INSIDE METALS

Thursday, September 12, 2013

CHART OF THE DAY

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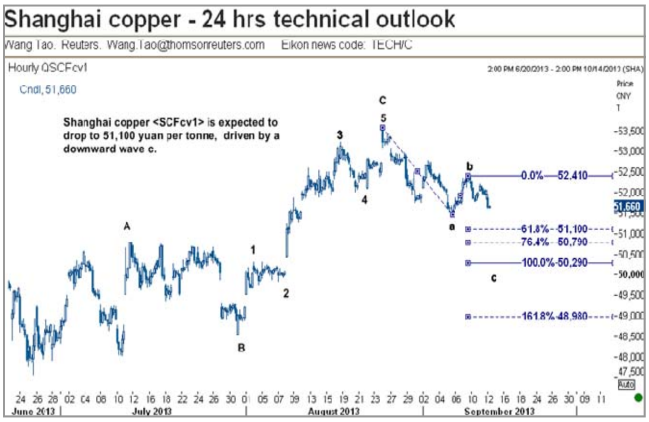

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Diplomatic efforts intensify on corralling Syrian chemical arms

Diplomatic efforts to place Syria's chemical weapons under international control intensified on Wednesday as Russia warned that a U.S. strike could unleash extremist attacks and carry the country's bitter civil war beyond Syria's borders.

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TODAY'S MARKETS

BASE METALS: London copper eased to its lowest in four sessions on subdued buying ahead of the Federal Reserve's stimulus decision next week, although Chinese demand put a floor under prices.

Copper prices have recovered more than 8 percent from three-year lows plumbed in late June, but have failed to gain traction above $7,420 a tonne, the top-end of their recent band and the highest in 10 weeks, hit in mid-August. "Even though (Chinese) copper demand is better than last year, we don't expect very strong demand ... because even though some big sized semi producers or end users are reporting improving sales volume, a lot of smaller ones are experiencing falling demand," said analyst Chunlan Li of research firm CRU in Beijing.

PRECIOUS METALS: Gold fell more than half a percent to its weakest level in three weeks as hope grew that a U.S strike on Syria could be avoided and on expectations the U.S. Federal Reserve would start to unwind its monetary stimulus soon.

"It looks like with the politicians taking a much more measured approach to the problem in the Middle East, gold has lost its shine again," said CIMB regional economist Song Seng Wun.

FOREX: The dollar dropped to two-week lows against a basket of major currencies as markets continued to chip away at its recent gains on growing doubts the Federal Reserve will scale back stimulus in any significant way next week. "With threats of an immediate U.S. attack on Syria subsiding, the market focus is moving to the Fed's meeting. The market's conviction that the Fed will go ahead with reducing stimulus has weakened a little bit after the payroll data last week," said Katsunori Kitakura, associate general manager of market making at Sumitomo Mitsui Trust Bank in Tokyo.

FEATURE

Diplomatic efforts intensify on corralling Syrian chemical arms

By Stephanie Nebehay and Louis Charbonneau

GENEVA/UNITED NATIONS, Sept 11 (Reuters) - Diplomatic efforts to place Syria's chemical weapons under international control intensified on Wednesday as Russia warned that a U.S. strike could unleash extremist attacks and carry the country's bitter civil war beyond Syria's borders.

U.S. Secretary of State John Kerry and Russian Foreign Minister Sergei Lavrov spoke by phone, the State Department said, one day before they meet in Geneva to try to agree on a strategy to eliminate Syria's chemical weapons arsenal.

The five permanent veto-wielding powers of the U.N. Security Council met in New York to discuss plans to put Syria's chemical weapons under international control - averting a threatened U.S. military strike - as Britain, France and the United States talked about drafting a resolution.

The U.N. ambassadors of China and Russia as well as Britain, France and the United States met for about half an hour at the Russian U.N. mission. They declined comment as they left.

In a reminder of the mounting atrocities in Syria, a report by a U.N. commission of inquiry documented eight mass killings, attributing all but one to Syrian President Bashar al-Assad's forces. It said Assad's forces almost certainly committed two massacres in May that killed up to 450 civilians.

An initial French draft Security Council resolution called for delivering an ultimatum to Assad's government to give up its chemical weapons arsenal or face punitive measures.

But underscoring the diplomatic gulf over military action, Russian President Vladimir Putin warned against a U.S. strike on Syria, saying such action risked escalating the conflict beyond that country and unleashing terrorist attacks.

Putin, writing in the New York Times, said there were "few champions of democracy" in the 2-1/2-year-old civil war in Syria, "but there are more than enough Qaeda fighters and extremists of all types battling the government."

Putin cautioned against taking military action without U.N. Security Council authorization, saying, "We must stop using the language of force."

U.S. President Barack Obama said in a speech on Tuesday that he had asked Congress to put off a vote on his request to authorize military action in Syria to let diplomacy play out, although the threat was still needed to ensure Syria complies.

