INSIDE METALS

Tuesday, October 22, 2013

CHART OF THE DAY

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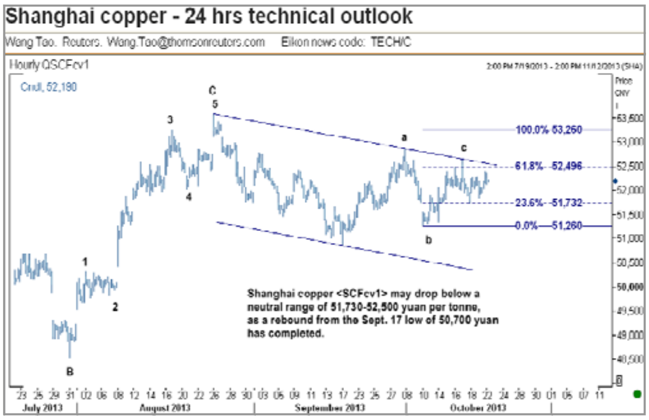

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COLUMN-Parallel aluminium universes move further apart

Global aluminium production rose by an annualised 454,000 tonnes to 46.93 million tonnes in September, according to figures out this morning from the International Aluminium Institute (IAI).

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

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TODAY'S MARKETS

BASE METALS: London copper was locked in a narrow range ahead of the first U.S. jobs report in nearly two months, as investors try to assess the health of the world's biggest economy after signs of slower Asian growth dimmed the outlook for metals.

"China's copper output increased in September, with smelters raising their operational rates as the weather cooled down, and because TCRCS (processing fees) were very high," said analyst Chunlan Li of consultancy CRU in Beijing.

PRECIOUS METALS: Gold traded in a tight range as the market waited for U.S. economic data but investor sentiment was undermined by a big drop in holdings in the largest gold-backed exchange-traded fund.

Holdings in SPDR Gold Trust fell 10.51 tonnes on Monday to 871.72 tonnes, their lowest since Feb. 2009. It was the biggest one-day fall in the fund's holdings since early July.

"(The) low in the ETF position mirrors a structural adjustment," said Alexis Garatti, an economist at Haitong International Research in Hong Kong.

FOREX: The dollar edged higher, holding above eight-month lows as investors hedged their bets in case U.S. payrolls date later in the day is stronger than expected.The dollar index which tracks the greenback's performance against a basket of major currencies, edged up 0.1 percent to 79.779, holding above Friday's 8-1/2 month low of 79.478 but still down more than 1 percent from a peak touched last Wednesday.

"I think about 60 percent to 70 percent of market players now expect tapering to start some time between next January and March, but we could see that change," Shimazu said.

FEATURE

COLUMN-Parallel aluminium universes move further apart

By Andy Home

LONDON, Oct 21 (Reuters) - Global aluminium production rose by an annualised 454,000 tonnes to 46.93 million tonnes in September, according to figures out this morning from the International Aluminium Institute (IAI).

The headline jump in output masks two very different trends in China and the rest of the world.

In China the national run rate surged by 670,000 tonnes annualised last month to a fresh all-time high of 22.61 million tonnes.

Production in the rest of the world fell for the third month running with the downtrend becoming more pronounced as capacity curtailments start to bite.

Aluminium's parallel universes, to quote a phrase coined by Klaus Kleinfeld, chairman and chief executive of U.S. producer Alcoa, are moving ever further apart, it seems.

There is currently little tension between these divergent production trends with China doing its thing and the rest of the world doing its.

But that is not to say that this stability is durable. The parallel universe that is China is not quite as separate from the rest of the world as Alcoa and other non-Chinese producers would like to believe.

CHINA BOOM

China's annualised production of aluminium rose by 1.86 million tonnes over the first nine months of this year, according to figures supplied to the IAI by the China Nonferrous Metals Industry Association (CNMIA).

Actual output rose by just over 10 percent to 16.10 million tonnes in the January-September period.

It's easy to forget that parts of China's aluminium smelter sector are as margin-compressed as their Western counterparts.

National champion Chalco, for instance, closed 380,000 tonnes of capacity in the first half of this year, a move that didn't prevent the company notching up a first-half net loss of 623.8 million yuan ($101.9 million).

Others are being supported by local governments, most commonly in the form of power subsidies.

Beijing, meanwhile, is once again trying to force out older capacity, but with the danger that threatened producers will upgrade and expand rather than close. This has been the outcome of previous clamp-downs on the sector.

