INSIDE METALS

Thursday, September 13, 2012

CHART OF THE DAY

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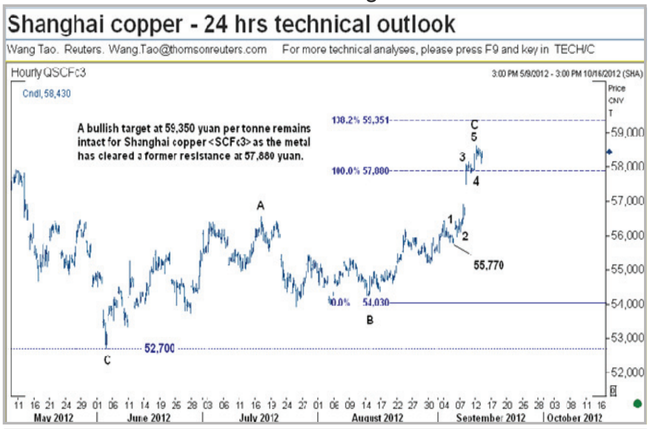

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COLUMN- Copper and iron ore; mirror, mirror...?

Copper and iron ore have ripped higher since China's National Development and Reform Commission announced last Friday the fast-tracking of a trillion yuan's ($157 billion) worth of infrastructure projects.

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

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TODAY'S MARKETS

BASE METALS: Copper edged lower , but held near a four-month high hit in the previous session, as traders awaited a key U.S. Federal Reserve policy decision that is expected to include further stimulus action to boost the world's largest economy.

Prices were also supported by a German court ruling that gave a green light for the country to ratify the euro zone's new bailout fund and budget pact, boosting hopes that the region is finally putting in place the tools to resolve its crippling debt crisis.

"Some longs prefer to take profit ahead of the (Fed) meeting since they've already made money on their positions and because there is always a chance that the Fed won't start another round of quantitative easing - even if many people expect it," said a Shanghai-based trader with an international firm.

PRECIOUS METALS: Gold was little changed with investors awaiting a key Federal Reserve policy decision, a day after a German court ruling in favour of a euro zone rescue fund sent bullion to its highest since the end of February.

The market is buzzing with hopes that the Fed will announce another round of quantitative easing, known as QE3, at the conclusion of a two-day policy meeting later in the day.

"If we do see a QE3 announcement, gold is likely to race through $1,800 an ounce," said Chen Min, an analyst at Jinrui Futures in the southern Chinese city of Shenzhen.

FOREX: The euro held near a four-month high after Germany's Constitutional Court gave the green light for Berlin to ratify the euro zone's permanent rescue fund, looking to extend gains further on possible stimulus from the U.S. Federal Reserve.

"If the Fed avoids major easing steps, the euro could fall. Still, considering that the euro's rally has been driven by short-covering rather than build-up of new positions, downside for the euro may be limited," said Koichi Takamatsu, head of forex at Nomura Securities.

FEATURE

COLUMN-Copper and iron ore; mirror, mirror...?

By Andy Home

LONDON, Sept 12 (Reuters) - Copper and iron ore have ripped higher since China's National Development and Reform Commission announced last Friday the fast-tracking of a trillion yuan's ($157 billion) worth of infrastructure projects.

On the London Metal Exchange (LME) three-month copper has jumped by almost 6 percent from its Thursday close to a four-month high of $8,158 per tonne this morning.

Spot iron ore, as assessed by The Steel Index, has risen by over 15 percent to $100.20 per tonne over the same period, regaining more than half of August's price slump.

The sharp price reaction in both industrial bellwethers is hardly surprising.

Both, after all, are heavily leveraged to the China story and both have accordingly suffered from the slowing in industrial and construction activity in the country.

The devil may well turn out to be in the still-vague detail of the announced package, but the promise at least has fired up both markets.

The synchronised price reaction, however, hasn't closed the yawning chasm that has opened up between the two metals since early July.

A previously close relationship between iron ore and copper prices has completely disintegrated over the last couple of months, as shown in this graphic: http://link.reuters.com/fah62t

There have been previous periods of divergence, most obviously in 2010, as the next graphic shows: http://link.reuters.com/gah62t

But past disconnects have tended to be only of scale and timing, not outright direction, as was the case until last Friday.

So what is going on now? And which price signal is "right" and which is "wrong"?

ALL ABOUT CHINA

Before considering why the two metals have gone their separate ways in the last couple of months, it's worth remembering why they were so closely correlated in the first place.

Or at least since 2009, when iron ore pricing moved away from the old annual benchmark system to something closer to spot pricing. Both have had and still have remarkably similar internal dynamics.

Both have been in structural supply deficit, requiring the incentivisation of high-cost production, mostly in China, to fill the gap between what that country needs and what the rest of the world can supply.

Both markets are gradually, emphasis on that word, moving towards supply-demand balance as mine investment finally translates into higher production.

Demand for both is defined by China. The country accounts for about 40 percent of global copper usage, according to the International Copper Study Group.

And China's production of steel, the drum-beat of iron ore consumption trends, accounts for around 46 percent of global output, basis the 2011 figures from the World Steel Association.

As such, both iron ore and copper have become proxies for what is going on in the world's most dynamic industrial player.

Which makes the recent divergence in prices all the more interesting.

Each now appears to be saying something very different about the state of the Chinese industrial nation. So, is the copper price too high or the iron ore price too low?

MIRROR...

For analysts such as Capital Economics it's the copper price that is sending the false signal.

In a research note issued on Tuesday ("Slump in iron ore prices suggests copper prices are too high") the company argues that copper as an exchange-traded metal is the more financialised of the two markets.

As such, the red metal is reacting not just to the Chinese infrastructure promise but the broader promise of policy stimulus, particularly the much-hyped QE3 from the U.S. Federal Reserve.

The argument has much appeal. After all, it's not just copper that has raced higher in recent days. Aluminium , for example, has notched up even stronger gains with no obvious fundamental narrative support.

This is a market that everyone agrees is struggling to curb overproduction, again. Despite recently trading deep into the cost curve, Chinese producers are churning out record amounts of metal, again and loss-making plants such as Alcoa's Italian smelter are stubbornly refusing to die, again .

Aluminium's stellar ascent over the last week seems proof of a rising tide lifting all boats, including those that, left to their own devices, would sink.

