer," said Lin Yan, an oil analyst at industry portal Oilchem.net.

"Imports should continue to tick higher in the fourth quarter as the economy picks up pace, so it's only a matter of time that China overtakes the U.S. as top oil importer."

The U.S. government's Energy Information Administration has forecast that China will overtake the United States to become the world's largest net oil importer in October, as its steady increase in imports has coincided with a steep decline in America due to a shale oil boom.

To feed its growing demand, China is expected to turn to the Middle East, Russia and Angola for more oil, analysts said.

CRUDE OIL

Crude oil imports in September are expected to recover from August's 18 percent month-on-month decline as more refineries returned online after maintenance, traders said.

Plants that completed maintenance include PetroChina's 120,000-bpd Urumqi refinery in the northwestern region of Xinjiang, the 120,000-bpd Daqing refinery in northeastern Heilongjiang and Sinopec's 160,000-bpd refinery in Hainan province.

Falling inventories of refined fuel, which declined by more than five percent in July and August, would have also prompted refiners to ramp up production last month ahead of the October holiday season.

GENERAL NEWS

Republicans consider short-term U.S. debt ceiling increase

By David Lawder and Richard Cowan

WASHINGTON, Oct 9 (Reuters) - U.S. House of Representatives Republicans are considering signing on to a short-term increase in the government's borrowing authority to buy time for negotiations on broader policy measures, according to a Republican leadership aide.

How long the increase might suffice - a few weeks or a few months - was unclear. But agreement by Republicans and Democrats to raise the debt ceiling would at least stave off a possible default after Oct. 17, when Treasury Secretary Jack Lew has determined the government will no longer be able to borrow.

President Barack Obama has said he would accept a debt ceiling increase of limited duration as long as no strings were attached, except perhaps a non-binding agreement to discuss policy issues.

It was unclear Wednesday night how far Republicans might be prepared to go to meet Obama's conditions. Republicans in the House have been demanding a variety of conditions - including changes to Obama's healthcare law - in return for cooperating on the debt ceiling and on a funding measure that might reopen

the government, which has been partially shut down since Oct. 1.

In recent days, however, Republican emphasis has shifted more toward deficit reduction measures and less to Obamacare, the health care law.

Republicans in particular and Congress in general have taken a public beating in the showdown, with an Associated Press-Gfk survey on Wednesday showing Congress as a whole at a rock-bottom 5 percent approval rating. More than six of every 10 Americans blamed Republicans for the impasse.

Republican leaders plan to make remarks to reporters on Thursday at 11 a.m. (1500 GMT) but it was uncertain whether they would be prepared to unveil anything concrete then. The party's leadership has proven unable to control rebellious conservatives in the House, who have sufficient power to squelch any deal they dislike.

FIRST FACE-TO-FACE TALKS

With pressure rising and no clear path forward for breaking their fiscal impasse, Obama launched a series of White House meetings with lawmakers on Wednesday to search for a way to end a government shutdown and raise the debt limit.



GENERAL NEWS *(Continued)*

House Democrats journeyed to the White House to discuss the fiscal stalemate, and Senate Democrats and Republican leaders in the House of Representatives will make separate treks on Thursday amid rising worries about the potential for economic havoc in the crisis.

The depth of the dispute was evident, however, in the failure of Obama and House Speaker John Boehner to even agree on a guest list for their Thursday session.

The White House invited all House Republicans, but Boehner limited the visitors to 18 party leaders and prominent committee chairs, lessening Obama's exposure to Republicans who might dissent from the leadership's hard-line strategy and to rank-and-file Tea Party members who inspired it.

White House spokesman Jay Carney said Obama was "disappointed" at the truncated guest list because "the president thought it was important to talk directly with the members who forced this economic crisis on the country."

The impasse has shut the government for nine days and rattled financial markets with the threat that the country's \$16.7 trillion borrowing limit will not be raised before the Oct. 17 deadline.

Republican Tea Party fiscal conservatives precipitated the crisis by demanding that Obama's healthcare reform law be delayed or curtailed in exchange for approving the funding of government operations and raising the debt ceiling.

But in a shift some Republicans hope will strengthen their hand in the fight, the party's House leaders have played down demands to weaken the healthcare law and focused instead on calls to rein in deficits.

