# INSIDE METALS

Thursday, October 3, 2013

## CHART OF THE DAY

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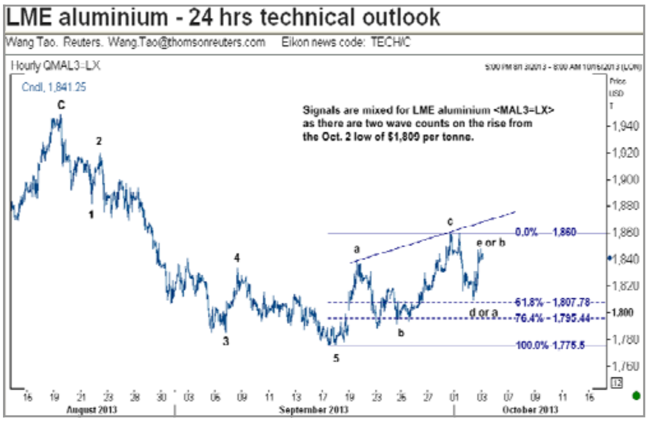


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**COLUMN-Commodity markets will go dark if shutdown continues**

If the U.S. government shutdown continues for more than a few days, commodity markets will find themselves flying blind, as the public servants responsible for producing statistics on which traders and investors rely are sent home.

*John Kemp is a Reuters columnist. The opinions expressed are his own*

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## TODAY'S MARKETS

**BASE METALS**: London copper futures steadied near $7,300 a tonne as falling stockpiles of the industrial metal helped calm oversupply worries, although a continuing shutdown of U.S. government operations kept investors on edge.

"People may look at declining inventories in LME and Shanghai as a catalyst for prices going forward because it paints a healthy demand picture and is in contradiction to the market consensus of oversupply," said Helen Lau, senior metals analyst at UOB-Kay Hian Securities in Hong Kong.

**PRECIOUS METALS:** Gold held on to sharp overnight gains in Asian trading as weak U.S. economic data and a partial government shutdown raised hopes the Federal Reserve would stick to its bullion-friendly stimulus for longer.

"As an investor, I would rather focus on how the political dispute over the budget will have an impact on the upcoming resolution of the debt ceiling, which is more important," said Helen Lau, an analyst at UOB-Kay Hian in Hong Kong.

**FOREX:** The dollar rebounded against the yen but struggled close to an eight-month low against a basket of rivals as the U.S. government shutdown dragged on and positive developments in Italian politics helped lift the euro."Overall, we're still seeing a broad risk-on dynamic in the FX market, while we try and wait and see what the developments are in regard to the U.S. shutdown," said Sue Trinh, senior currency strategist at RBC in Hong Kong.

# FEATURE

**COLUMN-Commodity markets will go dark if shutdown continues**

By John Kemp

LONDON, Oct 2 (Reuters) - If the U.S. government shutdown continues for more than a few days, commodity markets will find themselves flying blind, as the public servants responsible for producing statistics on which traders and investors rely are sent home.

The Commodity Futures Trading Commission (CFTC) said Tuesday it will not publish the commitments of traders and other market reports during the shutdown, depriving participants in the world's biggest derivative markets for energy and agricultural products of price-moving information about the positions of other producers, consumers and speculators.

The Energy Information Administration (EIA) has sufficient funds carried over from the last fiscal year to keep operating and will publish weekly data on physical oil and gas supplies for the time being, but the agency's funding will run out around October 11, according to officials, at which point publication will have to cease.

Of 365 senior officials, other staff and contractors employed at the EIA, only three are excepted from the furlough and will not be sent home once the money runs out, according to the shutdown plan published on the Department of Energy's website.

At the CFTC, out of 680 employees, just 28 are excepted, enough to provide "a bare minimum level of oversight and surveillance," as well as some whistleblower functions not funded by annual appropriations, according to the shutdown plan the Commission sent to the White House Office of Management and Budget.

