# INSIDE METALS

Friday, September 14, 2012

## CHART OF THE DAY

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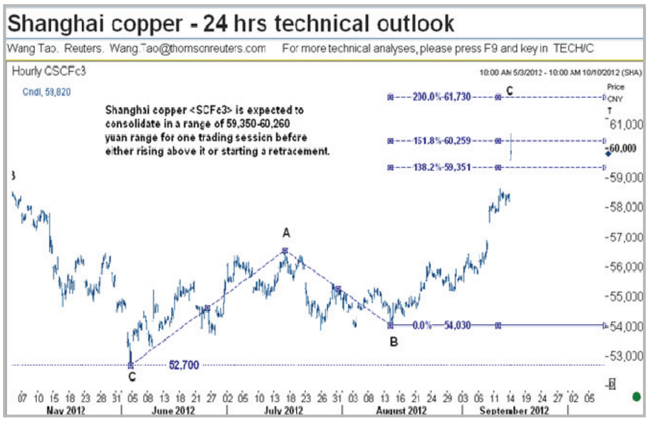


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- Lonmin makes offer to striking S.Africa miners
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## TODAY'S MARKETS

**BASE METALS**: Copper prices rallied , with benchmark London and Chinese contracts at their highest in up to five months, after the U.S. Federal Reserve launched a new round of aggressive stimulus that could boost demand for industrial metals.

Optimism in financial markets lifted Asian shares and drove the euro to a four-month high against the dollar after the Fed said it would pump $40 billion into the world's largest economy each month until it saw a sustained upturn in the weak jobs market.

"The announcement of the Fed to introduce a bold bond buying program triggered further gains in commodity prices," said Credit Suisse in a research note, adding that industrial metals could extend their gains in the next few days, with investors expected to focus on U.S. industrial output data later in the session.

**PRECIOUS METALS:** Gold rose to a six-month high , extending the previous session's 2-percent gain, after the Federal Reserve launched an aggressive economic stimulus program that could add to the risk of inflation and strengthen bullion's appeal.

Silver, platinum and palladium, widely used in industrial application, also climbed to their highest in about six months, as the appetite for riskier assets rose after the Fed announced an open-ended debt buying programme and pledged to keep interest rates near zero until at least mid-2015.

"The Fed's move will flood the market with liquidity, which will consequently push up inflation and drive investors to assets known to be good hedges, such as gold and silver," said Li Ning, an analyst at Shanghai CIFCO Futures.

**FOREX:** The dollar hit a four-month low against a basket of major currencies, extending losses after the U.S. Federal Reserve announced a new round of aggressive monetary stimulus to support economic growth.

"I don't get the sense that it will keep on going. A slight break above $1.30 might be all that it can manage," said Akira Hoshino, chief manager at Bank of Tokyo-Mitsubishi UFJ's foreign exchange trading department in Tokyo, referring to the euro.

# GENERAL NEWS

**Fed bets big in new push to rescue U.S. economy**

WASHINGTON, Sept 13 (Reuters) - The Federal Reserve launched another aggressive stimulus program on Thursday, saying it would pump $40 billion into the U.S. economy each month until it saw a sustained upturn in the weak jobs market.

The central bank's decision to tie its controversial bond buying directly to economic conditions was an unprecedented step that marked a big escalation in its efforts to drive U.S. unemployment lower. Stock prices jumped, while gold hit a six-month high as investors braced for fast er i nf lation.

Unlike in its two previous bond-buying sprees, the Fed said it would only purchase mortgage-backed s ecurities, hoping in part to unstick a housing sector that Fed Chairman Ben Bernanke called "a missing piston" in the U.S. recovery.

One top Republican charged that the move was a bid to help President Barack Obama ahead of November's closely contested presidential election. Republican nominee Mitt Romney's campaign said it confirmed the failure of Obama's policies.

Bernanke dismissed talk the Fed was taking sides, saying it acted solely because of the dire state of the U.S. labor market.

"The employment situation ... remains a grave concern," Bernanke told reporters. "While the economy appears to be on a path of moderate recovery, it isn't growing fast enough to make significant progress reducing the unemployment rate."

By buying mortgage-linked debt, the Fed hopes to press mortgage rates lower, helping the housing market and also encouraging investors in MBS to switch into other assets, s uch as corporate bonds, lo w ering their yields as well.

Those lower borrowing costs should spur more lending and foster faster economic growth, officials believe. U.S. growth cooled in the second quarter to a tepid 1.7 percent annual rate, and forecasters do not think the economy is exp anding muc h fast er, a l though it is faring better than many other developed economies.

In August, the United States created just 96,000 jobs, less than needed to keep up with population growth. While the unemployment rate edged down to 8.1 percent, it was only because many Americans gave up on the search for work.

Businesses have held the line on hiring and put investment plans on hold out of concern Europe's debt crisis and the so-called U.S. fiscal cliff of scheduled tax hikes and government spending cuts could derail the economy, economists say.

In an additional move, the Fed said it was not likely to raise overnight interest rates from their current near-zero level until at least mid-2015, a shift from its previous late-2014 guidance.

To underscore its resolve, it said it would pursue an easy monetary policy "for a considerable time" even after the economy strengthened.

"If the outlook for the labor market does not improve substantially, the committee will continue its purchase of agency mortgage-backed securities, undertake additional asset purchases, and employ its other policy tools as appropriate until such improvement is achieved in a context of price stability," the Fed said in a statement.

Asked repeatedly during a post-decision news conference to amplify on that pledge, Bernanke said the Fed wanted to see a convincing improvement in the economy that could deliver sustainable job creation and a gradual decline in unemployment.

"There's not a specific number we have in mind, but what we have seen in the last six months isn't it," he said.

U.S. stocks shot higher on the Fed's move, with the S&P 500 closing at its highest level since December 2007 and the Dow Jones industrial average adding more than 200 points.

Stocks had already been supported by expectations the Fed would act and an aggressive plan by the European Central Bank to tackle the debt crisis there.

Stephen Stanley, an economist at Pierpont Securities in Stamford, Connecticut, said that by tying its purchases to progress reducing U.S. unemployment, the Fed had "basically locked on the handcuffs and swallowed the key."

PUSHING ON A STRING?

Economists said the Fed could eventually buy more than $1 trillion in debt given the open-ended nature of its new policy. Capital Economics estimated purchases could top $1.4 trillion.

The plan fueled some nervousness in financial markets over the potential for inflation, even though the Fed would pull back on its buying if the economy strengthened. Bernanke stated explicitly that pushing up prices was not the Fed's intention.

The price of gold, a traditional inflation safe haven, hit a six month high, while oil also gained on expectations investors would pile into riskier assets such as commodities and equities.