Obama cited "encouraging signs" in part because of the U.S. threat of military action to punish Assad for what the United States and other Western powers say was the Syrian government's use of poison gas to kill 1,400 civilians in Damascus on Aug. 21. Assad's government blames the attack on the rebel forces.

On Tuesday, Syria accepted a Russian proposal to surrender its chemical weapons to international control to try to win a possible reprieve from a U.S. military strike.

Russia has been Assad's most powerful backer during the civil war, which has killed more than 100,000 people since 2011, delivering arms and - with China - blocking three U.N. resolutions meant to pressure Assad.

"We are doing the responsible thing here, which is testing the potential there for success," White House spokesman Jay Carney told reporters, referring to the diplomatic push. "I suspect this will take some time."

Diplomats said there have been other draft resolutions under discussion and an attempt was being made to come up with common language agreeable to Britain, France and the United States, whose envoys met separately on the issue.

Kerry also planned to meet U.N.-Arab League envoy Lakhdar Brahimi while in Geneva, said State Department spokeswoman Jen Psaki. At least two days of U.S.-Russian talks are expected there, possibly more, she said.

U.S. lawmakers said the Senate could start voting as soon as next week on a resolution to authorize military force if efforts to find a diplomatic solution fail. Obama has struggled to find support in Congress for the plan.

WAR CRIMES REPORT

The U.N. report released in Geneva, largely covering incidents between May and July, said government and rebel fighters committed war crimes including murder, hostage-taking and shelling of civilians. It accused forces loyal to Assad of bombing schools and hospitals, and rebels of carrying out summary executions.

The commission, led by Paulo Pinheiro of Brazil, urged the U.N. Security Council to hold perpetrators accountable for war crimes and crimes against humanity.

The May killings in Baida and Ras al-Nabaa, two pockets of rebel sympathizers surrounded by villages loyal to Assad on the outskirts of the town of Banias, did not involve fighting with rebels and appeared designed to send a message of deterrence.

In Baida, the report said between 150 and 250 civilians were allegedly killed, including 30 women, apparently executed, found in one house. It said armed rebels were not then active in the area. It gave a figure of 150 to 200 dead in Ras al-Nabaa.

The Syria conflict began in March 2011 as an uprising against Assad and descended into a civil war in which mostly Sunni Muslim rebels are pitted against Assad's forces, who are backed by Shi'ite Muslim Iran and Hezbollah.

In Moscow, Russia's parliament urged the United States not to strike Syria, saying in a unanimous declaration that military action could be a "crime against the Syrian people."

FEATURE *(Continued)*

The non-binding declaration by the State Duma, the lower chamber dominated by the Kremlin-controlled United Russia party, echoed the vociferous opposition by President Vladimir Putin to U.S. military action.

The Duma expressed support for Russia's proposal to place Syria's chemical arsenal under international control, which Putin said on Tuesday would only succeed if the United States and its allies abandoned plans for possible military action.

Crude oil prices edged up in New York as investors worried about whether diplomatic efforts on Syria would avert military action that could disrupt oil supplies, while U.S. stocks closed higher amid the diplomatic push.

VIOLENCE CONTINUES

The violence continued inside Syria. Fighters from an al Qaeda-linked rebel group killed 12 members of the minority Alawite sect in central Syria after seizing their village, an opposition monitoring group said.

Alawites are an offshoot sect of Shi'ite Islam and have been increasingly targeted by radical fighters among the Sunni-dominated opposition in the revolt against Assad, himself an Alawite.

In Geneva, the International Committee of the Red Cross asked the United States and Russia to address obstacles to delivering aid in Syria at their talks on Thursday.

Israeli Prime Minister Benjamin Netanyahu kept up pressure for action, saying Syria must be stripped of its chemical weapons and that the international community must make sure those who use weapons of mass destruction pay a price.

Netanyahu said Syria had carried out a "crime against humanity" by killing innocent civilians with chemical weapons and that Syria's ally Iran, which is at odds with the West over its nuclear program, was watching to see how the world acted.

"The message that is received in Syria will be received loudly in Iran," Netanyahu said.

GENERAL NEWS

Brazil prosecutors seek to block Canadian gold mine in Amazon

By Anthony Boadle

BRASILIA, Sept 11 (Reuters) - Brazilian prosecutors want to block the permit for a massive gold mine planned by Belo Sun Mining Corp on the Xingu River in the Amazon, arguing that the Canadian company has failed to study the impact on local Indian communities, the prosecutors' office said on Wednesday.

The Volta Grande, or Big Bend, open-pit project is slated to start operating in 2016 and become Brazil's largest gold mine. It is in the northern state of Para next to another controversial project, Belo Monte, which is designed to become the worlds third largest hydroelectric dam and has also been the target of lawsuits and public prosecutors.

Environmentalists, and now federal authorities, are saying the double impact of the two massive projects on the habitat of two local Indian communities straddling the Xingu River has not been properly studied.

Federal prosecutors have asked the state government of Para, which is in charge of licensing for the project, to deny permission until the impact of the project on the nearby Arara and Juruna people can be studied. Thais Santi, the local federal prosecutor in Altamira where the mine is located, also wants Brazil's federal Indian affairs agency, Funai, to get involved.