The extent to which commodity markets rely on federal data is hard to exaggerate. Weekly and monthly data on energy supplies, demand and stocks from the EIA regularly move derivative prices and provide some of the most important real-time context for oil markets worldwide.

The CFTC's information about the positioning of market participants is less immediately price-sensitive but helps shape strategy for both hedgers and speculators across many energy and agricultural markets worldwide.

All of this is now at risk. The federal government's entire commodity data publication programme will cease if the shutdown lasts more than about ten days. At that point, the market will trade in a partial information vacuum.

Markets thrive on hard data - as well as rumours, speculation and differences of opinion. An information vacuum will tilt the balance between market participants in ways which could sharply reduce trading volumes.

In particular, while some of the larger market participants dealing actively in physical commodities ("insiders") may remain confident about trading financial derivatives too, based on their information about the underlying flows, less well-connected participants ("outsiders") may conclude the information asymmetry is too large and decide to scale back or not trade at all, severely curbing liquidity.

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

# GENERAL NEWS

## Freeport Indonesia union says reaches tentative deal on wages

JAKARTA, Oct 2 (Reuters) - Freeport-McMoRan Copper & Gold Inc reached a tentative agreement with Indonesian union workers on Wednesday over wages and pensions, a union official said, raising hopes that a strike will be averted with just two days left of talks.

Contract talks between workers and management at Freeport's Grasberg mine in Papua, which is the world's second-biggest copper mine, have entered their fourth month and are scheduled to end on Friday with or without a deal.

"We can say that in principle we have reached an agreement on pay talks with Freeport management including on wages and pensions," Juli Parorrongan, spokesman for the workers' unions, told Reuters. "The final agreement has not yet been reached because there are still several points to be discussed further."

He said strike action was still an option for the union if a final agreement was not reached this week.

Freeport's Indonesian unit could not be reached immediately for comment on Wednesday.

The negotiations, which are seeking agreement on workers' wages, benefits, rights, obligations and pensions, were suspended in May when a tunnel collapse killed 28 people, and then resumed in June.

Late last month, the talks stalled despite the high level involvement of Freeport Indonesia CEO Rozik Soetjipto and Freeport CEO Richard Adkerson.

"All the points that we have agreed with Freeport management have to be written into a joint work agreement between both the union and Freeport," said Parorrongan. "As long as the new joint work agreement is yet to be signed, everything can happen."

Freeport Indonesia employs about 24,000 workers, including contractors and staff. About three-quarters are union members.

Relations between Freeport and unions have been strained in recent years following a three-month strike in 2011, May's deadly tunnel collapse and a series of minor spats.

## Amplats set for talks with union in quest to end strike

By Ed Stoddard

JOHANNESBURG, Oct 2 (Reuters) - Talks will resume on Thursday to seek an end to a strike that has brought to a standstill most of the operations of South Africa's Anglo American Platinum (Amplats), the head of the union behind the stoppage said on Wednesday.

Workers downed tools last Friday in protest at Amplats' plans to cut 4,800 jobs as the world's largest platinum producer and unit of Anglo American strives to restore profits. The company has already backed down from an initial target of 14,000 job cuts.

"The strike is continuing. We had marathon meetings with the employer last night and will have another tomorrow and I believe that meeting should get us closer," Joseph Mathunjwa, president of the Association of Mineworkers and Construction Union (AMCU), told Reuters.

A company spokeswoman confirmed the talks would resume on Thursday morning.

The stoppage has been generally peaceful but police said on Wednesday rubber bullets had been fired the previous day to disperse a group of strikers who were taking part in an illegal march near Amplats' Tumela mine in northern Limpopo province.

"The crowd had to be dispersed and rubber bullets were fired. You cannot hold a march without permission in advance," Limpopo provincial police spokeswoman Ronel Otto told Reuters. She said four of the marchers had been arrested.