Prices for most U.S. Treasury debt rose, although the 30-year bond fell, reflecting both disappointment that government debt was not on the Fed's purchase list and inflation worries.

The decision comes in the face of widespread questions about the likely effectiveness of a further foray into unorthodox monetary policy, including from Romney. The Fed has already bought $2.3 trillion in U.S. government and housing-related debt it two rounds of so-called quantitative easing.

Those programs, dubbed QE1 and QE2, bought bonds at a pace c loser to around $100 billion per month.

Bernanke said the Fed's new policy would not be a panacea, and that the central bank would be unable to fully protect the recovery if Congress and the White House could not agree on a plan to avoid the fiscal cliff -- the $500 billion or so in expiring tax cuts and government spending reductions set to take hold at the start of next year.

But he argued that the Fed's efforts could help.

## GENERAL NEWS *(Continued)*

Senator John Cornyn, head of the Senate Republicans' campaign committee, said the Fed appeared to be "trying to juice the economy" ahead of the Nov. 6 election, while Lanhee Chen, policy director for the Romney campaign, argued the decision pointed to a need for new policies from the White House.

"We should be creating wealth, not printing dollars," Chen said.

The White House, which scrupulously avoids commenting on Fed decisions, declined to be drawn into the debate, but other Democrats rallied to defense of Bernanke, who once served as an adviser to Republican President George W. Bush. It was Bush who first nominated Bernanke to the Fed.

"It is unfortunate that Republicans already have expressed disappointment in this action and are clearly upset that they were unable to intimidate the Fed into putting partisan politics ahead of national economic interests," said Democratic Representative Barney Frank.

The Fed also caused ripples abroad. Brazilian Finance Minister Guido Mantega said he would monitor the impact of the action on Brazil's real currency. Mantega had accused the Fed's earlier bond buying of unfairly weakening the U.S. dollar.

BRIGHTER OUTLOOK

In its statement, the Fed said the fresh MBS purchases, which it will start on Friday, would come on top of its so-called Operation Twist program, in which it is selling short-term bonds to buy longer-term U.S . Tre asury debt. With its new MBS purchases, the Fed said it would now be buying about $85 billion in long-term securities each month.

In a reflection of optimism over their new policy path, Fed o fficials lowered their forecast for the unemployment rate at the end of 2014 to a 6.7 percent to 7.3 percent range, down from a range of 7.0 percent to 7.7 percent for ecast in Jun e. One official, Richmond Federal Reserve Bank President Jeffrey Lacker, dissented against the decision, as he has at every Fe d policy m e eting this year.

**Lonmin makes offer to striking S.Africa miners**

JOHANNESBURG, Sept 13 (Reuters) - Lonmin Plc said on Thursday it had made an offer to striking workers at its South African operations, after four weeks of widening labour unrest that has threatened mining output in Africa's biggest economy.

"Following negotiations today, Lonmin has presented an offer," to representatives of the workers, the company said in a statement, adding that negotiations would continue on Friday.

The world's third-largest platinum miner also said the talks included "all parties", a sign that the militant AMCU union - which has been a driving force in the labour unrest - was now involved.

Lonmin last week signed a "peace accord" with some of its unions, but that deal did not include the breakaway Association of Mineworkers and Construction Union (AMCU).

AMCU is calling for hefty pay hikes and challenging the long dominance of the government-affiliated National Union of Mineworkers.

The wave of strikes has engulfed other mining companies, including top platinum producer Anglo American Platinum and gold producer Gold Fields .

Last month police shot dead 34 striking miners at Lonmin's Marikana mine, the bloodiest security incident since the end of apartheid in 1994.

**Xstrata board expected to back Glencore bid next week**

LONDON, Sept 13 (Reuters) - Xstrata's board is expected to recommend Glencore's revised $34 billion bid as early as next week, sources close to the deal say, although it may come with some qualification surrounding such issues as staff retention.

Glencore, already Xstrata's biggest shareholder with a 34 percent stake, made its original recommended all-share offer in February but hit trouble in June when the company's second-biggest investor Qatar Holding demanded an improved deal.

Detailing the new offer on Monday, Glencore said Xstrata shareholders would now get 3.05 shares for every Xstrata share held, instead of the previous offer of 2.8 shares. However, under the new proposal its own chief executive, Ivan Glasenberg, is to take over the helm of the combined business from Xstrata's chief executive Mick Davis, who would have stayed for at least three years under the original deal.

Instead, Davis, who has led Xstrata for over a decade, will leave within six months.

"We all agree that 3.05 is better, and that if you were happy with 2.8, you should be happy with 3.05," one source involved in the deal said.

"But it is all work in progress. There are a lot of people saying this is a slam dunk, but the board has a duty ... to ensure they are comfortable they have the right construct (and can) retain key operational personnel."

It was not clear what changes the Xstrata board could request or demand, but one of the sources said the board could seek guarantees from Glencore for managers it sees as key: "It will take more than just reassurance."

A separate source said any changes were likely to come in Xstrata's controversial retention package for more than 70 key executives, though others said that was not likely to change.

Operational and management issues are key for Xstrata and at the forefront of concerns for the board, several of the sources said, as the miner shifts from an acquisition-fuelled first decade into a phase of organic growth which the miner hopes will boost volumes by 50 percent by the end of 2014 and cut costs.

Xstrata's board has until Sept. 24 to decide whether or not to recommend the revised offer.

## GENERAL NEWS *(Continued)*

Hostile bids are unusual in mining, a sector in which many large deals and mega-mergers have failed to materialise for a variety of reasons including political and regulatory issues and a tie-up between Xstrata and Glencore would be the second-biggest deal in the sector to date.

MEETINGS CONTINUE

Several sources said the board - set to meet this week and next as talks continue between independent directors and shareholders - had not yet taken a final decision on details including changes to the staff retention package, for example, but could reach an agreement before the deadline of Sept. 24.

"Meetings are still going on. The board will have a range of views to consider," another source familiar with the deal said.

Shareholders have been broadly supportive of the revised offer, though Qatar, which has backed Xstrata's management, has yet to make its decision public. It said earlier this week it was considering its position.

Most of the sources said they now expected a deal could be done, however. "We are now far more optimistic than last week. It looks like if there is no deal agreed on Monday, then it will be (a few days later)," one of them said.

Xstrata's independent directors are unlikely to rush their approval, having come under fire after recommending the original Glencore deal and the more than 170 million-pound ($274 million) retention package for 73 of the miner's top managers which many shareholders felt was excessive.

After Glencore's last-minute revision of its offer last week the directors said in a curt statement that the exchange ratio was "significantly lower than would be expected in a takeover" and warned of "significant risk" if Davis were to be replaced as chief executive and management incentive arrangements altered.

