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Metal Bulletin Daily

'I'd sell this rally' Analysts warn that Fed move is negative for base metals

Base metals bounce after US rate cut

LONDON

BY ANDREA JEZOVIT AND JOSEPHINE MASON

London Metal Exchange base metals jumped on Tuesday afternoon, with copper breaching $7,000 per tonne, after the US Federal Reserve announced an emergency 75 basis point rate cut, quelling concerns about a US recession.

But the timing and size of the cut to 3.5 percent – the Fed was not due to meet to decide interest rates until next week and the cut is the biggest in more than 23 years – spooked some in the market who interpreted the move as a sign of the severity of the US economic slowdown.

The rally and initial euphoria following the news may be shortlived as the market's focus will soon return to the possible effect of an US economic slowdown on the base metals market, analysts warned.

"A rate cut is negative for base metals. It means the economy's weakening. There's room for tactical trades, but I'd sell this rally," one London-based analyst warned.

"It smacks of desperation and panic. It looks like the [Fed] knows something's lurking in the system that could cause a systemic collapse," he added.

"I might be being overdramatic, but you don't get this kind of move [every day]. The last time was 9/11 and then there was a real need to restore normality. Now, there's barely a week to go [before the Fed was due to meet]. It doesn't make sense," he said.

But the news helped to stem losses seen earlier in the day, pushing copper through the $7,000 mark in the afternoon kerb.

"The rate cut has allayed fears. The Fed wouldn't have made cuts if the US economy was in good shape, but it's also saying they're prepared to act to grow the economy," said a second analyst.

After tentative gains in the immediate aftermath of the news, the red metal rallied in the afternoon kerb to trade at an intraday high of $7,020/40 per tonne at 4.10pm in London. This compared with $6,845/50 in the official session and its open of $6,865.

The metal had fallen as low as $6,675 in the morning's premarket trade after hefty losses overnight in Asia amid mounting fears about a US recession and its effect on the global economy.

February to January copper contracts all hit the daily downward limit of 4 percent in trading on the Shanghai Futures Exchange on Tuesday. The most actively traded April copper contract ended at 58,560 yuan ($8,090) per tonne, while trading volume for the contract fell 118,972 lots to 85,846 lots.

Copper stocks in LME warehouses fell by 2,050 tonnes to 178,850 tonnes.

Some analysts predicted that robust Chinese demand for base metals will help to offset some, but not all, of the impact of a US slowdown.

A build-up in inventories ahead of the Chinese New Year and the production losses in Zambia as a result of the power shortages will also help to prop up the copper market for now, they said.

"The Chinese are already building stocks ahead of the Chinese New Year. The physical market remains tight, but it might ease off afterwards though," said the first analyst.

Copper prices are unlikely to return to levels of $7,400 per tonne as the sudden US rate cut will overshadow the market, he predicted.

A third analyst said he had not anticipated such a large reaction to the news in the base metals market.

"If you're short, you might cover, and that would cause a little bounce," he said. "It's not the world's biggest shock, there have been rumours about it for a long time and many markets have already priced it in anyway," the analyst said of the rate cut.

"The metals market is part of that and I don't think we'll see massive changes in metals. The idea we'd get a big reaction markets is not necessarily right," he said.

The rest of the base metals market followed copper's lead higher in the afternoon kerb.

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SHANGHAI

China's steel demand growth may slow to 10%

Growth in China's crude steel consumption may slow to 10 percent or lower this year if Beijing tightens monetary policy further, said China Iron & Steel Assn (Cisa) secretary general Luo Bingsheng in a local press report.

This compares with China's crude steel consumption growth of around 13 percent last year, according to Cisa's vice-general secretary Qi Xiangdong in a separate China Securities Journal report last Friday.

China's central bank has raised the bank reserve ratio eleven times and interest rates six times since the start of 2007 in a bid to clamp down on the overheating economy and rising inflation. A tighter policy could curb growth in fixed-asset investment and newly started projects, Luo said.

