INSIDE METALS

Monday, October 15, 2012

CHART OF THE DAY

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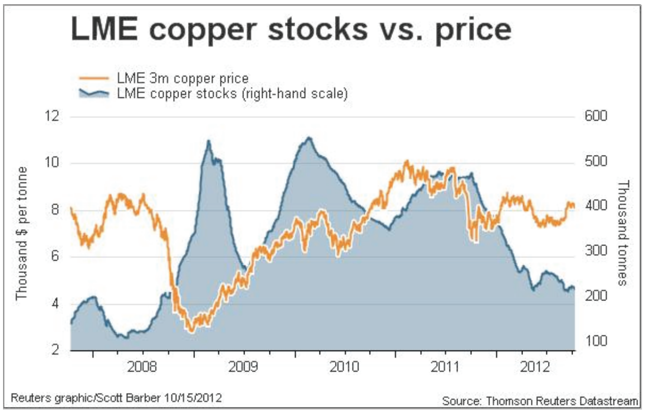

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COLUMN-Too early to be bullish on China commodity demand

China's commodity imports for September may at first glance look like the early signs of a recovery in demand, but there are good reasons to be cautious until the trend is clearer.

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

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BHP and Rio Tinto's solid output masks shaky demand

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TODAY'S MARKETS

BASE METALS: Copper slipped to a one-month low over uncertainties about global demand and Beijing's next policy move, with traders wary of making big moves ahead of China's release this week of data on third-quarter economic growth.

"There is an air of uncertainty today as many people believe there is little room left for the Chinese government to ease monetary policy, which makes it hard to predict what they will do next," said Orient Futures Derivative Director Andy Du.

PRECIOUS METALS: Gold dropped to a 2-1/2-week low, extending falls from the previous session, as stop-loss selling more than offset support from China inflation data suggesting there was more room to ease monetary policy.

"We traded through lots of stops this morning," said a Singapore-based trader, "The China inflation story is outweighed by such selling."

FOREX: The euro slipped against the dollar as traders awaited clarity on when Spain would request a bailout to shore up its battered finances.

"The euro will likely be capped for now because that is unlikely to happen soon before Spanish regional elections," said Minori Uchida, chief FX analyst at the Bank of Tokyo-Mitsubishi UFJ in Tokyo, referring to a possible aid request by Spain.

THOMSON REUTERS

FEATURE

COLUMN-Too early to be bullish on China commodity demand

By Clyde Russell

LAUNCESTON, Australia, Oct 15 (Reuters) - China's commodity imports for September may at first glance look like the early signs of a recovery in demand, but there are good reasons to be cautious until the trend is clearer.

Crude oil imports gained 9.1 percent in September from August, iron ore imports jumped to their highest level in 20 months, while inbound copper shipments gained 11 percent from the prior month.

Those numbers look impressive, but only in isolation. Taken in the broader context, they can at best be described as encouraging, without being definitive proof that the low point for Chinese commodity demand has been and gone.

Taking crude oil first, the 20.08 million tonnes imported in September seem like a significant increase from August's 18.4 million tonnes.

But August was exceptionally weak, and excluding it makes the September figure the weakest since July last year, meaning it is hardly evidence of a strong rebound in fuel demand in China.

Put another way, the last two months of crude imports have been the weakest in more than a year.

The chances are also that October's oil imports may be less than impressive, given the Golden Week holidays that dramatically curtail economic activity for about a quarter of the month.

The nation's biggest refineries may also cut October runs by 4 percent from September, according to a Reuters poll of officials, who cited maintenance, repairs and tellingly, slack demand, for the reduction.

All this makes it difficult for crude imports to post another month of strong gains, especially with Brent prices rising close to $115 a barrel from around $108 earlier this month, and thus providing little incentive to buy more oil than is needed.

The Golden Week holidays may also have resulted in a pull-forward of commodity demand, as buyers stocked up ahead of the holiday to ensure they had sufficient supplies for after the vacation.

This may have been the case for imports of iron ore, which rose to 65.01 million tonnes, the most since January 2011.

But this performance is unlikely to be repeated in October, with Australia's Port Hedland reporting a 9.5 percent decline in exports of the steel-making ingredient in September.

Many of the cargoes that left the major iron ore port in Western Australia last month would be destined to arrive in China this month.

Graphic of China's economy and trade data:

http://link.reuters.com/fut96s

There is also the likelihood that iron ore importers took advantage of the plunge in prices in the third quarter to stock up.

Spot iron ore fell from around $137 tonne in late June to a three-year low of $86.70 on Sept. 5, allowing steel mills to buy cheaply in order to reduce costs.

However, this means that there is still an overhang of higher-price inventories to clear at Chinese ports, with traders likely to use the subsequent recovery in iron ore to offload excess stocks bought earlier in the year.

If iron ore continues to rise above the $114.50 it cost on Oct. 12, therefore, imports may be crimped by the selling from stockpiles already in China.

There is also the question of how strong actual demand currently is in China, given output cutbacks at steel mills.

The chances are that the $160 billion in stimulus measures announced by the government will have a positive impact, but probably not until the start of 2013, and they are also unlikely to be as much of a boost as was the far larger package after the 2008 global financial crisis.

The 11 percent gain in copper imports in September, similar to iron ore, was also unlikely to have been related to any increase in underlying demand.

It's probable that much of the gain was related to the arrival of term shipments and the pull-forward effect from the October holiday week.

Similarly, October imports may be curtailed by the rapid rise in copper prices since the beginning of August.

Benchmark three-month copper in London rose 14 percent from the beginning of August to its recent peak of $8,380 a tonne on Sept. 14.

This gain coincided with when October cargoes would have been arranged, and if the underlying demand is still not growing, there is little reason to expect copper imports to continue surging.

