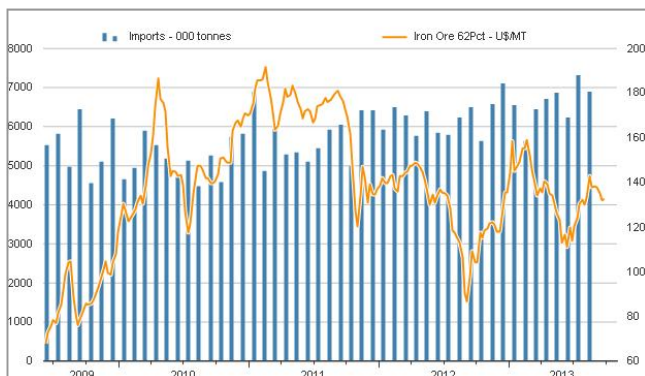


CHART OF THE DAY

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FEATURE

COLUMN-In praise of the aluminium "ambassadors"

Oleg Deripaska, chief executive of Russian aluminium giant United Company Rusal, was last week voted "Industry Ambassador of the Year" at the Metal Bulletin Global Awards for Aluminium Excellence.

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

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TODAY'S MARKETS

BASE METALS: London copper edged down on resurfacing worries over a U.S. federal debt default and a dimming outlook for copper demand ahead of a week-long holiday in top consumer China. "From some end users, like electrical wire and consumer goods, demand is picking up seasonally because factories start producing for Christmas holidays," said analyst Chunlan Li at consultancy CRU in Beijing.

PRECIOUS METALS: Gold traded in a narrow range and largely held on to overnight gains of nearly 1 percent as an upcoming Chinese holiday kept investors on the sidelines and their focus turned towards the U.S. debt ceiling talks. "We have seen this story play out before and essentially it becomes an exercise in politicking," said one precious metals trader in Hong Kong. "People are looking at it due to the lack of news elsewhere." "From the last Federal Reserve statement until now, gold hasn't really gotten out of the nearby range. A lot of people are waiting for a breakout in either direction," the trader said.

FOREX: The dollar gained on the yen in Asia on hopes of more corporate tax reform steps from Japan's government, though the U.S. budget impasse kept the greenback shackled against other rivals. "Today's move was not a sign of dollar strength, but rather a signal of yen weakness, and yen selling," said Masashi Murata, senior currency strategist at Brown Brothers Harriman. "There was a Kyodo News headline this morning that Japan will urgently consider cutting the corporate tax rate, and while this was not new, and any change is unlikely to be implemented immediately, some took it as a fresh reason to sell yen," he said.



FEATURE

COLUMN-In praise of the aluminium "ambassadors": Andy Home

By Andy Home

LONDON, Sept 25 (Reuters) - Oleg Deripaska, chief executive of Russian aluminium giant United Company Rusal, was last week voted "Industry Ambassador of the Year" at the Metal Bulletin Global Awards for Aluminium Excellence.

The inaugural award was, according to the Rusal press release, recognition that Deripaska "has taken it upon himself to lead attempts among aluminium producers across the world to reduce the level of excess stock overhanging the market by cutting production".

"Deripaska has undoubtedly played a key role in the wider aluminium market, by shaping and leading a global debate and making the case for reform of an industry."

Aluminium ambassador. Has a nice ring to it, doesn't it?

So nice that others have also coined the phrase.

Emirates Aluminium (EMAL), for example, is full of praise for its own team of aluminium "ambassadors", who worked on the second-phase expansion of the Al Taweelah smelter in Abu Dhabi.

Their achievement was bringing the project to fruition in a record-breaking two years with first hot metal production coming three months ahead of schedule.

The smelter is now, according to EMAL, the "largest single-site production capacity (1.3 million tonnes per year), the world's longest potline ever built (1.7 km), the world's largest gas treatment plant, the world's biggest anode baking furnace..."

There's plenty more in a similar vein but you get the picture.

The key takeaway is that EMAL is now bringing on stream an extra 550,000 tonnes of aluminium capacity ahead of schedule. Which is more than Rusal is currently cutting.

Graphic on global production in 2013: <http://link.reuters.com/fyg43v>

Graphic on regional production outside of China in 2013: <http://link.reuters.com/tyg43v>

WESTERN CUTS

Indeed, it's more than the world outside of China has cut so far this year.

The latest figures from the International Aluminium Institute (IAI) show that aluminium production outside of China was running at an annualised 24.54 million tonnes in August, down by 377,000 tonnes since the start of the year.

Breaking that figure down by region reveals that it is Eastern Europe that has taken the biggest production hit so far this year. Annualised output is now down by 330,000 tonnes from the end of the last year, reflecting Rusal's combination of closing and mothballing capacity.

Hail the new Russian aluminium "ambassador".

Production in most other regions has also fallen over the last eight months. And it will likely fall further as the full 760,000 tonnes of cutbacks so far announced this year gradually take effect.

WESTERN EXPANSIONS

But there are strong counter-trends at work.

The 188,000-tonne drop in annualised production in the IAI's Asia category, which does not include China, largely reflects non-price-related cutbacks in India.

Indian production of aluminium declined to 633,000 tonnes in the April-August 2013 period from 710,000 tonnes in the equivalent five months of 2012 due to operational issues at Nalco and Hindalco, according to figures from the country's Ministry of Mines.

But Hindalco is also bringing on new capacity in the form of its 360,000-tonne per year Mahan smelter. The plant produced first metal in the second quarter of this year and is now ramping up. So too is an incremental expansion at the Hirakud smelter.

