INSIDE METALS

Wednesday, September 11, 2013

CHART OF THE DAY

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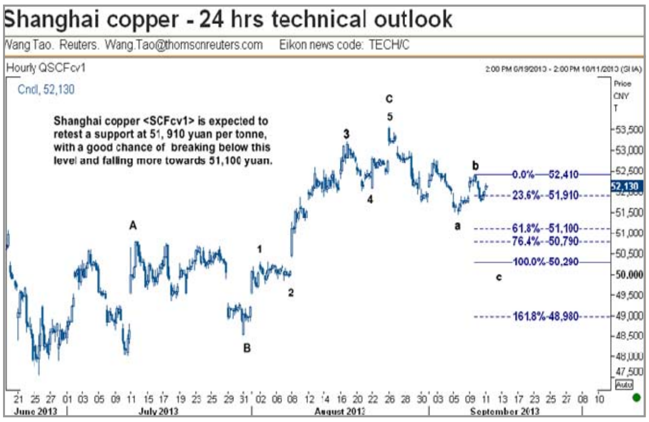

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FEATURE

COLUMN-Pan Pacific officially opens copper "mating season"

The copper "mating season", when terms are negotiated for next year's shipments of both raw materials and refined metal, has just been declared officially open by Japan's Pan Pacific Copper.

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

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TODAY'S MARKETS

BASE METALS: Copper edged higher recouping last session's losses on signs of strength in the Chinese economy and hopes that a U.S. military strike against Syria will be averted.

Syria accepted a Russian proposal on Tuesday to give up chemical weapons and win a reprieve from U.S. military strikes, which could boost investor appetite for risky assets such as industrial metals.

"The crisis in Syria could get resolved relatively quickly. We see the positive economic news coming out of China is lifting copper but it is failing to ignite a rally," said Jonathan Barratt, chief executive of Sydney-based commodity research firm Barratt's Bulletin.

PRECIOUS METALS: Gold traded higher before recovering on bargain-hunting, but hopes a U.S. military strike against Syria could be averted dented its safe-haven appeal.

Syria has accepted a Russian proposal to give up chemical weapons but U.S. President Barack Obama said it was too early to tell if the initiative would succeed, vowing to keep military forces at the ready to strike if diplomacy fails.

"It's really a confluence of three things," said Mark Keenan, a cross-commodity research strategist at Societe Generale in Singapore.

FOREX: The yen hit a seven-week low against the dollar and stood near multi-year lows against the euro and sterling as risk-aversion eased on signs the United States is moving away from taking military action against Syria following a diplomatic initiative from Russia.

"The American public is hardly enthusiastic about a military action and it looks as if Obama was looking for an excuse not to attack Syria," said Minori Uchida, chief FX strategist at the Bank of Tokyo-Mitsubishi UFJ.

FEATURE

COLUMN-Pan Pacific officially opens copper "mating season"

By Andy Home

LONDON, Sept 10 (Reuters) - The copper "mating season", when terms are negotiated for next year's shipments of both raw materials and refined metal, has just been declared officially open by Japan's Pan Pacific Copper.

Senior company executives laid out their starting positions at a press conference on Monday.

Pan Pacific Copper's views count.

Not just because with 710,000 tonnes of refined copper capacity it is one of the world's largest producers.

But also because its views are implicitly those of the rest of the Japanese copper smelter pool, still a powerful enough entity to determine "benchmark" prices.

And Pan Pacific's views are that both raw material conversion terms and refined metal premiums should rise next year. And substantially so.

To some extent this is no more than a smelter wish-list, the opening shots in what, based on previous years' experience, are likely to be protracted and fiercely-contested talks.

And to some extent the company's stance reflects no more than the current reality in the spot market for both copper concentrates and refined metal. Treatment charges for the former and physical premiums for the latter have soared in the last couple of months.

But there is an inherent contradiction between implied surplus in the raw materials market and tightness in the refined metal market, or at least sufficient tightness to justify Pan Pacific's call for a 50-percent hike in premiums.

Can the two apparently contradictory trends be reconciled? Yes, but probably only for a highly limited period of time.

TREATMENT CHARGES: AIMING HIGH

Pan Pacific Copper and, by implication, its fellow Japanese smelter-refineries, are setting their sights high in terms of raw material terms next year.

The target is a treatment charge (TC) of $95 per tonne and a refining charge (RC) of 9.5 cents per lb. These are the conversion costs deducted from the price of copper in purchases of concentrates from miners.

They mark an extremely sharp jump from the TC/RCs of $70 per tonne and 7 cents per lb negotiated last year and from the mid-year terms of $72 and 7.2 cents.

Indeed, they would be the highest conversion charges since at least 2006, although any direct comparison over that time-frame becomes difficult since key components of the contracts, such as price participation clauses, have largely vanished in the interim.

That TC/RCs will rise should not be in doubt. Spot market terms are already over $80 and 8 cents, reflecting much improved availability.

BUILDING SURPLUS

Global copper concentrate production soared by 10.5 percent over the first five months of this year, according to the International Copper Study Group.

That figure is flattered by a low comparison base in 2012 but the underlying trend from historical famine to future feast is undeniable.

Years of collective under-investment by the world's miners underpinned a bull copper market that began in 2006 and, bar a brief interlude during the Global Financial Crisis, is still running. The current copper price of $7,200 per tonne may be a long way off the 2011 peaks above $10,000 but it's still comfortably above the cost curve, in stark contrast to most of the other base metals.

High prices incentivised miners to expand existing mines and build new mines and the cumulative impact is now starting to make itself felt.

The supply surge is still only building with most observers expecting the peak some time next year.