House Majority Leader Eric Cantor and Paul Ryan, the House Budget Committee chairman and former vice presidential candidate, both published opinion pieces focused on tackling long-term debt and deficits instead of the healthcare law.

The White House meeting with House Republicans will be the first face-to-face talks between Obama and his political adversaries since last week, although lawmakers have informally been exploring possible compromises and ways to resolve the stalemate.

Republican senators on Wednesday were considering a proposal by Senator Susan Collins of Maine that would reopen the government and increase the borrowing authority while repealing an unpopular medical device tax designed to finance subsidies under the healthcare law.

Collins' plan also would give federal agencies flexibility in dealing with across-the-board spending cuts that kicked in earlier this year and are opposed by many members of Congress.

After a meeting of Republican senators, John McCain of Arizona called her initiative "a pretty good proposal that some of us like," and a Senate Republican aide said there are discussions about possibly incorporating a short-term debt limit increase into the measure.

"We continue to talk. No progress, but there never is until you reach a breakthrough," McCain told reporters "I'm not saying that we will ever reach a breakthrough. I'm saying conversations are going on. I hope that they reach some conclusion. I'm not sure whether they will or not."

'THEY'RE NOT GETTING ANYTHING'

All 200 House Democrats were invited to the afternoon session at the White House, and Democratic leaders said most made the trek. They said Obama was resolute about not negotiating with Republicans until they drop their demands.

Democratic House Leader Nancy Pelosi said House Democrats had not seen a short-term proposal for funding the government and lifting the debt ceiling from Republicans and would not make any concessions to get one.

"The debt ceiling needs to be lifted. They're not getting anything for that. And we haven't seen an offer on that," she said.

Obama scolded Republicans on Tuesday for demanding negotiations, but said he would talk about anything including the healthcare law if Republicans re-opened the government and lifted the debt ceiling even for the short term.

Boehner rejected Obama's demands as "unconditional surrender," but other Republicans have showed a willingness to consider a short-term deal if there was a framework in place for negotiations.

Those hopes were fueled by the opinion columns on Wednesday, particularly Ryan's column urging a negotiated end to the stalemate but did not mention Republican demands for linking changes in the federal healthcare law with government funding.

"I am beginning, by the way, to be a little hopeful regarding our current situation. It looks like the House is beginning to focus on the right things," Republican Senator Bob Corker of Tennessee said on CNBC, pointing to Ryan's column.

But Boehner took to the House floor on Wednesday to reiterate Republican demands that the healthcare law be part of the broader discussions.

"Our message in the House has been pretty clear. We want to reopen our government and provide fairness to all Americans under the president's healthcare law," Boehner said.

World Bank President Jim Yong Kim added his voice to a chorus of experts warning about the impact of the stalemate, saying on Wednesday that even the threat of a U.S. default could hurt emerging markets and the world's most vulnerable people.

"We're very concerned. Because right now there's so many headwinds as it is for emerging markets and the developing world, that kind of impact really could be devastating," Kim told CNN.



GENERAL NEWS *(Continued)*

Kinross' Dvoinoye gold mine in Russia starts commercial output Oct 9 (Reuters) - Kinross Gold Corp K.TO said on Wednesday its Dvoinoye gold mine in Russia, where the Canadian miner already operates the Kupol mine, had started commercial production.

Kinross said Dvoinoye, which is located 100 km (62.5 miles) north of Kupol in Russia's eastern Chukotka region, is expected to produce between 235,000 and 300,000 gold equivalent ounces a year during its first three years of production.

The cost of sales for the combined Russian operations between 2014 and 2016 is forecast to be \$545-\$600 per gold equivalent ounce. Ore from Dvoinoye will be processed at the existing Kupol mill, helping to keep costs down.

Kinross said it will provide guidance for its 2014 production, cost of sales and all-in sustaining costs for its combined Russian operations and other regions in early 2014.

"Dvoinoye is the fourth mine Kinross has operated in Russia, which remains our lowest-cost jurisdiction and a core operating region for the company," Kinross' chief executive Paul Rollinson said in a statement.

Dvoinoye had proven and probable gold reserves of approximately 1.1 million gold equivalent ounces, as of December 31, 2012, with an average gold grade of 17.8 grams per tonne.