All the while new capacity is coming on stream and ramping up in China's northwest, most particularly Xinjiang province.

The Ministry of Industry and Information Technology estimates that some 10 million tonnes of capacity is currently being built with at least 1.3 million tonnes of that due to start up in Xinjiang over the second half of this year.

Indeed, it is quite possible that the CNMIA figures are underestimating Chinese production right now. It's noticeable that the IAI includes a figure of 200,000 tonnes each month for potentially unreported output in the country.

ROW BUST

The contrast with the rest of the world is becoming ever more stark.

Outside of China aluminium production has been trending lower since April.

Annualised production of 24.31 million tonnes in September was 620,500 tonnes lower than at the end of last year.

Moreover, the downtrend is accelerating, annualised run-rates dropping by 220,000 tonnes in September itself, and still has further to run.

Cutbacks announced since the start of this year now total 1.2 million tonnes with Russian giant United Company Rusal last week detailing more drastic curtailments than previously expected.

Through a combination of mothballing some plants and reducing amperage at others, the company now plans to take around 648,000 tonnes offline, equivalent to 15 percent of group production in 2012.

Elsewhere, U.S. producer Ormet has thrown in the towel, announcing a full immediate cessation of operations, which actually means closing the last two operating lines with capacity of 90,000 tonnes per year.

Equally significant to short-term production trends is the unplanned outage at the new 740,000-tonne per year Ma'aden smelter in Saudi Arabia.

The first potline has been taken out of action due to "pot instability" and is only expected to return some time between the first and second quarters of next year.

The second potline was in the process of being ramped up and will now be accelerated, according to Alcoa, which has a 25-percent stake in what will eventually be a fully integrated facility.

The company is being a bit coy on production impact but full capacity operation, originally expected next year, is likely to be deferred.

BRIDGING THE GAP

Superficially, these two divergent production trends simply reflect the reality of current global consumption trends.

Alcoa, for example, told analysts on its Q3 conference call it estimates that Chinese consumption growth this year of 12 percent will far outstrip growth of 4 percent in the rest of the world.

The rest of the world, meanwhile, also has the problem of large stocks overhang resulting from the 2008-2009 financial crisis. Only sustained supply-side discipline will help erode this legacy mountain.

FEATURE *(Continued)*

China, of course, may well have its own stocks mountain but a significant part is on the state's balance sheet thanks to the State Reserves Bureau repeatedly hoovering up surplus metal from preferred operators such as Chalco.

Producers elsewhere have no such state cushion, although Rusal is currently lobbying the Russian government to set up its own "strategic" reserve.China and the rest of the world barely interact at a primary metal level, hence Kleinfeld's analogy with parallel universes.The country is a net importer, albeit a highly marginal one. September imports perked up to 54,000 tonnes, the highest level this year. But cumulative net imports over the first nine months of 2013 were just 130,000 tonnes, a negligible amount in a 23-million tonne market.Not so negligible is the steady flow of product exports out of the country. These totalled 2.3 million tonnes over the same period, up 7.7 percent on last year. In absolute terms such exports have risen by 170,000 tonnes this year, more than the total net inflow of primary metal.

But at least this export flow is relatively consistent, holding a 270,000-290,000 tonne per month range since April.

The danger, though, is that the current stability is misleading.

There is increasing analyst scrutiny of this particular part of China's aluminium trade, reflecting a fear that any temporary mismatch between domestic production and consumption would generate a step-change in product exports, the main release valve for Chinese surplus.If anything, any Chinese market balance dislocation has worked the other way round in recent weeks, judging by the heavy stock draws from the Shanghai Futures Exchange (SHFE) and the flip into backwardation of the SHFE forward curve.But with a new wave of capacity ramping up in Xinjiang, there is the potential for the pendulum to swing towards temporary supply glut.If it does, surplus metal will most likely exit the country in the form of products, which are lightly taxed relative to primary metal.Product flows out of the country form the bridge between the two aluminium universes. The bridge is currently stable, but that's no guarantee that it will remain so.

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

GENERAL NEWS

U.S. job growth seen having revved up before budget fight hit

By Lucia Mutikani

WASHINGTON, Oct 22 (Reuters) - U.S. job growth likely picked up a bit in September, suggesting the economy enjoyed rising momentum before an acrimonious budget fight in Washington took some of the wind out of its sails.

Nonfarm payrolls are expected to have increased by 180,000 workers, a step up from August's gain of 169,000, according to a Reuters survey of economists. The unemployment rate is seen having held steady at a near five-year low of 7.3 percent.

