INSIDE METALS

Friday, October 5, 2012

CHART OF THE DAY

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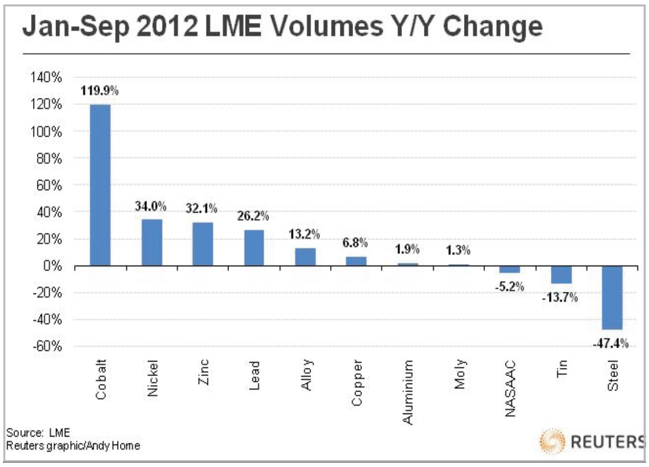

Click here for LME charts

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- S.African mine unrest spreads, Toyota hit by strike
- Niger hands France's OSEAD gold mining permits

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COPPER:

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NICKEL/STEEL:

- Vale to halt output at Brazil iron ore pellet plants
- Kumba suspends production at Sishen mine in S.Africa

FEATURE

COLUMN- LME volumes, new record, same old trends

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

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ANALYSIS-Canadian miners see signs of thaw in equity financings

A sudden squall of equity deals arranged for Canadian junior miners signals a potential thaw in a year-long freeze on new financings that has held back the pace of mining exploration.

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TODAY'S MARKETS

BASE METALS: Copper steadied, supported by a firmer euro after the European Central Bank said it was ready to buy bonds of troubled countries in the region, although volumes were low with top consumer China on a week-long holiday.

"Fourth quarter the big focus is just whether the central bank action flows through to real demand," said Ivan Szpakowski, a Credit Suisse analyst in Singapore.

PRECIOUS METALS: Gold hit an 11-month high in its fifth day of gains as stimulus measures from major central banks continued to increase its appeal as an inflation hedge, while investors awaited more trading direction from key U.S. jobs data due later in the day.

"There doesn't seem to be anything else they can do besides pumping more money into the economy," said Ronald Leung, a dealer at Lee Cheong Gold Dealers in Hong Kong.

FOREX: The euro inched down but stayed near a two-week high versus the dollar, finding support after the European Central Bank said the previous day that it was ready to buy bonds of troubled euro zone members.

"People who want to go short are looking to do so after a Spanish request for aid triggers a rally in the euro," the trader said, referring to traders who are eager to put on bearish bets against the single currency.

FEATURE

COLUMN-LME volumes, new record, same old trends

By Andy Home

LONDON, Oct 4 (Reuters) - The London Metal Exchange (LME) has just announced record volumes for the month of September.

Last month's tally of 14.09 million lots brings the year-to-date total to 119.1 million lots, equivalent to $10.9 trillion in notional turnover.

It's a reassuring performance for the executives of the Hong Kong Exchanges and Clearing (HKEx) , who will no doubt be attending the annual LME Week events later this month to check on how their 1.388-billion pound acquisition is faring.

Yet behind the headlines they may find food for thought.

Overall volume growth is slowing. Turnover continues to be concentrated in just three of the LME's contracts. And, with the notable exception of cobalt, newer product offerings are still struggling.

THANK YOU BEN!

The LME might want to send a little thank you note to Ben Bernanke, chairman of the U.S. Federal Reserve, for last month's headline-grabbing performance.

After making markets wait most of Q3 for QE3, the Fed finally gave them what they wanted with more stimulus announced on Sept. 14.

Prices and open interest jumped across the LME board over the course of September as investment players came in to surf the resulting risk-on roller.

Just as well because in August LME volume growth turned negative for the first time this year.

The 6.8-percent year-on-year drop in turnover caused the cumulative 2012 growth rate to brake sharply to 13.0 percent.

September's record volumes haven't changed that underlying trend, since the base comparison was the previous record-volume month of September 2011.

Growth over the first nine months of this year actually slid a little further to 11.4 percent.

Still a highly respectable growth rate, but significantly lower than last year's 22-percent and below the 12.1-percent growth rate over the 2007-2011 period cited by HKEx in its presentation accompanying the June announcement of the proposed purchase of the LME.

"OLD RELIABLES"

Delving deeper into the LME volume figures for the year to date shows that it is the "old reliables" that continue to dominate trading on the Exchange.

Between them aluminium, copper and zinc accounted for just over 82 percent of all turnover up to the end of September (see the first chart below).

LME 2012 volumes by contract:

http://link.reuters.com/peb23t

LME 2012 volume growth breakdown:

http://link.reuters.com/keb23t

Volume growth in aluminium, the most liquid of the LME's contracts, was just 1.9 percent. Copper fared better with growth of 6.8 percent but not as well as the competing contract from CME Group , which registered growth of 38.4 percent, albeit from a much smaller base.