In detailing its revised offer on Monday Glencore took a more conciliatory tone than when it first made the proposal on Friday, saying the retention and incentive arrangements would have to be acceptable to shareholders.

**South African miner threats pressure ANC**

RUSTENBURG, South Africa, Sept 13 (Reuters) - Striking South African platinum miners delivered much higher pay demands on Thursday and threatened to spread industrial action further, deepening a crisis that is becoming the biggest threat to the ruling ANC since the end of apartheid.

In the face of the spiralling labour unrest in Africa's biggest economy, President Jacob Zuma said the government would crack down on anybody stirring up trouble.

"It is not just the miners striking. It also some people of some description who are going there to instigate miners," said Zuma, who faces an ANC leadership election in December. "We are going to be acting very soon," he told parliament in Cape Town.

What began as an industrial dispute has evolved into a grass-roots rebellion by blacks who have seen little improvement in their lives since white minority rule ended 18 years ago.

At a soccer stadium in the heart of the platinum belt, thousands of workers heard a call from one protest leader for a national strike to "bring the mining companies to their knees".

"On Sunday, we are starting with a general strike here in Rustenburg," Mametlwe Sebei, from a fringe Marxist political party, told the workers near the town which lies 100 km (60 miles) northwest of Johannesburg.

He drew mild applause from the crowd, armed with sticks and machetes, and it was unclear if the strike call would be heeded.

Despite the weapons, the strikers insisted their push for a sharp hike in wages was peaceful - even after the Aug. 16 police shooting of 34 protesters at Lonmin's nearby Marikana platinum mine.

"There should be no blood," one placard read.

As investors started to fret about the impact on wider economic growth, the rand fell more than one percent against the dollar - compounding a 3 percent slide on Wednesday. Mining accounts for 6 percent of South Africa's output.

Most men at the soccer stadium said they worked for top producer Anglo American Platinum , commonly known as Amplats, which suspended operations at its four Rustenburg mines on Wednesday after they were blockaded by marchers.

SPREADING CHALLENGE

A group of more than 100 chanting strikers, many waving sticks and "knobkerry" clubs, accompanied protest leaders as they delivered a written memorandum laying out their demands to Amplats management offices near the Bleskop stadium.

Police armoured vehicles kept the larger crowd of miners inside the stadium, within sight of a white clubhouse painted with Amplats corporate slogans such as "We value and care about each other" and "We are one team".

The demands were for an increase of basic pay and allowances to 16,000 rand ($1,900) a month - nearly three times their current salary and more than double per capita GDP in the continent's richest country.

As the stick-waving miners accompanied their leaders back to the stadium, they chanted: "We won't give up!"

They said they would not return to work until top management - including Cynthia Carroll, chief executive of Amplats parent company Anglo American - came to hear them out.

"She must come to the workers," a 32-year-old called Kasigo told Reuters. "If they don't come, we won't work."

Amplats confirmed it had received the demands and was monitoring the situation closely.

## GENERAL NEWS *(Continued)*

MALEMA "DANGER"

The labour unrest began with a violent six-week strike at Impala Platinum in January. It intensified in mid-August, sending platinum prices up 20 percent since then.

It 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) and is also spreading into the gold sector.

World number four producer Gold Fields said NUM officials came under attack when they tried to address wildcat strikers at its KDC West mine near Johannesburg, where 15,000 men downed tools last week.

ANC renegade Julius Malema - the de facto face of an unofficial "Anyone but Zuma" rebellion in the ANC - has entered the fray, accusing the polygamous Zuma of being more interested in arranging weddings than trying to clean up the mess.

Ministers and NUM leaders have dismissed Malema as an irresponsible opportunist but the expelled Youth League leader is becoming a star for the legions of South Africa's impoverished black majority.

"People who believe that Malema does not present a danger to South Africa have missed the point," said Richard Faber, a fixed income trader at Johannesburg brokerage Worldwide Capital. "It is his ideology that presents the danger and that is gathering momentum."

The platinum price held steady on Thursday near the 5-month high it hit following the Amplats shut-downs.

Amplats shares fell as much 1.8 percent in early trade before bouncing to be up 1.3 percent by 1400 GMT.

## TRADING PLACES

**Rusal expects shift to floating aluminium premiums**

MOSCOW/LONDON, Sept 13 (Reuters) - Russia's RUSAL , the world's largest producer of primary aluminium, could offer floating premiums in term supply contracts it negotiates with consumers for 2013, with both sides reluctant to set long-term deals as spot market premiums reach record highs.

Agreeing on a level for premiums - money paid over the benchmark London Metal Exchange (LME) cash price to secure physical metal - forms a part of annual contract negotiations between producers and consumers.

The premium set by RUSAL will hold a lot of sway in determining other deals in Europe. Record high spot market premiums for aluminium in Europe have become a bone of contention as annual negotiations in Europe begin this week, with consumers preferring to hold off on long-term deals due to the volatility and some producers reluctant to commit at current levels.

"We expect to see a tendency to have floating premiums related to the underlying commodity contract, where producers are able to fix the margin over cast house costs," Steve Hodgson, RUSAL's director of international sales, said in a presentation at a Metal Bulletin aluminium conference.

"This protects their own capital investment returns, whereas many consumers have thus far avoided these upfront risks."

Hodgson said cash premiums over prices on the LME had risen to 10-12 percent of underlying prices.

In the past, RUSAL had offered fixed premiums when the premium-to-price ratio was much lower.

Spot market premiums have soared to record highs as vast amounts of aluminium are locked away in financing deals in warehouses in places like the Dutch port of Vlissingen, the Malaysian port Johor and Detroit in the U.S., resulting in queues of up to a year to collect metal. So while there is a glut of the metal, it is not readily available.

"The fact remains that very little long-term contracts are being concluded because buyers are unhappy with the current levels and buying hand-to-mouth.

They don't want to commit at current levels," a physical trader said, adding consumers would favour short-term deals as long as the volatility lasted.

"And some sellers don't want to commit for more than three months either. So even if consumers did want to book all their annual consumption at these levels they may find themselves with nobody to trade with."

PREMIUM TO CLIMB EVER HIGHER

Spot premiums are likely to continue to rise over the next year and a half, RUSAL First Deputy Chief Operating Officer Vladislav Soloviev said.

"There are different scenarios of market development, including a decline, but we do not expect this during the next 18 months. Premiums will continue to rise," he told the conference.

Duty-paid physical aluminium in Rotterdam was quoted at a fresh record high of $270-290, rising from $260-280 at the end of August. Duty unpaid was quoted at $210-230, against $210-220 previously.

But three-month aluminium prices touched a three-year low at $1,827.25 a tonne in mid-August, after falling more than 10 percent in the second quarter.