On the talks, Mathunjwa said AMCU wanted the company to provide voluntary separation packages for older miners near retirement and spare the jobs of younger workers, which the union says will bear the brunt of the lay-offs. Much of AMCU's membership in the platinum belt consists of younger miners.

AMCU emerged as the dominant union in the platinum shafts last year after poaching tens of thousands of members from the once unrivaled National Union of Mineworkers (NUM), in a bloody turf war in which dozens were killed and which resulted in a wave of violent wildcat strikes.

Amplats suffered its first loss last year, partly because of illegal strikes, and the company has warned that the current action could put more jobs at risk.

Aside from Tuesday's incident, there have been no other reports of violence, a contrast with last year's mayhem when wildcat strikers brandished machetes and police shot dead 34 workers in a single incident at the Marikana mine run by platinum producer Lonmin.

This AMCU stoppage is also legal, in keeping with a change of tactics by the union as it grows and matures.

# MARKET NEWS

**Deutsche Bank cuts Alcoa to "sell" on weak aluminum prices**

Oct 2 (Reuters) - Deutsche Bank lowered its rating on Alcoa Inc's AA.N stock to "sell," saying lower aluminum prices over the last two quarters does not bode well for the company's primary metals business that accounts for more than 40 percent of its revenue.

While a weaker Australian dollar and Brazilian real could offset lower aluminum prices and benefit third-quarter results, the fourth quarter will not get much help from foreign exchange movements, Deutsche Bank analysts said.

Shares of the largest U.S. aluminum producer, which is expected to report third-quarter results on Oct. 8, were down about 2 percent on the New York Stock Exchange on Wednesday.

Deutsche Bank analysts, led by Jorge Beristain, head of Americas metals and mining equity research at the brokerage, also cut their price target on Alcoa's shares by 39 percent to $5.5.

Aluminum prices have nearly halved since their peak of $3,380 per tonne in July 2008. Benchmark three-month London Metal Exchange aluminum CMAL3 dropped nearly 14 percent in the first six months of 2013 due to excess inventories.

In September, BNP Paribas lowered its 2014 aluminum price forecast by $135 to $1,865 per tonne.

Thomson Reuters StarMine predicts that Alcoa's third-quarter profit will miss Wall Street estimates by 6.7 percent and fourth-quarter earnings will miss by 31 percent.

Analysts on average have reduced their earnings estimates for the third quarter by 31 percent in the last three months.

The company posted a net loss in the second quarter, hurt by restructuring costs related to plant closures, but posted a larger-than-expected adjusted profit thanks to a strong performance from its high-margin engineered products business.

The stock has slipped 6 percent this year but still trades at 27 times forward 12-month earnings - a big premium to the sector median of 7.21.

**Alcoa could start earnings season with a whimper**

Oct 2 (Reuters) - Alcoa Inc may come up just short of already muted forecasts for the third quarter when it kicks off the U.S. reporting season next week, weighed down by weak aluminum prices.

The company, typically the first of the S&P 500 companies to report quarterly earnings, is set to announce its results on Oct. 8 after U.S. equity markets close.

Its third-quarter profit could miss Wall Street estimates by 6.7 percent, and fourth-quarter earnings could miss by 31 percent, according to Thomson Reuters StarMine, which accounts for analysts' past performance in forecasting results.

It will be Alcoa's first report since being dropped from the Dow Jones industrial average.

Deutsche Bank cut the company's stock to "sell" from "hold" on Wednesday, saying lower prices do not bode well for its primary metals business.

While a weaker Australian dollar and Brazilian real could offset lower aluminum prices and benefit third-quarter results, the fourth quarter will not get much help from foreign exchange movements, the Deutsche Bank analysts, led by Jorge Beristain, said in a note to clients.

Analysts on average have reduced their earnings estimates for the third quarter by 31 percent in the last three months. They are now forecasting adjusted earnings of 6 cents a share, according to Thomson Reuters I/B/E/S.