Both will work to offset continued lower output at Nalco, resulting from reduced coal supply for its dedicated power plant.

And then, of course, there is the Gulf, where annualised output has already increased by 224,000 tonnes this year, largely on the back of the ramp-up of the Ma'aden smelter in Saudi Arabia.

Soon to be followed by the ramp-up of the second-phase expansion of the Al Taweelah smelter.

Hail the new Gulf aluminium "ambassadors".

PARALLEL UNIVERSE

Meanwhile, production in China is also steadily rising.

China's annualised run-rate in August was 21.94 million tonnes, up by 1.19 million tonnes on the start of the year.

Some higher-cost capacity has closed. Quite a lot hasn't thanks to various forms of government largesse, whether in the form of regional power subsidies or national "strategic" stock-piling.

And a lot of new capacity, something in the region of 3 million tonnes, is in the process of ramping up in China's northwestern provinces.

If China has its own aluminium "ambassadors", they are almost certainly hard at work in the remote region of Xinjiang, the powerhouse of the next wave of Chinese aluminium start-ups.

China, though, will do as China does.

The collective belief that market economics would force higher-cost producers out of business and turn China into a net aluminium importer is long discredited.

Now, producers in the rest of the world console themselves with the thought that the Chinese market at least remains a largely closed system. Or as Klaus Kleinfeld, chairman and chief executive of Alcoa, pithily put it, China exists in a parallel universe.

In terms of flows of primary aluminium, that's true.



FEATURE *(Continued)*

But there is seepage out of China in the form of semi-fabricated product exports. And those exports are starting to trend higher, up 7.5 percent over the first eight months of 2013.

It is a worrying sign that over-production in China may not remain quarantined from the rest of the world for long.

SURPLUS AND STOCKS

Which is why the rest of the world needs to cut back more production.

There's a case to be made that the cutbacks currently being implemented will bring the market outside of China into balance or at least somewhere close to balance.

But that is the easy part.

As that Rusal press statement highlights, achieving current supply-demand balance will not do much in terms of reducing that huge stocks overhang.

Maybe the Russian government might oblige and start up its own "strategic" aluminium stockpile as suggested by Rusal?

Failing such a white knight, or maybe that should really read "red knight", though, non-Chinese producers are going to have to do more.

A lot more because in the battle of the aluminium "ambassadors", it's not Deripaska who is winning. It's the team at Al Taweelah.

Don't take my word for it. Take the word of the LME price, currently trading deep into the global cost curve at \$1,800 per tonne.

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

GENERAL NEWS

Congress turns attention to debt limit battle

By Rachele Younglai and Richard Cowan

WASHINGTON, Sept 25 (Reuters) - The U.S. Congress, struggling to avert a government shutdown next week, was warned by the Obama administration on Wednesday that the Treasury was quickly running out of funds to pay government bills and could soon face a damaging debt default.

Treasury Secretary Jack Lew pleaded with Congress to raise the \$16.7 trillion debt limit and said the government would not be able to borrow funds past Oct. 17.

After that date, only \$30 billion would be left in the Treasury's checking account, putting the country on course to miss crucial debt payments, Lew said.

Amid Treasury's dire default warning, lawmakers grappled with another potential crisis: federal agency shutdowns that could begin with the new fiscal year next Tuesday unless Congress comes up with emergency funds.

The money would be used to pay U.S. troops, operate border patrols, provide free school lunches for poor children and thousands of other activities.

The Democratic-led Senate is on track to vote on Saturday for legislation to avert government agency shutdowns. But the Republican-led House of Representatives was set for tough fights over the next few days.

Both the debt ceiling and government funding measures were complicated by Republican attempts to use the must-do bills to gut President Barack Obama's signature healthcare law, known as "Obamacare."

At a private meeting with House Democrats on Wednesday night, Senate Majority Leader Harry Reid reassured lawmakers

they would not allow Republicans to include provisions to delay or defund Obamacare in the spending bill.

"We are not going to accept anything damaging on Obamacare," Reid told Democrats, according to an aide at the meeting.

'HIGHEST RISK I HAVE SEEN'

Earlier, disheveled Republican Senator Ted Cruz finished a 21-hour, 19-minute marathon of standing and speaking on the Senate floor, arguing for defunding Obamacare as part of the government-funding bill.

Sporting a beard stubble and his blue tie sagging, the first-term Texas senator, believed to have presidential aspirations, compared the healthcare law to the villain in the "Friday the 13th" horror films.

"Obamacare is the biggest job-killer in this country and when Jason put on his hockey mask and swung that machete, boy there was carnage like nothing else," Cruz said.

Cruz later voted to advance the temporary spending bill after saying anybody who voted to cut off debate was voting for Obamacare.

The White House and Democrats in Congress say Obamacare will provide millions of Americans with health insurance that they otherwise could not afford, while potentially pushing down healthcare costs.

With his talk that began at 2:41 p.m. on Tuesday, Cruz approached the 1957 record of 24 hours, 18 minutes, held by late Senator Strom Thurmond, for the longest Senate talk marathon.

Reid called Cruz's effort "a big waste of time," saying it delayed passage of the legislation to keep the government running.

Representative Steny Hoyer of Maryland, the second-ranking House Democrat, told reporters that the chamber's Republican leaders had not yet reached out to Democrats to discuss keeping the government running and raising the debt limit.



GENERAL NEWS *(Continued)*

House Democratic votes could end up being crucial to passing either bill if House Speaker John Boehner loses too many of his own Republicans.

Hoyer fretted about the possibility of a government shutdown, saying, "This is the highest risk I have seen because I see the least willingness to do what is absolutely essential in democracy and that is to work together."