Overall, while the September trade data may show a nascent recovery in Chinese commodity demand, it will take several more months of positive growth to convince that the slump is truly over.

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

BHP and Rio Tinto's solid output masks shaky demand

By Sonali Paul

MELBOURNE, Oct 15 (Reuters) - BHP Billiton and Rio Tinto are set to report this week solid iron output for the September quarter, but prices and cost will be the top concern for the miners as even their most profitable division is hurt by slower Chinese demand.

FEATURE *(Continued)*

The production reports by BHP, the world's biggest miner, and Rio Tinto, the No.3 miner, will be closely watched for signs of how weaker consumption of steel in China is playing out on demand for commodities such as iron ore and coal.

Weaker demand for resources is fueling worries that a decade-long mining boom in Australia is faltering. BHP and Rio have in recent months been cutting jobs, closing coal mines, shelving expansions, selling assets and scaling back spending.

The main concern of investors is how the companies manage profit margins for iron ore, given that they are among the lowest cost producers and will continue digging as much as they can, shareholders and analysts said.

"The biggest challenge is managing costs. It's not a question around volumes," said Ric Ronge, a portfolio manager at Pengana Capital, which owns shares in Rio Tinto and BHP.

Rio Tinto, the world's no.2 iron ore miner behind Brazil's Vale , and world no.4 iron ore miner Fortescue Metals Group are both due to report September quarter production on Tuesday, with BHP reporting the next day.

GRAPHICS: BHP output http://link.reuters.com/gav49s

Rio Tinto output http://link.reuters.com/ger49s

Despite a 34 percent rebound in iron ore prices from a low of $87 a tonne in September, prices remain more than 20 percent below this year's high.

"Given the volatility over the past quarter, investors will be looking for the companies' comments on current market conditions, particularly for steel making raw materials," said Rob Craigie, an analyst at broker FW Holst.

Fortescue is likely to give the clearest view on market conditions as it is the only one of the three iron ore miners holding a briefing after its production report.

FOCUS ON SHIPMENTS

Any reduction in shipments rather than production would provide more evidence of weaker demand in China, where steel mills had been running down stocks of iron ore to historically low levels as local, higher cost iron ore producers continued to dig up ore despite losing money.

Rio Tinto said this week that around 100 million tonnes of Chinese iron ore output had become unprofitable.

For Rio, UBS is forecasting iron ore production at its Pilbara operations in Western Australia to fall 4.8 percent from the June quarter to 47.3 million tonnes in the September quarter, but said shipments could increase using supply from inventory.

Analysts expect the firm to maintain its production guidance at 250 million tonnes on a 100 percent basis for calendar 2012.

UBS expects BHP's iron exports to be flat quarter on quarter and possibly down slightly, as export figures from Port Hedland, used by BHP and Fortescue, showed a 4 percent drop for the September quarter from the June quarter.

Fortescue is expected to report a 15 percent drop in iron ore shipments quarter on quarter due to its expansion work, following a record in the June quarter, but the focus will be on progress on its ramp up to 115 million tonnes a year capacity.

The debt-laden firm last month slammed the brakes on its plan to triple capacity to 155 million tonnes this year as the iron ore price slump forced it to slash spending. It managed to raise $5 billion last week, $500 million more than planned, to help refinance debt and shore up its funding.

COAL GLOOM

Coal prices are an even bigger concern than iron ore prices, as demand for both thermal coal for power and metallurgical coal for steel making have been depressed by China's slowdown.

Spot prices for metallurgical coal are down more than 25 percent since July at around $150 a tonne, while thermal coal has fallen about 30 percent this year to $86 a tonne. Production cuts by major miners are expected to help shore up the market.

"BHP's proactive stance is certainly necessary but will also help stabilise the market sooner than would have been the case," said Octa Phillip analyst Lawrence Grech.

While BHP has shut its Norwich Park mine and is in the process of closing its Gregory mine in Queensland state, UBS expects its output to rise slightly thanks to the end of work stoppages at the BHP Mitsubishi Alliance mines that were hit by an 18-month dispute.

On copper, a bright spot for both companies in the year ahead, improving grades are expected to boost production sharply over the next 12 months.

GENERAL NEWS

Investors hold fire on base metals as China slows

LONDON, Oct 12 (Reuters) - Many institutional investors are holding back on industrial metals like copper, with some poised to inject cash when signs emerge of an rebound in demand in top consumer China.

A bounce in metal prices in recent months was largely due to central bank stimulus measures, not strong underlying demand for metals, and some asset managers regard any further push to the upside as only a short-term trading opportunity.

"This is all a bet on central bank irresponsibility. If you look at the fundamentals of base metals, it's hard to be too enthusiastic," said Sean Corrigan, chief investment strategist at Diapason Commodities Management in Switzerland, which has around $8 billion of assets under management.

"I think you're waiting for macro headlines to push another round of risk-on trading, and yes, base metals will definitely participate in that."

The LME index of six major industrial metals climbed 16 percent from mid-August to mid-September as central banks announced further quantitative easing (QE), but has since shed 4 percent.

Gains in metals from central bank stimulus programmes are regarded as vulnerable due to an economic slowdown that has hit harder than many expected in China - which accounts for 40 percent of global copper demand.

Chinese GDP data due to be released next week is expected to show that economic growth slowed for a seventh straight quarter in the July-September period to 7.4 percent, the weakest level since the depths of the global financial crisis.

Graphic of metals price performance in 2012:

http://link.reuters.com/cag37s

Graphic of copper prices vs. LME stocks:

http://link.reuters.com/tef35s

CHINA

China is the dominant focus of those who are on the sidelines of metals markets, wary of the recent run-up in prices.