Pretium's stock slumps as gold sample consultant quits

By Nicole Mordant

VANCOUVER, Oct 9 (Reuters) - Shares in Pretium Resources Inc PVG.TO lost more than a quarter of their value on Wednesday after the resignation of the independent consultant conducting a gold sampling program on the company's flagship exploration project in Western Canada.

Pretium said Strathcona Mineral Services Ltd, which was conducting a 10,000 tonne bulk sample program at its Brucejack project in northern British Columbia, had quit.

Pretium's early morning press release gave no reason for the resignation, but the company's CEO later said it involved a difference of opinion between two consulting groups and that the other group offered a "better outcome" for Pretium.

Strathcona President Graham Farquharson declined to comment.

By late afternoon, Pretium's stock was down 28.7 percent, or C\$2.01, at C\$5 on the Toronto Stock Exchange in heavy trading of more than 3.1 million shares.

Although still at an early stage of development, the Brucejack project has garnered investor and industry attention due to its high gold grades and Pretium's well-known management team.

Pretium Chief Executive Robert Quartermain said there had been a "difference of opinion" between Strathcona and

Snowden Mining Industry Consultants, on what method to use to estimate how much gold the project could contain.

He said the method proposed by Snowden was "a better outcome" for Pretium.

"We are actually processing all the rock and we will get the gold that is in the rock," he told Reuters. Strathcona had proposed a different sampling technique that did not involve processing all the ore.

Adam Graf, an analyst with Cowen and Company, said the market was perhaps drawing the wrong conclusion from Strathcona's resignation.

"You have a QP (Qualified Person) resign and everybody's going to be saying, 'something must be wrong,'" he said. "My understanding is that this is no reflection on the project. Snowden is a perfectly good and reputable QP, and they are continuing on."

Snowden Mining, which prepared the 2012 resource estimate at the project, will now take over as the independent Qualified Person and issue the final report on the program, Pretium said in a news release on Wednesday morning.

Quartermain said Pretium expects to complete the current phase of test work "probably by the end of November".

"We continue to go forward with some underground and surface drilling, which will go to Snowden to provide us with a new resource update for the project," he said.

Brucejack's Valley of the Kings area hosts a probable mineral reserve of 6.6 million ounces and the project is expected to produce an average of 321,500 ounces of gold annually over its life, according to a feasibility study released in June. Pretium is targeting 2016 for the start of commercial production at the planned underground mine.

Quartermain was previously president of Silver Standard Resource Inc, owner of one of the world's largest silver mines.

Before Wednesday's slide, Pretium stock was already down 46 percent so far this year, in line with other small gold stocks. The sector has been hurt by a weaker gold price and a dearth of industry funding.

South Africa strikes will hit GDP, but mining revenue up

By Daniel Bases

NEW YORK, Oct 9 (Reuters) - South Africa's declining economic growth rates will continue to feel the impact of strikes in its key mining sector in 2013, even as mining revenues are expected to rise, Deputy Finance Minister Nhlanhla Nene told Reuters on Wednesday.

Africa's biggest economy has seen its growth rates trending down and forecasts for this year are for more of the same, Nene told Reuters on the sidelines of a UBS investment conference in New York.



TRADING PLACES

LME CEO braced to fight warehousing lawsuits, takes aim at critics

By Veronica Brown and Susan Thomas

LONDON, Oct 9 (Reuters) - The London Metal Exchange's new CEO said he was ready to fight multiple lawsuits brought over its global warehousing network, and that critics shouldn't expect a silver bullet to fix their concerns with it.

The world's biggest and oldest metals marketplace has come under increasing regulatory and legal scrutiny over its metal storage practices, with complaints about long queues to withdraw physical metal from its warehouses.

Clients of the warehouses say the system inflates prices for aluminium even though the market is in global oversupply.

This has 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.

"What is absolutely clear with these lawsuits in America is there is no basis for including the LME in these suits. We are going to be defending that," Garry Jones told Reuters in an interview.

"There is no smoking gun. There was no complicity. We're going to have a hell of a defence for that. And it's annoying because it will take management time. We are confident of being right."

The LME, acquired by Hong Kong Exchanges and Clearing 0388.HK last year for \$2.2 billion, has proposed rules to overhaul its delivery system from next April that would force warehouses to release more stocks once the wait-time breaches 100 days. But the proposals have also been criticised by major producers and end-users of metal.