The state of Para's environmental office, SEMA, which is responsible for the permit, has said that studies on the communities can be done after a permit is granted. It is not clear when state officials could decide on the permit.

Helena Palmquist, a spokeswoman for the federal prosecutors' office in Belem, the state capital, said Belo Sun has not heeded two requests from that office for assessments on the communities. "This is the second time we are asking," Palmquist said, adding that the earlier request was in February.

Belo Sun, based in Toronto, said it is dealing only with state officials because they are the ones who issue the permits.

"All I can tell you is that all the permitting for our project is done at the state level, and the approvals are at the state level," Chief Operating Officer Ian Pritchard told Reuters. "I can't tell you anything else."

Federal prosecutors also question whether Belo Sun actually plans to build a mine twice the size of the project first described in an environmental assessment it gave state officials.

In a technical report seen by Reuters ahead of its release later on Wednesday, prosecutors said Belo Sun's assessment mentioned mineral resources of 37.8 million tonnes at the mine. The company's website now reports 88.1 million tonnes.

"The mineral resources that the company is informing its shareholders it has are double the amount," the report said.

Palmquist said this was "unacceptable" because doubling the size of the project would mean greater impact on the environment, with larger waste dumps and a greater volume of dangerous chemicals. The report, citing the company's environmental assessment, mentioned arsenic, cyanide and lead as three of the pollutants the mine would cause.

Pritchard, the Belo Sun executive, said the company has not yet determined the ultimate size of the mine. The company has done a pre-feasibility study, he said, but a definitive feasibility study will not be completed until later this year.

GENERAL NEWS *(Continued)*

Pritchard indicated that any new reserve estimates would be updated in Belo Monte's environmental permit application.

The pre-feasibility study published in May estimated average production of 313,100 ounces of gold per year over a mine life of 10 years, with production starting in early 2016.

The pit design was based on a gold price of $910 per ounce.

The study found that 2.8 million ounces of its estimated 4.7 million ounces of measured and indicated gold resources were economically viable reserves, but it said recent exploration work could boost reserves and extend the life of the mine.

BNP Paribas cuts 2014 price forecasts for most base metals

Sept 11 (Reuters) - BNP Paribas lowered its 2014 price forecasts for most of the base metals except copper, and said price direction was likely to continue to be set by geopolitics and market expectations on the timing of the U.S. Federal Reserve's withdrawal of stimulus.

"As Fed expectations firm up, with associated U.S. dollar strength, we expect fresh downward pressure on base metal prices regardless of the internal fundamentals," BNP analyst Stephen Briggs said in a note.

The investment bank, which has trimmed its forecast of world base metals demand growth in 2013 to 4.0-4.5 percent on average,

lowered its 2014 aluminum price forecast by $135 to $1,865 per tonne and nickel outlook by $2,200 to $14,875 per tonne.

BNP Paribas also lowered its 2014 lead price forecast by $65 to $2,325 per tonne and zinc price forecast for next year by $115 to $2,060 per tonne.

The bank, however, continues to forecast an acceleration of world base metals demand growth in 2014 to about 5.5 percent on average and said its view is supported by the improving signs of the European economy.

BNP has raised its 2014 copper price forecast by $25 to $6,675 per tonne.

Copper and aluminium respectively would be the most and the least exposed to deterioration in economic and demand prospects, reflecting their very different positions relative to production costs, analyst Briggs added.

S.Africa gold wage hikes to add $150 mln in costs-industry

By Ed Stoddard

JOHANNESBURG, Sept 11 (Reuters) - Wage settlements in South Africa's gold sector will amount to 1.5 billion rand ($150 million) in extra costs for companies over the next 12 months, the country's Chamber of Mines said on Wednesday.

Companies and unions agreed to wage hikes of up to 8 percent last week, ending a three-day strike in an industry that has produced a third of the bullion ever pulled from the earth but is now in almost terminal decline.

Separately, the National Association of Automobile Manufacturers of South Africa said its members lost $2 billion in revenue to a four-week strike that ended on the weekend, hammering home the mounting cost of industrial action to Africa's largest economy.

The combined wage bill last year of the main gold producers was 22 billion rand. The workforce has since been trimmed and so the percentage increase of the settlement to the companies' payroll costs cannot be calculated with certainty, though it is probably close to 7.5 percent.

South Africa's gold producers are struggling with rising costs and depressed prices, and said they could not afford to pay out much more without slashing jobs and cutting shafts.

Inflation is 6.3 percent and so the National Union of Mineworkers (NUM), which represents about two-thirds of the country's gold miners, can say it delivered above-inflation pay hikes for its members, following a pattern of recent years.

But the agreements fall far short of the 15 to 60 percent pay rises it had been seeking for a restive black labour force.

Hardline union AMCU, which represents almost 20 percent of the gold workforce, has not signed up and has said its members have given it a mandate to strike though it has not called one.