Michael Banks, research analyst at Hermes Commodities in London, is concerned about a weaker Chinese construction sector. Copper is mainly used in the construction and power industries.

"We see the current low levels in Chinese new start construction as a potentially bearish catalyst through the end of 2013, specifically in copper and aluminium," Banks said.

Hermes, owned by telecomms group BT's pension fund, the UK's largest, has $2.3 billion in commodity assets. It rates the base metals sector as neutral.

Corrigan at Diapason is troubled about copper inventory levels in China. Although London Metal Exchange stock levels have fallen sharply this year, there's been a build-up in inventories at Shanghai bonded warehouses.

"We have no idea of how much inventory's been stacked up over there. We keep getting all sorts of anecdotal stories about metal spilling out of the warehouses into the local car parks and about swimming pools full of copper," Corrigan said.

"Clearly, the slowdown has hit harder than most people were willing to countanance.

Some investors, such as Chief Investment Officer Pau Morilla-Giner at London & Capital, see potential in the sector, but are waiting for the right time to enter.

"It's something we're monitoring. We haven't quite pulled the trigger. We might take a long-term option position because it's already discounting a lot of bad news from China, which is fair, but probably too much pain may have been discounted," said Morilla-Giner.

"With the leadership change in China, you might have big infrastructure spending push and then a positive feedback loop and people will be more excited about Chinese stockpiling and all that."

In the Netherlands, Koen Straetmans at ING Investment Management is neutral for the commodities sector as a whole, but recently picked out base metals as a favoured sub-sector and copper as the metal of choice.

"Industrial metals is normally a beneficiary in the initial stages of QE and also the non-commerical positioning has been low," he said.

"The Chinese data so far have been on the weak side, clearly on the other hand, you have some selective stimulus measures, specifically infrastructure, and that should in principle be industrial metals supportive."

BlackRock sees more room for miners to cut costs, hike payouts

LONDON, Oct 12 (Reuters) - Mining firms, already cutting back after years of rising costs, could do more to tighten their belts and should use the proceeds to increase payouts to yield-hungry investors, BlackRock, the world's largest fund manager said on Friday.

As demand weakens, BHP Billiton , Rio Tinto and others are reviewing tens of billions of dollars of new projects and cutting back staff, from office workers to mine engineers, particularly in high-cost regions like Australia.

Over years of cranking up production to catch high prices, many investors complained that the need to increase volumes had pushed companies into ever costlier projects, at the expense of returning cash to shareholders through dividends and buybacks.

"The trends we are seeing in the industry are ones where capital is being cut and costs are being cut, that's obviously going to free up cash flows," said fund manager Evy Hambro, BlackRock's investment chief for natural resources and one of the sector's best known names.

GENERAL NEWS *(Continued)*

"It's a question of what the companies do with their cash flows. We're hoping that some of that cash flow comes back to investors in the form of higher payouts."

Hambro called for a better balance in capital allocation by miners, which are traditionally keen to put money into new projects and acquisitions, and only after that hand it back to investors.

A Deutsche Bank report last December considered the cumulative benefits since the start of the metal price boom in 2006, and found shareholder returns for a basket of the four major diversified miners were up 174 percent.

But that compared with a 447 percent increase in the amount paid to governments in taxes and royalties, and a 210 percent increase in average salaries paid to staff.

Hambro told Reuters that dividends and yields had risen considerably in the sector over the past few years.

"It's pleasing to see but I think there's more that can be done."

HANDSOME RETURNS

Hambro said he was overweight on copper miners, his only area of substantial exposure to base metals. He is also exposed to iron ore producers.

In both cases, the bet is not on the price of the metal, but on the companies' profitability, Hambro said.

"We think high copper prices above $3 a pound are going to be with us for some time to come, so copper producers are going to make very handsome returns on their assets," he said.

Copper production has failed to meet forecasts in recent years, with the metal mostly recording a supply-demand deficit as miners struggle with low grades, labour woes, political instability and operational troubles.

"We have very significant exposure to iron ore in the portfolio. That's again not a view that iron ore prices will go up, rather it's a view that the profitability of the mining companies that produce iron ore is likely to be sustained."

From mid-April to early September this year, iron ore prices lost almost half of their value, falling from nearly $150 a tonne to just over $85 a tonne, on slowing demand from the oversupplied Chinese steel market.

Hambro, however, expects China's government to succeed in managing an economy whose growth is cooling to a slower pace.

Government efforts like stimulus measures announced earlier this year are widely expected to encourage demand.

Hambro said his fund was not exposed to aluminium, lead or zinc.

"The price of those commodities might go up but we don't expect to see significant profit margin expansion for producers exposed to those commodities."

In precious metals, Hambro likes the outlook for gold equities, but not platinum - his funds are exposed to just one producer of the white metal.

"We've been underweight South Africa for a long time. The recent issues, I think the wage settlements will come and the strikes will abate, but I don't see that changing our view."

South Africa produces about 80 percent of the world's platinum.

In August this year, a strike at platinum producer Lonmin turned violent, leaving 44 dead and dozens injured in clashes between police and striking workers. The clashes have since sparked a wave of illegal stoppages, pushing the "platinum belt" death toll near 50.

TRADING PLACES

Trafigura's metals arm braces for tough 2013

SINGAPORE, Oct 15 (Reuters) - Commodities trader Trafigura expects profit at its metals and concentrates unit will come under pressure next year as global economic growth slows, one of its directors, Simon Collins, told Reuters.

"We have to focus on our core business and continue to try to struggle by. In terms of concentrates and metals, potentially it will be a tough year," said Collins, who heads up the company's metals and bulk commodities divisions.

Privately held Trafigura, which says it is the world's second largest independent trader of non-steel related ores, and world's third largest oil trader, saw a $122 billion turnover in 2011, up from $79 billion in 2010.