That rising tide is coming from investment money pouring into the LME metals complex to ride the QE3 wave.

Open interest across the LME board has risen in tandem with prices, a sure sign of fresh long positions being instituted.

The phenomenon is clearest to see in those metals most established on the investment radar, namely copper , aluminium and zinc . Tin, which is too small for any but the most specialist of funds, is a telling exception .

Copper itself, meanwhile, has re-entered the risk-on asset fold. After disconnecting from other parts of the financial universe over the summer months, old correlations with the likes of the S&P 500 are rapidly reappearing.

FEATURE *(Continued)*

...MIRROR?

The iron ore market is not sufficiently evolved to allow for such investment surges.

It is still rooted in the very physical business of selling spot cargoes into China.

As such, to quote Capital Economics, it "is a better indicator of underlying demand, as reflected in the weak manufacturing surveys."

Better, maybe. But still far from perfect.

The spot iron ore price is not just linked to China, it is "made in China". The iron ore price is not a global price. It is very explicitly the price of iron ore delivered to China.

Without China's surging demand for imports, iron ore pricing would in all probability still be set in annual talks between miners and Japanese steel mills.

Iron ore should, therefore, be a super-sensitive gauge of what is happening in the country.

The problem is that any reading is refracted through the intermediate prism of China's steel sector.

When this is itself distorted, as is the case right now ,the impact on the iron ore price is over-amplified.

Moreover, the very lack of financialisation, whilst sparing iron ore from excessive speculative influence, means no fail-safe mechanisms.

When Chinese buyers don't want to buy, there is no "market of last resort" such as the LME for sellers to dump metal into. All they can do is keep offering more cargoes into a vacuum.

This acts as a price accelerator, both upwards, as in early 2010, and downwards, as in the August rout.

The most recent slump is only such an extreme example because the dislocation between China's steel production and steel demand has itself become so extreme.

In truth, neither iron ore nor copper is a very pristine mirror on the state of manufacturing activity, either globally or in China itself.

Copper is over-financialised. Iron ore is under-financialised.

The red metal suffers from periods of excessive speculative froth, iron ore from insufficient investor participation, meaning no counter-cyclical price cushioning.

The current divergence is only unusual in so far as both features are dominant in both markets at the same time.

Is copper too high or is iron ore too low?

In all probability the answer is yes and yes.

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

GENERAL NEWS

S.Africa mine protests hit top world platinum firm

BATHOPELE MINE, South Africa, Sept 12 (Reuters) - M achete -wielding strikers forced top world platinum producer Anglo American Platinum to shut down some of its South African operations on Wednesday, widening the labour unrest sweeping through the country's mining industry.

A column of 1,500 chanting marchers confronted a small group of riot police backed by armoured vehicles at the gates of the firm's Bathopele shaft in the "platinum belt" near Rustenburg, 100 km (60 miles) northwest of Johannesburg.

The protesters jeered workers inside the plant, a repeat of action taken on Monday at rival Lonmin's neighbouring Marikana mine, where police shot dead 34 striking miners on Aug. 16.

"All of us, we're going to close all the operations, starting from Rustenburg. We'll go even to the gold mines to stop the operations," marcher Evans Ramokga told Reuters.

The platinum price jumped 3 percent to $1,654.49 an ounce, its highest since early April, as investors feared more disruption to supplies of the precious metal used in jewellery and vehicle catalytic converters.

South Africa is home to 80 percent of known reserves of platinum, the price of which has gained nearly 20 percent since the Marikana shootings, the bloodiest security incident since the end of apartheid in 1994.

The rand also dropped as much as 2.5 percent against the dollar.

The "Marikana massacre" has poisoned industrial relations across the mining sector and highlighted the ruling African National Congress's (ANC) failure to keep its promises to reduce poverty in the post-apartheid era.

The bloodshed and the government's inability to resolve the unrest undermining already shaky growth in Africa's biggest economy is also fuelling a campaign against President Jacob Zuma, who faces an internal ANC leadership battle in December.

Anglo American Platinum, also known as Amplats, said it had halted work at its four Rustenburg mines, which account for 17 percent of its output, due to fears for the safety of its 19,000 staff there.

Police said the trouble started with a confrontation between 1,000 demonstrators and mine security on Tuesday night, before spreading to other shafts owned by the company, which produces 40 percent of the world's platinum.

GENERAL NEWS *(Continued)*

Amplats's Rustenburg shafts have been under pressure since platinum prices collapsed after the 2008 financial crisis. Analysts expect them to be targeted as "restructuring candidates" by parent company Anglo American .

"ANYONE BUT ZUMA"

The unrest, which stems from a challenge by the small but militant Association of Mineworkers and Construction Union (AMCU) to the dominance of the ANC-affiliated National Union of Mineworkers (NUM), is also spreading into the gold sector.

The NUM said workers at the Beatrix mine, run by world No. 4 producer Gold Fields , were set to strike this week, compounding wildcat industrial action by 15,000 workers at the company's KDC West mine west of Johannesburg.

ANC renegade Julius Malema - the de facto face of an unofficial "Anyone but Zuma" rebellion in the ANC - called on Tuesday for a national mining strike, and rounded on Zuma again on Wednesday, accusing the polygamous president of being "engaged in other things".

He also lampooned a decision to issue a military alert to prevent him stirring up trouble by speaking to disgruntled soldiers near an army base south of Johannesburg.

"Since when are people who need to discuss their grievances a security threat in a democratic South Africa?" the 31-year-old told his audience of a few dozen people. "What is it that is going right in this country? Everything is collapsing, people are losing confidence."

Ministers and NUM leaders have dismissed Malema as an irresponsible opportunist but the expelled ANC Youth League leader is becoming a star among the legions of poor whose lives have changed little in the 18 years since apartheid ended.

Malema has tapped into workers' discontent with NUM and ANC leaders who are accused of getting rich and cozying up to mine companies while ignoring the harsh living conditions of many of South Africa's black majority.

"All they know is to put the money in their pockets," said another Amplats protester, who called himself Mr. Anonymous.

Shares in Amplats, which had largely avoided the labour unrest this year that has hammered rivals Impala Platinum and Lonmin, fell 4.6 percent.

Anglo American, which owns 80 percent of Amplats, shed 3 percent in early trade although later recouped most of those losses.