But Elize Strydom, the chamber's chief negotiator, said that since most of the workforce had signed legally binding agreements, companies can apply the wage settlement unilaterally to all workers.

Therefore from the chamber's perspective, any strike would be considered "unprotected" or wildcat, and workers taking part could be fired.

"We have a wage agreement. There will be no further negotiations about wages," Strydom told a news briefing.

AMCU officials could not be reached immediately for comment but the union will meet on Friday with the chamber, which negotiates on behalf of the country's main gold producers including AngloGold Ashanti , Gold Fields and Harmony Gold .

AMCU'S NEXT MOVES

The industry is carefully watching AMCU's next moves as the union and its members are widely regarded as unpredictable.

AMCU exploded onto South Africa's labour scene last year when it poached tens of thousands of gold and platinum miners from NUM in a bloody union turf war that killed dozens of people, sparked a wave of wildcat strikes and led to sovereign credit downgrades.

But AMCU has been a far more disciplined force this year and has generally been following the rules of the game, a sharp contrast to last year when its members marched by their thousands brandishing spears, clubs and knives.

GENERAL NEWS *(Continued)*

South Africa's Chamber of Mines is also negotiating on behalf of several of the country's coal producers, representing about 20,000 workers, and those wage talks are ongoing.

Markets are also turning their attention to talks in the platinum sector with the world's top producers Anglo American Platinum , Impala Platinum and Lonmin . AMCU is now the dominant union in the industry.

The speedy resolution to the gold dispute has raised hopes that a potentially far more serious strike can be averted in South Africa's platinum sector, which produces about 75 percent of global supplies of the precious metal used for emissions-capping converters in cars.

TRADING PLACES

Rio Tinto's giant Mongolian mine gets new CEO

ULAN BATOR, Sept 11 (Reuters) - The top copper marketing executive at Rio Tinto Ltd will take over as the head of Oyu Tolgoi, the giant Mongolian copper and gold mine controlled by Rio Tinto, Oyu Tolgoi said on Wednesday.

Oyu Tolgoi's board, including three new Mongolian members, approved the appointment of Craig Kinnell as president and chief executive, replacing Cameron McRae from Oct. 1. McRae is leaving Rio Tinto.

Kinnell takes over at a tricky time as Rio Tinto is trying to resolve disputes with the Mongolian government over terms for $4.2 billion in project financing to fund an expansion at Oyu Tolgoi, which is crucial to Rio's and Mongolia's growth.

Rio put the $5 billion expansion project on hold in August and said it would have to cut up to 1,700 jobs due to the project financing dispute.

The board is meeting in Ulan Bator this week to try to resolve some of the issues. Some analysts have speculated that Mongolia's concerns about Rio Tinto's management fee, capital costs for the open pit mine, which is now producing, and the planned underground mine, will be hard to resolve.

"The best we can determine is that all stakeholders want the outstanding issues to be resolved and are confident they will be, but a number of items still need to be agreed before the OT board can go back to the project finance syndicate members," analysts at Resource Investment Capital said in a note on Wednesday.

There had been speculation Rio Tinto may appoint a Mongolian to head Oyu Tolgoi to help smooth relations with the government.

"Craig's years of experience running mines and selling minerals at international market prices make him the perfect choice to successfully lead the project in the coming years," Oyu Tolgoi Chairman Batsukh Galsan said in a statement.

MARKET NEWS

Aluminium producers demand LME release more positioning, warehouse data

By Eric Onstad

LONDON/NEW YORK, Sept 11 (Reuters) - The world's two biggest aluminium producers are calling on the London Metal Exchange (LME) to boost transparency by releasing more detailed data on long and short positions as well as about who are holding inventories.

Russia's United Company Rusal and U.S.-based Alcoa are urging the LME, the world's biggest marketplace for industrial metals, to match its U.S. rival, the CME Group , in providing data about the make-up of investors positions.

"There is a need for greater transparency in the London Metal Exchange's disclosure of commercial and non-commercial positions on the exchange," Oleg Mukhamedshin, Rusal's deputy chief executive, told Reuters on Wednesday.

"The LME could provide appropriate access to its existing data that would transform the way we understand how the aluminium market is now working."

Rusal is the world's biggest producer of the metal used in transport and packaging, while Alcoa is No. 2.

In the United States, the Commodity Futures Trading Commission (CFTC) requires exchanges to release detailed positioning information. The resulting Commitment of Traders weekly reports are closely watched by investors.

In base metals, the U.S. data includes copper, but that only covers a fraction of the global market because CME volumes are much smaller than those of the LME. The CME does not have contracts in other base metals such as aluminium and zinc.

Alcoa included the call for greater transparency in a letter sent to the LME dated Sept. 10, in which it laid out its opposition to possible changes to warehousing rules, which are aimed at placating angry end users who say that long wait times and incentive payments have inflated physical metal prices.

MARKET NEWS *(Continued)*

The LME, which is owned by Hong Kong Exchanges and Clearing , said by email: "We welcome and will continue to listen to and consider market views, and we will continue to make market transparency a top priority."