Zinc turnover rose by 32.1 percent, the second-best performer among the LME's core base metals suite after nickel (see the second chart).

The real stand-out star this year has been the cobalt contract, with volumes more than doubling to 10,215 lots from 4,646 lots in the January-September period of last year.

Cobalt, though, is turning out to be something of a one-hit wonder in terms of new offerings.

Molybdenum, launched at the same time in February 2010, saw activity collapse to just six lots last month, a record monthly low after August's record monthly high of 82 lots. Indeed, "moly" traded on only three days over the course of September.

The "mini" contracts, designed as a retail smaller sister to the wholesale major contracts, are now a distant memory, last trading in May 2011.

They were relaunched in conjunction with the Singapore Exchange (SGX) in February 2011 but here too the initial enthusiasm has waned. Volumes have totalled just 697 lots so far this year, down from 84,277 lots this time last year.

Average rate swaps, launched in February this year, have garnered 13,521 lots of trading interest, but largely due to just one contract, aluminium, which has accounted for 13,117 lots of that total. Indeed, it was the only swap contract to trade in September.

And then there is the steel billet contract.

FALLING BEHIND IN THE STEEL RACE

Volumes of billet, the LME's sole foray into the fast-evolving world of ferrous trading, have tumbled by 47.4 percent so far this year.

The best that can probably be said of the contract's stuttering performance is that it is still trading at all, given the well-documented gripes and grumbles about the contract's design and usability.

FEATURE

Volumes and open interest appear to have bottomed out, although at a low level relative to 2010 and early 2011, when the contract was still building a head of steam.

The LME can also comfort itself with the fact that by tonnage billet is still the fourth most-traded product in the ferrous space after the Shanghai rebar contract, SGX iron ore swaps and CME's iron ore portfolio.

The comparisons can never be exactly like-for-like, given the LME's arcane spreads system, which can mean a vanilla buy or sell order fracturing into several separate trades.

Nor does the volume comparison capture the differing growth dynamics of the growing number of steel contracts being launched.

The CME's steel flagship, the hot-rolled coil futures contract, for example, has seen volumes grow by 72.4 percent so far this year to 666,420 tons.

It is still expanding its ferrous footprint with a new Chinese rebar swap futures due to go live on Oct. 15, an attempt to bridge the Great Chinese Futures Wall.

London clearing house LCH.Clearnet is also emerging as something of a dark horse in the steel sector, clearing over 100,000 tonnes in the first eight months of this year. That's not counting its iron ore products.

In the steel trading race, it is difficult to avoid the impression that the LME, the early starter, is now dropping down the running order.

FUTURE(S) EXPANSION

LME volume growth is no longer a matter just for the LME. It underpins the eye-watering price-tag being paid by HKEx for a deal that is expected to close by the end of this year.

Expanding volumes in the existing products and extending the product range are two planks in HKEx's multi-pronged strategy to claw back its outlay.

The first looks the easier of the two, given the additional volumes that could be generated by leveraging the likes of aluminium, copper and zinc into the renminbi trade to capture latent Chinese demand for hedging tools.

The second, though, might be more of a struggle, given the LME's own mixed, to put it kindly, performance in extending its industrial metals portfolio.

This is particularly true of steel, a market explicitly identified by HKEx as a potential growth driver.

If it's going to be, they may not want to wait too long. The rest of the exchange pact has long since caught up with the LME.

A bit more help from Uncle Ben probably wouldn't go amiss either. August showed what an LME world without fiscal stimulus might look like.

ANALYSIS-Canadian miners see signs of thaw in equity financings

By Euan Rocha

TORONTO, Oct 4 (Reuters) - A sudden squall of equity deals arranged for Canadian junior miners signals a potential thaw in a year-long freeze on new financings that has held back the pace of mining exploration.

Over the past year, the flow of bought deals - a type of equity financing commonly used by early-stage miners in Canada - slowed to a crawl as the euro zone debt crisis and a pullback in emerging economies fueled market uncertainty.

Equity financings are the lifeblood of early-stage mining companies, which rely on them to fund their projects, and when economic fears paralyze markets hundreds of Canadian miners and explorers are often deprived of the capital needed to survive.

Mining stocks have now started to bounce back after falling more than 40 percent over the past year, reflecting a brighter macroeconomic outlook. And the S&P TSX Metals & Mining Index is up more than 25 percent since July, giving some early-stage miners confidence to wade back into equity markets.

Tyler Swan, a managing director in equity capital markets at CIBC, expects a flurry of financings in the months ahead.

"There is a large pipeline in place, of companies looking to come to market before the end of the year," he said.

Sandstorm Gold Ltd was one of the first to take the plunge. The company, which recently raised C$150 million ($153 million) for itself, focuses on arranging production-sharing, or so-called streaming, deals to fund mining projects of others.

"Our financing was somewhat of a bellwether for the rest of the industry to see that financings can be done, and investment banks since then having been going around trying to convince mining companies to raise equity," said Nolan Watson, chief executive of Sandstorm.