## TRADING PLACES *(Continued)*

"Unlike the underlying LME contract that is subject to greater macro influences and fund or investment inflows, the premium market is responding to factors most closely linked to the accessibility of metal," Hodgson said in his presentation.

"Although as a producer we are happy to see this situation, we acknowledge that it poses new difficulties for consumers and producers alike, particularly in our ability to pass these costs through to the ultimate consumer."

In Japan, where premiums are set quarterly, aluminium buyers are looking to lock in fourth-quarter supplies at a premium of around $250 to $253 per tonne, two industry sources said, about 20 percent more than the record high level of the previous three months.

## MARKET NEWS

**Alcoa workers stage protest to slow down plant closure**

PORTOVESME, Italy, Sept 13 (Reuters) - Two trade union leaders braved wind and rain atop a 60-meter high tower at Alcoa's smelter in Sardinia in a protest aimed at slowing down the U.S. aluminium producer's closure of the troubled plant.

"We believe Alcoa does not intend to stick to this week's agreement regarding the slowing down of closure procedures," Alcoa worker and union member Stefano Ansaldi told Reuters outside the factory gates.

Workers at the plant on the Mediterranean island have staged a series of demonstrations at the factory and in Rome that have turned the smelter into a national symbol of Italy's recession.

The union leaders, Rino Barca and Franco Barbi, climbed 60 metres up the water cooler on Wednesday evening after three masked workers spent several days perched atop the same tower last week.

On Monday the government said Alcoa had agreed to slow down the closure of the plant, buying the industry ministry time to talk to companies that have expressed interest in the plant.

In March an agreement between Alcoa, the unions and the Italian government stated that if no buyer could be found for the loss-making smelter by August 31, a shutdown would commence September 1.

"We are asking Alcoa to show a willingness to halt the closure process for around 20 days," said Luciano Fenu, a worker at the plant.

In a joint statement, Italy's three main metalworkers unions called on Mario Monti's technocrat government to intervene.

In an emailed statement on Thursday, Alcoa said it had met every commitment it had made to the Italian government, the regional administration and trade unions and would continue to do so.

"We have also provided additional concessions by extending employment through the end of the year as well as agreeing to a more gradual curtailment," it said.

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 slash its power costs.

Earlier this week Italian wind power group Kite Gen Research became the third group to express interest in the smelter alongside Swiss industrial group Klesh and London-listed commodities trader Glencore .

However, Alcoa reiterated on Wednesday it "has not received any expressions of interest that are viable or different to those previously considered".

Alcoa workers were due to hold a meeting at 1230 GMT on Thursday to decide on what kind of industrial action to take.

Fenu said the concern among the workers was that a possible strike could simply speed up the closure of the plant.

Alcoa's factory supports about 1,500 jobs in Sardinia. Its closure would be a heavy blow for the island which has a 15 percent unemployment rate, well above the national average.

Closure would also be a blow for Monti's government as it tries to fight growing joblessness due to a deepening recession.

At the end of July, the industry ministry was mediating in 131 other disputes between companies seeking to cut jobs and unions trying to preserve them, according to a ministry document obtained by Reuters. With more than 163,000 jobs at stake, Rome is likely to see more protests in coming months.

"An inspector from the government will be coming today to check at what stage the closing down process is," said Alberto Pili, a councillor for labour affairs at the Carbonia Iglesias province where the smelter is located.

**RUSAL owner sees alu supply down in 6-9 months, stocks too high**

MOSCOW, Sept 13 (Reuters) - The main owner of Russia's RUSAL , the world's largest aluminium producer, said an overhang of aluminium should be reduced through production cuts and said stocks should be slashed to get rid of loss-making supplies.

Oleg Deripaska, also the aluminium giant's CEO, said he expected global aluminium supply cuts during the next 6-9 months.

"During the next 6 to 9 months we will see rationalisation of production programmes  volumes of production should be decreased to achieve the balance of supply and demand," Deripaska told a briefing.

## MARKET NEWS *(Continued)*

He did not say how much supply could be cut, adding that the market would decide itself.

He also said stocks should fall. While the global aluminium industry is in chronic oversupply, millions of tonnes of the metal are held in warehouses, and much of these stocks are used for financing purposes.

Stocks in LME warehouses were reported at just under 5 million tonnes on Thursday.

"All interim stocks are loss-making. We should get rid of these losses," Deripaska added. "Right now the volume of metal in warehouses is twice the reasonable level."

Deripaska's top lieutenant at RUSAL said demand would support price gains to $2,300 per tonne in the first half of 2013.

"We expect demand recovery. We are especially hopeful for the construction sector," Vladislav Soloviev, first deputy CEO of RUSAL, told the same briefing, held at a Metal Bulletin aluminium conference in Moscow on Thursday.

### Tajik aluminium smelter cuts 2012 output forecast

DUSHANBE, Sept 13 (Reuters) - Tajikistan's state-owned aluminium smelter, the largest in Central Asia, cut its production forecast for the year by 15 percent after a modernisation programme and a brief stoppage in gas supplies, a source close to the management said on Thursday.

Tajikistan Aluminium Company, or TALCO, expects to produce 281,000 tonnes of the metal this year, down from a previous forecast of 332,500 tonnes. The smelter produced 277,584 tonnes in 2011.

"From next year, we will show more significant growth in production," said the source, who declined to be named because the production data is not public.

TALCO has been ramping up production this year after a modernisation programme completed at the end of 2011, which has resulted in lower year-on-year output figures. A 15-day stoppage of Uzbek gas supplies also hit output in April.

Aluminium production in the eight months to August rose 0.2 percent, the first time production has shown year-on-year growth since completion of the upgrade. But the recovery in production will be insufficient to meet the original target, the source said.

"In order to have produced 332,500 tonnes this year, we would need to raise production in September by 50 percent over August, and that's just not physically possible," he said.

In January to August 2012, TALCO produced 190,271 tonnes of aluminium versus 189,838 tonnes in the same period of last year.

The smelter's production is crucial to the economy of Tajikistan, the poorest of 15 former Soviet republics. Aluminium accounts for slightly less than half of Tajikistan's entire export revenues.

### 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 .

**Voestalpine special steel sales down 10 pct from last year**

STOCKHOLM, Sept 13 (Reuters) - Austrian steel group Voestalpine has seen its special steel sales volume fall by about 10 percent in the first eight months of this year, compared with the same period last year, Franz Rotter, a member of the company's board, said on Thursday.

"Special steel sales volumes are slightly lower than last year, approximately 10 percent lower, globally," Rotter told Reuters.

"I believe that we will see lower demand for the next few months, until the early beginning of next year, definitely. There is no reason why things should turn now, no signals from the market. I believe there will be an upswing in the beginning of the spring." The worst-performing segment in terms of demand was the power and energy sector, in Europe but also in the United States, mainly due to reduced investment in new projects, Rotter said.