WAREHOUSE DATA

Currently, the LME provides open interest data and limited long-short positioning data showing when large positions emerge, but it does not show whether positions are held by speculators or industrial interests.

Rusal's Mukhamedshin said knowing the level of speculative positions is essential in a market where LME trading volumes last year in aluminium derivatives was more than 30 times higher than industrial demand for the metal.

Alcoa is also pressing the LME to release more data. An Alcoa spokeswoman said the company had called for more transparency in a submission to a U.S. Senate subcommittee in July.

"The dramatic increase in trading volume on the LME in recent years is predominantly due to the increased trading activity from financial investors who do not participate in the underlying physical markets," Alcoa said in a statement to the committee.

"Improved transparency into the sources of trading on the LME ... is an essential first step toward improving confidence in the marketplace."

Rusal and Alcoa also called for the LME to release more information regarding warehouse inventory data.

"We also believe that transparency in reporting also needs to be applied to the reporting of warehouse stock by company in each LME warehouse location as well as the category of owner of metal placed on warrant," Mukhamedshin said.

The LME releases daily data on the tonnage arriving and departing at each warehouse location.

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

End users say those steps have caused long wait times in warehouses which have distorted supplies and inflated physical prices to record highs.

Complaints by aluminium users have led to a string of U.S. lawsuits and an LME proposal to overhaul its delivery system from next April.

ANOTHER LETTER

In its third effort to resolve the problem in as many years, the LME proposed in July 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.

The 136-year old exchange hopes the move will head off an escalating crisis over its warehousing policy that has drawn scrutiny from UK and U.S. regulators and ease frustration among industrial users, including beer and can maker MillerCoors LLC and Novelis which manufactures sheet used to make cans.

Many metal users have complained that record high physical prices are unjustified by supply-and-demand fundamentals. The market is burdened by a massive global surplus.

In Alcoa's Sept. 10 letter, president of materials management, Tim Reyes, said complaints about the long wait times are a "red herring" and suggested the LME launch a new contract for the premium which would complement the exchange's existing aluminium futures contract.

The premium represents the additional cost of delivering metal from an LME warehouse in Detroit or New Orleans or a producer plant to the Midwest and is paid on top of the LME benchmark.

A regional premium contract would "provide a vehicle for market participants to more effectively manage premium price risk and offer a more open premium price discovery process," Reyes said.

While buyers can protect against major swings in the underlying price by hedging on the LME, a large component of the aluminium consumers' cost and risk is exposed.

At about $250 per tonne, the premium is about a fifth of the total cost based on a three-month LME aluminium of $1,800 per tonne. That is much higher than historic averages around 5 percent, dealers said.

Alcoa's suggestion is not new. The CME launched a cleared Midwest premium contract in April 2012 and the first trade was only transacted last month.

Last year, the LME explored a possible North American aluminium contract to include the Midwest physical premium.

To be sure, producers worry that premiums will fall as a result of the rule changes, hurting their profits while LME prices are close to or below many smelters' cost of production.

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

In the long run, that will help LME prices recover and restore the market to balance after the distortions due to warehousing over the past four years, they say.

In the meantime, the LME board is expected to make a final decision on the warehousing proposal next month. If approved, the new rules would come into force on April 1 next year.

Industrial users, such as beverage can makers, logged their criticism of the plan earlier this week.

MARKET NEWS *(Continued)*

Chile tries to adjust to moderate copper price

By Silvia Antonioli

LONDON, Sept 11 (Reuters) - Chile is trying to adjust to a new reality of a more moderate copper price by boosting other existing exports and supporting growth of non-traditional sectors like asset management, the Chilean finance minister said in an interview on Wednesday.

Copper prices are unlikely to return to the record levels hit in 2011 any time soon, as slowing economic growth in top consumer China takes its toll on demand for metals, Felipe Larrain told Reuters.

"I don't see any slump in copper prices, but certainly we won't see copper prices going above $4 per pound at least in a while. That was the reality in 2011," Larrain said, adding that the country should get used to more moderate growth in China and its impact on copper prices.

"Chile in the future will have other ways to boost export revenues other than copper and among them is the service sector," Larrain said.

Benchmark copper prices on the London Metal Exchange rose to a record high above $10,000 a tonne in February 2011 but have since lost about a third of their value.

The Chilean central bank said it sees the price for copper, which makes up over half of Chile's export revenue, dropping from an average $3.30 per pound this year to $3.05 in 2014.

Mining accounts for about 12 percent of the government revenue currently, down from almost a third in 2006-2007, Larrain said.

Since Chile's revenue from copper has shrunk in the last few years the government is looking at ways to boost existing exports such as fresh fruit and to support less traditional service sectors like asset management.

The Chilean Congress is currently working on a law that clarifies and simplifies the tax treatment for foreigners whose assets are managed by companies established in Chile, the minister said.