SENATE AIMS TO MOVE AHEAD, HOUSE ACTION UNKNOWN

Republican leaders in the House notified members that a vote on raising the debt limit could come as early as Friday.

One Republican congressional aide said the first debt limit bill from conservatives would go nowhere. But the aide said moderate Republicans were hoping for a debt limit deal that would get rid of the automatic budget cuts and use the savings for retirement and health insurance entitlement programs for the elderly.

House Republicans are due to huddle early on Thursday to try to plan their next moves on the spending and debt limit bills.

It is unclear what the House would do with the Senate's product. "We'll deal with whatever the Senate passes when they pass it. There's no point in speculating before that," said Michael Steel, a spokesman for Boehner.

There have been several trial balloons floated in recent days, including speculation that House Republicans could attach to the Senate bill measures to repeal a medical device tax that collects revenues for operating the healthcare law, a one-year delay in letting individuals sign up for the program and other ideas.

As House Republican leaders plotted out strategy in private, Republican and Democratic senators bickered over the "Affordable Health Care Act," as they have done for nearly five years.

A New York Times/CBS News poll released on Wednesday underscored that Americans have little tolerance for government shutdowns. Eight in 10 people, according to the survey, said it would be unacceptable for Obama or lawmakers to threaten shutdowns during budget negotiations to achieve their goals. Elected in November 2012, Cruz, a firebrand backed by the conservative Tea Party movement, sometimes strides through the Capitol in cowboy boots. But by Wednesday morning, his feet were clad in tennis shoes that gave him added support as he stood at his lectern or paced the Senate floor for hours. In black, they matched his suit.

"Obamacare isn't working," Cruz said in between stories about his Cuban immigrant father and reciting Doctor Seuss verse.

After Cruz ended his talk marathon, he drew a rebuke from senior Republican Senator John McCain, who complained that Cruz had compared those unwilling to embrace his methods to British Prime Minister Neville Chamberlain and others who were willing to appease Nazi Germany before World War Two.

Several Republicans have noted that with Democrats controlling the Senate and White House, there was no way they could prevail in gutting Obamacare.

U.S. ends long-running silver market probe, taking no action

By Frank Tang and Douwe Miedema

NEW YORK/WASHINGTON, Sept 25 (Reuters) - U.S. regulators on Wednesday closed a five-year investigation into alleged manipulation of the silver market, saying 7,000 staff hours of investigation produced no evidence of wrongdoing.

The decision by the Commodity Futures Trading Commission was a defeat for silver commentators and investors who urged the probe, saying big banks were using futures and options to hold prices down. Big traders had dismissed the investigation as a waste of time and the charges as a conspiracy theory.

The CFTC formally closed the probe six months after a U.S. District Court dismissed a class action lawsuit making similar claims against JPMorgan Chase & Co. .

"Based upon the law and evidence as they exist at this time, there is not a viable basis to bring an enforcement action with respect to any firm or its employees related to our investigation of silver markets," the CFTC said.

The CFTC typically does not comment on ongoing inquiries, but made the silver case public in 2008 after receiving complaints alleging manipulation of the silver futures contracts traded on the Commodity Exchange Inc (COMEX). The agency launches dozens of such investigations each year, many of which do not result in formal charges or action.

The probe gathered urgency in 2011, as silver prices doubled to a record of nearly \$50 an ounce, then collapsed nearly 30 percent in five days. That roller-coaster ride brought back memories of the Hunt Brothers silver short squeeze in 1980.

The CFTC said the allegations "asserted that because the prices for retail silver products, such as coins and bullion, had increased, the price of silver futures contracts should have also experienced an increase."

The complainants, who were not named, also cited public regulatory data on futures traders to support claims that several large short positions were depressing prices, it said.

The decision may highlight the high hurdles that U.S. regulators face in proving a case of "market manipulation", even after the CFTC was given greater powers to crack down on trading malfeasance after the 2010 Dodd-Frank financial reforms.

In the past, the CFTC has levied heavy fines for trading rule violations. Yet only once in its 36-year history has it successfully concluded a manipulation prosecution: a 1998 case concerning electricity futures prices.



GENERAL NEWS *(Continued)*

U.S. REGULATORS VS WALL ST

Closing of the probe was a rare bright spot for Wall Street commodities players during a year in which the U.S. power market regulator has leveled record fines against two big banks, and the Federal Reserve is considering whether to rein in Wall Street's ability to operate in physical markets.

But Democrat commissioner Bart Chilton, who had championed the silver inquiry, said he was disappointed.

"For me, there's not been a more frustrating nor disappointing non-policy-related matter at the CFTC," he said in a statement after the agency's announcement.

The Gold Anti-Trust Action Committee, an advocacy group that believes the Federal Reserve and banks are colluding to keep gold and silver prices artificially low, said it was not surprised by the CFTC decision.

"We believe that the U.S. government is part of the trading operation. In essence, you are not going to have the CFTC turns against its own government," GATA Chairman Bill Murphy said.

"We are not even slightly surprised and had expected this."

A JPMorgan spokesperson declined to comment.

Commodities traders said it makes no sense for banks to distort precious metals prices, since they generally earn more from trading on behalf of clients in an orderly market.

"The fact that the CFTC couldn't prove any illicit activities in the silver market is enough to let people feel more at ease trading there," said Miguel Perez-Santalla, a veteran precious metals trader for more than 20 years and now vice president of online precious metals market BullionVault.

"The silver market is much greater than the sum of the players," he said.