The Labor Department will release its closely watched monthly employment report on Tuesday, more than two weeks later than originally scheduled because of the partial shutdown of the federal government earlier this month.

The data regularly sets the tone for global financial markets. Economists, however, said the shutdown has lessened its importance, with officials at the Federal Reserve likely to hold off any decision on scaling back the U.S. central bank's bond buying until the extent of the economic damage from the budget fight is clearer."They haven't had good information on the economy. We know there is an extra layer of drags due to the shutdown. The Fed is going to take a cautious approach," said Robert Dye, chief economist at Comerica in Dallas.

Fed officials will meet next week to discuss monetary policy, on Oct. 29-30. They surprised markets last month by sticking to their $85 billion per month bond-buying pace, saying they wanted to see more evidence of a strong recovery.

Now, many economists think the Fed will hold off on scaling back economic stimulus until next year.

"We continue to believe that the first tapering will not be seen before March," said Michelle Girard, chief economist at RBS in Stamford, Connecticut.

Economists estimate the 16-day government shutdown shaved as much as 0.6 percentage point off annualized fourth-quarter gross domestic product, through reduced government output and damage to both consumer and business confidence.

They fear that lawmakers will engage in another bruising round early next year when Congress must agree on a budget to fund the government and once again raise the nation's borrowing limit.

HOPES FOR FALL IN UNEMPLOYMENT

If job growth accelerates as expected in September, it would top the average gain of 160,000 seen over the past six months.

"It's more than enough over time to keep the unemployment rate coming down," said Jim O'Sullivan, chief U.S. economist at High Frequency Economics in Valhalla, New York. "Overall, the economy is chugging along, but we have to see how the whole budget saga affects the trend."

The unemployment rate has declined 0.6 percentage point so far this year, though some of the decrease has been because people are dropping out of the labor force, partly due to frustration over dim job prospects.

The pattern of employment gains in September is expected to mirror the prior months, with the private sector creating all the jobs.

GENERAL NEWS *(Continued)*

Government payrolls are expected to have been unchanged after increasing by 17,000 in August. Economists attributed some of the rise in August to difficulties adjusting for seasonal fluctuations at the start of the new school year.

Within the private sector, a rebound is expected in employment in the information sector, which dropped by 18,000 in August as the motion picture industry shed workers.

Little change is expected in construction payrolls, which have been weak in recent months, suggesting a leveling off in home building.

Manufacturing probably saw modest job gains, while retail employment is expected to have again advanced solidly.

Other details of the employment report are expected to be fairly encouraging, with average hourly earnings rising 0.2 percent in September. The length of the average workweek was seen steady at 34.5 hours.

Not much of a festival season for Indians as gold runs dry

By Siddesh Mayenkar

MUMBAI, Oct 22 (Reuters) - In India's biggest bullion market, Mumbai's Zaveri Bazaar, gold dealers are busy -- not filling orders for customers, but busy avoiding phone calls because they don't have any gold to sell.

Battling a huge trade deficit and a weak currency, the government has taken various steps this year to make it harder and more expensive for Indians to get hold of gold, the biggest item on the country's import bill after oil.

Hardly any gold came in for two months until mid-September and industry is still feeling the pinch, especially now the festival season has started, a peak period for demand.

In the bazaar, jewellers wander around trying to get hold of a dealer who can find them gold right away, and wholesalers ask the same of banks. Retailers in half-empty showrooms try to dissuade customers from asking for immediate delivery.

"Even if someone wants 10 kg, we don't have the stock. So much so that we have stopped attending client calls," said Gautam Arora, a wholesaler, who ignored at least five phone calls during a 40-minute conversation with Reuters.

The government has set a record 10 percent import duty on gold and imposed a rule that requires 20 percent of imports to be re-exported, meaning importers need to find a buyer who will guarantee those exports before bringing in any gold.

The complexity of the rules and sagging exports -- down 60 percent this year -- have caused supplies for domestic use to dry up. Banks are required to supply three-quarters of the 20 percent meant for exports before delivering the 80 percent that will be for domestic use.

Turnover at RiddiSiddhi Bullions Ltd (RSBL), the country's largest bullion dealer with 110 employees, has dropped to 20-30 kg a day from about 300 kg since the new rules kicked in.

"This is due to the government policy. I don't know what they are thinking," RSBL Director Prithviraj Kothari told Reuters from his Zaveri Bazaar office, a gold plate on his desk showing he was crowned "Bullion King of India – 2013".