CODELCO FUNDING

In contrast with a 6.3 percent copper output growth for the whole of Chile in the first half, state-owned Codelco , the world's largest copper miner, saw its production fall 1 percent in the first half of this year, because of diminishing ore grades and harder mineral in its deposits.

Unless the company revamps its aging deposits, sinking ore grades will slash output in the next few years.

The miner is struggling to finance its ambitious, multi-year investment plan, previously estimated at about $27 billion and it deemed insufficient the $1 billion fund the government allocated for 2013.

Larrain however said the $2.2 billion of financing the state has given to the miner in the last three years was no minor contribution and Codelco should go to the market to raise more funds.

"Codelco has an ambitious investment program. We have committed to support it but supporting it means we will make sure Codelco's rating doesn't go below investment grade. That is our commitment," Larrain said.

"Codelco has very neat conditions to go to the markets. And all companies have to go and raise debt. It is a combination of equity and debt."

Codelco has already placed a $750 million bond in early August to help fund its plans.

It now planning to ask banks to help finance its investments this year after being promised less capital from the government than it expected, a local newspaper reported.

The minister added that although a floatation of the company is "something that has been discussed" there were no plans in the current government to go ahead with it.

Chile presidential and legislative elections will take place in November.

Asia stainless steel mills to benefit from Chinese nickel-pig-iron from Indonesia

By Polly Yam

HONG KONG, Sept 11 (Reuters) - Chinese firms operating nickel mines in Indonesia are likely to step up plans to build nickel-pig-iron plants in the Southeast Asian country in order to continue shipping ores back home, which would help support higher production in China next year.

The move could mean Chinese firms' supply of nickel-pig-iron, a low-grade ferro-nickel used in stainless steel production, would rise in Asia in 2 to 3 years time, helping regional mills such as POSCO and Nippon Steel & Sumitomo Metal to cut costs, industry sources said.

China is the dominant producer of nickel-pig-iron in the world and the output accounts for about a quarter of the global nickel production. But the production relies on imports of raw material nickel laterite ores, with Indonesia and the Philippines providing most ores.

Indonesia had planned to ban the export of ores from 2014 to push miners to build smelters at home to benefit the local economy.

But in a policy reversal, it may now relax the ban in order to help support the rupiah currency and miners with smelters under construction will be allowed to continue to export ores.

The policy twist is prompting Chinese firms to step up smelter projects in Indonesia.

MARKET NEWS *(Continued)*

"To make it quick, we are thinking about relocating a small blast furnace to Indonesia," said a source at a nickel-pig-iron producer in China, which owns a few nickel mines in Indonesia.

Other Chinese firms operating nickel mines in Indonesia were also considering relocating idle furnaces or build new small blast furnaces as the costs were low, the source added.

Twelve to thirteen Chinese firms operate nickel mines in Indonesia currently and half plan to build plants to produce nickel-pig-iron or standard ferro-nickel, said Xu Aidong, chief nickel analyst at state-backed research firm Beijing Antaike Information Development Co Ltd.

The Chinese firms were likely to sell nickel-pig-iron produced in Indonesia into Asia, rather than ship back to China, because demand from other Asian countries was strong, while China was facing an oversupply problem, Xu said.

"Why China's stainless steel mills are competitive, it is all about nickel-pig-iron. More supply to other Asian mills should strengthen their competitiveness in the future," she said, referring to the cost advantage of using nickel-pig-iron.

Stainless steel mills in Japan, South Korea and Taiwan want to import nickel-pig-iron from China as a cheaper alternative to replace refined nickel. The cost advantage is that it contains a high iron content but the iron is not priced.

But China's 20 percent tax has restricted exports, said Xu.

To reflect demand of nickel-pig-iron, stainless steel mills in China paid about 1,000 yuan ($160) per 1 percent of metal content for nickel-pig-iron containing 10-15 percent of metal this week. The price was equivalent to 100,000 yuan a tonne of nickel, higher than 97,700 yuan for refined nickel.

Antaike has forecast China's nickel-pig-iron production at about 400,000 tonnes of nickel in 2013 and the output could rise next year as thousands of tonnes of new, modern capacity came onstream in the second half of this year.

High ore stocks would support strong production next year.

Stocks of imported nickel ore at China's seven main ports stood at about 16.44 million tonnes last Friday, up from 16.38 million tonnes in mid-May, though the stocks was down from a record 18.2 million tonnes at the end of December 2012, data from information provider umetal.com showed.