Which is why, along with rising costs, Japanese smelters are aiming high. They will find common cause with their Chinese counterparts, whose negotiating position will be much enhanced by the start-up of the Oyu Tolgoi mine just across the border in Mongolia.

That said, headline terms are almost certainly not going to match smelter ambitions. Miners will resist what would be a near unprecedented annual increase.

But next year's "benchmark" deals will tell only part of the copper raw materials story.

Just as with other metallic raw materials such as iron ore and alumina, pricing is migrating away from annual "benchmarks".

The process is far less advanced in the copper raw materials markets but increasing tonnages are being priced on half-yearly, quarterly and spot pricing.

The headline 2014 TC/RCs will capture the shift towards market surplus. But the size of that surplus will become more apparent in the shorter-term deals that are concluded as the year unfolds.

In other words, Pan Pacific may not get its $95 and 9.5 cents now. But it may get there or at least close to there later in 2014.

REFINED METAL PREMIUMS - AIMING HIGHER

Pan Pacific Copper is aiming even higher when it comes to premiums on 2014 metal sales to China.

It's targeting $130 per tonne over LME cash That compares with this year's double "benchmark" of $85 per tonne for Japanese shipments and $98 per tonne for Chilean shipments.

FEATURE *(Continued)*

As with concentrate treatment terms, some sort of increase next year looks inevitable.

Chinese physical premiums recently spiked to over $200 per tonne, an extremely high level by any historical yardstick. They have eased since then but at around $150-160 per tonne, the gap with this year's term premiums is still a yawning one.

Even Chinese buyers seem reconciled to some sort of increase but of a much lower magnitude than that targeted by Pan Pacific.

However, just as the upwards trend in raw material terms is likely to continue beyond any 2014 "benchmark", there is good reason to believe that refined metal premiums will trend lower from the headline deals for next year.

PREMIUM SPIKE

There have been two core drivers of the recent spike in Chinese metal premiums.

The first has been what might politely be termed the queue dynamics of London Metal Exchange (LME) stocks in the Asian region.

Most of the LME inventory in Asia is located in Johor, where it has been drawn by "freight incentives" offered by warehouse operators.

The Malaysian port currently holds 215,600 tonnes of exchange-registered copper. The three South Korean good delivery locations, by contrast, hold just 11,950 tonnes.

Most of that Johor tonnage, 160,875 tonnes, is in a load-out queue. That has set a floor underneath regional physical premiums, which meant that when the second driver of the premium spike kicked in, Chinese restocking, it did so from an elevated base.

China has been on a major stocks-building exercise after domestic inventory, particularly the statistically opaque stocks sitting in Shanghai's bonded warehouse zone, was severely depleted over the first half of this year.

The result can be seen in the accelerated flow of copper into the country, a trend that is expected to last at least a couple more months.

That restocking impetus, however, will fade over the coming months. And, given the regulatory scrutiny of LME load-out queues, the Johor backlog should dwindle. It certainly seems highly unlikely it will grow further.

DIMINISHING TIGHTNESS

Both developments can be expected to take some of the recent heat out of the Chinese premium market.

But the longer-term reason to expect lower metal premiums is the flip-side of the trend in raw materials pricing.

As concentrate availability builds and treatment terms continue to improve, Chinese smelters will be incentivised to increase their own production.

They certainly have the capacity to do so.

Indeed, there is already a noticeable disconnect between the 37-percent rise in Chinese copper concentrate imports over the first eight months of 2013 and the 12-percent rise in national refined copper production in August.

Less copper scrap supply and/or lower domestic mine production might help explain the gap but there is also a suspicion that the country's smelters are merely biding their time, possibly with one eye also on the 2014 mating season.

At some stage there is the potential for a step-change in Chinese smelter utilisation rates which will see raw materials surplus flow through to refined metal surplus.

In other words, Pan Pacific may well win higher premiums on its term sales of refined metal to China next year, although not necessarily to the extent it's hoping for.

But both higher raw materials terms and higher refined metal terms will only be achievable for a limited period of time. Over the longer term Pan Pacific and other smelter-refineries will get the one at the price of the other.

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

GENERAL NEWS

Glencore squeezes $2 billion out of Xstrata deal

By Clara Ferreira-Marques

LONDON, Sept 10 (Reuters) - Glencore will cut spending, shelve dozens of projects and squeeze more than expected from its record-breaking purchase of mining group Xstrata, lifting benefits from the deal to at least $2 billion in 2014.

Commodities trader Glencore has been at pains to defend its $46 billion takeover of Xstrata, a blockbuster for the mining sector that came just as the commodities cycle turned.

The increase in the deal's headline benefits was expected, given Glencore's conservative targets. But the company's promise of more to come, plus a commitment to capital discipline in a sector that squandered billions during the mining boom was taken positively by the market.

Glencore's shares, which have underperformed the UK mining sector by around 7 percent since the merger completed in May, were up 2.4 percent in London at 1500 GMT at 329 pence.

The commodities trader had forecast $500 million of synergies when the acquisition was first announced last year - but that included only the benefit of channelling more of Xstrata's output through Glencore's marketing machine.

In its first detailed presentation since closing the deal, Glencore said it now planned for synergies to exceed $2 billion for 2014, including marketing and financing benefits but also $1.4 billion through cost savings alone, more than many analysts had forecast.

"As we delve deeper into the assets ... I am sure there is more to go - to pinpoint what that number is, is difficult," Chief Executive Ivan Glasenberg said on Tuesday, adding the additional cuts would come from both trading and operations.

"We have to get mine managers to understand what Glencore needs, and how many people it needs to implement it. By the end of this year, we will have that in place."