The numbers illustrate the pent-up demand. Only about C$400 million was raised through fewer than 30 bought deals in the spring and summer of 2012, compared with the roughly C$2 billion raised via 80 deals a year earlier, according to Oreninc, a firm that tracks financing activity among juniors in Canada.

But investor sentiment seems to be turning, thanks to a brighter economic outlook. The U.S. Federal Reserve recently outlined plans for a third aggressive program to lift the U.S. economy, while China has given the go-ahead to some 60 infrastructure projects worth over $150 billion.

Not coincidentally, precious metal explorers Premier Gold Mines and Torex Gold Resources Inc this week outlined plans for bought deals to fund projects. And Labrador Iron Mines Ltd , one of Canada's newest ore miners, has joined the rush.

Bought deals help reduce risk for issuers by allowing them to sell shares to an underwriter, or a syndicate that in turn markets the equity to the public.

FEATURE *(Continued)*

LATEST OFFERINGS

Torex, which owns the Morelos gold project in Mexico, said on Monday it plans to raise about C$350 million through a deal being led by BMO Capital Markets. Premier Gold, which owns assets in the gold mining belts of Ontario and Nevada, aims to raise nearly C$60 million in a deal led by RBC Capital Markets.

In a sign that the equity window may have also opened for miners outside precious metals, Labrador Iron Mines plans to move on a C$30 million bought deal led by Canaccord Financial.

New issuers are also stepping up. Last month, Ivanplats - the mining company founded by billionaire Robert Friedland - began a long-awaited process to list on the Toronto Stock Exchange.

The company, which owns copper and platinum projects in Africa, plans to sell about 60 million shares at between C$4.50 and C$5.40 as part of its initial public offering, said a source familiar with the situation. That would make the offering worth between C$270 million and C$325 million.

Among the other new issuers seeking to tap the market is Potash Ridge - a potash exploration company with a project in Utah - that filed its papers with regulators in late September.

But some caution that there is no guarantee the window for financings will remain open.

"A lot of people are optimistic and are hoping the window will extend for some time, but I think markets are still fairly volatile," said Richard Steinberg, who heads the securities and mergers and acquisitions group at Fasken Martineau in Toronto.

Steinberg believes companies that move quickly will benefit, given lingering uncertainty and caution among many investors.

"There is nothing better than being first in line," he said. "Whether the window will extend to allow additional offerings by other similarly situated mining companies remains to be seen."

One of the big overhangs remains the steady stream of bad news from Europe, Watson warns.

"I do not think that this window is going to stay open indefinitely. I think it is going to close here," he said.

"It could be one month away or six months away, it just depends on when the next macro problem crops up globally, whether it be Spain, or Greece, or Italy, or the U.S. fiscal cliff."

GENERAL NEWS

Draghi says ECB primed to buy bonds when ready

BRDO PRI KRANJU, Slovenia, Oct 4 (Reuters) - European Central Bank President Mario Draghi said on Thursday the ECB was primed to buy troubled euro zone bonds when conditions were right and that this had already calmed financial market tension.

Speaking at his regular monthly news conference, Draghi also said "significant progress" had been made in Spain to bring its finances into order, although more was needed.

He said the euro zone's economy was expected to remain weak but that near-term price increases had led to the ECB keeping rates on hold.

A month after Draghi unveiled a bond-purchase programme for struggling euro states that was hailed by many as a saviour for the single currency bloc, investors are still waiting for Spain to bite the bullet and request a formal rescue.

Before it does, the ECB cannot act, and markets are likely to remain jittery.

But Draghi was upbeat about Spain's attempts to end its crisis.

"Significant progress has been made," he said. "Significant challenges remain as well".

He refused to comment, however, on whether Spanish bond yields were at appropriate levels. An auction earlier on Thursday saw Spanish borrowing costs fall in most cases

Draghi was clear however that the existence of a bond-buying programme, called OMT, had already had an impact.

"OMTs have helped to alleviate ... tensions (in financial markets) over the past few weeks, thereby reducing concerns about the materialization of destructive scenarios," Draghi said. "The mechanism (to buy) is in place."

RATES UNCHANGED

The central bank announced that its governing council had decided to keep its main refinancing rate steady at 0.75 percent, a record low. Analysts expect the bank to cut rates later this year, but only after the new bond programme has started. Draghi said however that the ECB had not discussed a cut or potential cuts.

Draghi said there had been some inflationary pressures lately.

"Owing to high energy prices and increases in indirect taxes in some euro area countries, inflation rates are expected to remain above 2 percent throughout 2012, but then to fall below that level again in the course of next year," he said.

"Current levels of inflation should thus remain transitory and not give rise to second round effects. We will continue to monitor closely further developments in costs, wages and prices."

U.S. jobless claims point to steady labor market

By Lucia Mutikani

WASHINGTON, Oct 4 (Reuters) - The number of Americans filing new claims for unemployment benefits rose only slightly last week after a big drop the week before, a hopeful sign the job market is still on the mend.

GENERAL NEWS *(Continued)*

Other data on Thursday showed a sharp drop in new orders for U.S. factory goods, although orders outside the transportation sector rose for a second straight month, which should calm fears of a rapid loss of momentum in factory activity.