Australia miners slam brakes on huge pipeline of projects

MELBOURNE, Sept 13 (Reuters) - A $246 billion pipeline of planned mining investments in Australia is on increasingly shaky ground, with nearly half already frozen or likely to be delayed, as miners and lenders wrestle with high costs and sliding revenue.

A sharp fall in iron ore and coal prices, driven by a drop-off in demand from China, has caught many by surprise and forced miners -- from the world's largest, BHP Billiton , down to the smallest -- to review their investment plans.

"Anyone who was expecting to bank a project at the levels we were at about eight weeks ago had unrealistic expectations," said Michael Blakiston, a partner at law firm Gilbert+Tobin, which advises miners and is a director of iron ore company Sundance Resources .

The commodities rout has thrust Australia into a debate over whether the mining boom is over and can no longer be relied on to create jobs, power growth and raise tax revenue in a $1.4 trillion economy that has gone 21 years without a recession.

Dumping projects will mean millions of tonnes of future coal and iron ore supplies are stripped from the world market, laying the ground for a swifter price revival if Asian demand rebounds.

The $246 billion of planned projects is based on government data on projects under study or awaiting approval and mining expenditure estimated by bankers and lenders. It also includes $40 billion of projects already halted by BHP.

According to project finance lenders, lawyers and analysts, some of the major projects at risk include the $10 billion Roy Hill iron ore mine, Xstrata's $6 billion Wandoan mine and GVK Power & Infrastructure's $10 billion Alpha Coal mine. They are in new mining areas, requiring huge investment on railways and ports, which makes them tougher to fund.

The companies had planned to make investment commitments by late 2012 or early 2013, but this looks in doubt as lenders demand more equity and impose tighter terms, such as requirements to hedge commodities prices.

GRAPHIC: Advanced projects, iron ore and coal prices

http://link.reuters.com/xyx42t

Even top miners concede the days of ever rising prices, which in the past eight years earned them record profits and prompted $70 billion of Australian investment, look to be over.

Iron ore prices have slumped about a third since early July to three-year lows below $90 a tonne and coal prices have tumbled about a fifth this year to near two-year lows.

BHP last month shelved its Olympic Dam copper mine expansion, its Outer Harbour iron ore expansion and its Peak Downs coking coal expansion, together worth over $40 billion.

And debt-laden Fortescue Metals Group , which had planned to triple iron ore output to 155 million tonnes a year by mid-2013, slammed on the brakes last week, delaying nearly half that expansion to save $1.6 billion.

MINING HUB GLOOM

"We are still bullish on lending but overall prepared to lend less due to the softer prices," said a banker in the mining hub of Perth, declining to be named due to client confidentiality.

GENERAL NEWS *(Continued)*

The government conceded last week it was worried about the outlook for resources projects that are on the drawing board.

"In the immediate future, I've only got a couple in my mind that could go to final investment decision over the next 12 to 18 months," Resources Minister Martin Ferguson told reporters.

Projects on the government's list include 33 iron ore programmes with a combined capacity of 465 million tonnes, equivalent to about a year of Australia's output. These include the 40 million tonnes expansion deferred by Fortescue.

Also at risk are 73 coal projects with a combined capacity of 522 million tonnes, 50 percent more than produced in 2011, including those owned by India firms such as GVK Power & Infrastructure . G V K Coal told Reuters it was confident that its Alpha project was viable.

These were on the Australian Bureau of Resources and Energy Economics' list of less advanced projects released in May, which is due to be revised in November.

Many will need to be reviewed in light of weaker commodity prices and capital costs inflated by labour shortages, competition for equipment, rising energy costs, new taxes and higher royalties, bankers and analysts said.

TYCOON'S PROJECT AT RISK

The biggest project seen at risk is the Roy Hill mine in Western Australia's Pilbara region, which is targeting 55 million tonnes a year of iron ore output starting in 2014. The project includes the construction of a new rail line.

A pet project of Australia's richest person, Gina Rinehart, Roy Hill's financing is yet to be secured.

The mining heiress' Hancock Prospecting is reluctant to give lenders a guarantee on completion and faces pressure to hedge iron ore and foreign exchange exposure, Thomson Reuters publication Project Finance International reported last week.

Key to keeping Roy Hill alive, is whether partners, including POSCO , Japan's Marubeni and China Steel Corp , decide to give the construction contract to South Korea's POSCO. That could help attract funding from export credit agency Korea Eximbank.

A Roy Hill spokesman did not respond to phone calls or emails when sought for comment.

Bankers also say Xstrata's Wandoan thermal coal project in Queensland, which could become Australia's biggest coal mine producing 22 million tonnes a year, could be delayed, holding up port and rail investments that other miners planned to use.

Xstrata says the mine is one of its top priorities and is awaiting a state mining licence, which it expects in early 2013. But adding to concerns, Xstrata this week said it was slashing jobs at its Australian coal operations.

"Feasibility studies into our Wandoan project continue, to enable an investment decision once relevant approvals have been completed and market conditions permit," Xstrata said.

Aquila Resources' $6 billion West Pilbara Iron Ore project, another major new project, appears in limbo after the firm failed to agree with its partner, investment firm ACMI, on a new budget last week, designed to conserve cash.

Aquila officials were not available to comment, but the firm said in a statement one partner may end up having to buy out the other to settle the dispute. That means whoever ends up owning it is likely to need time to find new funding.

IN CROSS-FIRE

Caught in the cross-fire are mining contractors who have been reaping the benefits of $270 billion worth of resources projects already under way, dominated by liquefied natural gas developments in Queensland and Western Australia.

Up to now they have been able to pass on soaring costs for labour, materials and equipment to resource firms, desperate to get the best contractors signed on ahead of competing projects.

Now the tables are turning, with projects gradually getting put on the back burner, freeing up labour and equipment.

Contractors have been quick to try to douse concern, but investors have punished the shares of companies like Boart Longyear , NRW Holdings and Calibre Group , all major service providers to the miners. NRW, whose shares have slumped 26 percent in the past month, said it will lose A$100 million, or 8 percent, of revenue it had expected in the year to June 2013 due to Fortescue's slowdown.

The Minerals Council of Australia says mining projects now cost well above the global average, with iron ore projects, excluding those at established mines in the Pilbara, costing up to 75 percent more to build than mines offshore. As projects get put on hold, a key driver for other parts of the economy, from housing to engineering, will take a hit.