Consumers, including brewer MillerCoors LLC and aluminium products maker Novelis, want drastic changes to warehousing rules to bring down what they pay to get metal, known as a premium.

Russia's United Company Rusal 0486.HK, the world's largest aluminium producer, publicly lobbied for the LME to leave its warehousing rules unchanged or risk damaging the whole market has also laid out its opposition to the potential changes.

Jones said whatever the exchange did, or did not do would not satisfy everyone.

"I think they feel by shouting loudly and making a big fuss it's going to influence things, and it's not really."

"We won't come up with a silver bullet that will please everyone but I hope we come up a reasonable plan."

He said the LME would hold a board meeting later this month to discuss the results of its proposal and other ideas that had come up through the consultation process, before making a final decision.

COMPETITION

Sensing a vulnerability in the LME's dominance of aluminium, CME Group Inc has said it planned to launch a physically deliverable aluminium futures contract that could compete with the London exchange's \$54 billion market.

The exchange has been quietly canvassing producers, traders and end-users on launching a competing contract for the past year.

"Customers want a viable alternative to other exchange contracts on offer today," Harriet Hunnoble, managing director of metals at CME Group said, adding progress on launching the contract was "very developed" and it would start in the United States.

Jones said he was not losing sleep over the announcement, but took the challenge seriously.

"If a well-capitalised competitor competes with you, obviously you have to take it seriously."

There are very few examples of upstart commodity contracts dislodging a critical portion of liquidity from an established market.

The New York Mercantile Exchange (NYMEX), now owned by CME, struggled for 10 years to gain traction with a North American aluminium contract before being delisted in 2009. It was unable to lure established users away from London.

JPMorgan launches \$3.3 bln physical commodity business sale

Oct 9 (Reuters) - JPMorgan Chase & Co JPM.N has launched the sale of its physical commodities business, circulating offering documents to potential buyers and valuing the assets at \$3.3 billion, according to a person familiar with the matter.

JPMorgan's sales pitch comes after the bank announced it was exiting physical commodity trading in July, as Wall Street faces heightened scrutiny from regulators and politicians on their role in the natural resources supply chain.

The largest part of the physical business is the bank's crude trading operations, which the bank values at \$1.7 billion, according to a person familiar with the matter. That's followed by the firm's North American natural gas assets at \$800 million and base metals - including the Henry Bath warehouse company - at \$500 million.

The launch of the offering documents was first reported by the Wall Street Journal on Wednesday.

Wall Street's largest bank told prospective buyers that the physical business generated \$750 million in annual income, before compensation costs, the Journal reported.



MARKET NEWS

Montenegro court declares country's sole aluminium plant bankrupt

PODGORICA, Oct 9 (Reuters) - A Montenegrin court on Wednesday declared the country's sole aluminium plant and a top exporter bankrupt, paving the way for its sale to repay 380 million euros (\$516.67 million) of debt.

In its heyday in the late 1970s, Kombinat Aluminijuma Podgorica had 5,000 workers. With its workforce cut to a fifth and debt equalling 10 percent of the country's economic output, it has become a big burden for the government.

"KAP will be sold as a whole or part by part, that is up to the creditors," said Dragan Rakocevic, who heads the commercial court in charge of the bankruptcy procedure.

He said the selloff would start in 20 days.

Last year KAP accounted for 30 percent of Montenegro's exports, down from 40 percent in 2011, but its business was kept afloat by big state subsidies and loans it could not repay.

In July, Montenegro launched partial bankruptcy proceedings over KAP's 24-million euro (\$30.8 million) debt to Deutsche Bank

The government is KAP's biggest creditor, accounting for 148 million euros of its debt. On top of that, it issued guarantees for a 132 million euro loan and now needs to make additional borrowings to secure funds for the payment.

In 2005, KAP was sold to Russian billionaire Oleg Deripaska, but the state took back half of his 58.7 percent stake in a 2009 debt for equity swap.

The government has to stop subsidising big loss-making companies in order to make progress towards membership of the European Union, where such direct subsidies are not allowed.

Poland's KGHM sees 2014 copper price at \$7,000-\$7,200/tonne

WARSAW, Oct 10 (Reuters) - Polish KGHM, Europe's No. 2 copper producer, expects copper prices to fall in 2014 to \$7,000-\$7,200 per tonne from the average \$7,800 seen this year, Rzeczpospolita daily reported, quoting the company's chief executive.