Aluminum prices have nearly halved since their peak of $3,380 per tonne in July 2008. Benchmark three-month London Metal Exchange aluminum CMAL3 dropped nearly 14 percent in the first six months of 2013, hurt in part by excess inventories.

And proposed rule changes at metals warehouses could erode the profitability of financing deals that have locked up metals in London Metal Exchange depots, spilling even more metal into the over-supplied market.

The high premiums paid to obtain physical metal, which have been a lifeline for aluminum producers, led to a string of U.S. lawsuits and a London Metal Exchange proposal to overhaul its delivery system from next April. Premiums have already fallen back from this year's record highs.

In September, BNP Paribas lowered its 2014 aluminum price forecast by $135 to $1,865 per tonne.

CUTTING PRODUCTION

Alcoa posted a net loss in the second quarter, hurt by restructuring costs related to plant closures, but pulled off a larger-than-expected adjusted profit thanks to a strong performance from its high-margin engineered products business.

The company said in May that it would review 460,000 tonnes, or about 11 percent, of its smelting capacity given the tough market. Later that month it announced closures at its Baie-Comeau smelter in Quebec. In August it curtailed production in Brazil and permanently shut down part of its operations in New York.

But operations are ramping up at Ma'aden, the $10.8 billion, 740,000 tonne per year smelter run by a joint venture between Alcoa and Saudi Arabian Mining Co.

Alcoa's stock has slipped 6 percent this year but still trades at 27 times forward 12-month earnings - a big premium to the sector median of 7.21. The shares were down 1.8 percent at $8.02 by mid-afternoon on Wednesday.

Deutsche Bank cut its price target on Alcoa's shares by 39 percent to $5.50.

# MARKET NEWS *(Continued)*

**Glencore Xstrata to close nickel mine in the Dominican Republic**

SANTO DOMINGO, Oct 2 (Reuters) - The global mining and commodities trading giant Glencore Xstrata is suspending operations at its Falcondo nickel mine in the Dominican Republic due to falling nickel prices.

Wednesday's announcement came a day after legislators created a national park on the outskirts of the mine, although the company said its decision was not related to environmental pressures.

A spokesman for the Switzerland-based company said the mine will be shuttered temporarily for up to three years resulting in the loss of up to 1,000 jobs.

The ferronickel mine in Loma Miranda about 60 miles (97 km) north of the capital Santo Domingo has been the focus of environmental protests.

The company's plans to expand the mine received a setback earlier this year when the United Nations Development Program rejected an environmental impact study as "incomplete."

**Australia's Port Hedland Sept iron ore exports to China climb**

SYDNEY, Oct 3 (Reuters) - Iron ore exports to China from Australia's Port Hedland, which handles about a fifth of the global seaborne iron ore market, rose 3.2 percent in September from August, underscoring the grip Australia has on the world's biggest steel market.

Year-on-year, September shipments of just under 23 million tonnes were up 52 percent, data released by the Port Hedland Port Authority show.

Overall, iron ore exports from the port were 29.0 million tonnes, up 5.8 percent from 27.4 million tonnes in August. Total shipments were up 46 percent year-on-year.

Australia's Bureau of Resource and Energy Economics on Wednesday forecast China's 2013 iron ore imports would rise 12 percent to 831 million tonnes from this year.

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

Shipments to Japan were steady month-to-month at 2.2 million tonnes, while shipments to South Korea increased to 2.9 million tonnes in September from 2.1 million in August.

The Port Hedland figures do not include iron ore shipments by Rio Tinto, Australia's biggest producer.

Rio Tinto is expanding its export capacity to 290 million tonnes from 220 million from Indian Ocean ports south of Port Hedland on Australia's west coast.

It is due to decide by the end of 2013 on whether to push ahead with a further expansion to 360 million tonnes.