NO STRANGER TO SCANDAL

Although silver is most visibly used in jewelry, it has wide industrial uses, including in electrical switches, circuit breakers and solar panels. The metal has also featured prominently in modern commodity market scandals.

In the most memorable case, the Hunt brothers of Texas hoarded the precious metal, aiming to corner the market and control global prices starting in the late 1970s.

But the silver market collapsed in 1980 and the Hunt brothers declared bankruptcy. Their losses grew and in 1989 they were convicted of conspiring to manipulate the market.

In 2004, the CFTC had published an open letter to silver investors telling them that the existence of a long-term manipulation was not plausible and that an analysis of activity in the silver futures market at that time did not support the conclusion that the market was being manipulated.

In October 2010, JPMorgan and HSBC, two of the world's largest banks participating in precious metals derivative contracts, were hit with lawsuits accusing them of conspiring to drive down

silver prices by amassing huge silver shorts, a trading position designed to profit from a fall in prices.

HSBC was later dropped from the complaints, which had alleged the firms reaped up to hundreds of millions of dollars of illegal profits, and a judge dismissed the consolidated lawsuit in March.

The District Court judge said that while the investors showed that JPMorgan had the ability to influence prices, a fact the bank did not dispute, they failed to show that the bank "intended to cause artificial prices to exist" and acted accordingly.

Thai gold group asks to meet with BOT over possible trading curbs

BANGKOK, Sept 26 (Reuters) - Gold traders in Thailand said they have asked for talks with the Bank of Thailand (BOT) after the authorities signalled they could regulate spot gold trading to curb speculation on both the precious metal and the Thai baht.

"We need to talk with the BOT as there could be some misunderstanding. We want to clarify that there is no link at all between the gold trade and baht speculation," Kritcharat Hirunyasiri, president of MTS Gold, told Reuters on Thursday.

Kritcharat, a member of the Gold Traders Association, which has requested the meeting, said the talks could take in the idea of setting up a spot gold exchange in Thailand.

A senior official at the central bank, who did not want to be identified, said the BOT had no direct authority to curb gold trading but had been talking about this issue with the Finance Ministry and the Securities and Exchange Commission.

The baht has been volatile this year, surging in the early months before turning round sharply due to capital outflows stoked by the prospect of the U.S. Federal Reserve starting to wind down its monetary stimulus.

The government has expressed concern about the volatility and its effect on industry, and BOT Governor Prasarn Trairatvorakul said this week that he was worried gold trading could be used to speculate on foreign currencies.

At 0540 GMT, the baht was at 31.27 baht per dollar, down from around 31.0 last week, its highest level in eight weeks.

Data from the Gold Traders Association suggested a substantial rise in gold imports this year.

Between January and July 2013, Thailand imported 239 tonnes of gold, equivalent to around 71 percent of full-year imports of 335 tonnes in 2012. In 2011 it imported 312 tonnes.

Gold traders said volume may have been pushed up by small investors speculating on the gold price. Such trading has been made easier by the Internet, with investors emailing orders to traders who group them and then trade in bulk.



GENERAL NEWS *(Continued)***In relief for Barrick, Chile court doesn't nix mine permit**

By Erik Lopez

SANTIAGO, Sept 25 (Reuters) - Chile's Supreme Court on Wednesday confirmed a freeze on Barrick Gold Corp's suspended Pascua-Lama gold mine but the Toronto-based miner escaped having the project's environmental permit revoked.

The ruling dispels a significant uncertainty surrounding the controversial project, which now essentially has to complete a water management system issued by the environmental regulator to likely be re-activated.

A group of indigenous Chileans had asked the top court to rescind Barrick's license, arguing that environmental harm at the complex, which straddles the Chilean and Argentine border, warranted a re-evaluation of the project.

The group had appealed a Copiapo Court of Appeals ruling in July that ordered a freeze on construction of the complex, which is roughly half complete, until the company builds infrastructure to prevent water pollution.

But the Supreme Court ruled that "the measures issued by Court of Appeals of Copiapo are sufficient to protect the constitutional guarantees that have been denounced as violated."

The top court's ruling largely defers to Chilean environmental regulator SMA, which also suspended the roughly \$8.5 billion project originally forecast to produce 800,000 to 850,000 ounces of gold per year in its first five years of full production.

"This (ruling) is positive for the project," said Juan Carlos Guajardo, head of mining think tank CESCO in Chile, who said a cancellation of the environmental license would have been "the most complicated scenario" for Pascua-Lama. "This lessens one uncertainty," he added.

The project's supporters say its environmental impact will be limited, and that the massive mine will provide employment and help boost copper powerhouse Chile's mining-dependent economy.

Environmental and social groups counter that the mega mining project will damage pristine glaciers, strain and pollute the water supply and harm agricultural activity in the area.

Barrick has stopped construction on the project and submitted a plan for water management infrastructure to the SMA. The miner said in June that Pascua-Lama, on which it has already spent \$5.4 billion, had been delayed until mid-2016.

Chile's environmental regulator told Reuters in May the complex will likely be reactivated in one to two years at the earliest.

A Barrick spokesman declined to comment until the company has reviewed the ruling.

Lorenzo Soto, the lawyer for the indigenous Diaguita group, said he "regretted" that the permit hadn't been revoked, but said the freeze ratified by the country's top court was historic for a massive mining project.

FINE PRINT

The court orders "an indefinite suspension of the construction of the Pascua-Lama mining project until all environmental commitments taken up with the environmental evaluation system are adopted."

The ruling also calls on the environmental authorities to "adopt all the administrative measures necessary for the adequate re-establishment of the state of law that guarantees the rights of those affected."