Glencore did not say how much it expected to squeeze from the next phase of cost saving and synergies, to be outlined in the next six months, though analysts at Sanford Bernstein said it could be as high as another $1 billion.

Much of the savings so far came from cutting corporate costs - Glencore has closed 33 offices in three months and slashed almost half Xstrata staff in headquarters or divisional offices.

But up to $576 million of the $2 billion total - the largest slice of the current savings - has already come from the coal division, where Glencore like other miners is struggling with weak prices and oversupply. Glencore said almost a third of global thermal coal production is now loss-making.

Glencore's coal division has made the steepest cost cuts so far, because of the pressure on margins from weaker prices. The group is now digging into other key divisions from copper to nickel. Productivity in coal has already improved by more than a fifth per employee, Glencore said.

It has put operations on hold and shut others, including the Wandoan project and the Collinsville mine in Australia, and more could be frozen, Glencore's co-head of coal, Peter Freyberg said, adding the group would not "cross-subsidise".

PROJECTS ON HOLD

Glencore Xstrata sees itself as a proponent of a new culture in mining that focuses on shareholder returns and careful spending. It plans to cut capital expenditure by $3.5 billion by 2015 and hold spending to sustain operations at $4 billion, at the lower end of previous guidance.

Much of that cut is due to Glencore's assumption that it will sell the $5.9 billion Las Bambas copper project next year, therefore removing what would be $2.7 billion of spending.

Glencore also said some of its cuts in metals would be channelled into oil, where it sees higher returns.

The group has not been shy of criticising rivals for pursuing costly greenfield projects - mines built from scratch where cost overruns and delays have been rife. Its Koniambo nickel mine in New Caledonia, inherited from Xstrata, has seen costs escalate from under $4 billion to $6.3 billion.

Glencore said it had cut back an Xstrata project pipeline that would have cost some $21 billion to build. Out of a total of 88 Xstrata projects, 44 have been suspended and 7 cut back.

"Will we develop (the greenfield projects)? We will be more pragmatic than others," Glasenberg said.

Glencore gave little detail on sales and divestments, which include the Las Bambas mine in Peru, in which it expects first bids next week and Chinese suitors. It said a 25 percent stake in platinum miner Lonmin remained non-core, though there was "no rush" to sell.

Mining companies balk at Mexico's proposed royalty plan

By Gabriel Stargardter

MEXICO CITY, Sept 10 (Reuters) - Mining companies have threatened to cut investment in Mexico after the government proposed a 7.5 percent mining royalty, arguing that lower metal prices, rising running costs and higher taxes reduce the country's investment allure.

The royalty proposal was part of President Enrique Pena Nieto's plan to bolster Mexico's feeble tax haul, a reform which focuses on reaping more income tax from higher earners, closing corporate loopholes and widening the tax base.

In April, Mexico's lower house of Congress approved a new percent royalty to redistribute miners' profits to the states and municipalities where they mine. The bill was originally due for a Senate vote in coming months.

However, lawmakers later decided to fold it into Pena Nieto's fiscal reform, which has upped the stakes, proposing a royalty of 7.5 percent of earnings before interest, taxes, depreciation

GENERAL NEWS *(Continued)*

and amortization (EBITDA). It would rise to as much as 8 percent for gold, silver and platinum miners.

Mining firms were already unhappy about the planned 5 percent royalty payment, and grumbling has increased following the proposal of a higher levy by the centrist government.

John-Mark Staude, chief executive of Canadian mining firm Riverside Resources Inc , said he has taken 45 percent of his local operations out of Mexico since discussions about a royalty scheme began about two years ago, and threatened to take half of what he has left if the higher levy is approved.

"I know I'm moving: we've moved into Canada; we're still in Mexico, but we've moved into the United States," Staude said. "I'm not saying it's a death knell. But at this time, the investors are not willing to carry that risk."

Keith Neumeyer, CEO of Canadian silver miner First Majestic , also criticized the plan. "If the law is passed as the government is presently proposing, it will majorly impact investment in Mexico," he told Reuters.

Camimex, Mexico's mining chamber, which argued against the first royalty scheme, said it was still analyzing the proposal.

The government says Mexico, the world's biggest silver producer, has been too generous to mining firms for too long.

"This mechanism will not affect investment decisions and is much more favorable than those adopted in other countries where they simply tax revenues," the government said in its proposal.

Unlike regional peers Brazil and Peru, which have already imposed mining royalty schemes in addition to charging mining companies an aggregate tax levy on profits of more than 34 percent, Mexico only charges miners income tax of 30 percent.

Mining is the fourth-largest industry behind carmaking, electronics and the oil sector, accounting for nearly 5 percent of gross domestic product in Latin America's No. 2 economy.

TAXING TIMES

Mining companies invested more than $21 billion into exploration projects around the world last year, and Mexico saw about 6 percent of that, according to data from SNL Metals Economics Group, just below the United States.

Alongside the higher royalty, the Mexican government wants to charge a quarterly fee to mining companies sitting on mines that have not operated for more than two years.

Half the money made by the tax would be pumped into a social fund for the villages and towns where mining take places. But it is not clear how much money the government hopes to reap.

Mining executives say the timing of the proposal is awkward, given the recent drop in metals prices. Spot gold prices , for example, which had enjoyed a decade-long bull run, have fallen 20 percent since this time last year.

"We're going to try and lobby lawmakers to tell them that the timing, the scale, the mechanism and the methodology behind this (Mexican) scheme, will only endanger, not boost, the public purse," said Armando Ortega, Canadian miner New Gold Inc's vice president for Latin America.

"If the low price cycle keeps falling ... many companies are going to suspend operations," he added.