It has been building up its business in Asia, and in May said Singapore would be its main trading hub as it seeks to tap growth in what has become one of the world's few remaining bright spots for demand.

At the end of the year it will relocate three more metals traders, including veteran trader Micky Richmond, to Singapore from Shanghai.

Competition in the sector has intensified, with rivals Gunvor, Mercuria, and Noble , making inroads into base metals this year. But Trafigura said it is confident it can withstand the pressure.

"We have not really seen much impact on the business so far - if any," Collins said.

Alongside Malaysia, which Trafigura said in June it has marked out as a country as a key for its growth, the trader's gaze has shifted towards Indonesia, where new regulations have curbed exports, and to China, where it is building more storage facilities.

"We are starting to focus more attention on Indonesia, primarily because of coal," said Collins.

Indonesia, a leading metals and coal exporter, slapped an export tax on metal ores in May. The country accounts for around 5 percent of global coal production - or around 376 million tonnes - last year.

The tax, which exempts miners with plans to build smelters, comes ahead of heavier restrictions on ore exports from 2014 as the country looks to plump revenue by making sure more raw materials are processed domestically, although many expect companies will struggle to comply in time.

New deals in the burgeoning downstream sector, as the government looks to encourage firms to build metals processing plants, could present an opportunity, said Collins.

"I think we would look at it. It's an interesting time and it's something to look at," he said.

In the meantime, the company is continuing to build commodities storage capabilities across China and elsewhere, he added.

"There's plenty happening. We have approximately 35 projects ongoing at the minute, either expansions or new facilities."

Trafigura bought metals warehousing and logistics firm NEMS in March 2010.

COPPER TO OUTPERFORM

Trafigura has pinned copper as next year's top base metals performer, seeing it in a $7,500-$9000 tonne range, from $8,125 a tonne on Friday, helped by its supply fundamentals, as well as climbing oil prices, which will push up costs for miners.

Trafigura expects Chinese copper demand to improve to 6 percent next year from 5 percent in 2012 but sees a small market surplus of 350,000 tonnes.

Lead and nickel come in second, due in part to Indonesia's curbs on nickel ore exports, but also due to roaring demand from Chinese battery makers, and a shortfall of supply.

"Junk batteries are very tight at the moment, but there is not a lot of supply and the secondary lead producers are screaming out for raw material, which is why I think the premiums are so high on lead," he added. It sees China's demand for aluminium accelerating to 9 percent from 8 percent, nickel improving to 8.4 percent from 6.3 percent and zinc demand doubling to 8 percent from 4 percent.

China's lead demand growth should stay steady at 8 percent, he said.

At independent LME swansong, rings eye China future

LONDON/SHANGHAI, Oct 14 (Reuters) - The London Metal Exchange may be hosting the last LME Week as an independent concern but, like the tuxedos being dusted off for the annual beanfeast, other traditions may not just survive but thrive under Chinese ownership.

The ring, its gentlemanly but frantic style of dealing face-to-fingers across a circle of red leather benches, has defied the global trend away from trading pits to electronic screens and could now grow as Hong Kong Exchanges and Clearing Ltd. completes its takeover of the 135-year-old LME.

Members, who have accepted $2.2 billion to cede control of the world's main metals market, are looking at earlier hours for ring trading to grab business in Asia and there has been talk, so far denied, that Chinese smelters may be interested in taking LME membership. The sale of the venerable exchange, which holds its annual dinner on Tuesday, prompted some to see the end of the ring, but in fact new participants seem willing to snap up available space - Jefferies Bache, the brokerage arm of U.S. investment bank Jefferies Group , threw its hat in the ring last month after France's Natixis pulled back from commodities broking.

Market participants are now speculating on whether key Chinese companies will take up the challenge of open-outcry.

TRADING PLACES *(Continued)*

Traders reckon nearly half of LME trading volumes come from Chinese customers. China's booming industry is the world's largest consumer of base metals. For example, it accounts for as much as 40 percent of global demand for copper.

At Jiangxi Copper and Minmetals, subjects of some of that speculation, sources denied either of the Chinese smelters is seeking immediate LME membership. Bank of China International declined comment on talk that it might expand its activities on the exchange to take part in ring trading.

Bank of China International Global Commodities UK Ltd was approved as a Category 2 member in April. That lets it trade on electronic and telephone markets only. However, traders said BOCI would be a likely candidate for a Category 1 ring dealing membership, once its volumes pick up.

More broadly, ring membership could appeal to Chinese smelters and other firms in the metals sector: "LME membership would be a wise move if the companies want to trade more efficiently, since Category 1 members can get a lot of useful inside information," said one Shanghai-based trader.

A source at Jiangxi Copper noted, however, that such firms faced some hurdles: "Firstly, the Chinese government will have to be on board for this idea and the approval process can take quite long for state-owned companies like us," the source said.

Facing competition from the Shanghai Futures Exchange, new owner HKEx has pledged to preserve the LME brand and open outcry - at least for the next couple of years, until January 2015.

COMPLEX STRUCTURE

The ring system, where traders from brokers and banks use hand signals and loud voices to deal in copper, aluminium, lead, nickel, tin and zinc from seats that form a circle around the floor retains a strong appeal for those already involved.

"I love it to bits," confessed one senior figure at Category 1 dealer. "It's got tradition; it's got history.

"It's a gentleman's market and it is transacted in a proper manner," he added.

Among the attractions of trading at Leadenhall Street in the heart of the City of London are LME contracts based on hundreds of specific forward dates, rather than on the simpler monthly deliveries used in most futures contracts.

Supporters of the ring argue that brokers dealing with each other directly, rather than over automated networks, are better able to manage the complex delivery system.