"We are particularly concerned about a mining-related shock to the economy, because it is unclear to us that any other sector would be able to pick up the slack in the short term," Credit Suisse strategist Atul Lele said in note to clients.

Australia mining employment falls for first time in 3 years

SYDNEY, Sept 13 (Reuters) - Employment in Australia's mining industry has fallen for the first time in three years, in what could be an early sign that a major engine of jobs growth is losing steam.

Government data out on Thursday that covers the three months to August showed jobs in the mining sector fell by a net 4,600, following an increase of 25,500 in the three months to May.

Total employment in the industry was still up 44,600 on the same period last year, but it was the first quarterly drop since mid-2009 and comes amid news of more layoffs by miners facing weak prices and high costs.

GENERAL NEWS *(Continued)*

Any pullback in mining would be a blow to the economy as it has been a big generator of jobs in recent years. While the industry's workforce of 270,600 is barely more than 2 percent of the country's 11.5 million employed, it has been growing rapidly.

Since early 2007, when Australia's mining boom really got going, the sector has generated almost 133,000 jobs. That was beaten only by healthcare and the professional, scientific and technical services sector.

Crucially the growth in mining had helped offset weakness in manufacturing, which has shed 65,000 jobs in the same period as a high local dollar and stiff foreign competition forced much painful restructuring.

Graphic on mining costs: http://link.reuters.com/jup68s

Australia jobs by sector: http://link.reuters.com/fyg96s

Miners BHP Billiton , Xstrata Plc and Fortescue Metals Group's have all announced job cuts in the past couple of weeks as they battle weak prices, rising costs and a strong Australian dollar.

This could be a repeat of the job shedding seen during the global financial crisis in 2008/2009, when mining employment fell by 27,400 over six months.

At the time, hiring rapidly recovered as massive policy stimulus in China revived the demand for commodities. China is Australia's single biggest customer, taking more than a quarter of its exports, much of it iron ore.

But this time China has been more reluctant to stimulate its economy, leading to sharp falls in prices for some of Australia's key commodities, including iron ore and coal.

While Australia's jobless rate is still at a low 5.1 percent, annual employment growth is a very sub-par 0.5 percent. If it were not for more people leaving the workforce, the unemployment rate would be nearer 6.0 percent now.

That is a major reason investors think the Reserve Bank of Australia (RBA) will cut interest rates again before the year is out. With rates having been held at 3.5 percent since July, markets are almost fully priced for an easing to 3.25 percent by November.

Billionaire Friedland back in fray with Africa project IPO

LONDON, Sept 12 (Reuters) - Robert Friedland, one of the mining industry's most successful and colorful entrepreneurs, has begun the long-awaited process of selling shares in his new venture, Ivanplats, hoping to raise cash to develop copper, zinc and platinum deposits in Africa.

Chicago-born billionaire Friedland is known in the industry for his showmanship, flamboyance and occasionally abrasive manner, almost as much as for his formidable talent in spotting the potential of some of the industry's biggest deposits, from the Voisey's Bay nickel deposit in Canada to Mongolia's Oyu Tolgoi copper and gold deposit, one of the world's largest.

In a prospectus filed to regulators this week, paving the way for a Toronto listing, Ivanplats did not give details on the exact timing or size of the share sale, which was estimated last year by sources familiar with the deal at up to $1 billion.

Two sources familiar with the current sale, however, said on Wednesday that due to a bond issue Ivanplats did in March and the sale of a stake in one of its projects last year, it is likely the company is now seeking to raise a more modest amount in the $250 million to $300 million range.

"If the market is receptive and appreciative, they could do more," one source said, adding the company could then follow long-held plans and move on to a dual listing in London, giving it another opportunity to top up its investment funds.

"Meetings with potential investors will be starting this week," said the other source familiar with the situation.

Friedland currently owns roughly 32 percent of Ivanplats. He and other current shareholders in the company are subject to lock-up agreements that will allow them to gradually begin to sell some of their interest in the company six months after its initial public offering has closed.

Ivanplats' main assets include Kamoa, a high-grade copper deposit in the Democratic Republic of Congo; Kipushi, a zinc and copper mine also in Congo; and the giant Platreef platinum, gold, nickel and copper project in South Africa, which Friedland has said could transform the beleaguered platinum industry.

Platreef, in the northern limb of the Bushveld complex which accounts for about 70 percent of the world's platinum output, is 10 percent-owned by a consortium led by Japan's Itochu Corp . Itochu bought an 8 percent stake last year in a deal implying a value for Platreef of around $3.5 billion.

Having stepped down earlier this year from the helm of Ivanhoe Mines, the company behind Oyu Tolgoi (which is now known as Turquoise Hill and is controlled by Rio Tinto), Friedland had been expected to turn his attention to his African project.

But uncertain markets had left the timing less than clear for the former Sanskrit student's next target.

"Robert has clearly made a name for himself. He doesn't need to wait for the market to turn in a cohesive way," another source familiar with the listing said. "These are world-class assets."

TRACK RECORD

A Canadian preliminary filing allows a company to begin the marketing process immediately, even as regulators examine the company's prospectus. A sale of the shares then usually follows, meaning shares in Ivanplats could be sold as early as October in one of Canada's most significant 2012 debuts, despite turbulent commodity and equity markets.

Global IPO proceeds slid 46 percent in the first six months of 2012 as, faced with unpredictable markets buffeted by euro zone debt woes and concerns about global economic growth, many companies put their listing plans on hold.

GENERAL NEWS *(Continued)*

Ivanplats' copper assets are likely to attract the attention of mining investors. Kamoa has indicated resources that would place it among the highest-grade copper deposits in the industry -- and Friedland's team of geologists and managers have cut their teeth on challenging projects such as Oyu Tolgoi.

Risks enumerated by Ivanplats itself, though, include Congo's troubled profile and the impact of woes in South Africa's platinum sector, which has been hit by labor unrest including deadly protests last month.

Ivanplats' filings show most of the IPO proceeds would be used for investment in Kamoa and Kipushi, but also to pay money owed to Congo veteran Dan Gertler, a highly influential but also controversial figure, from whom Friedland purchased Kipushi.

Gertler, a businessman linked to other miners operating in Congo including Glencore and ENRC , has received $45 million for his majority stake in Kipushi and is owed at least another $100 million.