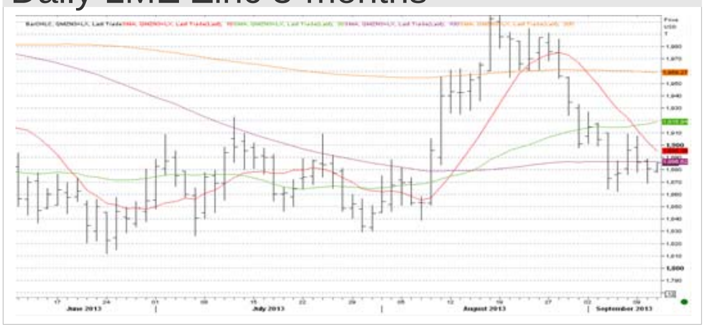
ANALYTIC CHARTS *(Click on the charts for full-size image)*

Daily LME Aluminium 3-months

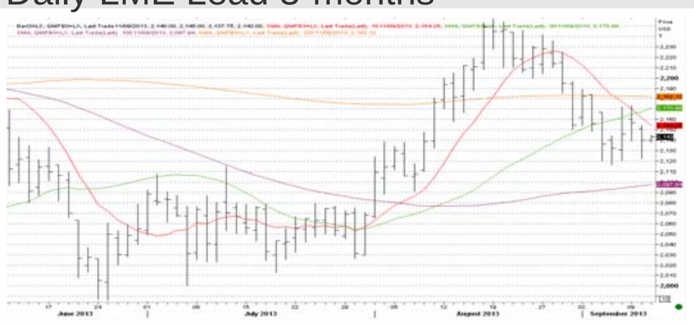
Daily LME Copper 3-months

Daily LME Nickel 3-months

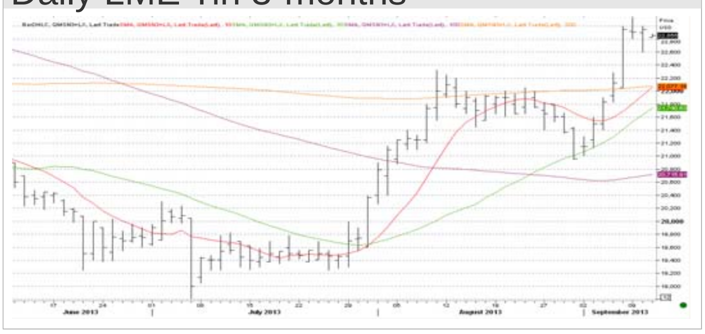
Daily LME Zinc 3-months



Daily LME Lead 3-months



Daily LME Tin 3-months



Daily LME Alloy 3-months

Daily LME Nasaac 3-months

MARKET REVIEW

METALS-Copper sinks to lowest in four sessions ahead of Fed

By Melanie Burton

SINGAPORE, Sept 12 (Reuters) - London copper eased to its lowest in four sessions on subdued buying ahead of the Federal Reserve's stimulus decision next week, although Chinese demand put a floor under prices.

Copper prices have recovered more than 8 percent from three-year lows plumbed in late June, but have failed to gain traction above $7,420 a tonne, the top-end of their recent band and the highest in 10 weeks, hit in mid-August.

"Even though (Chinese) copper demand is better than last year, we don't expect very strong demand ... because even though some big sized semi producers or end users are reporting improving sales volume, a lot of smaller ones are experiencing falling demand," said analyst Chunlan Li of research firm CRU in Beijing.

"The market is expecting a supply wave to come in ... so given the potential supply pressure in the future, it will be difficult for prices to stay at high levels."

Three-month copper on the London Metal Exchange slipped to $7,138, its lowest since last Friday, and was trading at $7,146 a tonne by 0217 GMT, down 0.33 percent from the previous session.

Prices are easing back towards the lower end of the recent range, challenging the floor of $7081.50 a tonne hit on August 30, which was the weakest in three weeks.

"The market is tracking sideways and I think it will stay sideways until the FOMC - there is no real positioning in base at the moment," said a Singapore-based trader.

The most-traded December copper contract on the Shanghai Futures Exchange slipped 0.65 percent to 51,700 yuan ($8,400) a tonne.

The beginning of the end of the Fed'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.

"The 'gearing' is now more nuanced for either deferred commencement of 'taper' or for a 'light-touch' reduction in asset purchases by the Fed," Mizhuo analysts said in a note.

A slower reduction in bond buying could help support commodities which have been underpinned by extra liquidity available for industry as well as investors.

On the demand side, economic signals that China's economy has found its feet are being mirrored in its copper consumption.

Chinese Premier Li Keqiang pledged on Wednesday to push ahead with reforms, with financial system change at the centre of his agenda, noting that the world's second-largest economy was stable but there was a need to guard against risks.

Lower prices of copper enticed some Chinese buying, with premiums for copper in Shanghai bonded exchange rising $5 to $170-$200 a tonne, according to China price provider Shmet.

PRECIOUS-Gold hits 3-wk low on hopes Syria strike will be averted

By Lewa Pardomuan

SINGAPORE, Sept 12 (Reuters) - Gold fell more than half a percent to its weakest level in three weeks as hope grew that a U.S strike on Syria could be avoided and on expectations the U.S. Federal Reserve would start to unwind its monetary stimulus soon.

Gold's safe-haven appeal has been dented by diplomatic efforts to place Syria's chemical weapons under international control, which may avert a U.S. military strike.

Gold had dropped $8.03 to $1,358.11 an ounce by 0400 GMT, after hitting a low of $1,354.10 - its weakest since August 20. Prices remain way off their record high around $1,920, struck in 2011.