Some 80 percent of so-called "date spreads", which form a very important part of the LME's business, are still executed on the floor or over the phone, the LME says.

Tough trading in deteriorating economic conditions have forced many heavyweight commodities businesses to axe metals brokerages or shut up shop altogether, but the LME's ring has remained resilient as newcomers have replaced departing firms.

INTL FCStone picked up MF Global's ring dealing team after the U.S.-based firm filed for bankruptcy last year. And when French bank Natixis announced in May the closure of its commodities brokerage business, its ring-dealing space was taken over by Jefferies Bache.

As the world's metals trade gathers over canapes in London this week, they may take heart from the upbeat note struck in June by Jefferies Bache chief executive Richard Handler, who saw the metals sector as once with great potential: "That is definitely something that we see as an opportunity," he said.

"We see that as a global opportunity - U.S., Europe and Asia - for expansion."

MARKET NEWS

Norway's Hydro, Orkla to combine aluminium product businesses

OSLO, Oct 15 (Reuters) - Norway's Norsk Hydro and Orkla will merge their extruded aluminium businesses into a 50/50 joint venture to cut cost and gain scale amid the industry's global downturn, the two firms said on Monday.

"Our extrusion business was profitable for many years but has more recently been hit hard by the weak economic climate in Europe, which we expect to last for a while," Hydro Chief Financial Office Joergen Arentz Rostrup said.

"There is a considerable need for restructuring," he added.

The venture, to be named Sapa, will include Hydro's extruded products business and Orkla's profiles and building system unit as well as its extruded and welded tubes unit, creating a firm 47 billion crowns ($8.24 billion) in sales.

The deal will generate around 1 billion crowns in synergies, the firms added.

To compensate Orkla for its bigger contribution to the new venture, Hydro will also pay the firm 1.8 billion crowns in cash within six months of the deal's completion.

"There is reason to believe that there will also be consequences for jobs, though that would have happened anyway due to the weak European markets in particular," Rostrup said.

Sapa will become a key player in the building, construction and transport industries and will have leading positions in Europe and North America, and strong footholds in markets like Brazil, Argentina, China, India and Vietnam.

India's Vedanta Aluminum shuts refinery on bauxite shortage

BHUBANESWAR, India, Oct 13 (Reuters) - Vedanta Aluminium Ltd (VAL) ,India's largest aluminium maker, said on Saturday it has temporarily shut down its alumina refinery in Odisha due to lack of bauxite.

Bauxite is the key raw material to produce alumina. The refinery at Lanjigarh in Kalahandi district, about 450 kilometres from state capital Bhubaneswar, was operating at about 25 per cent capacity for the past three days, VAL President Mukesh Kumar told Reuters.

VAL is a unit of billionaire Anil Agarwal-controlled Vedanta Resources .

The refinery, which has been struggling for bauxite since it was commissioned in Aug 2007, informed the state authorities early last month it would close the plant on a temporary basis from 5th December.

"Due to non availability of bauxite we were forced to close down the refinery temporarily before our scheduled declared date ..as we had no other alternatives," Kumar said.

"We shut down the operation to save the plant from further damage," he said.

Kumar however did not give an exact date when the operation would resume.

"We are not sure how much time it will take. We are making all efforts to arrange the bauxite" said Kumar, adding the operation at the plant would resume once the company could arrange a stock which would last 10-15 days.

The Lanjigarh plant requires 10,000 tonnes of bauxite a day to operate at full capacity of one million tonnes a year.

Kumar said bauxite was not available due to regulatory issues and monsoon conditions. Large scale bauxite exports from the country also contributed to the shortage, he said.

He said the Lanjigarh plant is designed for local bauxite, and availability of bauxite from Odisha only can ensure sustainability of the refinery's operation.

Kumar however said the shutdown of the refinery may not have immediate impact on VAL's aluminium output because the company is trying to survive on imports.

RUSAL eyes Siberia smelter with Chinese partner

MOSCOW, Oct 12 (Reuters) - Russian aluminium group RUSAL is looking for Chinese partners to build a smelter in Siberia with a design capacity of 800,000 tonnes per year.

"We understand that despite the challenging economic situation globally, now is the time to lay the foundation for development of Siberia and the far east, as these regions will be driving Russia's growth in the years ahead," first deputy chief executive Vladislav Soloviev said on Friday.

His comment was made after RUSAL signed an agreement with the economy ministry to "work closely within the framework of a potential joint venture with the Chinese partners to build an aluminium smelter in Siberia".

Hong Kong-listed RUSAL had said in September companies in China, the world's largest consumer and producer of aluminium, should consider investing in new smelting projects in Siberia.

China, which accounts for 44 percent of global aluminium consumption, needs to invest in production projects to meet increasing demand over the next 5-10 years, according to RUSAL.

"We have constantly confirmed that China is a priority market for RUSAL's development. The signing of the agreement with the Russian Ministry of Economic Development aims to reinforce our joint efforts to increase the presence of Russia in the region," Soloviev said.

Three-month aluminium was down 0.6 percent to $2,003 per tonne by 1425 GMT.

MARKET NEWS *(Continued)*

Luvata sees China economy helping copper demand next year

LONDON, Oct 15 (Reuters) - A boost to domestic consumption in China will help spur a recovery in copper demand in 2013, with the outlook likely to improve modestly in the United States while Europe remains weak, the CEO of copper products group Luvata said.

While the pickup in demand could help cushion copper price falls, the outlook for prices remains bearish as more supply is expected to hit the market at a time when global growth continues to weaken, John Peter Leesi told Reuters.

China is the top consumer for copper, accounting for as much as 40 percent of global refined consumption. Demand has remained sluggish this year as the country grapples with the effects of a slowdown in its major export markets.