Ivanplats, a Vancouver-based company set up in 1993, reported a net loss of almost $126 million last year. Ivanplats' filing showed that while Friedland did not take home a salary for his role as company chairman, he received more than $6 million in options and bonuses last year.

Bookrunners for the sale are BMO Nesbitt Burns, Macquarie Capital Markets, Morgan Stanley Canada and RBC Dominion Securities.

The banks could receive a fee of as much as 5.5 percent of the funds raised from the offering, according to the prospectus.

India suspends green nod for 93 Goa iron ore mines-minister

MUMBAI, Sept 12 (Reuters) - India has suspended environmental clearances given to 93 iron ore mines in Goa state, federal Environment Minister Jayanthi Natarajan, told Reuters on Wednesday.

"We have kept them (environmental clearances) in abeyance," Natarajan said, without giving details.

On Monday, Goa state government temporarily halted iron ore mining to check if operations were legal, a move that is expected to further dent exports from the country and support flagging global prices.

MARKET NEWS

▲ **China orders for aluminium products, metal purchases rise**

HONG KONG, Sept 13 (Reuters) - Aluminium profile manufacturers in Guangdong have reported a rise in orders this month, after seeing their order books decline over the past 3-4 months, which analysts and industry sources are pointing to as a sign of recovering demand in China.

The southern Chinese province is a major production base for aluminium profiles used in the construction sector, which is the biggest consumer of aluminium in China, the world's top consumer and producer of the metal.

Consumption of primary aluminium in China has weakened this year - particularly in July and August - along with slowing economic activity in global markets and Beijing's tight controls on the property market, pushing up aluminium stocks in the domestic market.

Floor space for newly started construction fell 6.8 percent from a year earlier in January-August, less than a 9.8 percent decline in January-July and the first sign of improvement this year, official data on property investment showed.

China has approved 60 infrastructure projects worth more than $150 billion, fuelling investor hopes that the world's second-largest economy may get a lift in the fourth quarter and beyond.

Industry sources said demand had improved in the last two weeks, with profile manufacturers increasing purchases of primary metal.

"Orders at profile manufacturing plants have risen to levels seen in the first quarter," said a senior executive at a manufacturing plant in Guangdong.

"We think the property market may be improving, raising orders for profiles. Should current conditions be sustained, aluminium demand will improve gradually for the rest of the year," said the official who declined to be named as he was not authorised to talk to the media.

Official data showed a 5.5 percent rise in production of semi-finished aluminium products to 2.644 million tonnes in August, compared with a 8.4 percent monthly decline in July from a record 2.734 million tonnes in June, although the data did not give a breakdown for profiles.

In 2010, profiles accounted for nearly a quarter of aluminium products.

"Our understanding is that orders at profile manufacturers have grown significantly in September from August and July, and manufacturers have been buying raw material aluminium," said Yang Xiaoguang, analyst at Jinrui Futures.

Figures for real primary aluminium consumption are not readily available, but an increase in the volume of products usually points to higher raw material consumption.

State-backed research firm Antaike had previously forecast growth in real aluminium consumption this year at 8.2 percent to 21.7 million tonnes, compared with 14.6 percent growth in 2011 and a rise of 26.7 percent in 2010.

MARKET NEWS *(Continued)*

Antaike, however, is likely to lower its estimate for primary aluminium consumption for 2012, said senior analyst Yao Xizhi, without providing a new projection.

Stocks of primary aluminium at warehouses in four major industrial cities - Hangzhou, Nanhai, Shanghai and Wuxi - have risen above 880,000 tonnes, from about 860,000 tonnes in April.

Stocks monitored by the Shanghai Futures Exchange stood at 381,036 tonnes last week, the highest so far this year .

Rusal CEO says aluminium producers need output caps-FT

LONDON, Sept 12 (Reuters) - UC RUSAL Chief Executive Oleg Deripaska said aluminium producers need to cap their output as downward pressure on prices is likely to continue for the rest of this year and into 2013.

"The heavy burden of overcapacity and high stock levels exert huge pressure on the sector," Deripaska wrote in an article published in the Financial Times.

"To remain competitive, the industry needs discipline and proper caps in terms of output. In the short term, further curtailments of unprofitable and inefficient production capacity in all regions will be a step in the right direction as the industry looks to create a healthier market structure," Deripaska wrote.

Deripaska's comments come against the backdrop of a global industry in oversupply, but millions of tonnes of the metal are held in warehouses, and much of these stocks are used for financing purposes.

Third buyer interested in Alcoa Sardinia smelter

MILAN, Sept 12 (Reuters) - Italian wind power group Kite Gen Research has become the third group to express interest in U.S. aluminium maker Alcoa's Sardinian smelter, which is in the early stages of being closed.

Workers at the plant have staged demonstrations that have turned the smelter into a national symbol of Italy's recession.

"We have sent an offer to (Industry Minister Corrado) Passera and (Prime Minister Mario) Monti and are waiting for a response," Kite Gen founder Massimo Ippolito told Reuters on Wednesday.

Swiss industrial group Klesh and London-listed commodities trader Glencore have previously expressed interest in the plant, which will be closed by Nov. 30 if no buyer is found.

Alcoa reiterated on Wednesday it "has not received any expressions of interest that are viable or different to those previously considered", and also repeated that while it will continue with "the curtailment process", it remained open to discussing the sale of a curtailed plant.

Kite Gen, which makes wind power technology for high-altitude use, said it would build a 300 megawatt wind farm close to the factory to help power what it said was biggest single corporate energy user in Italy.

The cost of energy is one of the main reasons the Sardinian plant has found it difficult to compete. Italy has asked the European Union if the plant would be able to use special interruptibility contracts to lower its power costs.

Ippolito said funding for the operation would come in part from carbon emission certificates. "By using renewable energy the plant will not need to buy carbon credits to offset its polluting effect and indeed will be able to sell the credits it has on the market."

Ippolito also said Kite Gen had asked the government to apply for EU funds of 1.3 billion euros ($1.7 billion) available for innovative projects. Alcoa's factory supports about 1,500 jobs in Sardinia. Its closure would be a heavy blow for the Mediterranean island which has a 15 percent unemployment rate, well above the national average.

Italy is beset by growing joblessness as the economic crisis bites hard. At the end of July, the industry ministry was mediating in 131 other disputes involving companies seeking to cut jobs.