"Why do I have 110 people if I don't have any consignments of gold? If they come in at 8 they say, 'Sir, I am going home early', and I say OK."

Gold is an integral part of Indian culture, given as a dowry for marriages, which tend to be timed around auspicious days that are often religious festivals.

The shortage of the metal sent Indian gold premiums to more than $100 an ounce over London prices XAU= this month when demand far exceeded supply due to the Dussehra festival, one of several connected with harvests and invoking Lakshmi, the goddess of wealth.

The related festivals of Diwali and Dhanteras fall in the first week of November.

"New imports for domestic use could start in the next 10-15 days, which could coincide with Diwali and Dhanteras. But despite new imports, the supply situation will be very tight and premiums may even go up to $150," said Bachhraj Bamalwa, director at the All India Gems and Jewellery Trade Federation.

Premiums in other parts of Asia such as Hong Kong and Singapore were stable at less than $2 an ounce. GOLD/ASIA1

Wholesaler Arora, who works for NIBR Bullion, said some banks had begun accepting orders for delivery in 10 days.

But the supply shortage would persist as long as the government rules remained in force, Arora said. "Banks are giving stock only to big suppliers, so smaller jewellers are suffering due to this."

One side effect of the government measure will do nothing to improve the trade figures: in the six months from April, gold jewellery exports more than halved to $3.34 billion from $8 billion in the same period a year earlier.

SHOOING AWAY CUSTOMERS

India was the world's biggest gold buyer in 2012 but could lose the top spot to China this year after the clampdown.

Demand, nevertheless, is expected to stay strong, with the World Gold Council forecasting India would need up to 1,000 tonnes for the year after 864 tonnes in 2012.

Many suppliers are turning to smuggled gold, especially as that also avoids the 10 percent import duty. As a result, even smuggled gold commands a premium of $50 an ounce above London prices, according to the Bombay Bullion Association (BBA).

GENERAL NEWS *(Continued)*

"I'm not getting supplies for exports, forget about for domestic use," said Mehul Choksi, chairman of jewellery retailer Gitanjali Gems, one of the largest branded jewellery retailers in the world. "Premiums are already up and they could go up even further. Some demand is being met by supplies through unofficial channels."

"As supply is very scarce, we have moved to diamond jewellery, which uses less gold content," Choksi added.

The desperate search for gold has even prompted digging under a ruined palace after a Hindu village sage dreamt that 1,000 tonnes might be buried there.

Meanwhile, those who are waiting for official gold imports are just having to turn customers away.

"We have postponed deliveries to our clients and serve only one customer each day," said Suresh Jain, a BBA director who runs a jewellery store in Zaveri Bazaar.

Russia's Petropavlovsk output target hit by floods

MOSCOW, Oct 22 (Reuters) - Russian gold miner Petropavlovsk has cut its 2013 production forecast by between 2.6 and 3.8 percent due to severe rains and widespread flooding in the Amur region, where its main assets are located, the company said.

Cities on the Amur River in eastern Siberia suffered the worst flooding in more than a century in the third quarter, causing damage estimated at $1 billion.

"The weather has inevitably had some impact," Peter Hambro, chairman of Petropavlovsk, said in a statement.

"As a result we may not have access to some higher-grade areas, which were scheduled for processing this year, until the first quarter 2014."

The company has reduced its 2013 production guidance to 740,000-750,000 troy ounces from a previously planned 760,000-780,000 ounces. Its third-quarter gold output was down 7 percent year-on-year to 204,400 troy ounces, it added.

The shortfall will come predominantly from its Pokrovskiy and Pioneer mines, which were most affected by the flooding, the company added.

Its hard rock total cash costs per ounce are still expected to come within its previously stated range of $900-$1,000 per ounce, but will be towards the top end of this range, it said.

MARKET NEWS

Alcoa complains to UK, U.S. regulators about metals warehousing

LONDON/TORONTO, Oct 21 (Reuters) - Alcoa Inc, the world's second-largest aluminium producer, has complained to British and U.S. market regulators about a proposal by the London Metal Exchange to overhaul the LME's warehousing policy.

The LME must suspend its plan to change warehousing or risk damaging the entire aluminium market, Alcoa said in a letter sent on Friday to the UK's Financial Conduct Authority and the U.S. Commodity Futures Trading Commission.