"We are seeing a shift in China where the focus is changing from an export business to a domestic consumption driven economy. We believe that will continue. There will be an improvement in China sometime next year," Leesi said.

China has recently approved 60 infrastructure projects worth more than $150 billion, encouraging investors to hope the world's second-largest economy may get a lift in the fourth quarter and beyond.

Leesi said China is currently going through a destocking phase, which is likely to result in smaller quantities of copper being imported in the short-term.

China's imports of copper in August were its second lowest this year, falling 2.9 percent from July to 355,856 tonnes, as a slowdown in the global economy hit the country's manufacturing sector.

SUPPLY EYED

On a longer-term, Leesi said the availability of supply for copper could put downward pressure on prices.

Global production of copper is expected to exceed demand for refined metal by 458,000 tonnes in 2013, the International Copper Study Group (ICSG) said earlier this week.

"We are bearish on copper. We know that there is going to be more supply coming on stream. We might even see demand being a bit lower than it has been historically over the last 10 years and I think that should adjust copper prices downwards."

On Luvata's opposition to plans for new physically backed-exchange-traded funds (ETFs), Leesi said he was against the proposals as the launch of the ETFs could lead to unnecessary volatility in copper prices.

"We are against it (the ETF plans) because we believe it could create volatility in pricing and if it becomes very big it can constrain availability," he said.

The U.S. Securities and Exchange Commission has until Jan. 18 to make a decision on the XF Physical Copper Trust proposed by JPMorgan Chase & Co . That decision is likely to set the precedent for an ETF from BlackRock Inc .

Shanghai warehouse copper stocks up 11.7 pct

SHANGHAI, Oct 12 (Reuters) - Copper and lead stocks in warehouses monitored by the Shanghai Futures Exchange jumped over the two weeks to October 11, but demand was still tepid at the start of the seasonally strong fourth quarter, the latest ShFE data showed on Friday.

Copper stocks climbed 11.7 percent or 18,967 tonnes to 181,541 tonnes, the highest in five months, while lead stocks jumped 34.3 percent or 7,648 tonnes to 29,961 tonnes, the loftiest since late May.

Stocks represent two-weeks data as the ShFE was closed for trading from Sept. 29 to Oct. 7 due to the Mid-Autumn and National Day holidays.

"Bonded copper warehouse stocks have increased over the National Day holiday period due to slower drawdowns," Metals consultancy CRU Group analyst Li Chunlan.

Chinese lead battery demand has been weaker this year compared to the same period in previous years due to a slowdown in economic growth, said Shanghai Metals Market analyst Zhang Shu.

"On the supply side, a lot of lead smelters that went through maintenance between June and August have been ramping up production since September," Zhang added.

Australia's Sundance optimistic on talks with Hanlong

MELBOURNE, Oct 15 (Reuters) - Australian iron ore miner Sundance Resources is optimistic it will be able to conclude a sale of the company to China's Hanlong Group in a $1.4 billion deal that has dragged on for a year, Sundance's chairman said on Monday.

Hanlong, which cut its offer by a fifth in August, was due to have given Sundance a letter from China Development Bank confirming funding for the deal by Oct. 1, but holidays in China and a failure to reach an agreement on conditions for the financing have delayed the process.

"We are working on it positively and we expect a positive outcome," Sundance Chairman George Jones told Reuters.

Sundance had hoped to wrap up talks with Hanlong by last Friday, but Jones and another person familiar with the talks said the two sides were still talking and had yet to reach any conclusion.

The source, who did not want to be named as the talks are confidential, declined to say what the sticking points are.

MARKET NEWS *(Continued)*

Hanlong targeted Sundance for its Mbalam iron ore project on the border of Cameroon and the Republic of Congo, one of several iron ore projects that China eyed to supply its steel mills.

However China Development Bank has appeared reluctant to back the private company's deal, repeatedly delaying approval, even after Hanlong cut its offer price following a slide in iron ore prices.

Iron ore prices have since rebounded 32 percent from a three-year low of $87 a tonne hit in September.

Sundance shares have been suspended pending the outcome of the talks. They last traded at A$0.34, a quarter below Hanlong's lowered offer of A$0.45, reflecting investors' doubts the deal will go ahead.

Hedge funds betting on the deal have been caught out, so much so that one fund, Senrigan Capital, an Asia-focused hedge fund backed by Blackstone Group , has put its investment in Sundance and four other hard-to-sell investments into a separate vehicle after suffering heavy losses.

Italy orders Ilva steel plant to limit output, upgrade furnaces

ROME, Oct 12 (Reuters) - Italy's Ilva steel plant must limit annual production and shut down Europe's biggest blast furnace for upgrades in order to get an environmental license to operate, according to the Environment Ministry.

The factory in the southern city of Taranto must limit its annual steel production to 8 million tonnes, compared with last year's output of 8.5 million tonnes, according to a document outlining the work that had to be done to keep the plant running.

The plant began a shutdown last week after a court ordered it to close because of evidence that pollution was causing above-average cancer rates in the surrounding area.

The court's plan sparked a series of protests by labor unions, which said a pause in production would put the future of the factory in doubt and risk jobs in a region already suffering above-average unemployment, creating a headache for the government of Prime Minister Mario Monti.

Ilva employs 12,000 workers directly while another 8,000 people are indirectly employed by the sprawling site located in the heel of Italy's boot. It accounts for more than a third of Italy's total steel output, the second-biggest producer in Europe after Germany.

The ministry said it must also shut down and upgrade several of its coke oven batteries and blast furnaces, including one which is Europe's biggest, with the aim of reducing the mill's toxic dust emissions.