Zambia rejects copper project on environmental grounds

LUSAKA, Sept 12 (Reuters) - Zambia has rejected a proposal by Australia's Zambezi Resources Ltd to develop a $494 million open cast copper mine in a game reserve, citing environmental concerns, a government agency said on Wednesday.

Zambezi Resources' Zambian subsidiary Mwembeshi Resources said in March it planned to start copper production at the Kangaluwe project in the Lower Zambezi National Park by 2015.

But a spokeswoman for Zambia's environmental management agency, which has to approve all huge infrastructure projects, told Reuters the project had been rejected.

"The proposed site is not suitable for the nature of the project since it is located in the middle of a national park," said spokeswoman Ireen Chipili. Following the announcement of the planned project, environmentalists had been lobbying the government against allowing the mine.

Mongolian govt to seek Oyu Tolgoi copper mine talks - report

ULAN BATOR, Sept 12 (Reuters) - Mongolia's new government has given its strongest indication yet that it will seek to renegotiate a landmark deal to develop the Oyu Tolgoi project with global mining giant Rio Tinto , adding to uncertainty over one of the world's largest copper-gold mines.

MARKET NEWS *(Continued)*

Mining Minister Ganhuyag Davaajav told the Odriin Sonin (Daily News) paper on Wednesday his government would seek to raise its current stake of 34 percent in Oyu Tolgoi, as part of an "action plan" that has not yet been finalised.

The initial Oyu Tolgoi agreement, signed in 2009, allowed for the two sides to renegotiate the deal once the investors recouped their first investment, the paper quoted Ganhuyag as saying.

"It's just clear that the new contract should say that after the first investment is paid back (to Rio Tinto) Mongolia will own 50 percent," he added.

Ganhuyag's office confirmed the accuracy of the newspaper report when contacted by Reuters.

The government has long been under pressure to implement a parliamentary resolution that Mongolia should own 50 percent of the project once the principal investors -- Rio Tinto and Turquoise Hill Resources -- have recouped their start-up investment.

Ganhuyag's comments come a week after 24 members of parliament sent a letter to prime minister Altankhuyag Norov, demanding that the agreement be renegotiated.

Rio Tinto responded to the petition by saying the MPs' comments "did not reflect the reality of the agreement", and urged the Mongolian government to show "leadership".

At a recent mining conference, Cameron McRae, chief executive of Oyu Tolgoi and Mongolia country representative for Rio Tinto, told delegates it would take two decades for investors to break even, by which time the government would have earned $7 billion to $8 billion from the project.

Oyu Tolgoi, located 80 km north of Mongolia's Chinese border, is expected to become one of the world's three largest copper and gold mines when it reaches full production in 2018.

It is expected to begin commercial production in the first half of next year.

Royal Nickel says making progress in hunt for a partner

TORONTO, Sept 12 (Reuters) - Royal Nickel Corp said on Wednesday it has received non-binding proposals from several parties keen to partner with it on developing the Dumont nickel project in Quebec.

Toronto-based Royal Nickel announced in June that it was on the lookout for a partner to help fund the development of its flagship project. The company is looking to sell a stake of up to 40 percent in the project.

"We've had good response from pretty much everybody we've talked to so far, as far as interest in the project and interest in participating at that 40 percent level," Royal Nickel Chief Executive Tyler Mitchelson said in an interview.

Dumont is expected to produce roughly 108 million pounds (49,000 tonnes) of nickel annually during its first 19 years of production. It could produce nearly 63 million pounds annually over the next 12 years.

"The people we have targeted so far in our partner process are mining or industry players, some of whom are producers and some of whom are traders," said Mitchelson, adding talks are also on with sovereign wealth funds that are interested in investing in the project.

Royal Nickel, which is managed by a team of former Inco and Falconbridge executives, expects to complete a feasibility study on the project by mid-2013.

Aperam calls for stainless steel pricing change

STOCKHOLM, Sept 12 (Reuters) - European stainless steel maker Aperam is discussing with its customers a possible change to a new, clearer and more consistent pricing mechanism for the alloy, CEO Philippe Darmayan said on Wednesday.

Aperam is suggesting changes that will make stainless steel pricing more like the system used for aluminium or copper, which is accepted worldwide and is based on the daily price of the metals on the London Metal Exchange (LME) plus an extra component agreed between the mill and the customer, Darmayan said.

"Aluminium has a pricing mechanism, which is the 'LME plus' system, that is accepted all along the value chain," he told Reuters on the sidelines of a Metal Bulletin stainless steel conference.

"We have a heterogeneity in the stainless pricing which is not normal, which allows speculation, which allows part of the industry to guess the evolution of the price before it happens. So it's time now to open the discussions with our customers," Darmayan said.

"We should move to an effective price system which allows everything to be known when a contract is placed, from the quantity to the price and the time delivery, which today in Europe is not the norm."

The current European pricing mechanism lags price developments for nickel, which represents one of the biggest costs for stainless steelmakers, the Aperam executive said.

The pricing is currently composed of two elements, a base price and a monthly alloy surcharge.

The base price is agreed between the mill and the customer on a monthly, quarterly or longer basis, while the monthly alloy surcharge is calculated using a formula based on the average price of nickel and of other alloys present in stainless steel, for the month or two months before the booking.

With the current pricing mechanism, stockist and buyers can estimate how the alloy surcharge is going to move before the number is formally announced by the mills.

MARKET NEWS *(Continued)*

So when nickel prices fall European customers often delay or cancel their purchase or buy lower volumes, in spite of what is agreed in the contract, as they anticipate stainless steel prices will also decline in the near future.

This can be very damaging for European producers, the chief executive of major stainless steel producer Acerinox , Bernardo Velazquez, said on Wednesday.

Acerinox says open to steel pricing formula changes

STOCKHOLM, Sept 12 (Reuters) - Spanish steel producer Acerinox is open to changes in pricing for stainless steel if customers desire, but prefers the current pricing mechanism, its Chief Executive Bernardo Velazquez told Reuters on Wednesday.

The CEO of competing producer Aperam said earlier the company was talking to its customers about a possible change it the alloy pricing mechanism for stainless steel.

"We prefer the old system, but we can change if customers want," Velazquez said in an interview on the sidelines of the Metal Bulletin stainless steel conference.