The LME, the world's biggest marketplace for industrial metals trading, has proposed rules that would force warehouses to release more stocks than they take in if deliveries are delayed by three months or more.

The metals warehousing business has stoked controversy as warehouse firms have made money by building up stocks and allowing queues to grow for clients seeking to withdraw material, all the time charging rent for storage.

End-users say those steps have caused long wait times that have distorted supplies and inflated premiums, or the difference between LME on-exchange prices and the actual price of physical delivery of metal.

But in its letter to regulators, Alcoa said it was fundamentally wrong for an exchange, which should act as a neutral platform, to alter the rules of the market with the express aim of moving prices, in this case regional premiums.

Producers worry that premiums will fall as a result of the rule changes, hurting profits, even as LME prices are close to or below many smelters' cost of production.

Without higher premiums to offset low underlying prices, producers are likely to shut more capacity to remove the excess in the global market, analysts say.

Alcoa said the LME had not acted fairly and transparently in putting together the proposal and that it had acted outside its proper role as an exchange.

"The LME does not appear to have given adequate consideration to the harmful effects which might arise from the proposal," it said in the letter, seen by Reuters. "These are likely to include reduced transparency, increased volatility and the possibility of market distortions."

Alcoa also said the LME had apparently not put in place safeguards to ensure its own interests do not conflict with maintaining a set of rules that are fair to all users.

It urged the LME to launch a new consultation that offered all market participants an equal right to be heard, safeguarded against conflicts of interest and considered a range of alternative approaches.

U.S.-based Alcoa and larger aluminium producer Rusal of Russia have already urged the LME to delay its decision and asked the exchange to release more-detailed data on long and short positions as well as inventories.

MARKET NEWS *(Continued)*

Earlier this month, Alcoa Chief Executive Klaus Kleinfeld lashed out at the LME's proposal to solve a years-long crisis that has damaged the exchange's reputation and cost industrial users billions of dollars in additional expenses.

New capacity boosts China copper output to record in Sept

By Polly Yam

HONG KONG, Oct 21 (Reuters) - China's refined copper production rose 10.6 percent in September from the previous month to a record due to higher output from new smelting capacity and as increased supply of raw materials boosted operations at existing plants.

The record production likely reflected stronger-than-expected consumption in the world's top producer and consumer of refined copper given that China's imports of the metal also surged 32 percent in September from the previous month to a 19-month high, traders said.

But it could mean that supply in the domestic market was plentiful, cutting demand for spot imports of refined copper, which would depress copper prices in the international market.

Data from the National Bureau of Statistics showed on Monday that production of refined copper hit 620,086 tonnes in September, compared to the previous record 580,000 tonnes in December 2012. The September 2013 production was 21 percent higher than the same month last year.

"We have raised forecasts of 2013 production to 6.3 million tonnes from the previous around 6 million tonnes," said Yang Changhua, chief copper analyst at state-backed research firm Antaike, who had expected September production at 560,000-570,000 tonnes.

Some new smelting capacity started production in the third quarter of the year and their output had been rising gradually in the past two months, traders said.

Increased supply of raw material copper concentrates also had supported high production of metal with imports of ores and concentrates hitting a monthly record 1.02 million tonnes in September, up 45 percent from the same month last year.

Refined copper production rose 12.9 percent from a year earlier to 4,955,619 tonnes in the first nine months of the year, the data showed.

China, also the top producer and consumer of aluminium, produced 1,857,845 tonnes of primary aluminium in September, inching 0.3 percent lower from a record 1,863,433 tonnes in August due to low domestic prices, which have fallen nearly 4 percent so far this year.

Henan was the largest aluminium producing province with 266,691 tonnes in September, followed by Xinjiang which produced 243,951 tonnes.

In the first three quarters of the year, China produced 16,214,029 tonnes of primary aluminium, up 8.7 percent from the same period in 2012.

Polish KGHM has high hopes for Chilean copper mine

By Adrian Krajewski

WARSAW, Oct 21 (Reuters) - KGHM expects its new Chilean copper mine to account for one third of its output of the metal by 2018, a senior executive said on Monday as the group seeks increasingly to turn itself from a Poland-based company into a global metals player.

State-controlled KGHM is already the world's biggest silver producer and is second biggest in copper in Europe.

"Around 80 percent of the group's value is now Polish assets," KGHM's deputy chief executive Jaroslaw Romanowski told a news conference. "These positions will change in the coming years, especially after the launch of Sierra Gorda."