The huge, continuously operating blast furnaces cannot be switched off without a long-term shutdown of the site, stoking some fears that it could be closed down permanently.

It is not yet clear whether the ministry's requirements will trump the upgrades ordered by the court, which has taken over management of a large part of the factory to oversee its clean-up.

China's Angang Steel warns of $505 mln 9-month loss

HONG KONG, Oct 12 (Reuters) - China steelmaker Angang Steel Co Limited said on Friday it could make a loss of RMB3.17 billion ($505 million) for the first nine months of the year.

Angang Steel, which has a market value of $4 billion, said the loss resulted from a substantial decrease of around 14 percent in the price of steel products compared to the year earlier period, when the company made a RMB239 million profit.

Steelmakers globally are facing slowing demand because of the weak economic climate. In China, slowing economic growth has hit demand for new ships and construction. An industry official told Reuters last month that more than a third of China's iron ore mines were idle due to depressed prices.

China's biggest listed steelmaker, Baoshan Iron & Steel Co , said in September it has suspended output at a 3 million tonne-a-year plant in Shanghai as steel prices were near three-year lows.

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

Daily LME Aluminium 3-months

Daily LME Copper 3-months

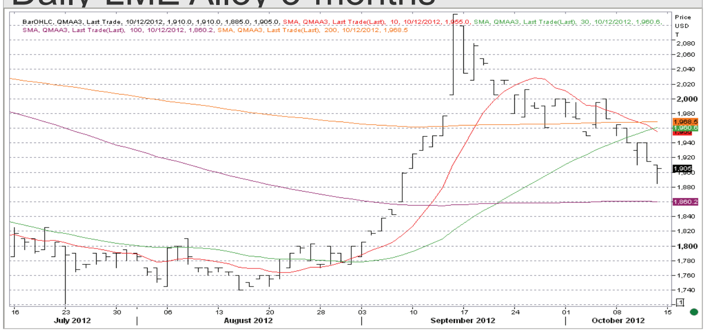
Daily LME Nickel 3-months

Daily LME Zinc 3-months

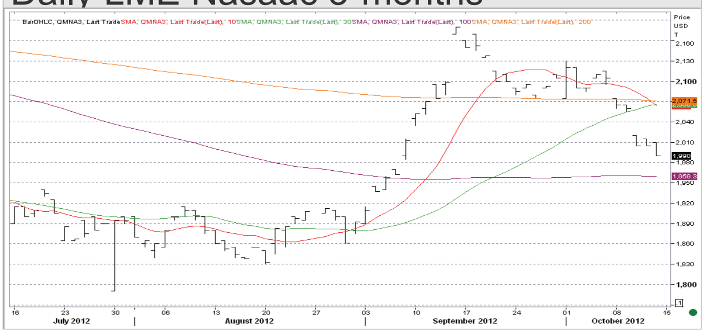
Daily LME Lead 3-months

Daily LME Tin 3-months

Daily LME Alloy 3-months



Daily LME Nasaac 3-months



MARKET REVIEW

METALS-Copper falls on China stimulus uncertainty

SHANGHAI, Oct 15 (Reuters) - Copper slipped to a one-month low on Monday over uncertainties about global demand and Beijing's next policy move, with traders wary of making big moves ahead of China's release this week of data on third-quarter economic growth.

Key economic data from China so far has clouded expectations on whether Beijing will take more steps to shore up growth, with an easing of the country's annual consumer price inflation pointing to ample room for policy easing, with a strong rebound in September exports suggesting policy changes may not be needed for now.

Besides being wary over the economic health of the world's second largest economy, investors are also eyeing the third-quarter U.S. corporate reporting season, which should give an idea of broader global demand for metals.

Cautious sentiment pushed three-month copper on the London Metal Exchange down 0.3 percent to $8,107.25 per tonne by 0412 GMT. It had dropped to a one-month low of $8,050 earlier in the session, its lowest since Sept. 13.

The most active January copper contract on the Shanghai Futures Exchange fell 0.9 percent to 58,470 yuan ($9,300) per tonne, paring some losses after dropping 1.3 percent to a session low of 58,230 yuan at the open, also its lowest since Sept. 13.

"There is an air of uncertainty today as many people believe there is little room left for the Chinese government to ease monetary policy, which makes it hard to predict what they will do next," said Orient Futures Derivative Director Andy Du.

"Investors are divided in their opinions on copper's outlook, which will keep London copper see-sawing in small daily movements between $7,800 and $8,600. I doubt China GDP figures will offer a big enough surprise to decisively sway either bulls or bears."

Economists polled by Reuters indicated China's annual economic growth probably slowed for a seventh straight quarter in the July-September period to expand 7.4 percent, down from 7.6 percent in the second quarter and the weakest level since the depths of the global financial crisis.

In Chinese physical markets, spot copper is still trading at a discount of up to 120 yuan to the ShFE front-month Oct contract , pointing to sluggish consumer demand.

While China's September copper shipments rebounded 11 percent from a month earlier, analysts said this was due to bookings made late last year and did not reflect a revival in underlying demand. Compared to a year ago, September imports were also up just 3.8 percent -- the slowest in 13 months.

Still, economic data from the United States was a rare bright spark, with consumer sentiment unexpectedly rising to its highest in five years in October. The U.S. government also posted a small budget surplus in the final month of the 2012 fiscal year.

The euro zone, however, offers few trading cues as it is still mired in its debt crisis with little progress on its handling of Greece and Spain's debts.

Germany insisted it was too soon to say Greece deserved more time to meet its deficit-cutting goals even as the head of the International Monetary Fund laid out the case for leniency, while it is still not clear if Spain will be accepting a bailout, despite assurances that preparations are in place for such a move.