The company also has to present all information regarding the monitoring of glaciers to the SMA, the ruling stated.

Several big mining and power projects have faced legal setbacks in recent months in Chile, the world's No. 1 copper producer.

Around 60 percent of Chile's export revenue comes from the metal, but many in the economically stratified country feel mining profits have bypassed them and hurt the environment and are increasingly taking their demands to court.

U.S. metal scrap firm files for bankruptcy due to weak nickel prices, sales

NEW YORK, Sept 25 (Reuters) - Keywell LCC, a Chicago-based metals recycler, has filed for Chapter 11 bankruptcy protection, blaming weak nickel prices and poor stainless steel demand, according to a court filing that outlined plans to sell the company to a larger rival.

In the documents filed on Wednesday, Mark Lozier, president and chief executive officer of the privately held company, said he agreed to sell the firm to Cronimet Holdings Inc, which is part of a German group by the same name.

While Cronimet has agreed to pay an undisclosed sum for the troubled company, Lozier said he will still consider "higher and better" offers from other suitors. Facing financial trouble, the company started looking for an investor in May, he said.

Keywell, which has nine U.S. processing and recycling facilities and a workforce of 119 people, supplies recycled titanium, high-temperature alloys and stainless steel to specialty steel mills and foundries as well as titanium producers in North America.

The metal is made into durable products used in aerospace and tooling.

The move comes against a backdrop of poor market conditions, which have roiled companies across the stainless steel supply chain from nickel producers to stainless steel makers.

Nickel prices, a key ingredient for making stainless steel, had fallen to about \$6.25 per lb in July, down 21 percent from the average price last year, Keywell's Lozier said.

Sales had dropped 28 percent to 73,000 tons through the end of August from the same period last year, generating sales of \$142



GENERAL NEWS *(Continued)*

million. The company reported revenue of \$330 million from sales of 140,000 tons of metal last year, Lazier said.

In addition to lower nickel prices and weaker-than-expected sales, Keywell blamed its woes on delays by some big stainless steel customers in taking delivery of metal even after it had already been loaded into rail cars.

Founded in 1924 in Detroit, Michigan, by brothers Samuel and Barney Keywell, the company owes about \$10 million in loans and \$28 million to unsecured trade customers that supply scrap to the firm.

It has more than 1,000 regular scrap suppliers, spanning regional and local recycling yards, industrial plants, governmental agencies and large mills.

Cronimet did not return calls for comment after office hours. An official at Keywell's headquarters in Chicago declined to comment further.

Russian large pipe demand could rise 50 pct in 2014

By Svetlana Burmistrova and Alessandra Prentice

MOSCOW, Sept 25 (Reuters) - Demand for large-diameter pipe (LDP) from Russian energy firms such as Gazprom could soar up to 50 percent in 2014 as major projects ramp up after delays, the owner of trading firm Pipe Innovation Technologies (PIT) told Reuters.

A forecast need for up to 1.8 million tonnes of such pipe from state-run gas company Gazprom and Russian oil pipeline monopoly Transneft next year would offset a drop in demand in 2013.

Key drivers for growth will be the delayed start to building the South Stream gas export pipeline under the Black Sea to Europe, and the Power of Siberia link that would supply China if Gazprom wraps up a long-awaited export deal.

In the absence of such projects, pipe demand would be down 20-30 percent this year compared with 2012, PIT's Ivan Shabalov told the Reuters Russia Investment Summit.

This year's fall will pose a headache for producers including TMK and Severstal, struggling to turn a profit in an industry hobbled by weak prices.

"We see a fall in LDP demand from Gazprom and energy firms this year ... Next year looks more promising," Shabalov said.

Russia's economy is expected to grow by 1.8 percent this year - half the rate forecast at the beginning of the year. The government, meanwhile, plans to cap regulated tariffs charged by monopolies, including Gazprom, to bear down on inflation.

"Gazprom may cut investment due to the recent government decision to freeze rates. As a metallurgist I have to take this into account," Shabalov said.

A tender to supply pipes for the offshore part of South Stream, which will run 925 km (580 miles) under the Black Sea before making landfall in Bulgaria, will be awarded in December or January, according to Shabalov.

Severstal, United Metallurgical Company (OMK) and ChelPipe are among the Russian pipemakers vying for the offshore contract alongside some small European firms, Indian steel producer Tata Steel and Japan's Nippon Steel & Sumitomo Metal Corp.

MISSING THE BOAT

Shabalov, who has over 30 years experience in the Russian metals industry, said steelmakers risk losing out to larger foreign rivals as the dynamics of the global steel market shift in favour of large-scale producers.

Oversupply, signs of a growth slowdown in China and stagnation in crisis-hit Europe have sent steel prices tumbling from all-time highs in 2011, forcing producers to transform their business strategies.

Pointing to industry consolidation in Japan, he said Russia's steel industry should be following suit.

Annual crude steel output at Russia's top firms averages around 10 million tonnes, which is an unsustainable business model when top global firms are producing 50-100 million tonnes a year, Shabalov said.

Consolidation, which would cut costs, reduce competition and prevent oversupply, is unlikely to happen any time soon in Russia because of the strong personalities of many of the steel oligarchs who acquired their assets in the 1990s.

"Who will be the first (to consolidate)? The one who's most flexible," he said. "We're going to lose out in the future if we don't."



TRADING PLACES *(Continued)***Rusal asks LME to postpone proposed warehouse overhaul**

By Polina Devitt and Maytaal Angel

MOSCOW/LONDON, Sept 25 (Reuters) - Russia's United Company Rusal, the world's biggest aluminium producer, asked the London Metal Exchange to postpone a proposed overhaul of warehouse rules, saying it could further distort the aluminium market.