"The power generation market is not very good and we don't foresee an improvement in this market in the near future, and the same is true for the wind energy market," Rotter said.

Sales to the automotive sector, the biggest demand segment for the Austrian company's special steel division, were slightly weaker in Europe, but stable, at "quite acceptable levels" in Asia and the United States.

Demand from the oil and gas markets, which represent about 10 percent of the special steel division's turnover, was similar to last year at what he said was a pretty good level, while demand from the aviation sector had increased.

"I think the oil and gas sector is one of the best industrial segments, especially in the U.S. but also in the Far East," the Voestalpine executive said. "The aviation segment maybe sometimes is a little bit volatile but in the long run it's one of the most interesting areas." Demand from the machinery sector was weaker than in the previous two years, Rotter added.

**Australia's Fortescue on trading halt, to restructure debt**

SYDNEY, Sept 14 (Reuters) - Australia's Fortescue Metals Group Ltd , the world's no.4 iron ore miner, asked for a trading halt on its battered shares on Friday, saying it planned to announce a restructuring of its hefty debt load next week.

Shares in the Australian miner plunged the most in almost four years on Thursday after a report the company had asked its lenders to waive all its debt covenants for the next 12 months following a sharp drop in iron ore prices.

"Fortescue remains concerned about continued rumours and speculation in respect of its bank related facilities. Discussions with its banks have progressed significantly overnight and it is in the best interests of shareholders to halt trading in Fortescue's securities," the company said in a statement.

Fortescue, which has more than $11 billion in debt, reiterated that it was in compliance with its banking covenants and was conducting discussions with a "supportive banking group".

It said it expected to make an announcement regarding "the restructure of its bank related facilities" by the start of trade on Sept 18.

Earlier this month, Fortescue announced it was slamming the brakes on plans to triple its iron ore capacity, cutting hundreds of jobs and selling non-core assets to preserve cash.

**Anglo American allowed to resume Brazil iron mine work**

RIO DE JANEIRO, Sept 13 (Reuters) - Anglo American Plc received approval from a Brazilian court to restart mine construction at its Minas-Rio iron ore project, the company said on Thursday.

Work can now resume on the mine and processing plant in the towns of Conceicao do Mato Dentro and Dom Joaquim in Brazil's Minas Gerais state. The work was halted after sites of potential archeological value were discovered during construction.

A judge stopped the work on March 19, pending approval from IPHAN, a Brazilian historical preservation agency, to proceed.

With that approval now granted, the court allowed work to resume. More than 80 percent of the artifacts discovered in the area were recovered and the site was photographed while construction was suspended, the company said.

An environmental license required for the construction of an electrical transmission line for the project is still suspended, pending another court decision.

Anglo American's Minas-Rio project has faced a series of delays since it was purchased for $5.5 billion from Brazilian billionaire Eike Batista's MMX Mineracao e Metais in 2008. These delays have raised concern over whether the company will be able to deliver on other projects such as a coal mine in Mozambique.

The company blamed delays at the Minas-Rio project in part for its smaller-than-expected profits in the first half of the year.

Anglo American is the world's largest producer of platinum and fourth-largest producer of iron ore. It is also a major producer of diamonds, copper, iron ore, nickel and coal.

## MARKET NEWS *(Continued)*

The company plans to spend $2 billion this year on the mine, processing plant and a 525 km iron ore pipeline connecting the mine to the Porto de Açu in Rio de Janeiro state. Anglo said in July that it hopes to ship its first ore from Açu, owned by Batista's LLX Logistica , in 2014.

Minas-Rio, Anglo's biggest iron ore project worldwide, is expected to produce 26.5 million tonnes of iron ore per year in its first phase.

Anglo American's shares rose 0.4 percent to 1891 British pence in London on Thursday before the announcement.

**China floods globe with below-cost steel as output overwhelms**

LONDON, Sept 13 (Reuters) - China is ramping up its global exports of cheap steel, sometimes at a loss, as bulging stocks of the alloy give way to a worsening domestic demand picture for the commodity consuming giant.

Slowing construction and industrial activity has hit Chinese steel demand and prices hard in the last few weeks, prompting market participants to export more aggressively than ever, even to markets such as the Middle East and North Africa where it doesn't usually sell.

Major steel products in China are being sold below cost following a market slump that has lasted more than four months, the country's steel industry association said.

"The Chinese have been offering everywhere in the last three to four weeks, in whatever market they can reach and they can reach almost everywhere because their steel price has dropped dramatically," said a Russian steel trader.

"They are offering to Latin America, they are offering to Africa, they are offering to the Middle East, they are offering to Iran, even to a part of Russia. Everywhere."

Chinese steel exports to North Africa and the Middle East, were at a discount of $40-50 per tonne against Turkish and Russian steel, up from a discount of $20-30 about two weeks ago, traders said.

Turkish rebar, for example, was sold at around $610 delivered to customers in the Middle East this week, while Chinese exports were at around $560 on the same basis, according to price provider Platts SBB.

RUSSIAN PRICE

Hopes that Beijing's recent approval of more than $150 billion in infrastructure projects would revive steel demand, helped the price of steel ingredient iron ore to rise after it lost over a third of its value in the last two months.

Many, however, think this enthusiasm is only temporary and much more will be necessary to resuscitate the industry.

"It will take months for China to implement the announced programs," the trader said.

The export urgency is being driven by a need for Chinese steel players to generate cash-flow for repayment of bank loans and to fend off law suits.

"China's growth model is driven by the need to create jobs in order to avoid social unrest, so when they slow down domestically, they begin to export, and that creates trade tensions. I think we are entering (that) stage," said Gordon Moffat, director of Eurofer, the European steel producers association.

Chinese steel output, often subsidised by the government, has grown much quicker than demand over the last few years.

"Demand in the region is not picking up largely, but we managed to lower prices to attract bookings, though our profits are extremely weak," said a China-based trader whose focus is on exports to south-east Asia.

GRAPHIC: Steel and the economy: http://r.reuters.com/cug42t

THE RED WAVE

Russian and Ukrainian producers are among the worst affected suppliers as, unlike some western steelmakers, they mainly produce basic grades of steel, which compete directly with Chinese products.

Also, the recent fall in spot prices for iron ore and coking coal imported to China has given Asia an enormous competitive advantage, allowing offers of cheap steel to unusual markets such as the Middle East and North Africa.

"Of course this is putting pressure on prices and now domestic producers are trying to adapt, to develop defensive strategies and see how they can reduce the impact of these Chinese prices," the Russian trader said.

"Some mills in Europe are still OK because they produce higher -end steel but the Russians can't survive like this."