"The economy is obviously feeling the strain from cooler global conditions and the policy uncertainty that continues to over hang us here as we turn the corner on 2012 and into 2013," said Robert Dye, chief economist at Comerica in Dallas.

Worries over the so-called fiscal cliff - automatic tax rises and government spending cuts that will remove about $600 billion from the U.S. economy next year unless Congress acts - have made businesses cautious about ramping up hiring.

The report on jobless claims, however, offered little sign that companies were laying off workers on a wide scale.

Initial claims for state unemployment benefits climbed 4,000 last week to a seasonally adjusted 367,000, the Labor Department. But that followed a drop of 22,000 and a four-week average, which offers a view of trends, held steady at 375,000.

The distressed labor market has been a hurdle to President Barack Obama's bid for re-election, and the monthly U.S. Labor Department employment report due on Friday for September is seen offering cold comfort.

That report, the penultimate one before the November elections, is expected to show employers added 113,000 jobs to their payrolls in September, according to a Reuters poll of economists. That would likely be too few to lower the nation's 8.1 percent jobless rate, which is seen rising to 8.2 percent.

Persistently poor labor market conditions prompted the Federal Reserve last month to announce a plan to buy $40 billion worth of mortgage-backed securities each month until it sees a sustained turnaround in employment. It hopes the purchases will drive down long-term borrowing costs and spur the recovery.

Minutes of the Sept 12-13 Fed meeting released on Thursday showed the U.S. central bank might adopt numerical thresholds for inflation and joblessness that would serve as guideposts for policy. Graphic for jobless claims: http://link.reuters.com/pyb23t

Graphic on planned layoffs: http://link.reuters.com/cyb23t Graphic on retailer sales: http://link.reuters.com/cec23t

FACTORIES COOLING BUT NO HARD LANDING

A separate report from the Commerce Department on Thursday showed new orders for manufactured goods tumbled 5.2 percent - the biggest drop since January 2009 when the economy was in the grip of a recession.

But the decline was due to a collapse in demand for aircraft and a softening of automobile purchases, and orders excluding transportation rose 0.7 percent.

Manufacturing has carried the economic recovery and while activity has cooled significantly in recent months, there are so far little signs of a hard landing. A closely watched index released on Monday show that national factory activity expanded in September for the first time in four months.

Stocks on Wall Street rose on Thursday on the claims data and comments by European Central Bank President Mario Draghi on tools to tackle the eurozone debt crisis.

The Standard & Poor's 500 index rose for a fourth day, putting it near a new five-year high. The U.S. dollar fell to a two-week low against the euro and prices for U.S. Treasury debt slipped.

A third report bolstered the view that fiscal cliff fears were not leading businesses to lay off workers.

While planned layoffs at U.S. firms rose 4.9 percent in September, they came in at a 15-year low for the month, consultants Challenger, Gray & Christmas said.

"Though private business surveys have indicated that companies are concerned about the tax hikes ... this report suggests that there has not yet been a pickup in plans by larger firms to reduce employment levels," said John Ryding, chief economist at RDQ Economics in New York.

SOME BRIGHTER SIGNS

Last week's unemployment claims data fell outside the survey period for the September employment report due Friday, but applications dropped 18,000 from the first week of the month, signaling some improvement in the pace of job creation.

A modest improvement in the labor market has also been telegraphed by increases in measures of manufacturing and service sector jobs in September. In addition, payrolls processor ADP on Wednesday reported better-than-expected private sector jobs gains in September.

Even while businesses may be showing some caution, fears of tighter fiscal policy do not yet appear to be weighing on consumers, who are being cushioned by rock bottom borrowing costs engineered by the Fed.

September sales at U.S. retailers looked solid as shoppers finished up their back-to-school buying.

Sales at stores open at least a year at 17 chains tracked by Thomson Reuters I/B/E/S rose 3.6 percent, matching analysts' expectations. In September 2011, such sales rose 6.4 percent.

"Consumer access to credit is fueling home sales, auto sales and other big ticket items that consumers purchase, but we really need to see job growth for that to continue. For now, the credit availability is keeping the economy afloat," said Dye.

S.African mine unrest spreads, Toyota hit by strike

CAPE TOWN, Oct 4 (Reuters) - Toyota Motor Corp said it had been forced to shut its South African car factory for four days because of an illegal pay strike, the first sign of wildcat mine stoppages spreading into other parts of Africa's biggest economy.

GENERAL NEWS *(Continued)*

Trade union leaders at the Japanese car giant's Durban plant said workers would return on Friday after winning a 5.4 percent pay rise inspired in part by a hefty increase won last month by strikers at Lonmin's Marikana platinum mine.

"The circumstances are not the same as what is happening in the mines," said Mbuso Ngubane of the National Union of Metalworkers of South Africa (NUMSA).

"But it does send a message. It does have an impact to some extent on other workers getting agitated."

After two months of unrest, at least 75,000 miners, or 15 percent of the sector's workforce, are on strike, compounding already sluggish growth just three months before an internal leadership vote in the ruling African National Congress (ANC).