He was referring to a Chilean mine which is one of the world's largest copper projects and which the group bought last year. The deal gave KGHM the world's fourth largest copper deposits.

"We see it (Sierra Gorda) producing 217,000 tonnes of copper in 2018, which is 30 percent of the group's output," he said.

The mine's annual output is expected ultimately to reach 40 percent of KGHM's planned 2013 copper production of 548,000 tonnes and start producing in the second quarter of 2014.

KGHM wants it to reach an output of 110,000 tonnes of copper by the end of next year. It will also produce 11,000 tonnes of molybdenum a year, or 10 percent of the metal's global supply.

He said that eventually the group's output would be split 40-60 between foreign and Polish assets, respectively.

Sierra Gorda will cost $3.9 billion, over a third more than initially expected.

The project, 55 percent controlled by KGHM, was part of its C$3 billion purchase last year of Canada's Quadra FNX, now named KGHM International. KGHM splits costs with its Japanese partner Sumitomo.

KGHM wants to scale up copper production by over 40 percent to 1 million tonnes annually by the end of the decade as its overseas assets gradually kick in.

BHP raises iron ore target as Australian expansions accelerate

By James Regan

SYDNEY, Oct 22 (Reuters) - BHP Billiton upgraded its full-year iron ore production target and posted record quarterly oil output, as the world's biggest miner ramped up production to capture more of a slower-growing market for raw materials.

MARKET NEWS *(Continued)*

Shares in BHP posted their biggest one-day gain in more than three months on Tuesday, as chief executive Andrew Mackenzie, who promised a "relentless" focus on productivity when he took the top job in May, said the miner's efforts were paying off.

"There's no better example of that than in our iron ore business," he said, pointing to faster ore crushing and more efficient rail transport to the port that helped boost its full-year iron ore forecast by 2.4 percent to 212 million tonnes.

Miners are cutting costs and driving assets harder as slowing demand growth for raw materials from China and elsewhere puts more emphasis on economies of scale to keep costs down.

BHP reported a 23 percent rise in iron ore output in its quarter ended September 30 from a year earlier, boosted by a multi-billion dollar expansion of its Australian mines.

In petroleum, liquids output rose 16 percent, helped by a shift at its U.S. shale holdings to focus more on oil production as American gas prices sag.

Its Eagle Ford oil field, one of the most prolific in the United States, showed a 29 percent rise in oil output quarter-on-quarter.

BHP also stuck with its full-year target for output of 250 million barrels of oil equivalent (boe), despite suggestions from some analysts there was a risk of underperformance because of weaker offshore Gulf of Mexico production.

ERA OF AUSTERITY

Mackenzie reiterated that BHP would take tough decisions on projects that failed to meet the company's investment criteria in the new era of austerity that has swept global miners.

BHP has already cut planned spending for 2013/14 by 25 percent to $16 billion, and has earmarked a further drop for the following year. It is looking to sell assets and focus on iron ore, petroleum, copper and coal.

"The large, top-tier mining companies have learned lessons from the recent downturn," said Peter Esho, an analyst with Invast Financial Services in Sydney.

"Their efforts to cut costs and focus on ramping up volumes is so far progressing well, good enough to offset any weakness in commodity prices."

BHP on Monday forfeited nine oil and gas exploration blocks in India, citing an inability to carry out exploration operations there.

At the same time, the miner signaled a willingness to spend heavily in businesses it deems most profitable.

In Australia, it said it had accelerated the first stage of development of its new Jimblebar mine by six months, which should add some 35 million tonnes more iron ore annually to start in about 18 months.

The miner also held out the possibility of expanding the lode to yield as much as 55 million tonnes a year.

BHP's rivals are also expanding in Australia's iron ore belt. Rio Tinto is racing to lift annual output by 10 percent to 290 million tonnes, while Fortescue Metals Group is well on its way to raise production to 155 million tonnes.

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

BHP is also investing $2.6 billion in its Canadian potash project and funding its 57.5 percent share of a $3.4 billion capital project at Chile's Escondida copper mine.

The miner's Australian-listed shares rose 2.4 percent to $37.05 in an overall market up 0.4 percent.

Global steel output up in Sept, China's rises 11 pct

LONDON, Oct 21 (Reuters) - Global crude steel production rose 6.1 percent in September from a year earlier, driven by a second month of double-digit output growth from China just as the country heads into a seasonally slower period of consumption.

Crude steel output in China, which produces half of the world's steel and is also the top consumer, rose 11 percent to 65.4 million tonnes in September from a year earlier, World Steel Association data showed.