While active mines are less likely to be affected, investment in exploration, which relies on high-risk seed money, could take a serious hit, said Staude at Riverside Resources.

"There's already been a massive decrease in investment and if the mining laws are against it, there will not be a backflow of investment for exploration back into Mexico," he said.

South Africa's Gold Fields says under U.S. SEC investigation

By David Dolan and Ed Stoddard

JOHANNESBURG, Sept 10 (Reuters) - South African bullion producer Gold Fields said on Tuesday it was being investigated by the U.S. Securities and Exchange Commission over a $210 million black empowerment deal involving a senior member of the ruling party.

Gold Fields, which is also listed in the United States and so subject to scrutiny from U.S. regulators, said in a statement it was being probed over the 2010 deal and the granting of a mining licence for its South Deep mine near Johannesburg.

The 2.1 billion rand ($210 million) transaction saw Gold Fields give a 9 percent stake in South Deep to a group of black investors to meet government targets for black economic empowerment (BEE), including black ownership.

The ruling African National Congress has championed BEE to redress the inequalities left by white-minority rule, which ended in 1994.

Critics say BEE has mainly benefited a narrow elite of politically connected individuals and failed to transform what is still one of the world's most unequal societies.

The South Deep deal has come under particular scrutiny because the beneficiaries include ANC chairwoman Baleka Mbete, as well as relatives of anti-apartheid heroes including Nelson Mandela.

The ANC said in a statement it was considering legal action against the Mail & Guardian newspaper for an article last week that alleged Mbete used her political clout to benefit from the deal.

Gold Fields, South Africa's second-biggest gold producer by revenue, said last month an independent investigation found the implementation of the transaction did not meet it own standards and Chief Executive Nick Holland has waived his 2013 bonus as a result.

GENERAL NEWS *(Continued)*

The company has not released the results of the investigation, which it commissioned following local press reports about the deal.

GOVERNMENT PRESSURE

Former Gold Fields chairwoman Mamphela Ramphele - who has since founded a party to challenge the ANC - told the Business Day newspaper in March the firm had come under government pressure to include specific shareholders in the deal.

Gold Fields has said Ramphele's comments represent her personal view.

Holland himself told Business Day in 2012: "In discussing the details around South Deep we got stuck: there were certain people who decided they had a lot of power and authority and they were going to wield it."

The company has said it wanted to identify people who had "contributed to the successful and peaceful transition to democracy in South Africa," as beneficiaries for the deal.

The deal has also made headlines because of the participation of Gayton McKenzie, a flashy ex-convict-turned-businessman and motivational speaker.

McKenzie wrote in his 2013 book "A Hustler's Bible" that he was "appointed to lead the Gold Fields mining licence application".

"I made them understand that they had a big problem at their company with their licence application," he wrote.

Gold Fields has dismissed allegations that McKenzie used his influence to place politically connected individuals in the deal in order to secure a licence for South Deep.

"It is critical to note that the South Deep licence was awarded before the participants in the BEE consortium were finalised," the company said in a statement last year.

Shares of Gold Fields were down 0.9 percent at 51.80 rand at 1418 GMT.

MARKET NEWS

U.S. aluminum users slam LME's plan to solve warehousing crisis

By Josephine Mason

NEW YORK, Sept 10 (Reuters) - A group of aluminum users, including MillerCoors LLC and other makers of drink cans, have said the London Metal Exchange's proposal to overhaul its controversial warehousing policy will "fall short" of solving the long wait times and inflated prices.

In a letter dated Sept. 9, the so-called "aluminum users group" called on the LME to implement even bigger changes, which they say will end long wait times, increase transparency for physical pricing and restore user confidence in the exchange.

Without that, there will be "more dysfunction, more manipulation and more harm", the letter from the group said. It also asked for a meeting with the LME.

The letter was in response to dramatic changes announced by the LME on July 1, aimed at soothing irate industrial users who say the LME's warehousing policy has led to record high physical premiums for aluminum and long wait times to take delivery.

While some of the group's suggestions may be hard to enforce, the seven-page letter will likely increase pressure on the LME and its new owner, Hong Kong Exchanges and Clearing , to deal with the problem as regulatory, legal and political scrutiny of the exchange intensifies.

Several changes that called for greater regulation and increased transparency at the exchange also underscored prolonged criticism among some industrial users and traders about how the 136-year old exchange is run.

Some consumers say a lack of regulation in the United States and Britain is partly to blame for the problem.

"We encourage the LME to work towards a coordinated regulatory framework across countries and regions. This will help guard against manipulation of LME rules and ensure a fair and open marketplace for metal," it said.

In July, MillerCoors, the second largest brewer in the United States, raised the issue in a hearing at the U.S. Senate Banking Committee, saying high physical prices have cost U.S. consumers an extra $3 billion a year in expenses.

Alongside Goldman Sachs and other banks and traders that now own many of the world's biggest warehousing companies, the LME is facing several class action lawsuits alleging "anticompetitive behavior" in aluminum warehousing.

U.S.and UK regulators are also investigating the issue.

At the heart of the issue are several companies with warehouses registered by the LME, including Glencore-owned Pacorini, Trafigura's NEMS and Goldman Sachs' Metro. These companies have found a lucrative business in building up big stocks, charging rent for storage and delivering metal out of storage only at a limited rate.

In its third effort to resolve the problem in as many years, the LME has proposed linking the rate at which a warehouse, with big stockpiles and long wait times of more than 100 days, is required to load out material to the rate at which it brings in new metal.

In Monday's letter, the group called on the LME to also rein in "exceptional" incentive payments made by warehouses to attract metal and limit charges for moving metal in and out of storage sheds.