Europe is a more consolidated export market for China, but in the last few weeks Chinese offers to Europe have also been more attractive, traders said.

"We have been buying more Chinese products and I have heard a big Italian buyer has just bought 50,000 tonnes of hot-rolled coil out of China," a European trader said.

The trader said the long lead times (about 60-90 days before delivery from China) had put some customers off and the Chinese quality is not acceptable for all uses, but the competitive prices were certainly attracting more buyers.

The U.S. is better protected from the Chinese steel flood thanks to anti dumping duties. Nevertheless, more bookings of other Chinese steel products have taken place, traders said, with prices up to $100 cheaper than the domestic ones.

Analysts and traders struggle to predict when steel prices will turnaround but they agree steep Chinese production cuts are a condition for this to happen.

## MARKET NEWS *(Continued)*

"People are freaked out about China. They are producing near all-time-high levels and not consuming at nearly that rate and steelmakers are unwilling to cut production," said Michelle Applebaum, an analyst with Steel Market Intelligence.

"I think we'll see production cuts, but right now they're creating a big problem and it will be a while before steel prices move up."

**China steel prices now below manufacturing costs -CISA**

BEIJING, Sept 13 (Reuters) - Major steel products in China are being sold below cost following a market slump that has lasted more than four months, the country's steel industry association said on Thursday.

In its monthly market survey, the China Iron and Steel Association said prices of products such as rebar, wire rod and hot-rolled coil were all "lower than industry manufacturing costs", piling the pressure on struggling steel enterprises.

Although raw material costs have also dropped, there is still plenty of room for further declines, it said. According to CISA's own index, average import prices in 2009 stood at around $80 per tonne, compared to $112.58 per tonne in August.

CISA said the government's plan to stimulate infrastructure construction would help increase steel demand in the coming months, and the market was also likely to "stabilise" as a result of production cutbacks.

China last week gave the go-ahead to 60 new infrastructure projects worth more than $150 billion in investment in a bid to energise its slowing economy.

However, CISA warned that conditions in the steel market were still not expected to improve significantly, with supplies still outstripping demand by a considerable margin.

It urged companies to do their utmost to control output and bring stability to the market, as well as reduce stockpiles.

**EU ferrochrome benchmark price to fall in Q4 -Eti Krom**

STOCKHOLM, Sept 13 (Reuters) - Turkish ferrochrome producer Eti Krom expects the European ferrochrome benchmark to fall slightly in the last quarter of this year due to oversupply and weaker demand, the company chief executive Robert Yuksel Yildirim said on Thursday.

Prices of ferrochrome, a key stainless steel ingredient, will fall $0.05-0.10/lb to 1.15-1.20/lb in the fourth quarter this year before recovering in the first half of next year on the back of restocking, Yildirim told Reuters on the sidelines of a Metal Bulletin stainless steel conference.

European ferrochrome prices are currently higher than in China, so a fall in European levels is likely, according to Eti Krom.

"There is now too big a gap between Chinese prices and European benchmark prices so obviously European stainless steel mills will push for lower prices," Yildirim said.

"European prices should go down because otherwise China will produce lower cost stainless steel, dump it, and then we lose our customers in Europe. They need our support, and we need them also," the ferrochrome supplier said.

Due to weaker market demand, Eti Krom shut down production at its Swedish plant last spring. The plant, which can produce a maximum of 240,000 tonnes of ferrochrome each year, had been producing at 50 percent of its capacity until May, when worsening market conditions prompted the shut down.

"We saw stocks increasing in the spring so we decided to shut down. Unfortunately the market (demand) is not big enough for our volumes; when demand goes down we go down with that," Yildirim said.

The company's other plant in Turkey is currently producing at 65-70 percent of its 150,000 tonnes capacity and the company is ready to ramp up its output if a recovery takes place in the next few months.

**China cuts rare earths mining permits in consolidation drive**

BEIJING, Sept 13 (Reuters) - China has sharply reduced the number of companies licensed to mine rare earths, as part of an effort to consolidate among a few firms deposits of the minerals used for high-tech and military applications.

Rare earths have taken on geopolitical significance as the main producer, China, limited exports and consolidated production over the past few years.

That dual policy is an attempt to raise the international price, lure more rare earths processing industries to China and preserve potentially valuable supplies of rare earths for future military or industrial need.

The number of mining licences has been cut to 67 - most of them going to state-owned mining companies - from 113, according to a list of names released by the Ministry of Land and Resources on Thursday. Only 10 firms are now licensed to explore for rare earths.

The sharpest cuts came in the Ganzhou region of Jiangxi Province, one of the two areas of China with the richest concentration of rare earths deposits. The other region, near Baotou in Inner Mongolia, has already been largely consolidated into the hands of the local state-owned mining company.

Fewer mining licences would not necessarily mean any reduction in total rare earths production in China.

China's export restrictions have drawn international attention to the potential strategic implications of rare earths and raised the price enough to make it profitable to restart shuttered mines in the United States and new mines elsewhere.

## MARKET NEWS *(Continued)*

U.S. rare earths miner Molycorp gained 5 percent in New York trading on Thursday on the news.

**Indonesia's PT Timah says 2012 tin output at least 38,000 T**

JAKARTA, Sept 14 (Reuters) - Indonesia's biggest tin miner PT Timah forecast production would be at least 38,000 tonnes this year, an official at the state-owned firm said on Friday, little-changed from the previous year.

Earlier this year, the company said it would produce between 40,000 and 45,000 tonnes of refined tin in 2012.

PT Timah's output of tin, a base metal mainly used in soldering for electronics, was 38,000 tonnes last year with sales of 33,000 tonnes, Timah's corporate secretary, Agung Nugroho, told Reuters. He was unable to give further details.

Last month, PT Timah, the largest tin miner in the world's biggest refined tin exporting country, stopped shipping metal on the spot market for three weeks because of low benchmark prices.

According to Timah's website, the company has tin mining rights for 513,042 hectares, both on-shore and off-shore in or around the main tin producing belt of Bangka-Belitung.

The firm may also be given the option of taking over the operations of Malaysian-led joint venture, PT Koba Tin, when its contract expires in early 2013.

Tin exports from Indonesia rose almost 4 percent to 96,019.76 tonnes last year.

**Indonesia tin smelters back online, but mines curb output - industry**

JAKARTA, Sept 13 (Reuters) - Indonesia's tin smelters have all resumed operations after a temporary halt last month, the Indonesia Tin Association said on Thursday, but production by the world's top exporter of the metal is expected to fall as global prices hurt miners.

A floor was put under tin prices last month after firms in the top tin-producing region of Bangka-Belitung announced operations had stopped at all but two of the 28 licensed smelters there.