Brazil is the world's second-largest exporter of iron ore, supplying about 30 percent of world trade in the steel-making raw material.

# 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 holds near $7,300; stockpiles drop but US shutdown drags**

By Manolo Serapio Jr

SINGAPORE, Oct 3 (Reuters) - London copper futures steadied near $7,300 a tonne as falling stockpiles of the industrial metal helped calm oversupply worries, although a continuing shutdown of U.S. government operations kept investors on edge.

Copper inventories in London Metal Exchange warehouses stood at 531,875 tonnes on Monday, the lowest since March. In China, which consumes 40 percent of the world's refined copper, stockpiles of the metal in warehouses overseen by the Shanghai Futures Exchange were at 150,994 tonnes last week, the lowest since June 2012.

"People may look at declining inventories in LME and Shanghai as a catalyst for prices going forward because it paints a healthy demand picture and is in contradiction to the market consensus of oversupply," said Helen Lau, senior metals analyst at UOB-Kay Hian Securities in Hong Kong.

Three-month copper on the London Metal Exchange stood at $7,270.75 a tonne by 0621 GMT versus Wednesday's close of $7,279. The metal touched a one-week low of $7,142 in the previous session before recovering to settle 1.1 percent higher.

Chinese markets are closed for a third day for the National Day holiday, sharply cutting liquidity in Asia. They will reopen on Tuesday.

Copper traded on LME Select was a thin 549 lots, just a fraction of typical volumes around this time.

Other base metals were also little changed, with aluminium at $1,840 a tonne and zinc at $1,887.

Lau said the shutdown of U.S. government operations is also weighing on investor sentiment with no end in sight to the budget standoff between the White House and U.S. lawmakers.

President Barack Obama met with Republican and Democratic leaders in Congress to try to break the deadlock, but there was no breakthrough and both sides blamed each other.

While China accounts for the bulk of global copper demand, the United States, Europe and Japan make up 30 percent, Lau said, and the outlook for the U.S. and European economies remains uncertain which means copper consumption going forward may slow.

China's own economy is not recovering as fast as many are hoping as evidenced by recent manufacturing activity gauges.

"Given this situation, I think a more reasonable price for copper should be below $7,000," Lau said.

BHP Billiton BHP.AX BLT.L, the world's top miner, said it expects China's economic growth to moderate, seeing 7-8 percent expansion in the short to medium term with the share of manufacturing and investment decreasing over time.

Copper prices have rebounded around 10 percent after hitting a three-year low of $6,602 in late June.

U.S. private employers added 166,000 jobs in September, lower than the expected gain of 180,000, based on data released by payroll processor ADP on Wednesday.

The data, which reflected a still shaky employment market, may be the only U.S. jobs data for September that investors will see this week if government operations do not resume in time for the Bureau of Labor Statistics to release Friday's nonfarm payrolls report.

**PRECIOUS-Gold holds gains on weak U.S. data, govt shutdown**

By A. Ananthalakshmi

SINGAPORE, Oct 3 (Reuters) - Gold held on to sharp overnight gains in Asian trading as weak U.S. economic data and a partial government shutdown raised hopes the Federal Reserve would stick to its bullion-friendly stimulus for longer.

The metal was also supported by a weaker U.S. dollar, which was at eight-month lows as the shutdown continued into a second day with no end in sight.

Analysts think the politicking over the budget could drag on to a more important mid-October deadline to raise the U.S. government's debt limit. Failure to increase the debt limit would push the world's biggest economy into default and roil markets, already on the edge over the outlook for U.S. stimulus.

"As an investor, I would rather focus on how the political dispute over the budget will have an impact on the upcoming resolution of the debt ceiling, which is more important," said Helen Lau, an analyst at UOB-Kay Hian in Hong Kong.

"Because of so many uncertainties people will switch from riskier assets to safe havens like gold."

Lau said the shutdown could possibly delay the Fed's stimulus tapering, helping gold prices.