MARKET NEWS *(Continued)*

Among other changes aimed at improving transparency, it said the LME should have more balanced representation on its committees, provide more information about its auditing of warehouses and enforce firewalls between owners of warehouses and merchants to prevent conflicts of interest, the letter said.

In highlighting flaws in the new plan, it said the maximum wait time of 100 days set by the new rules is still too long and the rules could lead a warehouse to refuse to take delivery of new metal or shift metal to non-LME registered facilities.

The deadline for submitting comments on the LME's plan is Sept. 30. Warehousing companies and trading firms have also given their feedback on the plan, sources have said.

Some of the users' suggestions may be difficult for the LME to implement. Any move to limit rent increases would be deemed as price fixing by the European Union and therefore anti-competitive, the LME has said.

A final decision on whether to implement the changes is expected to be made at a scheduled LME board meeting in October and if approved, the new rules would come into force on April 1 next year.

"The changes we seek are simple and straightforward, and would ultimately result in the LME operating like other commodity exchanges around the world," said the Beer Institute, which represents brewers and beer importers who are part of the user group, in an email to Reuters.

Senegal wins court case against Arcelor Mittal -government

DAKAR, Sept 10 (Reuters) - Senegal has won a case before an international tribunal to rescind a $2.2 billion deal with ArcelorMittal after the steelmaker suspended work on an iron ore mine in the West African nation, a government spokesman said.

Abdoulaye Latif Coulibaly said the International Chamber of Commerce's arbitration court in Paris had ruled that Senegal was within its rights to cancel the 2007 deal with Arcelor Mittal for the Faleme mine because the company had failed to keep its commitments.

"The tribunal in Paris ruled that Senegal was no longer bound on a contractual basis to ArcelorMittal," Coulibaly told Reuters.

He said the court had not yet ruled on Senegal's request for $750 million in damages.

ArcelorMittal was not immediately available for comment. A spokesman for the court in Paris declined to disclose details of the arbitration.

ArcelorMittal had initially planned to invest $2.2 billion in the project, including building a new port near the capital of Dakar and a 750 km (406 mile) railway line linking it to the mine in the country's far east.

The mine is estimated to contain 750 million tonnes of reserves.

However, the project was suspended after the global economic crisis struck. Senegalese President Macky Sall, who took office last year, is trying to revive the economy of the West African nation.

Low prices take toll on Cuban nickel revenues

By Marc Frank

HAVANA, Sept 10 (Reuters) - Cuban nickel industry revenues were well below expectations in the first six months of the year, mainly because of low international prices, official radio reported this week.

The provincial radio station of Eastern Holguin province, Radio Angulo, reporting on a visit to Moa municipality by provincial Communist Party leader Luis Torres Iribar, said the municipality's exports were short 26 percent, or $90 million, for the period.

Cuba's only two nickel plants, the Cubaniquel-owned Ernesto Che Guevara plant and the Pedro Soto Alba, a joint venture between Canadian mining company Sherritt International and Cubaniquel, are both located in Moa.

The report said that the Ernesto Che Guevara plant's earnings were 15 percent below expectations, and the Pedro Soto Alba plant was down 25 percent, "mainly due to the low price of the mineral on the world market."

Cuba plans to produce around 62,000 tonnes of unrefined nickel plus cobalt in 2013, according to local and foreign company reports.

Sherritt International has said it expects the Pedro Soto Alba plant to produce 38,000 tonnes, similar to 2012. An Ernesto Che Guevara manager said earlier this year the plant would produce 23,700 tonnes.

State monopoly Cubaniquel and Sherritt are also partners in a Canadian refinery where output from the Pedro Soto Alba plant is shipped, and after refining the product is marketed by yet another venture between them.

China and Europe also purchase Cuban nickel products, the country's most important exports and one of its top foreign exchange earners after technical services and tourism.

A joint venture ferronickel plant under construction in Moa with Venezuela was scheduled to open by 2014, but construction has now been put on hold.

The Caribbean island is one of the world's largest nickel producers and supplies 10 percent of the world's cobalt, according to the Basic Industry Ministry.

Nickel is essential in the production of stainless steel and other corrosion-resistant alloys. Cobalt is critical in production of super alloys used for such products as aircraft engines.

Ferronickel is an iron-nickel combination mostly used in steel making.

MARKET NEWS *(Continued)*

Cuban nickel is considered to be Class II with an average 90 percent nickel content.

Cuba's National Minerals Resource Center reported that eastern Holguin province had around one-third of the world's known reserves.

Brazil's MMX in talks with Mubadala, Trafigura to sell iron port

By Jeb Blount

RIO DE JANEIRO, Sept 10 (Reuters) - Brazilian tycoon Eike Batista is in talks to cede control of mining company MMX Mineração e Metálicos SA's iron ore port near Rio de Janeiro in exchange for $400 million of new investment and debt relief, according to a securities filing on Tuesday.

The talks, with Dutch trading, energy, mining and logistics company Trafigura Beheer BV [TRAFG.UL] and Abu Dhabi sovereign wealth fund Mubadala Development Co are Batista's latest effort to halt the decline of his once high-flying EBX Group.

"This shows that Batista is succeeding, at least at some of his companies, at getting partners to shore up his melting empire," said João Augusto de Castro Neves, Latin America analyst with Eurasia Group in Washington, D.C. "But it's only a first step and many doubts remain."

The value of EBX's oil, electricity, mining, port and shipbuilding companies, once worth more than $60 billion, has collapsed in the past year because of missed production and profit targets and a weaker outlook for Brazil and other commodities producers.