"It looks like with the politicians taking a much more measured approach to the problem in the Middle East, gold has lost its shine again," said CIMB regional economist Song Seng Wun.

"In the absence of any other development, people are taking some money off the table again, although I think that both the short-term and medium-term view towards gold hasn't changed," said Song, adding that data suggesting inflation is starting to creep back could still support the metal.

U.S. gold declined $5.60 to $1,358.20 an ounce.

The Fed's Open Market Committee (FOMC) is set to meet on Sept. 17-18, with investors fretting that the central bank will start curbing the massive bond buying programme that has boosted gold's appeal as a hedge against inflation.

Gold prices have fallen more 18 percent since the Fed signalled it would start reining in its monetary stimulus programme by year-end.

"We expect that with the FOMC meeting looming on the horizon, gold will trade quietly for the next few sessions, with the resultant moves in the U.S. dollar and Treasury yields to drive gold directionally," ANZ said in a report.

Metals consultancy Thomson Reuters GFMS said gold prices were likely to contract further in 2014 due to confidence in a stabilising global economy.

Elsewhere, the physical market in Singapore saw sales of gold scraps from Indonesia, whose rupiah currency has tumbled to its weakest since 2009, while demand from main consumer India was muted. "The physical market has been slow even though gold prices have come down. I would think the price has to fall below $1,350 before we see more buying. Weakness in regional currencies is also curbing buying interest," said a dealer in Singapore.

MARKET REVIEW *(Continued)*

"India is still affected by the new regulations."

India has raised the import duty on gold to a record high of 10 percent in an effort to stem the tide of imports of the metal that had helped push the current account deficit to an all-time high.

FOREX-Dollar under duress as markets temper Fed taper view

By Ian Chua and Hideyuki Sano

SYDNEY/TOKYO, Sept 12 (Reuters) - The dollar dropped to two-week lows against a basket of major currencies as markets continued to chip away at its recent gains on growing doubts the Federal Reserve will scale back stimulus in any significant way next week.

The Australian dollar tumbled from a three-month high after surprisingly soft local employment numbers suggested markets may have been premature in pricing out the risk of further rate cuts.

"With threats of an immediate U.S. attack on Syria subsiding, the market focus is moving to the Fed's meeting. The market's conviction that the Fed will go ahead with reducing stimulus has weakened a little bit after the payroll data last week," said Katsunori Kitakura, associate general manager of market making at Sumitomo Mitsui Trust Bank in Tokyo.

The dollar index stood at 81.432, having fallen as far as 81.411. It has broken below its 200-day moving average and lost more than 1 percent from a seven-week peak set on Sept. 5.

The move came as U.S. Treasury yields dipped, with the benchmark 10-year slipping to 2.912 percent, pulling back from a two-year high of 3.007 percent reached last Friday.

Indeed, since Friday's disappointing U.S. nonfarm payrolls data, markets appeared to have tempered their expectations for any aggressive moves by the Federal Reserve.

"Right now, it looks to us that investors expect about $10 billion tapering in September, combined with extremely dovish language, but no change in the timetable for ending QE," said Steven Englander, Citi's global head of G10 FX Strategy.

A Reuters survey of 69 economists on Monday also showed the majority expected the Fed to trim its $85 billion monthly bond-buying programme by a modest $10 billion.

This has also helped many emerging market currencies recover from a recent selloff, although the threat of renewed capital outflows continues to linger.

Citi economists expect $10-15 billion of Fed tapering and no change to the withdrawal timetable, an outcome that Englander said would be neutral, or even slightly hawkish, relative to current market expectations.

DISMAL AUSSIE DATA

The weakened dollar saw the euro push up to $1.3325 , a high not seen since Aug. 29. The common currency, last at $1.3313, has completely recovered from a selloff last week sparked by dovish comments from the European Central Bank.

Against the yen, the dollar lost a bit of ground though it remained up a tad on the week.

The dollar shed 0.4 percent to 99.50 yen , having retreated from a seven-week high of 100.62 yen hit on Wednesday on diminishing worries about U.S. military strikes on Syria.

Asian players were taking profits in the dollar/yen ahead of holidays. Japan will have two long weekends in a row while China and Korea will also have holidays next week.

The euro's rally against the yen has also cooled off. It slipped to 132.47 yen from a 16-week high around 133.37.

The Australian dollar fell 0.6 percent to $0.9267 , after data showed a surprise drop in Australia's payrolls and a rise in the jobless rate to a four-year high.

"The dismal reading signifies a further deterioration in the local labour market and signals the need for the RBA to remain accommodative for the near-term," said David de Ferranti, market analyst at FXCM.

The New Zealand dollar had a better luck, however, after the Reserve Bank of New Zealand said interest rates will probably need to rise next year. The kiwi jumped to a near four-week high of $0.8151 before fall in the Aussie pulled the kiwi down to $0.8120 ,slightly below late U.S. levels.

(Inside Metals is compiled by Pradip Kakoti in Bangalore)