The LME, the world's biggest marketplace for industrial metals trading, has proposed rules that would force warehouses to release more stocks than they take in.

Rusal Chief Executive Oleg Deripaska used strong language on Wednesday in criticising the proposal by the new owners of the LME, Hong Kong Exchanges and Clearing (HKEx).

"The intent of the HKEx to accelerate the transfer into the market of an additional 2 million tonnes of aluminium, accumulated and stored since the financial crisis, is an unprecedented intervention and one that Rusal strongly objects to," he said in a statement.

"Rusal is concerned that a set of measures the HKEx, as the owner of LME, has proposed risk creating further aluminium market distortions. The company believes that these measures will lead to a less transparent marketplace."

The LME's proposal is a response to complaints by metals consumers that backlogs in deliveries from LME warehouses have driven spot aluminium surcharges, or premiums, to record highs. U.S. regulators also are enquiring whether the big banks and trade houses that own warehouses have artificially inflated those premiums.

Meanwhile, benchmark aluminium prices on the LME have shed 13 percent so far this year due to a huge market surplus and are down 47 percent from a peak of \$3,380 a tonne in 2008.

News of the proposals has already led to a decline in aluminium premiums. A significant fall would cut into the already thin profit margins of aluminium producers such as Rusal.

CHINESE ACCESS

Rusal appealed to the LME to consider alternatives to the current plan, such as expanding the global network of warehouses and encouraging new, independent warehouse operators to enter the business.

Analyst Nic Brown at Natixis in London said HKEx wants to get approval from the Chinese government to open LME warehouses in China, which is seen as unlikely if there are huge backlogs in the system.

"It's a market that HKEx knows it needs to capture in order for the purchase of the LME to make sense, so it will go ahead with these rules to get into the Chinese market," he said.

"And if it's detrimental to Rusal, that's unfortunate, and for HKEx that damage is worth incurring in order to get warehouse access in mainland China."

Rusal asked for a postponement of the rule changes pending an industry consultation that would reveal actual ownership of metal in warehouse queues.

The company repeated its previous demands that the LME increase transparency by releasing more detailed data on long and short positions as well as about who is holding inventories.

Rusal also suggested that the LME introduce a contract that would allow the hedging of regional aluminium premiums, which together with the existing contracts on price would enable market participants to manage their all-in exposures.

Premiums are paid over the LME cash price to cover physical delivery costs. They also reflect changes in supply-demand dynamics, such as increased metal availability as a result of reduced warehouse backlogs.

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

Consumers of aluminium, such as beverage can makers, are also unhappy with the LME plan and have said it falls short of solving the problem.

"It's (the LME proposal) a very complicated way of dealing with the issue, and I think both the producers and consumers are concerned that it doesn't tackle the heart of the issue," Barclays analyst Gayle Berry said.



MARKET NEWS

China's Baosteel says to build steel processing plant in S.Korea

SHANGHAI, Sept 26 (Reuters) - China's Baoshan Iron & Steel Group (Baosteel), one of the country's largest steelmakers, will build a steel processing plant in South Korea with a local joint venture partner, the company said on Thursday.

The 50-50 joint venture, with South Korea's auto-components maker GNS, will build an auto sheet plant with an initial production capacity of 110,000 tonnes per annum, Baosteel said in a statement, adding that this is the first time a Chinese mill is investing in South Korea's steel sector.

Indonesia's Antam expects to ship up to 50 pct more nickel ore in 2013

JAKARTA, Sept 26 (Reuters) - Indonesia's PT Aneka Tambang (Antam) expects to export up to 50 percent more nickel ore this year at 10 million-12 million tonnes, a director at the state-controlled miner said.

Indonesia is the world's top exporter of nickel ore, a key component of stainless steel, and exports have increased this year ahead of a planned 2014 ore export ban.

"We exported 6 million tonnes of nickel ore in the first half of this year, up 41 percent compared to the same period last year," Hendra Santika told reporters. "Hopefully it will become 10-12 million tonnes in the whole year."

Santika said Antam's 2012 nickel ore exports were 8 million tonnes, or about 17 percent of the country's total nickel ore exports of 46.7 million tonnes for the year.

The latest Bank Indonesia mining export data showed that nickel ore shipments were 31.5 million tonnes over January to July, up about a third from the same period in 2012.

Japan is Antam's top nickel ore buyer, Santika added, with China and Europe also key customers.

Antam is building two ferronickel smelters to be completed in 2014 and a bauxite smelter by next year, to add to its existing three ferronickel smelters and a gold refinery.

Ferronickel output is seen at 18,000 tonnes this year, Santika said.

Court order freezes steel trader Stemcor's Indian assets sale

By Silvia Antonioli and Krishna N Das

LONDON/NEW DELHI, Sept 25 (Reuters) - An Indian court on Wednesday issued a restraining order which prevents indebted steel trading house Stemcor from selling its Indian iron assets, a sale that would help the trader to repay at least part of its \$1.2 billion debt to banks.

The High court of Calcutta imposed a temporary restraining order on the sale of Stemcor's Indian assets, which include an iron ore mine and iron processing facilities in the state of Odisha, valued by an industry source at about \$700-750 million.

The court did so prompted by a petition filed by ICICI Bank Ltd, India's second largest lender by assets, which has lent Stemcor 5.87 billion rupees (\$93.57 million), with Stemcor's Indian assets as a collateral.