Once Brazil's richest man with assets of about $35 billion, Batista's fortune is now worth less than $900 million, according to Forbes Magazine.

CASH, DEBT AND ROYALTIES

Under the preliminary accord announced Tuesday, MMX agreed to exclusive talks with Trafigura Beheer and Mubadala, the filing said. If a final agreement is reached, the companies plan to buy an estimated $400 million of new MMX stock to finance the completion of MMX's Sudeste Port and iron ore terminal west of Rio de Janeiro.

The purchase will give Trafigura and Mubadala 65 percent of the port, which has a planned capacity of 50 million tonnes of ore a year and expects to begin operations in 2014. Under the proposed agreement, expected to be worked out over the next four weeks, Trafigura and Mubadala will also assume the bank debts of MMX's iron ore mining unit MMX Sudeste Mineração SA.

The agreement would commit Trafigura and Mubadala to pay holders of special MMX unit shares a royalty of $5 per tonne for iron ore shipped after the port makes a profit, the statement and MMX's press office said. The unit shares, which do not convey ownership in the company, were given to holders of Batista's LLX Logistica SA when it sold the port project to MMX in 2010.

If cemented, the agreement would ensure port access for MMX even as it allows the new controlling shareholders to seek deals with rival miners and steelmakers.

MMX will also have the right to move 7 million tonnes of iron ore through the port and an option to nearly double that to 13 million tonnes by June 30, 2013. If the port's capacity is expanded beyond 50 million tonnes a year, MMX will have the right to raise its share of port capacity proportionally.

"This is good because it will help finish port facilities Brazil needs while fostering competition in the iron ore market," said Adriano Pires, head of the Brazilian Infrastructure Institute, a Rio de Janeiro research group.

While offering much-needed investment, the agreement, by creating new stock in MMX, will dilute value for existing investors whose shares have lost nearly 60 percent of their value so far this year.

MMX shares fell as much as 18 percent on Tuesday, trimming early losses in Sao Paulo to trade at 1.90 reais, a drop of 16.7 percent, late Tuesday afternoon. The stock was on track for its lowest close in a month.

The special unit shares, also traded in Sao Paulo, rose as much as 22 percent, on expectation of the royalties being guaranteed, traders said.

EXPORT OPTIONS

Iron ore exports from Brazil, the No. 2 producer of the raw material, is dominated by Rio de Janeiro-based Vale SA, the world's largest exporter of the mineral. Iron ore is the main ingredient in steel.

MMX's Sudeste Port is one of only a handful of non-Vale iron ore export terminals in the country. When the port starts operations, small and medium-sized miners dependent on ports and railways controlled by Vale and Cia Siderurgica Nacional, the No. 2 iron ore exporter, will have more bargaining power over the cost of transport, a major portion of iron ore costs.

China's Wuhan Iron and Steel Co , also known as Wisco, and Korea's SK Networks, a unit of SK Holdings Co , own minority stakes in MMX. The companies purchased the stakes to gain access to MMX's iron ore mines, now under development, in Brazil's Minas Gerais state.

Without investments from new partners, MMX and other EBX Group companies could run out of cash in coming months, leaving them unable to pay debts and complete major infrastructure projects, including mines, ports and oil fields.

On Aug. 28, Batista agreed to give up control of port operator LLX Logística SA in exchange for a $1.3 billion investment in the company by Washington, D.C.-based investment fund EIG Global Energy Partners.

MARKET NEWS *(Continued)*

Russia to invest $1 bln in rare earths to cut dependence on China

By Gleb Stolyarov

MOSCOW, Sept 10 (Reuters) - Russia will invest $1 billion in rare earths production by 2018 in a bid to become less dependent on China, which controls more than 90 percent of global supply of the elements used in sectors including defence, telecommunications and renewable energy.

The United States, Japan and the European Union have complained to the World Trade Organization about China's efforts to control the sector, saying China is trying to use its stranglehold over supply to drive up prices and gain a competitive advantage.

Rostec and IST group, an investment company belonging to Russian tycoon Alexander Nesis, have agreed to invest $1 billion in rare earths production by 2018, they said in a statement on Tuesday.

Rostec aims to cover Russian demand for these raw materials by 2017, the company added.

"The (Russian) President (Vladimir Putin) and the government have set a task to expand rare earths production as Russia's stocks are almost depleted," a source in state industrial and defence conglomerate Rostec told Reuters on Tuesday.

"Stocks need to be replenished as the main producer, China, has increased prices sharply," the source said.

TriArkMining, a joint venture (JV) between Rostec and IST, has won the right to acquire 82,653 tonnes of monazite concentrate, stored in warehouses of state-owned Uralmonatsit in the Sverdlovsk region of Russia's Urals.

The JV plans to extract about 40,000 tonnes of rare earths from the monazite concentrate stored in the warehouses over the course of seven or eight years starting from 2015, the companies said.

The stock is rich in heavy rare earths, such as dysprosium and terbium, crucial for high-power magnets needed by the auto, defence and clean energy industries.

Heavy rare earths are scarcer than cerium and other light rare earths, making them much more valuable.

Russia consumes about 1,500 tonnes of rare earths per year and annual demand is expected to reach 6,000 tonnes by 2020, Rostec said.

The company, which has eight firms producing a wide range of defence products, sees rare earths as a strategic raw material.

China will cap rare earth production at 93,800 tonnes for 2013 as part of efforts to rein in unlicensed production in the sector, it said last week.