"If measures to control steel exports do not produce satisfactory results, Beijing could introduce tougher measures and China's crude steel export could fall at least 20 million tonnes this year from 2007," he added.

China exported 72.5 million tonnes of steel in 2007.

Prices for some steel products are likely to see historic highs with raw material costs expected to continue to rise this year, Luo added in his report, mentioning iron ore and coal.

But Luo may be being pessimistic, some analysts said.

"I think local demand for steel should remain solid this year or even stronger than last year," said a Shanghai-based analyst.

Growth in fixed asset investments (FAI) and new projects remain high, while government-led investment, including low-cost public housing, is on the rise, he noted, though he agreed that Beijing may tighten monetary policy in the second half if investment growth is unbridled.

A recent report by the Chinese Academy of Social Sciences, a government think-tank, predicted that FAI growth will remain at a high rate of around 20 percent this year.

China's urban FAI posted a strong year-on-year growth of 26.8 percent for January-November last year, only slightly lower than the 26.9-percent gain in the first ten months of 2007. Urban FAI rose 24.3 percent in 2006.

Beijing is expected to release 2007 economic growth data, including FAI growth, on Thursday.

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Non-ferrous metals

Zambia's copper and cobalt producers under pressure

LONDON
BY NATALIA KASSAKOVICH

Pressure is growing on Zambia's copper and cobalt producers after a second power blackout overnight, with operations at Konkola Copper Mines (KCM), the country's largest mining and metals company, closed for a fourth day.

The power outage lasted around six hours on Monday night and is the second power failure in Zambia in two days.

Other companies operating in Zambia include Mopani Copper Mines, Luanshya Copper Mines and First Quantum Minerals.

"There was another power outage last night, which lasted about six hours. We haven't had a chance to resume operations; we've been off stream since Saturday," Samuel Equamo, a spokesman for KCM, a unit of Vedanta Resources, told MB.

The company, which has capacity to produce 220,000 tpy of copper, is still assessing the impact of the disruptions, Equamo said.

Apart from causing partial flooding at some of the underground mines, mining and metallurgical operations have come to a halt due to equipment damage and the reduced power supply from energy supplier Zesco, KCM said in a statement.

"Due to the challenges that Zesco is currently facing, power supply to the mines has been reduced, which has impacted on operations. The power that KCM is receiving is only sufficient for care-and-maintenance operations," it said.

Emergency power supply from Copperbelt Energy Corp helped the company to evacuate workers from the underground mines at Konkola, Nchanga and Nampundwe during the blackouts and also to maintain a certain level of dewatering.

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LME Stocks (tonnes)

Copper	fell	2,050	to	178,850
Tin	fell	140	to	11,875
Lead	rose	175	to	48,100
Zinc	fell	500	to	105,000
Aluminium	fell	875	to	948,600
Aluminium Alloy	fell	60	to	44,020
Nickel	rose	168	to	46,344
NASAAC	fell	40	to	107,680

Comex Gold Feb	$872.50 per oz
Comex Silver Mar	$15.77 per oz
Nymex Platinum Apr	$1,546.40 per oz
Nymex Palladium Mar	$365.00 per oz

London Precious Metals

Gold am	$862.00 per oz
Spot Silver midday	$15.77 per oz
Platinum am	$1,522.00 per oz
Palladium am	$363.00 per oz

Barclays Bank

$/£	1.9531-1.9534
$/£ 3 months	1.9443-1.9447
£/YEN	207.41-207.45
€/$	1.4489-1.4491

LONDON

A-Tec dismisses talk for Serbia's RTB Bor

Austrian industrial group A-Tec Industries has played down speculation that it agreed to increase the proposed investment in the run-down copper complex in Serbia, RTB Bor, which it is negotiating to buy.

The minimum investment required from RTB Bor's future owners is $180 million, but rumours have circled the market in recent weeks that the company decided to top it with another $60 million.