PRECIOUS-Gold falls to 2-1/2-week low on stop-loss selling

SINGAPORE, Oct 15 (Reuters) - Gold dropped to a 2-1/2-week low on Monday, extending falls from the previous session, as stop-loss selling more than offset support from China inflation data suggesting there was more room to ease monetary policy.

Gold staged its biggest daily loss in more than two months on Friday, after data showed U.S. consumer sentiment rose to a five-year high, adding to concern that the Federal Reserve's latest round of quantitative easing (QE3), aimed to improve job market and supporting growth, may be trimmed.

China's annual consumer price inflation ticked down to 1.9 percent in September from August's 2.0 percent, leaving plenty of room for further policy easing to shore up growth, which would help support gold's role as a hedge.

But momentum in gold remained to the downside after the data release, as the slide from Friday's intra-day high above $1,770 triggered stop-loss selling that was still pushing prices lower, traders said.

"We traded through lots of stops this morning," said a Singapore-based trader, "The China inflation story is outweighed by such selling."

Spot gold fell to a 2-1/2-week low of $1,741.24 an ounce before paring some losses to $1,744.06 by 0644 GMT, down 0.6 percent from the previous close.

U.S. gold lost 0.8 percent to $1,745.80.

Technical analysis suggested that spot gold could extend losses to $1,717 an ounce after it broke below support at $1,747, said Reuters market analyst Wang Tao.

Graphic: Spot gold 24-hour technical outlook

http://graphics.thomsonreuters.com/WT1/20121510090801.jpg

Graphic: CFTC commitment of traders

http://r.reuters.com/buv87r

The upbeat U.S. data, together with the lingering uncertainty over the euro zone debt crisis, helped the dollar to snap three days of losses, putting pressure on dollar-priced commodities.

"After QE3 there were a lot of longs in gold," said Peter Fung, head of dealing at Wing Fung Precious Metals in Hong Kong,

MARKET REVIEW *(Continued)*

"Since $1,780-$1,790 seemed heavy, some funds sold positions to take profit and now the long positions are getting squeezed."

Net length rose to 198,194 contracts in the week ended Oct. 9, the highest in nearly 14 months, the latest position data on U.S. gold futures and options shows.

Attention will be on a string of data from China, including a third-quarter gross domestic product number likely to show that economic growth slowed for a seventh straight quarter to its weakest since the depth of the global financial crisis.

Holdings of gold-backed exchange-traded funds slipped for the second session straight to 74.979 million ounces on Oct. 11, but were close to the record of 75.03 million ounces hit earlier last week.

Among other metals, spot silver dropped to a one-month low of $33.02, spot platinum fell to a 2-1/2-week low of $1,627.49, and spot palladium slid to $627.22, its lowest in two weeks.

FOREX-Euro slips, market wants clarity on Spain

SINGAPORE/TOKYO, Oct 15 (Reuters) - The euro slipped against the dollar on Monday as traders awaited clarity on when Spain would request a bailout to shore up its battered finances.

The euro fell 0.4 percent to $1.2909 and dipped to a low of $1.2891 at one point. One trader said some stop-loss selling in the euro kicked in at levels below $1.2900.

Uncertainty about when Madrid would seek financial aid has kept the euro trapped in a range roughly between $1.2800 and $1.3100 since mid-September.

Traders said there was some disappointment that Spain did not ask for financial aid over the weekend, but others said Madrid was unlikely to move before regional elections due on Oct. 21.

"The euro will likely be capped for now because that is unlikely to happen soon before Spanish regional elections," said Minori Uchida, chief FX analyst at the Bank of Tokyo-Mitsubishi UFJ in Tokyo, referring to a possible aid request by Spain.

However, traders added that euro sellers were likely to cover short positions fairly quickly, as Madrid is expected to eventually ask for help.

Euro zone officials have said that Spain could ask for financial aid from the euro zone next month. One major support for the euro comes in near $1.2825, its 200-day moving average.

A formal request by Spain for a bailout is widely seen as being positive for the euro, as it would open the way for the European Central Bank to activate its bond-buying programme and help bring down Spanish borrowing costs.

Elsewhere on the forex market, the dollar pushed higher while commodity currencies retreated, with the Australian dollar falling 0.3 percent to $1.0219 "There doesn't seem to be a very clear reason, but there is a risk-off mood in the market," said Satoshi Okagawa, senior global markets analyst for Sumitomo Mitsui Banking Corporation in Singapore.

Weakness in Asian equities underscored the cautious market sentiment, he said. "But it's not as if such moves are really picking up a head of steam," Okagawa added.

Data over the weekend showed China's exports grew at roughly twice the rate expected in September, while imports also improved, raising hopes that measures to spur growth in the world's second biggest economy are working.

"The better-than-expected upswing in Chinese exports follows similar outcomes for Taiwan and Korea and may be consistent with a bottoming in global manufacturing PMIs in suggesting a possible stabilisation or improvement in global growth," said Shane Oliver, head of investment strategy at AMP Capital.

The U.S. dollar, which tends to rise when investor appetite for risky assets falters, held firm. The dollar index, a gauge of the dollar's value against a basket of major currencies, edged up 0.3 percent to 79.915. The dollar edged up 0.1 percent versus the yen to 78.56 yen .

A trader for a major Japanese bank in Singapore said the dollar drew some support from market speculation related to recent media reports that Japanese wireless service provider Softbank Corp was looking to buy about 70 percent of U.S. carrier Sprint Nextel Corp .

A source familiar with the matter said Softbank is near a $20 billion deal to acquire control of Sprint. Ever since reports of the possible deal first emerged last week, there has been market talk that it could generate dollar-buying, yen-selling flows in the foreign exchange market, especially given the size of the deal.

(Inside Metals is compiled by Shruthi G in Bangalore)