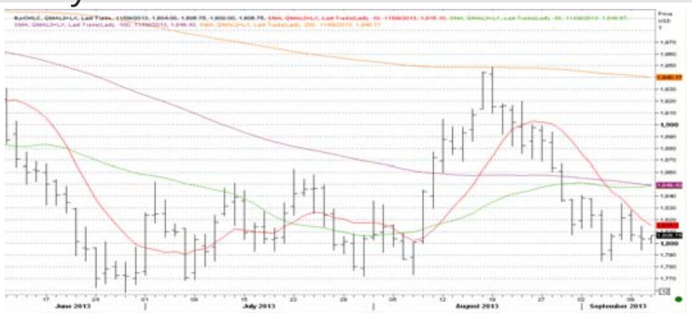
"Russia accounts for only 2 percent of the world's rare earths production. Without new projects, its share in world output would fall below 1.5 percent in the coming years," Sergey Chemezov, Rostec's chief executive, said in the statement.

"Besides that, Russia's high-tech industry will be protected against fluctuations in the rare earths global market."

The ICT group will be a managing partner in the JV, using its experience in industrial engineering and construction of mineral processing and hydrometallurgical plants.

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

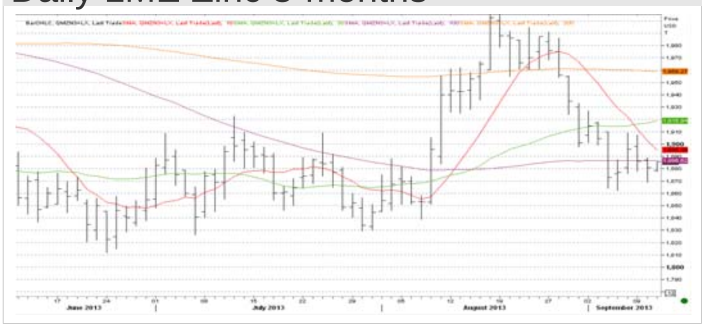
Daily LME Aluminium 3-months



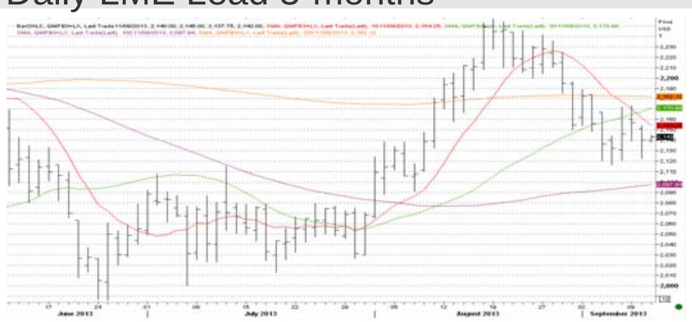
Daily LME Copper 3-months

Daily LME Nickel 3-months

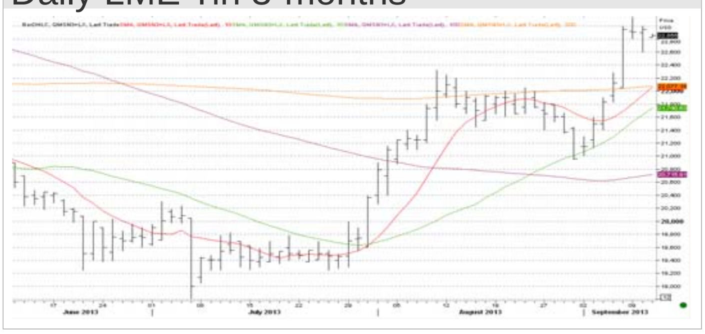
Daily LME Zinc 3-months



Daily LME Lead 3-months



Daily LME Tin 3-months



Daily LME Alloy 3-months

Daily LME Nasaac 3-months

MARKET REVIEW

METALS-Copper near $7,200, Chinese demand hopes underpin prices

By Naveen Thukral

SINGAPORE, Sept 11 (Reuters) - Copper edged higher recouping last session's losses on signs of strength in the Chinese economy and hopes that a U.S. military strike against Syria will be averted.

Syria accepted a Russian proposal on Tuesday to give up chemical weapons and win a reprieve from U.S. military strikes, which could boost investor appetite for risky assets such as industrial metals.

The gain in copper was capped by rising global inventories and on concerns that the U.S. Federal Reserve might soon start to reduce its monetary stimulus programme, following signals the world's largest economy is recovering.

"The crisis in Syria could get resolved relatively quickly. We see the positive economic news coming out of China is lifting copper but it is failing to ignite a rally," said Jonathan Barratt, chief executive of Sydney-based commodity research firm Barratt's Bulletin.

"The follow through in demand is not there, physical orders are not just there."

Three-month copper on the London Metal Exchange rose 0.3 percent to $7,189 a tonne by 0719 GMT. The most-traded December copper contract on the Shanghai Futures Exchange closed up 0.2 percent to 52,050 yuan a tonne.

Copper has risen more than 8 percent since touching three-year lows in June on mounting evidence that a slowdown in China may be bottoming out.

Data from China this week signalled its economy is improving. China's exports rose by a forecast-beating 7.2 percent in August from a year earlier.

China's annual industrial output rose 10.4 percent in August, beating market expectations, while retail sales rose 13.4 percent, official data showed on Tuesday.

China accounts for about 40 percent of global copper consumption.

The copper market is likely to trade in a range amid worries over U.S. stimulus and rising global stocks, analysts said.

The trend of rising copper stocks is leading investors to fret that the market surplus is widening. The latest LME data showed copper stocks at 588,475 tonnes, up more than 20,000 tonnes from a low of 565,500 tonnes in August.

The beginning of the end of the Federal Reserve's determined support for the U.S. economy is expected to come next week when top officials gather for one of the most highly anticipated meetings since the end of the Great Recession. Fed officials will meet on Sept. 17-18.