President Jacob Zuma is the favourite to win re-election, teeing him up for a second five-year term in 2014, but the turbulence strengthens the hand of those who say he is unfit to run a sophisticated emerging economy.

Zuma has been criticised for his relatively low-key response to the crisis, including the Aug. 16 police killing of 34 strikers at Marikana - the bloodiest police action in the post-apartheid era.

In a speech to business leaders on Thursday he sought to play down the negative impact of the strikes.

"We should not seek to portray ourselves as a nation that is perpetually fighting," he said.

"Some may become pessimistic when ... tragic incidents such as Marikana take place. There's no reason to be despondent. We have the capacity to overcome difficulties when we work together as South Africans."

On Thursday, Kumba Iron Ore , one of the world's top 10 producers, said it had suspended production at its huge Sishen mine after striking employees blocked access to the pit.

Wildcat industrial action at the world's top platinum producer, Anglo American Platinum (Amplats) , spread from its four mines near Rustenburg, 120 km (75 miles) northwest of Johannesburg, to three mines 100 km further north, a union official said.

Police near Rustenburg used teargas and a water cannon on Thursday to disperse protesters who were hurling stones and burning tyres. Thulani Ngubane, a local police spokesman, told Reuters that no one had been arrested or injured.

Local radio said about 2,000 striking workers had taken part in the protest, but Ngubane disputed that, saying only around 150 people had been present. He said they were members of the community, not strikers.

The seven Amplats plants account for a quarter of global supply of the precious metal, whose price has risen more than 22 percent since the Marikana killing.

Overnight, police said suspected wildcat strikers had burnt down two conveyors and a training centre at an Amplats mine in Rustenburg.

BACK TO THE TABLE

South African gold producers AngloGold Ashanti and Gold Fields said on Thursday they had agreed to reopen wage talks for entry-level workers, a sign they may be moving closer to resolving costly strikes.

But talks to end a legal strike by more than 20,000 truck drivers collapsed after unions rejected an offer of an 18 percent pay rise over two years, the Road Freight Employers' Association said.

Fuel suppliers are having to use police convoys to prevent drivers being attacked by gangs trying to enforce a blockade that is putting petrol stations at risk of running dry.

Although South Africa's racially-polarised labour market is prone to industrial action, the aftermath of the so-called "Marikana massacre" has blown apart normal negotiating procedure and exposed the weakness of established unions.

The Congress of South African Trade Unions (COSATU), a close ally of the ANC, is in talks with the big mining houses to try to stop the strikes.

"This, we hope, will save collective bargaining, save industrial relations in the country while at the same time bringing workers and their demands on board," COSATU General Secretary Zwelinzima Vavi said.

But COSATU is making little headway after losing much of its influence in the last 12 months.

"You are going to see quite a lot more of these wildcat strikes," said Chris Hart, chief strategist at asset managers Investment Solutions.

"Despite there being a whole lot of issues which are separate and distinct from Marikana, there is a sense that if you go on the rampage outside the collective bargaining system you get more benefits."

Fallout from the unrest in the mines, which account for 6 percent of GDP, has put pressure on the rand , which has fallen towards a three-year low against the dollar.

It has also fuelled concern about growth, forecast by the government at 2.7 percent this year.

Niger hands France's OSEAD gold mining permits

NIAMEY, Oct 4 (Reuters) - Niger has granted Africa-focussed French mining company OSEAD two research permits to look for gold in the southwest of the country, the mines minister said in statements broadcast on state television on Thursday.

OSEAD, which has projects in Morocco, Ivory Coast and Mauritania, is majority-owned by investment funds managed by Truffle Capital, according to its website.

GENERAL NEWS *(Continued)*

The permits are in Tillaberi region, near Niger's border with Mali and Burkina Faso, both of which are already established gold producers but are facing security threats from the takeover of Mali's north by Islamist rebels.

"We dare to hope that the promises in the contract that we have signed will be kept and on time, especially when it comes to research and social investments," said Omar Tchiana Hamidou, Niger's minister for mines and industrial development.

The only industrial gold mining operation currently operating in Niger is carried out by Semafo Inc , which operates the Samira Hill, also in Tillaberi region.

Niger is one of the world's leading uranium producers, with the sector dominated by French nuclear group Areva.

It is seeking to diversify both its partners and the minerals it mines and has handed out over 170 permits in recent years.

MARKET NEWS

India's NALCO sells aluminium at $242/T premium

BHUBANESWAR, Oct 4 (Reuters) - India's state-run National Aluminium Co (NALCO) has sold 3,000 tonnes of aluminium ingots at $242 per tonne premium over the average LME cash price on a cost, insurance and freight (CIF) basis, two company sources said on Thursday.

The metal will be shipped to the Singapore-based buyer in six batches of 500 tonnes each from November to April.

NALCO, whose tenders serve as a global benchmark, last sold 12,000 tonnes of aluminium ingots at close to $223 per tonne premium over the average LME cash price on CIF basis to a European buyer in July.

Pan Pacific sees H2 copper output up 12.4 pct y/y

TOKYO, Oct 5 (Reuters) - Pan Pacific Copper, Japan's biggest copper smelter and a subsidiary of JX Holdings , said it plans to produce 268,300 tonnes of refined copper in the October-March second half, up 12.4 percent from the same period last financial year.