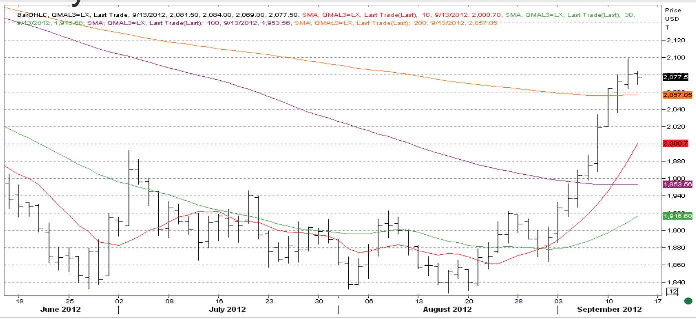
"We can have fixed prices, we can have different formulas for the alloy surcharge, that's not a problem for us."

The price of the alloy is currently composed of two elements, a base price and an alloy surcharge.

The base price is agreed between the mill and the customer on a monthly, quarterly or longer basis, while the monthly alloy surcharge is calculated using a formula based on the average price of nickel and other alloys present in stainless steel, for the month or two months before the booking.

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

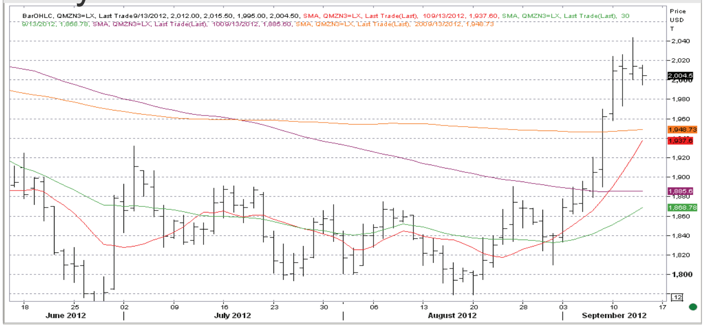
Daily LME Aluminium 3-months



Daily LME Copper 3-months

Daily LME Nickel 3-months

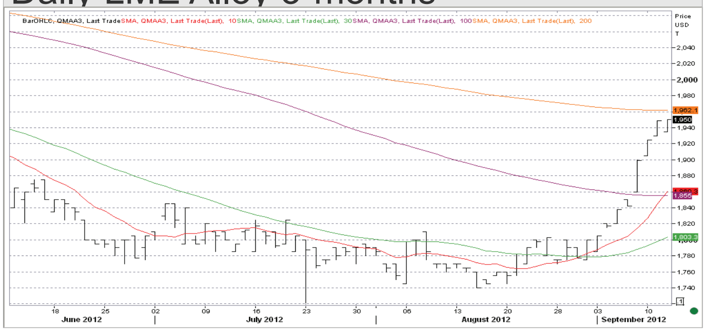
Daily LME Zinc 3-months



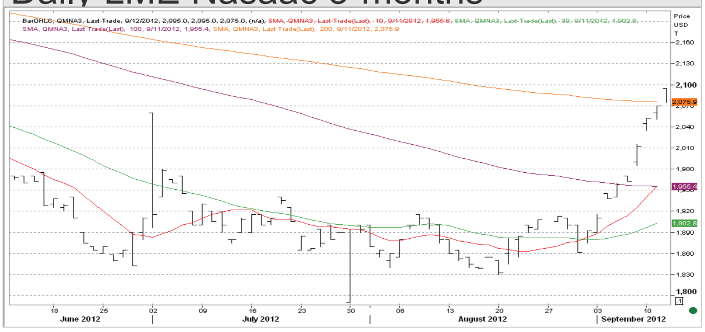
Daily LME Lead 3-months

Daily LME Tin 3-months

Daily LME Alloy 3-months



Daily LME Nasaac 3-months



MARKET REVIEW

METALS-LME copper eases, still near 4-mth peak ahead of Fed decision

SHANGHAI, Sept 13 (Reuters) - Copper edged lower on Thursday, but held near a four-month high hit in the previous session, as traders awaited a key U.S. Federal Reserve policy decision that is expected to include further stimulus action to boost the world's largest economy.

Prices were also supported by a German court ruling that gave a green light for the country to ratify the euro zone's new bailout fund and budget pact, boosting hopes that the region is finally putting in place the tools to resolve its crippling debt crisis.

"Some longs prefer to take profit ahead of the (Fed) meeting since they've already made money on their positions and because there is always a chance that the Fed won't start another round of quantitative easing - even if many people expect it," said a Shanghai-based trader with an international firm.

RBC Base Metals said in a research note on Thursday that it expected mostly sideways movements in base metals, with small rises and falls in prices until the United States or China clarified whether they were putting out more monetary easing policies.

Three-month copper on the London Metal Exchange had ticked down 0.4 percent to $8,068 per tonne by 0720 GMT, after hitting a high of $8,109 earlier in the session - not far from Wednesday's four-month peak of $8,170.

The most active January copper contract on the Shanghai Futures Exchange closed the session 0.3 percent lower at

58,120 yuan ($9,200) per tonne.

A Reuters poll showed economists raised their bets for a third round of Fed bond buying known as quantitative easing to 65 percent from 60 percent in August.

In China's physical copper market, spot cargoes were trading about 180-250 yuan lower than the ShFE prompt September month contract, reflecting sluggish demand from downstream industries.

The ShFE September contract, however, is trading at a premium to forward months. The backwardation, traders said, was not due to tighter spot demand but due to Jinchuan Group, China's third-largest smelter, buying up about 20,000-30,000 tonnes of copper over the past few weeks.

"Downstream customers don't want to restock too much before the 18th Party Congress, which is expected to offer more clarity on where the Chinese economy is headed," said a Shanghai-based physical trader.

The Communist Party Congress, China's most important political event, is held once every five years with its top leaders being replaced only every decade. It is expected to be held in October but the exact timing has not been announced.

For now, the world's second-largest economy has introduced some measures to prop up growth.

It announced on Wednesday that it would boost exports by issuing export tax rebates faster and granting more loans to exporters, as well as increasing export credit insurance to small companies.

It recently also approved $157 billion in infrastructure spending.

Expectations that the Fed will act are fuelling speculation that China may also ease policy soon to shore up its cooling economy.