FOREX-Yen slides as diplomacy eases Syria tensions, China optimism

By Hideyuki Sano

TOKYO, Sept 11 (Reuters) - The yen hit a seven-week low against the dollar and stood near multi-year lows against the euro and sterling as risk-aversion eased on signs the United States is moving away from taking military action against Syria following a diplomatic initiative from Russia.

Also helping risk currencies against the yen, which had seen some safe-haven buying in recent weeks, was a string of solid data out of China, including stronger-than-expected industrial output that reinforced signs that China's economy was stabilizing after slowing for more than two years.

U.S. President Barack Obama said late on Tuesday the Russian offer to push Syrian President Bashar al-Assad to put chemical weapons under international control opened up the possibility of heading off the type of limited military strike he was considering against Syria.

While Obama did voice scepticism on the proposal from Moscow, he also said he has asked the U.S. Senate to put off a vote on his request for an authorization of military force to let the diplomacy play out, sparking fresh yen-selling.

"The American public is hardly enthusiastic about a military action and it looks as if Obama was looking for an excuse not to attack Syria," said Minori Uchida, chief FX strategist at the Bank of Tokyo-Mitsubishi UFJ.

"If the Syrian situation becomes clearer, the dollar/yen could gain further," he added.

The dollar rose to as high as 100.55 yen and last traded at 100.38 yen , flat on the day but retaining its uptrend of the past several weeks.

"Possible easing in tensions over Syria could even strengthen conviction in markets that the Federal Reserve will taper its stimulus. I expect the dollar to stay above 100 yen as the market prices in the Fed's tapering," said a trader at a Japanese bank.

Although the U.S. jobs report last Friday fell short of market expectations, many investors still expect the Fed to start reducing its bond-buying programme at next week's policy meeting, underpinning the dollar.

CHINA RECOVERY

The Japanese currency also hit a four-year low against sterling and edged near a three-year trough against the euro.

The euro briefly rose to 133.375 yen , within sight of a three-year high of 133.82 yen hit in May, and last stood at 133.27 yen.

The pound has handily exceeded its May peak to hit a four-year high of 158.12 yen and last traded at 157.93 yen.

MARKET REVIEW *(Continued)*

The euro held firm against the dollar, fetching $1.3265 , having gained for three consecutive days after hitting a seven-week low of $1.31045 late Friday.

The pound fared even better, thanks to recent signs of a recovery in the UK economy, closing in on its June 17 peak of $1.5753. It last stood at $1.5730 .

Also whetting investors' risk appetite was a string of solid data out of China.

Data published in the last few days, including trade, inflation and industrial production, suggested the world's second largest economy may have arrested the recent slowdown.

"People have pretty low expectations on China now. But if the Chinese economy is getting better, that's a good thing for the whole global economy," said Sho Aoyama, senior market analyst at Mizuho Securities.

Signs of recovery in China, Australia's major export market, have helped to boost the Aussie to a seven-week high of $0.9320, though that level proved to be a strong resistance point. It last traded at $0.9290 , down slightly from late U.S. levels.

PRECIOUS-Gold traded higher as easing Syria tensions dent safe-haven appeal

By Lewa Pardomuan

SINGAPORE, Sept 11 (Reuters) - Gold traded higher before recovering on bargain-hunting, but hopes a U.S. military strike against Syria could be averted dented its safe-haven appeal.

Syria has accepted a Russian proposal to give up chemical weapons but U.S. President Barack Obama said it was too early to tell if the initiative would succeed, vowing to keep military forces at the ready to strike if diplomacy fails.

Gold, which has fallen more than 18 percent this year, is also being hurt by expectations the U.S. Federal Reserve will opt to taper its monetary stimulus programme after a meeting on Sept. 17-18.

Spot gold hit a low of $1,356.85 an ounce, its weakest since August 22, and stood at $1,366.61 by 0632 GMT, up $3.02 on the day. The Fed's three quantitative easing schemes have buoyed prices of gold and other commodities.

"It's really a confluence of three things," said Mark Keenan, a cross-commodity research strategist at Societe Generale in Singapore.

"Currency weakness, specifically in India, the tapering that we believe will be announced in (the Fed) meeting, and a slight deterioration in the requirement of having a safe-haven in the light of these strikes in Syria possibly being averted."

U.S. gold rose $2.80 an ounce to $1,366.80.

Asian shares climbed on Wednesday and were on track to post their 10th straight day of gains, curbing appetite for gold.

U.S. crude for October delivery was down 54 cents at $106.85 a barrel.

"Over the days ahead, we likely will see various markets continue to breathe a bit easier, meaning that the crude oil markets will likely remain very vulnerable to more downside pressure," said Edward Meir, an analyst at INTL FC Stone.

"Although gold may decline in sympathy as well, we think it is in store for a much larger break once the Fed announces its tapering decision next week."

The physical market has yet to pick up in Asia and other regions even though gold has fallen below the psychologically key level of $1,400 an ounce. On the other hand, sales of scrap subsided in Singapore, keeping premiums for gold bars unchanged at $1 to $1.50 an ounce to spot London prices.

In top consumer India, a sharply lower rupee curbed buying interest despite an approaching festival.

"Physical buying is very price-sensitive, and the bulk of the buying was seen more towards the $1,300 level. One of the main things which we've seen contributing to the decline in physical buying has been the weakness in the rupee," said Keenan at Societe Generale.

Indian gold demand typically picks up between August and October, when consumers buy bullion to celebrate festivals, peaking with the Diwali festival of lights which falls in November this year.

(Inside Metals is compiled by Pradip Kakoti in Bangalore)