KGHM said earlier this year that in the first six months of 2013, the average copper price was \$7,540 per tonne, while the group's forecast for all of 2013 was \$7,800.

"The expected average copper price for 2014 is \$7,000-\$7,200. Of course the final price depends on many factors, such as the situation in the US or the play of supply and demand," Herbert Wirth said.

Copper prices this week sank to the lower end of the \$7,000-\$7,500 range that has been in place for the past two months, as China returned from a week-long break and as traders shed risk, leaving prices ripe to rebound once sentiment recovers.

Freeport sees 2014 copper sales up nearly 10 percent

By Maytaal Angel and Harpreet Bhal

LONDON, Oct 9 (Reuters) - Freeport-McMoRan Copper & Gold Inc, the world's No. 1 publicly listed copper producer, said it expects to sell 4.5 billion ounces of copper next year, but maintained its 5 percent cut in expected copper sales this year.

The company reduced its copper sales forecast to 4.1 billion pounds in July this year, following a tunnel collapse at its Grasberg complex in Indonesia, which killed 28 people and halted production for two months.

Union workers at Grasberg, the world's second largest copper mine, are expected to sign a new contract within two weeks after reaching an agreement over wages, and the mine is currently operating at around 85 percent capacity.

Javier Targhetta, Freeport's senior marketing and sales vice president, was optimistic the company's troubles were dissipating and that it would be able to both produce and sell more copper in 2014.

"Asian and U.S copper demand is strong. China will have higher copper consumption this year versus last. GDP growth in China is expected to be 7.5 percent, and copper consumption is not lagging too much behind that," Targhetta told Reuters on the sidelines of the LME Week industry gathering.

Freeport, however, will have to achieve this target with less money at its disposal. The Arizona-based miner is clamping down on spending and has cut \$1.9 billion in planned capital expenditures and other costs through 2014.

Mining companies around the world are struggling to eke out a profit, with sagging metal prices like copper CMCU3 - down some 10 percent this year - cutting into margins that have already been hit by soaring capital and operating costs.

In July, Freeport reported second-quarter net income of \$482 million, down from \$710 million a year earlier, as higher cash costs and a 10 percent drop in the realized copper price outweighed a 3 percent increase in copper sales.

TREATMENT CHARGES TO RISE

On the outlook for annual treatment and refining charges (TC/RCs), which represent a cost for miners like Freeport, Targhetta said he expects charges to be settled higher this year but not by a large amount.



MARKET NEWS *(Continued)*

TC/RCs were settled at \$70 a tonne and 70 cents a pound in 2013, and some smelters are expecting charges to rise to as much as \$95 a tonne and 9.5 cents per pound for next year, buoyed by fees in the spot market reaching two year highs.

"We think we might see a higher number than last year, but not a dramatic change," Targhetta said.

TC/RCs are paid by miners to smelters to refine concentrate into metal. As the supply of concentrate increases, the demand for smelting and the charges also rise.

A Reuters poll in July showed analysts expected the copper market to register a bigger surplus of 153,000 tonnes in 2013, compared to 98,500 predicted in the previous poll, with the oversupply increasing to 368,500 the following year.

"Maybe because of production increases in Grasberg, this would be reflected in the availability of more concentrate and we may accept ... that we will find a more balanced marketplace going forward," he said.

While the negotiations for next year's TC/RCs will begin during LME Week, an annual gathering of the global metals industry, miners and smelters are likely to settle the 2014 benchmark charges later in the year.

Protests close world No. 2 ferronickel mine in Colombia

By Luis Jaime Acosta and Peter Murphy

BOGOTA, Oct 9 (Reuters) - Cerro Matoso, the world's No. 2 ferronickel producer owned by multinational BHP Billiton BHP.AX and located in Colombia, said it has temporarily shut its mine after two weeks of protests by indigenous groups, halting 4 percent of world output.

The impact of the stoppage on the nickel market is likely to be subdued amid a global surplus of nickel that has caused prices to tumble about a quarter in the last year but adds to near-constant disruption in Colombia's mining sector this year.

The London-traded nickel contract ended 1.7 percent lower at \$13,660 per tonne on Wednesday.