The loan is to be repaid by December but the bank filed the complaint worried that a sale of Stemcor's assets in India could jeopardise the payback.

"This action was taken without any notification to the company. We were made aware of that last Friday evening and Stemcor has every intention to comply with its contractual obligation," a spokesman for Stemcor said.

"We believe the matter will be resolved quickly."

ICICI was not immediately available to comment.

The next hearing will be on Oct. 7.

Stemcor, the world's largest independent steel trader, has come under pressure from lenders to sell some assets to raise cash, since it failed to refinance a \$850 million syndicated loan that was due to mature in May.

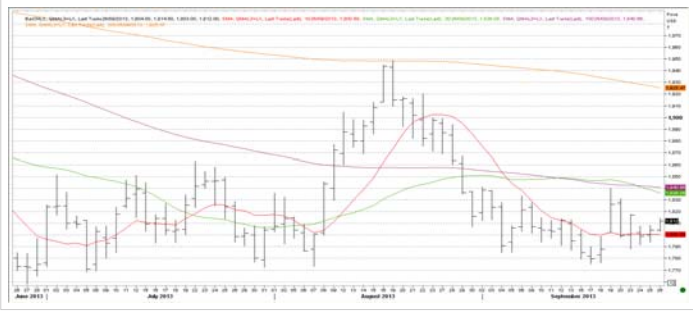
Steelmakers including Jindal Steel and Power and JSW Steel have expressed interest in buying the Indian assets.

Stemcor, which trades between 15 million and 20 million tonnes a year of steel and steel raw materials, including coal and iron ore, posted a 5.1 billion pounds (\$8.19 billion) turnover last year.



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



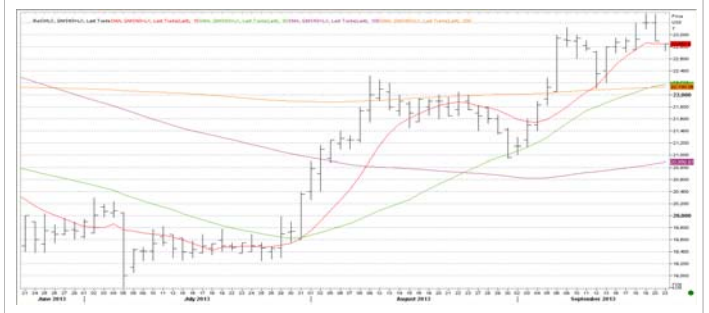
Daily LME Zinc 3-months



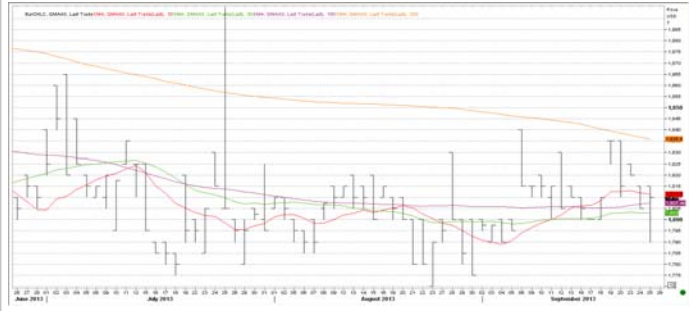
Daily LME Lead 3-months



Daily LME Tin 3-months



Daily LME Alloy 3-months



Daily LME Nasaac 3-months



MARKET REVIEW

METALS-London copper slips as U.S. fiscal worries drag

By Melanie Burton

SINGAPORE, Sept 26 (Reuters) - London copper edged down on resurfacing worries over a U.S. federal debt default and a dimming outlook for copper demand ahead of a week-long holiday in top consumer China.

Prices have been trapped in a tight range this week, and a broader range of \$7000-\$7,500 for the past month, down around 10 percent for the year.

Uncertainty over U.S. fiscal policy is deterring companies from placing new orders and draining liquidity from the market, while strong seasonal demand in China may abate ahead of holidays that start next Tuesday.

"From some end users, like electrical wire and consumer goods, demand is picking up seasonally because factories start producing for Christmas holidays," said analyst Chunlan Li at consultancy CRU in Beijing.

"But overall demand is stable ... and supply is increasing at a steady pace. I expect prices to stay stable ahead of LME week as people wait to see what happens there," she added, referring to a key industry gathering in October.

Three-month copper on the London Metal Exchange had edged down 0.26 percent to \$7,176.25 a tonne by 0303 GMT, paring small gains from the previous session when it closed up by less than 1 percent.

Copper prices have this week traded in a narrowing band of \$7,120-\$7,260 a tonne, with chart patterns suggesting prices may test downside support, traders said.

"I guess there is an element of support that will disappear on dips," said a Hong Kong-based trader.

The most-traded December copper contract on the Shanghai Futures Exchange was little changed at 51,780 yuan (\$8,500) a tonne.

Orders for long-lasting U.S. manufactured goods barely grew in August in a possible sign that companies are holding back on investments due to uncertainty over government spending.

The U.S. Congress, already struggling to avert a government shutdown next week, turned its attention on Wednesday to the other fiscal bullet it had to dodge: a federal debt default.

The lack of confidence has spilled into metals markets which were suffering from low turnover, with barely 1,600 lots traded across the complex.

Reflecting tough conditions for the nickel market, Keywell LCC, a Chicago-based metals recycler, has filed for Chapter 11 bankruptcy protection. It blamed weak nickel prices and poor stainless steel demand, according to a court filing that outlined plans to sell the company to a larger rival.