Mitsubishi Materials Co , Japan's No.3 smelter, plans output of about 150,000 tonnes during the six months, while No.2 Sumitomo Metal Mining plans 218,000 tonnes.

Japan is the world's third-biggest copper producer after Chile and China.

Vale to halt output at Brazil iron ore pellet plants

RIO DE JANEIRO, Oct 4 (Reuters) - Brazil's Vale SA said on Thursday that it plans to suspend operations at three Brazilian iron ore pellet plants and increase output of lower-value mine products as world steel demand slows.

The closures remove capacity responsible for nearly a fifth of the company's pellet output in the first six months of the year.

With the pellet plant operation suspended, Vale said in a statement that it will adjust mine output to produce more sinter feed and less pellet feed. Vale's Sao Luis and Tubarao I and Tubarao II pellet plants will go off line starting on Oct. 8.

"The company's decision to shut down some of its pelletizing facilities is a clear indication of the deterioration in the market for high quality iron ore products," said Leonardo Correa, Pedro Grimaldi and Luiz Fornari, Barclay's mining company analysts in a e-mailed report to investors on Thursday.

Vale preferred shares, the company's most-traded class of stock rose 0.95 percent to 35.02 reais in Sao Paulo at Thursday's close.

Pellet feed, like sinter feed, is a form of concentrated iron ore. Pellet feed, though, is filtered to cut water content before being mixed with clay and other materials at a pellet plant. Pellets can be fed directly into a steel blast furnace.

Sinter feed needs additional processing before being used to make steel.

Vale's decision makes economic sense, Correa and his colleagues said because the extra price that pellets earn in the market are close to the $30 a tonne that Vale pays to transform raw pellet-feed iron ore into pellets.

"Sinter feed usually generates higher (profit) margins," the analysts wrote.

Demand for iron ore has fallen in recent months as China's economy cools, U.S. economic growth remains sluggish and European debt problems limit investment. Since May 1, iron ore on the Chinese spot market has fallen 28 percent to 104.20 a tonne, according to Steel Bulletin.

World steelmaking capacity is about a third greater than demand, according to Brazil's state development bank BNDES. Vale, which produces more than a quarter of the world's seaborne, intercontinental iron ore exports, is reviewing its investment plans after a plunge in iron ore prices.

The three Vale pellet plants produced 4.93 million tonnes of pellets in the first half of 2012, Vale said, or about 18 percent of its 26.95 million tonnes of pellet output in the first half.

In the same period Vale produced 150.5 million tonnes of iron ore.

"This is in response to the evolution of the composition of demand for raw materials by the steel industry during the economic cycle which has shown a reduction in demand for pellets," the statement said.

MARKET NEWS *(Continued)*

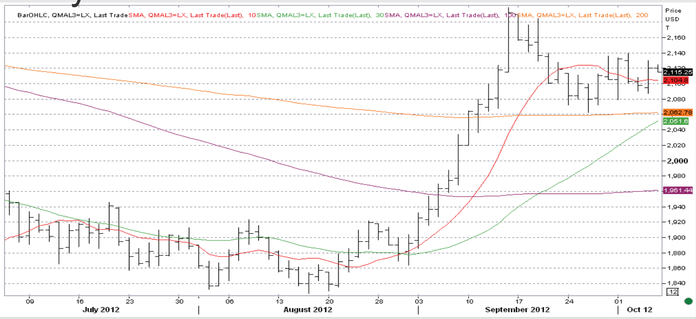
Kumba suspends production at Sishen mine in S.Africa

JOHANNESBURG, Oct 4 (Reuters) - Kumba Iron Ore suspended production at its Sishen mine in South Africa after employees who embarked on an illegal strike blocked access to the pit, the company said on Thursday.

Kumba, a unit of Anglo American and one of the world's top 10 producers of iron ore, said it had sufficient stockpiles and output from other mines to supply customers for "some time".