Tin prices on the London Metal Exchange (LME) hit a one-year low of $17,125 a tonne in July but recovered to above $21,000 on Wednesday.

However, smelters were still not producing ingots at full capacity as ore supplies had thinned along with the recent trough in prices, association President Hidayat Arsani told Reuters by text message.

"All of them have resumed operation, but raw materials are still hard to come by because mine workers are not working to maximum capacity," he said.

The overall picture was far from clear, however, as Johan Murod, CEO of Babel Tin group, named four smelters that were still not producing, and at one of which he is the commissioner.

Graphic on Indonesia tin contract prices/volumes:

http://link.reuters.com/hej79s

Shipments of refined tin from Indonesia fell 32 percent in August to 5,645.87 tonnes from 8,298.47 tonnes in July.

Total 2011 exports of tin, mainly used in soldering for electronics, rose almost 4 percent to 96,019.76 tonnes, but the recent production fall could take down Indonesia's 2012 output by as much as 30 percent from a year ago, experts said.

"It was always inevitable that smelter restarts would occur as prices rallied and having defended a price floor. But full output will be difficult, given constraints on mining," Robin Bhar, an analyst with Societe Generale, told Reuters by e-mail.

Indonesia's tin smelters have a history of disrupting supplies in efforts to boost prices, although analysts have been sceptical of such moves, given economic and investor sentiment.

Tin expert Peter Kettle, the manager of statistics and market studies at UK-based consulting firm ITRI, also anticipated a drop.

"We think production will fall 10 to 15 percent this year in Indonesia," he said.

Kettle expected production of around 92,000 tonnes this year versus approximately 105,000 tonnes in 2011, adding that part of 2011 production was shipped in 2012 after the fourth-quarter export halt.

**Labor dispute costing Bolivia's No. 2 tin mine millions**

LA PAZ, Sept 13 (Reuters) - A two-week labor dispute between rival workers at Bolivia's second-biggest tin mine has cost the recently nationalized operation almost $4 million in production losses, the government said on Thursday.

Bolivia's leftist government, headed by President Evo Morales, took over operations at the Colquiri mine in June after weeks of violent protests.

The takeover drew an angry response from its former owner, global commodities trader Glencore .

State mining company Comibol, which has been running the mine since it was returned to state control, said the conflict between public sector miners and independent miners could end up affecting production at the Vinto smelter.

Vinto buys almost all its tin concentrate from Colquiri, where zinc is also mined.

"We're losing more than $250,000 per day through lost production and this has been going on for two weeks.

That means an accumulated loss of almost $4 million," Comibol President Hector Cordova told Reuters.

## MARKET NEWS *(Continued)*

The conflict that prompted Morales' administration to seize control of the mine three months ago flared up again at the start of September.

Miners, who remain at odds over who has the right to exploit the richest part of the mine's resources, have been blocking highways and staging protests since Sept. 1, paralyzing operations.

Under the decree that rescinded Glencore's contract, an independent cooperative that had mined one area of the site was allowed to continue working there.

Cordova said Colquiri should produce about 3,000 tonnes of tin concentrates this year, representing about 15 percent of estimated national output of some 21,000 tonnes.

Most of the rest of Bolivia's tin is produced at the state-run Huanuni mine.

Mining is Bolivia's second-biggest foreign currency earner after natural gas; its most important metals export is silver, followed by zinc and tin.

Colquiri's unionized mine workers accused the independent miners of violating the terms of the state takeover, which was agreed by both sides, and called for them to be barred from the site.

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

## Daily LME Aluminium 3-months

## Daily LME Copper 3-months

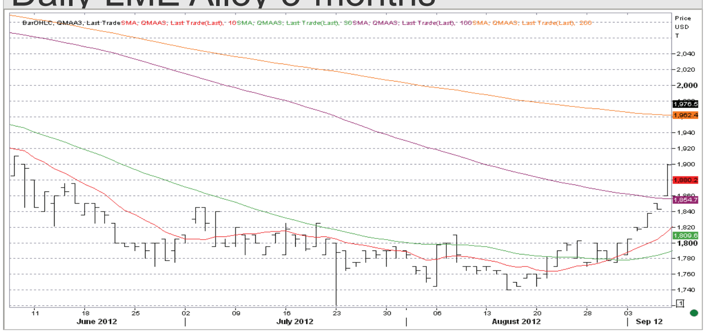
## Daily LME Nickel 3-months

## 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 jumps to multi-month highs on Fed stimulus**

SHANGHAI, Sept 14 (Reuters) - Copper prices rallied on Friday, with benchmark London and Chinese contracts at their highest in up to five months, after the U.S. Federal Reserve launched a new round of aggressive stimulus that could boost demand for industrial metals.

Optimism in financial markets lifted Asian shares and drove the euro to a four-month high against the dollar after the Fed said it would pump $40 billion into the world's largest economy each month until it saw a sustained upturn in the weak jobs market.

"The announcement of the Fed to introduce a bold bond buying program triggered further gains in commodity prices," said Credit Suisse in a research note, adding that industrial metals could extend their gains in the next few days, with investors expected to focus on U.S. industrial output data later in the session.

Three-month copper on the London Metal Exchange hit a fresh four-month peak, rising 3.5 percent to its session high of $8,355 a tonne, the highest since May 2, before giving up some gains to trade at $8,313 by 0409 GMT.

London copper is on track for a weekly increase of more than 4 percent, which would bring its gains over two weeks to almost 9 percent -- its biggest two-week rise since November last year.

The January copper contract on the Shanghai Futures Exchange shot up about 4 percent to a session high of 60,440 yuan ($9,500) per tonne, its loftiest since April, but slipped to 59,980 yuan by its midday close.

Base metals rose across the board, with Shanghai zinc jumping 4.4 percent at one point to 15,980 yuan, its highest since March.

LME tin rallied more than 4 percent, revisiting a four-month peak of $21,200 it had touched on Wednesday.

While traders predicted a spike in base metal prices, they doubted if the rally could be sustained for long.

"It's hard to say how long this rally will last, given the uncertainties over how long the Fed will keep this stimulus going and how effective it will be," said Orient Futures derivatives director Andy Du.

SCEPTICAL

The slowdown in leading emerging market economies China, India and Russia will persist over the coming quarters, while the outlook for the euro zone remains weak, Paris-based economic think-tank OECD said on Thursday.

The European Central Bank voiced similar concerns, saying economic growth in the region was expected to remain weak and that "heightened uncertainty" was weighing on confidence.

In industry news, Russia's RUSAL , the world's largest producer of primary aluminium, could offer floating premiums in term supply contracts it negotiates with consumers for 2013, with both sides reluctant to set long-term deals as spot market premiums reach record highs.