PRECIOUS-Gold steady ahead of Fed; gold-platinum premium narrows

SINGAPORE, Sept 13 (Reuters) - Gold was little changed on Thursday with investors awaiting a key Federal Reserve policy decision, a day after a German court ruling in favour of a euro zone rescue fund sent bullion to its highest since the end of February.

The market is buzzing with hopes that the Fed will announce another round of quantitative easing, known as QE3, at the conclusion of a two-day policy meeting later in the day.

Gold is set to get another boost if the expectations materialise, as easier monetary policy stokes inflation outlook and drives investors to bullion, seen as a good hedge against rising prices.

The price of bullion has risen more than 2 percent so far this month, following a nearly 5-percent gain in August during which central banks around the world appeared more willing to take up further stimulus measures to aid a frail global economy.

"If we do see a QE3 announcement, gold is likely to race through $1,800 an ounce," said Chen Min, an analyst at Jinrui Futures in the southern Chinese city of Shenzhen.

"But we also need to realise that the marginal effect of quantitative easing will diminish and it will be too optimistic to expect gold to break above $1,850 even if QE3 is announced."

During Asian trading hours, gold may just mark time and continue to move in a tight range, with many investors standing by on the sidelines.

Spot gold was little changed at $1,731.59 an ounce by 0555 GMT, off a six-month high of $1,746.20 hit on Wednesday after a German constitutional court handed down a ruling in favour of the euro zone's rescue fund.

U.S. gold also traded nearly flat at $1,734.30.

Technical analysis showed a less optimistic picture. Spot gold may retrace to $1,708 an ounce during the day, said Reuters market analyst Wang Tao. Spot gold 24-hour technical outlook:

http://graphics.thomsonreuters.com/WT1/20121309091915.jpg

Graphic: Gold-platinum premium shrinks

http://graphics.thomsonreuters.com/AS/1/RJS_20121309135859.jpg

MARKET REVIEW *(Continued)*

Though the prospect of QE3 has greatly encouraged risk appetite among investors, sending Wall Street to pre-crisis levels and sinking the dollar to a four-month low against a basket of currencies, some analysts were sceptical of what effect another round of bond-buying would have on the economy.

"Although previous rounds of QE have helped kick-start some growth in the U.S., the fact that we are once again at the 'money trough' is not very reassuring," Ed Meir, an analyst at INTL FCStone, said in a research note.

"We will have to see if investors reach the same conclusion in the weeks ahead, particularly if they see no immediate improvement in the macro numbers."

Holdings of gold-backed exchange-traded funds eased slightly from a historical high to 72.47 million ounces by Sept. 12, still up nearly 3 percent over the past month, as investor interest in gold picked up again on prospects of easing monetary policy around the world.

Labour unrest in South Africa's gold and platinum industries are still affecting prices.

Machete-wielding strikers forced the world's No.1 platinum producer Anglo American Platinum to shut down some of its South African operations, sending spot platinum to a five-month high of $1,654.49 in the previous session.

Spot platinum traded up 0.8 percent to $1,648.49. Gold's premium over platinum fell to just above $80 an ounce, a level unseen since April.

Spot palladium gained 0.9 percent to $677.20, after hitting $680.50 earlier in the session -- a four-month high first reached on Wednesday.

FOREX-Euro steadies near 4-month peak after German ruling

TOKYO, Sept 13 (Reuters) - The euro held near a four-month high on Thursday after Germany's Constitutional Court gave the green light for Berlin to ratify the euro zone's permanent rescue fund, looking to extend gains further on possible stimulus from the U.S. Federal Reserve.

The euro changed hands at $1.2926 , up 0.2 percent from late U.S. levels and near a four-month high of $1.2937 hit a few hours after the court's ruling on Wednesday.

The court said the German parliament should be given veto rights over any increase in Germany's current contribution of 190 billion euro, but the conditions it spelled out were less onerous than some had feared.

With expectations of the European Central Bank's bond buying plan helping to reduce borrowing costs of Spain and Italy, market players' perceived risk of a major crisis in the currency bloc is receding, prompting a buy-back in the euro.

The common currency held near a 10-week high against the yen, trading at 100.45 yen , just below Wednesday's high of 100.64 yen.

Against the British pound, it stood at 0.8018 pound , after having hit a 10-week high of 0.8028 on Wednesday.

Also slightly helping the euro were results of the Dutch election, where pro-European parties crushed radical fringes, dispelling concerns that eurosceptics could gain sway in a core euro zone country.

The euro is likely to extend gains further if the U.S. Federal Reserve unveils a new asset purchase programme, dubbed as QE3, as that would be its third round of quantitative easing, when it announces its policy at 1630 GMT.

"If the Fed avoids major easing steps, the euro could fall. Still, considering that the euro's rally has been driven by short-covering rather than build-up of new positions, downside for the euro may be limited," said Koichi Takamatsu, head of forex at Nomura Securities.

Mounting expectations that the Fed might print more dollars, thereby cheapening their value, had pushed down the dollar index to a four-month low of 79.522 on Wednesday. It last stood at 79.575.

Against the yen, the dollar hit a three-month low of 77.671 yen on trading platform EBS. A drop below its early June trough of 77.652 yen would take the dollar to its lowest level in seven months. The dollar last stood at 77.72 yen, down 0.2 percent from late U.S. trade on Wednesday.

Should the dollar fall further, wariness about Japan's currency intervention could intensify, traders said.

Many Fed watchers believe any new asset purchase programme would be open-ended, unlike the past two cycles of quantitative easing.

That would allow the central bank to review the size of its purchases on a frequent basis, perhaps meeting-to-meeting, and adjust the programme as economic circumstances warrant.

"The market has not 100 percent priced in QE3 yet," said Masafumi Yamamoto, chief FX strategist at Barclays, noting that whether its monthly purchase size would be larger than that under the previous QE of $75 billion would be important, regardless of whether the programme is open-ended or not.

In the Reuters poll, among economists that saw a new stimulus programme being open-ended, the median forecasts for how big the initial installments would be came to $70 billion per month.

Later on Thursday, the Swiss National Bank is expected to keep its target range for the Swiss franc LIBOR unchanged and retain its cap on the Swiss franc at 1.20 francs to the euro when it announces its monetary policy decision.

(Inside Metals is compiled by Shruthi G in Bangalore)

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