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

Daily LME Aluminium 3-months



Daily LME Copper 3-months

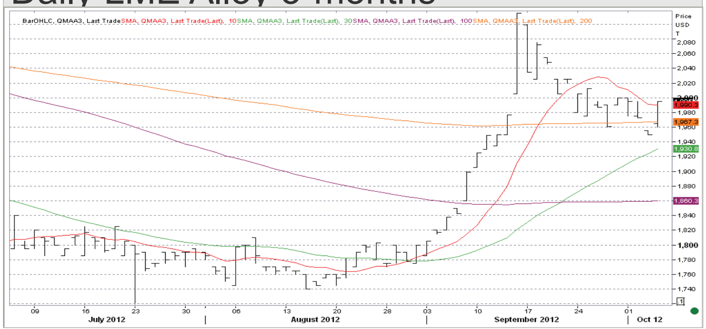
Daily LME Nickel 3-months

Daily LME Zinc 3-months

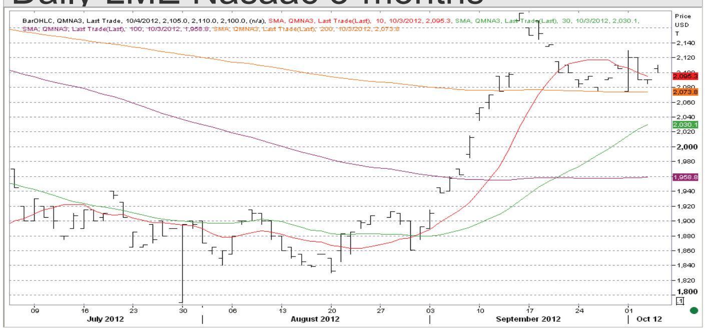
Daily LME Lead 3-months

Daily LME Tin 3-months

Daily LME Alloy 3-months



Daily LME Nasaac 3-months



THOMSON REUTERS

MARKET REVIEW

METALS-Copper steady on euro, U.S. jobs data in focus

SINGAPORE, Oct 5 (Reuters) - Copper steadied on Friday, supported by a firmer euro after the European Central Bank said it was ready to buy bonds of troubled countries in the region, although volumes were low with top consumer China on a week-long holiday.

Focus is now shifting to a key U.S. jobs report later in the day that may show a recovery in the world's top economy is taking hold.

"Fourth quarter the big focus is just whether the central bank action flows through to real demand," said Ivan Szpakowski, a Credit Suisse analyst in Singapore.

"It looks like things in the U.S. are improving somewhat ... and that the EU has at least stabilised. But in China, there doesn't seem to be any real improvement at all."

U.S. job growth likely improved only slightly in September as businesses remained cautious out of fear a sharp tightening of the government's budget could deliver a big blow to the economic recovery early next year.

But a sign the job market is still on the mend came on Thursday as the number of Americans filing new claims for unemployment benefits rose only slightly last week after a big drop the week before.

Three-month copper on the London Metal Exchange traded at $8,296.75 a tonne by 0710 GMT, cutting small gains from earlier but little changed from the previous session. The prices were on track for a more than 1 percent gain this week, snapping two straight weekly losses.

Copper hit a 4-1/2 month high on Sept. 19 at $8,422 a tonne following accommodative policy moves by the ECB and the U.S. Federal Reserve, but gains have since been capped by worries about slowing growth in China.

The Shanghai Futures Exchange remains closed for a week of holidays.

Adding to support for metals, the euro stayed near a two-week high versus the dollar, buoyed by ECB's announcement on bond buying. A weaker dollar makes commodities priced in the greenback less expensive for holders of other currencies.

ECB President Mario Draghi said on Thursday that everything was in place for the bank to buy the bonds of troubled euro zone countries such as Spain and that conditions linked to it need not be punitive.

But taking some shine off global growth prospects, a media report said the International Monetary Fund will lower its forecasts for global economic growth to 3.3 percent this year and 3.6 percent in 2013 from earlier forecasts of 3.4 percent and 3.9 percent.

China's appetite for metals may be muted when it returns on Monday given prices are $100 higher this week, a trader in Singapore said, with a U.S. holiday on Monday also likely to keep trading quiet.

Direction will hinge on whether the September jobs report meets expectations, he added.

NICKEL'S TECHNICAL OUTLOOK

Nickel is set to outperform during the fourth quarter, RBC Capital said in a note, with an improvement in the metal's chart picture attracting technical buyers as the winter drilling season, which fuels demand for stainless steel pipes, nears.

"Technical buying has featured heavily in recent weeks after the 200-day moving average was broken to the upside; we are targeting $20,000 as the first point of resistance for Q4 followed by $22,000," it said.

LME nickel traded last at $18,631 a tonne, recovering 22 percent from 3-year lows of $15,236 reached on Aug. 2 to trade down 0.4 percent on the year.

"With longer term technical players looking for dips to cover legacy shorts and short/medium term players getting long, we think nickel will continue to perform well in the near future," it added

PRECIOUS-Gold hits 11-month high, extends gains to fifth day

SINGAPORE, Oct 5 (Reuters) - Gold hit an 11-month high on Friday in its fifth day of gains as stimulus measures from major central banks continued to increase its appeal as an inflation hedge, while investors awaited more trading direction from key U.S. jobs data due later in the day.

The European Central Bank kept interest rates unchanged on Thursday and said it was ready to buy government bonds of debt-laden nations, triggering a rally in the euro and pushing gold closer to $1,800 - a level that has not been breached since November last year.

And gold is likely to gain further as other central banks, including that of China, are expected to ease policy following similar moves by the ECB, Federal Reserve and Bank of Japan to help stalled growth, analysts and traders said.

Monetary easing drives investors who fear depreciation of their currencies and future inflation to gold.

"There doesn't seem to be anything else they can do besides pumping more money into the economy," said Ronald Leung, a dealer at Lee Cheong Gold Dealers in Hong Kong.

"Dollar weakness, more easing, as well as the tension in the Middle East, will all benefit gold."

The dollar index wallowed near a two-week low, making commodities priced in the greenback cheaper for holders of other currencies.