Spot gold was steady at $1,314.76 an ounce by 0635 GMT, after gaining 2.2 percent the day before. That helped gold recover most of its losses from earlier this week when one massive Comex sell order rattled investors and sent prices below $1,300 an ounce.

Gold, seen as an inflation-hedge, has lost nearly a quarter of its value this year as investors fretted the U.S. central bank would roll back its $85 billion bond-buying stimulus.

To begin any stimulus tapering, the Fed may need to wait until after it gets data on October to assess any collateral damage from the shutdown and the coming fight over raising the debt limit, Boston Federal Reserve Bank President Eric Rosengren said.

But many federal agencies have stopped collecting and publishing economic data due to the shutdown.

## MARKET REVIEW *(Continued)*

SPDR Gold Trust, the world's largest gold-backed exchange-traded fund and a good indicator of investor sentiment, said its holdings fell 0.46 percent, or 4.2 tonnes, to 901.79 tonnes on Wednesday - the biggest fall in nearly three weeks.

Physical demand remained weak as China was shut for the National Day holidays.

**FOREX-U.S. dollar founders as shutdown standoff takes toll**

By Lisa Twaronite and Ian Chua

TOKYO/SYDNEY, Oct 3 (Reuters) - The dollar rebounded against the yen but struggled close to an eight-month low against a basket of rivals as the U.S. government shutdown dragged on and positive developments in Italian politics helped lift the euro.

President Barack Obama met with Republican and Democratic leaders in Congress on Wednesday, but a solution seemed unlikely as both sides dug in for what could be a long stalemate.

The standoff comes a few weeks ahead of the next political battle to raise the federal government's borrowing limit. Failure to do this could result in a worst-case scenario of an historic U.S. debt default.

The common currency added 0.2 percent to $1.3610 after rising as high as $1.3623, a level not seen since early February, with its 2013 peak of $1.3711 set on Feb. 1 in sight.

The euro rallied after Italian Prime Minister Enrico Letta won a confidence vote in parliament as Silvio Berlusconi backtracked on threats to bring down the government.

Adding to the euro's momentum, the European Central Bank reiterated it was ready to use any policy option to temper market interest rates, but did not flag immediate action.

"Overall, we're still seeing a broad risk-on dynamic in the FX market, while we try and wait and see what the developments are in regard to the U.S. shutdown," said Sue Trinh, senior currency strategist at RBC in Hong Kong.

"Risk-on tends to mean that U.S. dollar and yen are the underperformers in that environment," she added.

The euro benefitted from the risk-on sentiment, particularly in light of the European developments.

JPMorgan analysts said there was nothing in ECB President Mario Draghi's comments that suggested the bank was poised to aggressively ease and that declines in money market interest rates since the last ECB meeting have in part lessened the momentum for new measures.

Against the yen, the euro rose 0.6 percent to 132.92 yen, while the dollar added 0.3 percent to 97.66 yen moving away from the previous session's five-week low of 97.12 yen.

The dollar's weakness against the euro helped push the dollar index . down about 0.1 percent to 79.848, though its recovery against the yen kept it off a session low of 79.740 which was its lowest in eight months.

A notable mover was the New Zealand dollar, which initially rallied after the Reserve Bank of New Zealand said larger increases in interest rates would be needed if new limits on mortgage lending fail to cool the country's housing market.

The kiwi last traded down 0.2 percent at $0.8300 after earlier spiking briefly to a high around $0.8340, pulling well away from a two-week trough of $0.8194 plumbed on Wednesday.

Tighter monetary policy in New Zealand would further widen the kiwi's yield advantage over its counterparts in countries like the United States, where interest rates hover near zero.

The RBNZ comments also underpinned the Australian dollar which rose slightly to $0.9387, pulling from an overnight low of $0.9332, according to Reuters data.

(Inside Metals is compiled by Pradip Kakoti in Bangalore)