Cerro Matoso took the decision to close its mine for workers' safety, it said in a statement, adding that protesters were demanding "monetary indemnification". It did not say why, merely that the dispute could only be resolved in the courts.

"This implies that from now there will be no ferronickel production or associated activities ... until conditions enable the company to operate normally," it said.

A mining ministry source said the protesters were demanding compensation for alleged harm to their health from pollution caused by the open-pit project which the source said generates about \$185,000 a day for the government in royalties.

Mining minister Amylkar Acosta has called on protestors to stop blockades at the site, a ministry statement said.

An executive at Russia's Norilsk Nickel told Reuters on Monday he expected it would take about two years for global nickel prices to rise significantly, with about a third of global output now produced without profit.

Cerro Matoso in northern Colombia is the world's second biggest ferronickel producer combining a lateritic nickel ore deposit with a low cost ferronickel smelter. The smelter produces high-purity, low-carbon ferronickel granules.

Colombia's ferronickel production surpassed 47,000 tonnes in 2012, according to National Mining Agency data.

The company said steps it was taking to prevent damage to its electric furnaces were not sustainable for long and would eventually result in irreversible damage if operations are disrupted for long enough.

Colombia's mining sector has had a turbulent year especially in the extraction of coal with strikes at its top two coal producers, joint-venture Cerrejon in which BHP Billiton has a stake, and U.S.-owned Drummond as well as logistics disruption.



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

Daily LME Aluminium 3-months



Daily LME Copper 3-months



Daily LME Nickel 3-months



Daily LME Zinc 3-months



Daily LME Lead 3-months



Daily LME Tin 3-months



Daily LME Alloy 3-months



Daily LME Nasaac 3-months



MARKET REVIEW

METALS-London copper edges off three-week low as dead-lock fears ease

By Melanie Burton

SINGAPORE, Oct 10 (Reuters) - London copper edged higher as signs of a thaw in the stalemate between U.S. political parties eased worries about the potential for economic meltdown, but the metal remained close to three-week lows touched the session before.

Copper prices this week sank to the lower end of the \$7,000-\$7,500 range, that has been in place for the past two months, as China returned from a week-long break and as traders shed risk, leaving prices ripe to rebound once sentiment recovers.

"A deal will get done," said Jonathan Barratt, chief executive of commodity research firm BarrattBulletin in Sydney, referring to the U.S. standoff.

"And if you get wind of returning confidence to the market and with Yellen now in charge, the prospects of stimulus for longer will start to drive market sentiment and that's where we will get relief. I think next week will be a better week."

Federal Reserve Vice Chair Janet Yellen, President Barack Obama's pick to lead the U.S. central bank, said on Wednesday that strengthening the economic recovery and boosting employment would be priorities if she is confirmed as Fed leader.

And Obama invited House of Representatives Democrats to meet Wednesday to discuss the budget crisis and a looming debt deadline, the first of a series of talks with lawmakers of both parties, a White House official said.

Three-month copper on the London Metal Exchange had edged up 0.5 percent to \$7,132 a tonne by 0207 GMT, paring losses from the previous session when it fell 2 percent.

Copper prices dipped to \$7,087 a tonne on Wednesday, the lowest since Sept. 18.

The most-traded January copper contract on the Shanghai Futures Exchange SCFcv1 slipped 0.8 percent to 51,470 yuan (\$8,400) a tonne, after dipping as low as 51,260 a tonne, also the weakest since Sept. 18.

Annual industry event LME week continues in London, with forecasts for a copper surplus next year overhanging prices.

Freeport-McMoRan Copper & Gold Inc, the world's No. 1 publicly listed copper producer, said it expects to sell 4.5 billion ounces of copper next year, but maintained its 5 percent cut in expected copper sales this year.

Regulation also remains a key theme. The LME's new CEO said he was ready to fight multiple U.S. lawsuits alleging anti-competitive behaviour in aluminium storage.

Elsewhere, Cerro Matoso, the world's No. 2 ferronickel producer owned by multinational BHP Billiton and located in Colombia, said it has temporarily shut its mine after two weeks of protests by indigenous groups, halting 4 percent of world output.

The shutdown is expected to have a limited impact on nickel prices as the market is swamped by a huge surplus. LME nickel is the worst performer in the metals complex this year, down by 20 percent.