PRECIOUS-Gold holds gains; focus on U.S. debt ceiling talks

By A. Ananthalakshmi

SINGAPORE, Sept 26 (Reuters) - Gold traded in a narrow range and largely held on to overnight gains of nearly 1 percent as an upcoming Chinese holiday kept investors on the sidelines and their focus turned towards the U.S. debt ceiling talks.

The U.S. Congress is deeply divided on raising the \$16.7 trillion statutory limit on government borrowing, and a failure to do so would push the world's biggest economy into a default.

Treasury Secretary Jack Lew pleaded for quick action as he projected an Oct. 17 date when borrowing capacity would be nearly exhausted and only \$30 billion would be left in his agency's checking account. Gold - seen as a safe haven and alternative investment - rose to a record \$1,920 an ounce in September 2011, partly on fears over the first U.S. debt ceiling crisis which was resolved at the last minute.

"We have seen this story play out before and essentially it becomes an exercise in politicking," said one precious metals trader in Hong Kong. "People are looking at it due to the lack of news elsewhere."

"From the last Federal Reserve statement until now, gold hasn't really gotten out of the nearby range. A lot of people are waiting for a breakout in either direction," the trader said.

Spot gold eased 0.2 percent to \$1,330.75 an ounce by 0331 GMT, after gaining 0.8 percent in the previous session.

The Fed said earlier this month that it would not begin tapering its stimulus measures this month, defying expectations for a \$10 billion cut to the \$85 billion bond-buying stimulus.

Gold, seen as an inflation hedge, has fallen more than 20 percent this year on fears that the U.S. central bank would begin scaling back its easy-money policy. Investors are watching U.S. economic numbers to determine whether the bank could still begin reducing its bond purchases this year.

"Gold could receive something of a bid over the short-term, as worries rise over the debt ceiling talks, but we doubt whether this variable alone will be enough to keep the complex elevated for long," INTL FCStone analyst Edward Meir said in a note.

WEAK PHYSICAL BUYING

Chinese markets will be closed next week for the National Day holiday, keeping prospective buyers on the sidelines.

Buying over the last two weeks has been soft, dealers said, adding that demand could pick up once China comes back from the holiday.

Indian customs cleared some of the imported gold that was lying at airports and meant for exports after processing, trade body officials said on Wednesday, a move that could restart shipments after a gap of more than two months.



MARKET REVIEW *(Continued)***FOREX-Dollar rises vs yen but U.S. budget impasse caps gain**

By Lisa Twaronite

TOKYO, Sept 26 (Reuters) - The dollar gained on the yen in Asia on hopes of more corporate tax reform steps from Japan's government, though the U.S. budget impasse kept the green-back shackled against other rivals.

Against the yen, the dollar rose as high as 99.12 yen on the EBS trading platform, and last bought 98.88 yen, up 0.5 percent and off a one-week low of 98.27 yen touched in the morning.

The euro added 0.4 percent to 133.70 after rising as high as 133.91 yen on EBS.

"Today's move was not a sign of dollar strength, but rather a signal of yen weakness, and yen selling," said Masashi Murata, senior currency strategist at Brown Brothers Harriman,

"There was a Kyodo News headline this morning that Japan will urgently consider cutting the corporate tax rate, and while this was not new, and any change is unlikely to be implemented immediately, some took it as a fresh reason to sell yen," he said.

The Japanese government plans to say it will "urgently consider" cutting the corporate tax rate when it compiles a stimulus package next week, Kyodo said, citing government sources.

A government source told Reuters last week that Japan will consider cutting corporate taxes and ending a temporary tax hike earlier than scheduled, as a means to cushion the economy from a scheduled sales tax increase.

Prime Minister Shinzo Abe is expected to decide around Oct. 1 to proceed with a planned sales tax increase to 8 percent from 5 percent beginning next April, in a bid to rein in Japan's massive public debt. He recently instructed his cabinet to come up with measures to blunt the economic impact of the hike.

Murata added that the Japanese currency's direction was largely determined by rate differentials between the U.S. and Japan, and that investors were warily watching developments in the U.S. budget situation.

Both the debt ceiling and government funding issues have been complicated by Republican attempts to use the must-do bills to gut President Barack Obama's healthcare law. Congressional officials must reach a budget deal by Monday that would allow the government to keep running.

The dollar index rose 0.1 percent to 80.417, after slipping 0.3 percent on Wednesday toward a 7-month trough of 80.060 plumbed on Sept. 18. On that day, the U.S. Federal Reserve stunned markets by maintaining its massive stimulus programme when it had been widely expected to begin tapering its asset purchases.

The Fed opted to stand pat on policy partly because it acknowledged the potential headwinds from the looming U.S. political impasse over the budget. Central bankers also remained concerned about the strength of the U.S. recovery, and subsequent data has validated those concerns.

U.S. figures on Wednesday showed orders for long-lasting manufactured goods barely grew in August, while sales of new homes last month were near their lowest level of the year.

The final reading of U.S. second quarter gross domestic product is due later on Thursday, followed by the key non-farm payrolls report next week.

Stronger-than-expected data would likely reignite speculation that the Fed could announce a stimulus reduction in December, or even next month. This possibility will continue to support the U.S. currency, market participants said.

Investors are also wary of selling the dollar short against a backdrop of a U.S. political showdown, because the U.S. unit has rallied when past impasses were resolved.

The yen's drop gave the dollar a cross-trading lift against the euro, which erased its earlier gains and edged down about 0.1 percent to \$1.3518.

Data showing German consumer confidence at a six-year high supported the euro.

(Inside Metals is compiled by Pradip Kakoti in Bangalore)

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