China continues to produce more steel than it consumes, constraining a fledgling global steel price recovery. Moreover, its demand for steel typically starts to wane in November as cold temperatures hamper the construction sector.

"If China overproduces it affects everybody but there's lots of scare mongering about the Chinese situation. I don't see anywhere in the world where there's a threat of a price collapse," said Peter Fish, managing director at Meps, a UK steel consultancy.

"In China there's likely to be some negative pressure on demand in the fourth quarter but there's no price collapse on the horizon, albeit that prices in China are already at low levels," he said.

After hitting 3.5 year lows in June, global steel prices as measured by the CRU index staged a tepid recovery until September, only to dip slightly in October.

China's annual economic growth quickened to 7.8 percent the July-to-September quarter from 7.5 percent in the previous three months, posting its fastest growth this year, official data showed on Friday.

Still, analysts said China's commodities consumption could slow in the fourth quarter due to seasonal factors, while Beijing may move again to engineer slower growth if it becomes concerned about an over-heated property market.

Beijing is also limiting the steel sector's access to credit, in a bid to curb an estimated 300-million-tonne surplus in steel capacity, though experts say it will take a long time before such reforms are effective.

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 awaits US jobs data for clues on demand

By Melanie Burton

SINGAPORE, Oct 22 (Reuters) - London copper was locked in a narrow range ahead of the first U.S. jobs report in nearly two months, as investors try to assess the health of the world's biggest economy after signs of slower Asian growth dimmed the outlook for metals.

Metal prices are finding support from expectations the U.S. Federal Reserve will have to delay until next year the scaling-back of its huge bond-buying programme, so help for the economy would be extended.

But for copper, growing supply is hanging over prices, as are signs Asian demand is softening towards the year-end.

"China's copper output increased in September, with smelters raising their operational rates as the weather cooled down, and because TCRCS (processing fees) were very high," said analyst Chunlan Li of consultancy CRU in Beijing.

"Copper production will continue to grow but it's hard to say if it will grow at the same pace ... Even though concentrate supply is increasing, it takes time for new refinery capacity to ramp up production," she added.

CRU sees average copper prices easing next year.

China's refined copper production rose 10.6 percent in September from the previous month, according to figures from the National Bureau of Statistics.

Three-month copper on the London Metal Exchange traded little changed at $7,248.75 a tonne by 0330 GMT, up 0.1 percent from the previous session when it ended barely moved.

The most-traded January copper contract on the Shanghai Futures Exchange edged up 0.17 percent to 52,190 yuan ($8,600) a tonne.

In contrast, LME nickel, zinc and lead reached their highest in around seven weeks on Monday as traders focused on smaller markets with either risk to production, in the case of nickel, or improving fundamental outlooks, such as lead and zinc.

Citi said in a research note that producers of nickel ore appeared to be taking seriously prospects of an Indonesian ore export ban from January 12 next year, by raising the metal content in their ore to maximise revenue.

The prospect of a ban has helped nickel prices outperform other metals in the past few days and could lift the price of this year's worst-performing base metal by more than 20 percent off multi-year lows.

"In China it is now believed that ore stocks equivalent to six months of consumption have been built, both at ports and NPI production facilities as a buffer against a ban," Citi added, referring to nickel

Demand concerns continue to hang over next year's price outlook, with Japan's export growth falling well short of expectations in September after China reported a surprise slide in exports for that month.

From the United States, September's nonfarm jobs figures are due at 1230 GMT. Economists in a Reuters survey forecast 180,000 jobs were created in September compared with 169,0000 in August, with the unemployment rate seen steady at 7.3 percent.

In other news, BHP Billiton the world's biggest mining company said it produced 6 percent more copper in the quarter to end-September than in the year-earlier period.

A customs dispute that had been holding up copper concentrate shipments from Rio Tinto's massive Oyu Tolgoi mine in Mongolia has been resolved, Turquoise Hill Resources Ltd said on Monday.

PRECIOUS-Gold steady ahead of U.S. data; drop in SPDR holdings jolts market

By A. Ananthalakshmi

SINGAPORE, Oct 22 (Reuters) - Gold traded in a tight range as the market waited for U.S. economic data but investor sentiment was undermined by a big drop in holdings in the largest gold-backed exchange-traded fund.

Holdings in SPDR Gold Trust fell 10.51 tonnes on Monday to 871.72 tonnes, their lowest since Feb. 2009. It was the biggest one-day fall in the fund's holdings since early July.