PRECIOUS-Gold drops close to \$1,300 on stronger dollar, stimulus worries

By A. Ananthalakshmi

SINGAPORE, Oct 10 (Reuters) - Gold was barely holding above \$1,300 an ounce on signs the Federal Reserve may trim its stimulus measures this year and as the dollar rebounded after President Barack Obama began meetings with lawmakers to resolve the U.S. budget crisis.

Safe-haven buying, seen in the last few sessions as a result of the U.S. government shutdown, evaporated as the dollar climbed off eight-month lows, also helped by the nomination of Janet Yellen as the next Fed chief.

Physical buying failed to pick up despite the lower prices, raising questions about what could support gold prices after the U.S. budget impasse is resolved.

"The fact that gold is not going up even with the shutdown is a bad sign," said Yuichi Ikemizu, branch manager for Standard Bank in Tokyo. "The mood in the market is bearish."

"Even at this \$1,300 level we don't see much physical buying. It doesn't look too good for gold."

Spot gold had fallen 0.05 percent to \$1,306.00 an ounce by 0625 GMT, after losing around 1 percent the session before. Platinum gained nearly 1 percent as South African mine strikes threatened to hurt supply.

Gold has fallen about 22 percent this year on fears the Fed would start cutting back its \$85 billion bond purchases as the U.S. labour and housing markets showed some growth. The central bank stunned markets last month when it decided not to taper.

However, minutes from the September policy meeting released on Wednesday showed that the Fed's decision last month was a "relatively close call" for policymakers and there was still broad support to trim bond-buying this year.

The U.S. shutdown and concerns over the debt ceiling deadline should have typically pushed up prices, but gold is still trading below pre-shutdown levels of about \$1,340.

"How the U.S. dollar moves in the near term may provide direction for gold," HSBC analysts said in a note. "It is possible that investors move into Treasuries as a safe haven despite the possibility of U.S. default. This could reduce yields and bolster the dollar but detract from gold."



MARKET REVIEW *(Continued)***FOREX-Dollar index at 2-week high on hopes of U.S. breakthrough**

By Anirban Nag

LONDON, Oct 10 (Reuters) - The dollar rose, trading at its highest in two weeks against a basket of currencies on signs Washington was moving towards breaking a stalemate over debt and averting a possible U.S. default.

A rise in U.S. 10-year Treasury yields to 2.70 percent from 2.60 percent just a week ago was also helping. The dollar index rose to 80.537, extending its recovery from an eight-month low of 79.627 hit a week ago.

The euro was down 0.15 percent at \$1.3506, extending losses into a third session.

The U.S. currency received an additional boost after the minutes of the Federal Reserve's September meeting revealed the decision not to slow stimulus was a "close call" and that most board members supported tapering bond-buying later this year.

While the latest fiscal problems are likely to see those expectations of tapering fade, the minutes nonetheless offered broad support to the dollar.

"There have been some positive developments regarding the debt ceiling and while they may be short-term measures, they offer some relief to the dollar," said Neil Mellor, currency strategist at Bank of New York Mellon.

"The Fed minutes are also talking about tapering later this year, all of which is nudging markets to cover positions before the weekend."

House Republican leaders will visit the White House on Thursday as the search for a way to break the impasse continues.

Some Republicans and Democrats floated the possibility of a short-term increase in the debt limit to allow time for broader negotiations on the budget.

"There are hopes that Washington is moving on the deadlock over the government shutdown and debt ceiling. The dollar looks set to gain if these problems are solved," said Sho Aoyama, senior market analyst at Mizuho Securities.

Against the yen, the dollar rose 0.4 percent to 97.65, up from a two-month low of 96.55 yen hit on Tuesday.

One trigger for investor buying was the dollar's success staying above its 200-day moving average in the past few days. The average stood at 96.83 on Thursday.

Despite signs of rapprochement in Washington, the dollar could still be vulnerable to concerns about a debt default. Short-term U.S. government bill yields were at the highest level since the 2008 financial crisis, reflecting investor anxiety.

Many investors are now looking to U.S. Treasury Secretary Jack Lew's testimony before the Senate Finance Committee later on Thursday on his latest estimate on the Treasury's funding positions, as well as possible contingency plans.

Lew has said the Treasury will run out of additional borrowing authority on Oct. 17.

(Inside Metals is compiled by Pradip Kakoti in Bangalore)

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