The company chief executive, Oleg Deripaska, said he saw LME aluminium prices rising to $2,300 per tonne in the first half of 2013. In China, aluminium profile manufacturers in Guangdong have reported a rise in orders this month, after a decline in order books in the past 3-4 months. Analysts and industry sources point see this as a sign of recovering demand.

**PRECIOUS-Gold at 6-month high as Fed fans inflation risk**

SINGAPORE, Sept 14 (Reuters) - Gold rose to a six-month high on Friday, extending the previous session's 2-percent gain, after the Federal Reserve launched an aggressive economic stimulus program that could add to the risk of inflation and strengthen bullion's appeal.

Silver, platinum and palladium, widely used in industrial application, also climbed to their highest in about six months, as the appetite for riskier assets rose after the Fed announced an open-ended debt buying programme and pledged to keep interest rates near zero until at least mid-2015.

Cash gold is on course for a 2.3-percent gain this week -- a fourth week of consecutive rises, as investors have been encouraged by central banks' latest push to promote global growth by printing more cash.

"The Fed's move will flood the market with liquidity, which will consequently push up inflation and drive investors to assets known to be good hedges, such as gold and silver," said Li Ning, an analyst at Shanghai CIFCO Futures.

"At least in the short- to medium-term, the Fed's action will provide solid support for gold and help it test $1,800, or even $1,900."

Spot gold climbed as high as $1,777.51 an ounce, its highest since Feb. 29, before giving up some gains to trade at $1,774.60 by 0631 GMT, up half a percent from Thursday's close. The most-active U.S. gold futures contract also hit a six-month high, at $1,780.2, before edging back to $1,777.

Technical analysis echoed the bullish sentiment in the market. Spot gold could rise to $1,785-$1,796 range during the day, said Reuters market analyst Wang Tao. Holdings of SPDR Gold Trust , the world's biggest gold-backed exchange-traded fund, inched up 0.2 percent on the day to 1,292.432 tonnes by Sept. 13.

The dollar index dropped to a four-month low, helping attract gold buyers holding other currencies.

Spot gold 24-hour technical outlook:

http://graphics.thomsonreuters.com/WT1/20121409092103.jpg

Graphic: Gold-platinum spread narrows

http://link.reuters.com/hur62t

## MARKET REVIEW *(Continued)*

SILVER, PLATINUM, PALLADIUM HIT MULTI-MONTH HIGHS

Silver rallied to a six-month high of $34.92 an ounce earlier, before easing to $34.72. It was headed for a more than 3 percent weekly rise, extending its winning streak to a fourth week.

"Silver is poised to test the next resistance level at $35.4," said a Shanghai-based trader. "The sentiment remains bullish, as many investors are just entering the market after confirmation of the QE3 overnight."

The recent rally, which has lifted silver by about 25 percent over the past month, is suppressing short-term physical demand, he added.

Shanghai silver rallied more than 5 percent to above 7,300 yuan per kg ($35.93 an ounce).

Spot platinum jumped more than 2 percent to a six-month high of $1,713 an ounce, as concerns about supply deepened with labour unrest in top producer South Africa's mining sector. The metal is headed for a 8-percent rise on the week, its biggest weekly gain since last October.

The gold-platinum spread narrowed to under $70 an ounce, a level unseen since April, as platinum outperformed gold in recent weeks.

Spot palladium struck a near six-month high of $694.50, before paring some gains to $691.72. The metal was poised for its 11th straight session of gains, its longest winning streak since at least 1984.

"Palladium is playing catch-up with platinum, as the strikes in South Africa is still going on, triggering worries about supply of platinum group metals," said a Singapore-based trader.

**FOREX-Fed easing saps dollar, euro hits 4-mth peak**

SINGAPORE, Sept 14 (Reuters) - The dollar hit a four-month low against a basket of major currencies on Friday, extending losses after the U.S. Federal Reserve announced a new round of aggressive monetary stimulus to support economic growth.

The euro hit a four-month high and commodity currencies such as the Australian dollar rallied in the wake of the Fed action.

Traders said the euro could add to its gains in the near term, although a sharp rise seemed unlikely.

"I don't get the sense that it will keep on going. A slight break above $1.30 might be all that it can manage," said Akira Hoshino, chief manager at Bank of Tokyo-Mitsubishi UFJ's foreign exchange trading department in Tokyo, referring to the euro.

The single currency climbed to as high as $1.3046 on trading platform EBS, its highest level in four months. The euro last stood at $1.3041 , up 0.4 percent from late U.S. trade on Thursday.

While the risks of an extreme crisis in the euro zone seem to have receded for now, a continued rise in the euro could be negative for the euro zone's economy and that is one reason to be cautious about the single currency's outlook, said Hoshino at Bank of Tokyo-Mitsubishi UFJ.

"With backstops in place, the chances of scenarios such as a breakup of the euro or a Greek exit seem to have declined to some extent," he said.

"But at the same time, persistent euro strength is something that would be negative for Europe," Hoshino said, adding that European officials may not be too happy about the euro's recent sharp rise.

Market expectations that the European Central Bank's bond buying scheme will help reduce the borrowing costs of Spain and Italy have helped to support the euro, which has climbed roughly 8 percent from a two-year low of $1.2042 hit in late July.

Underscoring the dollar's broad retreat, the dollar index, which measures the dollar's value against a basket of currencies, hit a four-month low of 78.989.

JAPAN IN A BIND

In fresh efforts to stimulate growth, the Fed said on Thursday it would buy $40 billion of mortgage-backed debt per month until the outlook for jobs improved substantially. It also expects interest rates to stay near zero until at least mid-2015.

"We see the announcement as positive for market risk appetite and negative for the USD," Barclays Capital analysts said in a research note.

Indeed, the Australian dollar powered to a one-month high of $1.0588 . The New Zealand dollar hit a six-month high of $0.8354 .

The Fed's bold action also put Japan in a bind by lifting the yen to levels that threaten already sluggish exports.

The dollar edged up 0.1 percent to 77.58 yen yen, but still remained near a seven-month low of 77.13 yen hit on Thursday.

The drop in the dollar has the market jittery about the potential for yen-selling intervention, said Satoshi Okagawa, senior global markets analyst for Sumitomo Mitsui Banking Corporation in Singapore.

"On the face of it, you would expect the dollar to be sold (versus the yen). But if I were a dealer, I don't think I would be able to sell from here," Okagawa said.

Adding to the anxiety, traders said the Bank of Japan, which conducts currency intervention on behalf of Japan's finance ministry, had conducted a rate check on Thursday after the Fed's decision.

Such rate checks are regarded by traders as a sign that Japanese authorities may be moving closer to conducting actual intervention.

(Inside Metals is compiled by Shruthi G in Bangalore)

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