Its holdings have fallen about 430 tonnes so far this year and this has been a big contributor to the 21 percent drop in the gold price in 2013.

Flows from the fund are watched closely as they provide an insight into the thinking of investors such as U.S. hedge fund manager John Paulson who have big positions in gold.

"(The) low in the ETF position mirrors a structural adjustment," said Alexis Garatti, an economist at Haitong International Research in Hong Kong.

"With quantitative easing policies, excess liquidity boosted positions in gold but we will soon exit QE, which is why there is a normalisation now."

Spot gold rose 0.1 percent to $1,316.90 an ounce by 0626 GMT, after ending flat in the previous session.

"The drop (in SPDR holdings) doesn't bode too well for prices, especially now, when there hasn't been any U.S. data for a while," said one Hong Kong-based trader.

"However, prices will be range-bound till we get nonfarm data later today. It should also get some support from talk that tapering could get delayed into next year," the trader added.

MARKET REVIEW *(Continued)*

Traders are looking to U.S. nonfarm payrolls data for September -- due on Tuesday after being delayed by a partial government shutdown this month -- to gauge the fate of the Federal Reserve's bond-buying stimulus programme.

Some economists polled by Reuters believed the Fed could postpone the scaling-back of its $85 billion monthly bond purchases to next year as budget problems in Washington remain unresolved.

Last week lawmakers reached only a temporary agreement to avert a historical debt default, raising the risk of another government shutdown early next year.

Gold could see some stability for now as the delay in tapering could increase demand for gold in emerging economies, said Haitong's Garatti.

FOREX-Dollar edges up, gets some relief ahead of U.S. jobs data

By Masayuki Kitano and Ian Chua

SINGAPORE/SYDNEY, Oct 22 (Reuters) - The dollar edged higher, holding above eight-month lows as investors hedged their bets in case U.S. payrolls date later in the day is stronger than expected.

The dollar index which tracks the greenback's performance against a basket of major currencies, edged up 0.1 percent to 79.779, holding above Friday's 8-1/2 month low of 79.478 but still down more than 1 percent from a peak touched last Wednesday.

The dollar has been hit hard as investors bet this month's 16-day government shutdown would take a toll on the world's biggest economy, forcing the Federal Reserve to maintain its massive stimulus program until next year.Chicago Federal Reserve President Charles Evans said as much when he told CNBC television it would be "tough" for the Fed to have enough confidence in the economy by its December meeting to start scaling back stimulus.Analysts polled by Reuters expect payrolls to have increased by 180,000 in September, with the jobless rate steady at 7.3 percent. The data, which was due out earlier this month before being delayed by the shutdown, will be released at 1230 GMT.

Any strength in the jobs data could be used as an excuse to buy the dollar, while a disappointing outcome may reinforce expectations that the Fed would hold off from scaling back its stimulus this year, pressuring the greenback, analysts say.

There might be some return of speculation about the possibility of Fed tapering in December, if nonfarm payrolls show an increase of around 180,000 and there are also upward revisions to the July and August numbers, said Hiroki Shimazu, senior market economist for SMBC Nikko Securities in Tokyo.

"I think about 60 percent to 70 percent of market players now expect tapering to start some time between next January and March, but we could see that change," Shimazu said.

Still, analysts say any bounce in the dollar in the event of an upside surprise could be limited, since the September jobs data will shed little light on the economic impact of this month's U.S. government shutdown.

In addition, the prevailing market expectation for the Fed to wait until 2014 to trim back its bond-buying stimulus could be hard to dislodge, due to the looming risk of another fiscal standoff in Washington.

"Tapering probably won't start this year, since it is already clear that there could be a repeat of the tumult from fiscal negotiations early next year," said Daisuke Karakama, market economist for Mizuho Bank in Tokyo.

The fiscal deal clinched last week by U.S. lawmakers restored government funding through Jan. 15 and extended its borrowing authority through Feb. 7.

Against the yen, the greenback nudged up 0.2 percent to 98.33 yen, pulling away from a one-week trough of 97.55 plumbed Friday.

With several currencies near crucial chart levels, traders said it was no surprise that investors were taking a more cautious approach ahead of the payrolls report.

The euro eased 0.1 percent to $1.3666. The euro had hit an 8-1/2 month high of $1.3704 on Friday, nearing its 2013 peak of $1.3711 set in February.

(Inside Metals is compiled by Pradip Kakoti in Bangalore)