MARKET REVIEW *(Continued)*

Rising tensions in the Middle East as Turkey stepped up retaliatory artillery strikes on a Syrian border town on Thursday also supported gold's safe-haven appeal.

But Leung noted that much of the buying has come from speculators, while physical demand remained subdued.

Spot gold hit an 11-month high of $1,795.69 an ounce, and pared some gains to $1,792.66 by 0626 GMT, on course for a fifth day of gains and a weekly climb of 1.2 percent.

U.S. gold rose to high of $1,798.1, its loftiest since Feb. 29.

SPDR Gold Trust , the world's largest gold-backed exchange-traded fund, said its holdings hit a record high of 1,333.44 tonnes by Oct. 4.

Trading activities were thin in the physical market.

"There is much less scrap selling today as everyone is waiting for the break," said a Singapore-based dealer, referring to a break above the key $1,800 level.

Spot gold 24-hour technical outlook:

http://graphics.thomsonreuters.com/WT1/20120510101203.jpg

US NON-FARM PAYROLLS DATA IN FOCUS

Investors are now waiting for critical jobs data from the United States for indications on whether its latest stimulus measures are having the desired effect on the labour market.

A better-than-expected number could temper the sentiment in gold, as it could argue that the Fed's latest bond purchase programme - a monthly $40 billion injection of liquidity - would be less necessary.

The Fed may adopt numerical thresholds for inflation and joblessness that would serve as guideposts for monetary policy, according to minutes from last month's policy meeting.

Among other precious metals, spot platinum rose to a more than seven-month high of $1,726.49 earlier in the day, on course for its ninth consecutive session of gains and a weekly rise of nearly 4 percent.

Platinum prices have been boosted by a labour unrest in South Africa that has spread to more mines run by the world's top platinum producer Anglo American Platinum .

Spot palladium , which hit $675.50 on Thursday - its highest in more than two weeks, was at $665.47. It was headed for a weekly rise of more than 5 percent.

FOREX-Euro near 2-wk high; yen firms briefly after BOJ

SINGAPORE, Oct 5 (Reuters) - The euro inched down but stayed near a two-week high versus the dollar on Friday, finding support after the European Central Bank said the previous day that it was ready to buy bonds of troubled euro zone members.

The yen briefly nudged higher after the Bank of Japan kept monetary policy unchanged and held off from additional easing measures. The reaction was limited, however, as Friday's decision was in line with expectations.

The euro dipped 0.1 percent to $1.3013 , still hovering near Thursday's high of $1.3032 on trading platform EBS, its strongest level since Sept. 21.

ECB President Mario Draghi said on Thursday that everything was in place for the bank to buy the bonds of struggling euro zone countries such as Spain and that conditions linked to it need not be punitive.

But Draghi, speaking after the ECB left interest rates unchanged at a record low 0.75 percent, offered no clues as to when Spain might make a formal aid request that would activate the programme.

Overall, traders seem to be waiting to sell the euro on rallies, but they are reluctant to do so now as Spain is considered likely to eventually seek assistance, said a trader for a Japanese brokerage house in Tokyo.

"People who want to go short are looking to do so after a Spanish request for aid triggers a rally in the euro," the trader said, referring to traders who are eager to put on bearish bets against the single currency.

In addition, the euro has been supported recently by the unwinding of euro-bearish bets against currencies such as sterling and the Australian dollar , he said, adding that the single currency may continue to find support until such buying subsides.

The euro eased 0.2 percent against the Australian dollar to A$1.2676 , but remained close to a four-month high of A$1.2718 hit on Thursday.

BOJ STANDS PAT

The yen gained a slight, short-lived boost when the BOJ kept monetary settings unchanged after having loosened policy only last month, in a move that was in line with market expectations.

The dollar dipped from around 78.45 yen to an intraday low of 78.27 yen following the BOJ's announcement. But the dollar later trimmed its losses to stand at 78.38 yen , down 0.1 percent from late U.S. trade on Thursday.

Although the BOJ's decision to keep policy unchanged had been expected, the yen rose as there had been a risk that the central bank might surprise with another policy easing, said Mitul Kotecha, head of global foreign exchange strategy for Credit Agricole in Hong Kong.

"The Bank of Japan didn't move too long ago, but I think since then, there's almost been an expectation that central banks are going to keep on pushing on the monetary levers," Kotecha said.

"There was always an outside chance that we might see a follow-up today," he added.

Japanese officials have been fretting about the strength of the yen, which has remained resilient despite the BOJ's easing last month.

MARKET REVIEW *(Continued)*

Part of the reason is that the U.S. Federal Reserve's own stimulus programme has made the greenback unattractive for many investors.

At 1230 GMT, the U.S. will be releasing nonfarm payrolls data for September. With the Fed aiming to reduce unemployment, the market will closely watch the figures.

The dollar is unlikely to fall to levels below 77.50 yen even if the jobs data is weak, said a trader for a major Japanese bank in Tokyo, adding that the greenback would probably find buyers at levels under 78.00 yen.

On the top side, the dollar faces possible resistance at its 100-day moving average, which comes in near 78.83 yen.

(Inside Metals is compiled by Shruthi G in Bangalore)

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