"The negotiations are in progress and A-Tec has unconditionally committed to invest $180 million over four years after closing the transaction (should this occur). All statements that A-Tec has increased its investment commitment are false," the company said.

SINGAPORE

MCC to lift Huludao Nonferrous stake

China Metallurgical Group Co (MCC), a state-owned engineering, construction and resources group, will increase its stake in Huludao Nonferrous Metals Group (HNMG) to more than 50 percent.

The stake increase will give MCC more access to Huludao Zinc Industry (HZI), China's largest zinc smelter, in which HNMG has a controlling 33-percent stake. HZI was expected to produce around 330,000 tonnes of zinc last year and also produces copper products and minor metals.

MCC owns 38.2 percent of HNMG, which will rise to 51.1 percent after it invests 2 billion yuan ($276 million) into it.

SINGAPORE

South Korea to re-open 16 mines by 2016

South Korea plans to re-open 16 mines, including gold, copper, lead, zinc and molybdenum operations, by 2016, an official from the ministry of commerce industry and energy (Mocie) told MB.

Since October, when Mocie announced its plan to re-open mines in the country to stem its reliance on mineral imports, one mine has been re-opened, said Mocie mineral resources division official Chang-won Sung.

Trial mining has started at the Geumuem moly mine in Pyung Hae, Uljin, Kyungbuk province and is expected to reach full commercial production of 240,000 tpy of ore this year, said Sung.

LONDON

Spanish venture to build 70,000 tpy zinc plant

Asturiana de Laminados SA, a new Spanish joint-venture led by metal roofing producer Metazinco, will become the country's first laminated zinc manufacturer with a 70,000 tpy zinc sheet plant in the works.

Production is scheduled to start in October at the facility, which will be built in Pola de Lena. Some €30 million ($43 million) will be invested in the first phase of the project, MB understands.

A consortium led by Siemens has started construction on a 54,000 sq metre site, which will include an electric arc furnace, continuous caster and hot rolling facilities.

LONDON

Copper market in surplus in October – ICSG

The copper market was in surplus for the third consecutive month in October 2007, while the balance for the first ten months of last year was in deficit, according to the International Copper Study Group (ICSG).

The October surplus amounted to 15,000 tonnes after seasonal adjustments, it said, putting the apparent refined copper balance for the first ten months of 2007 at a production deficit of about 63,000 tonnes after seasonal adjustments.

This compares with a production surplus of 300,000 tonnes on a seasonally adjusted basis for 2006, ICSG said.

Non-ferrous metals

Aricom to start building Chinese Ti smelter in July

MOSCOW
BY TOM ZAITSEV

Iron ore miner Aricom has completed a feasibility study for a new titanium smelter in northwest China.

Construction work is expected to take up to two years, with ground-breaking on the site scheduled for July. Investment requirements for the plant are estimated at $300 million, although details on funding were not immediately disclosed.

The news comes after Aricom signed a framework agreement with Chinalco to build a 30,000 tpy titanium sponge plant in the city of Jiamusi, Heilongjiang province in northeastern China, in May last year (MB May 18). The plant will be built in two stages of 15,000 tpy each.

Aricom will own 65 percent and Chinalco 35 percent of the venture, with titanium ore supplied by Russian mines owned by Aricom.

Aricom was spun off from Peter Hambro Mining in 2003 to focus on developing Russia's mineral deposits and has exploration and mining licences for four sites in the Amur region, including a vast Kuranakh orebody, containing ilmenite and titano-magnetite ores, from which Aricom will supply the Jiamusi plant.

In addition to mining the deposit using an open-pit method, Aricom plans to build a concentrator to produce 290,000 tpy of ilmenite and 900,000 tpy of titano-magnetite high-grade concentrates.

China's rising demand for titanium has caused a boom in domestic production, with 13 facilities undergoing expansion and 14 new smelters being built, according to an analyst in China.

Swanepoel signed up for Camec/Gertler jv

LONDON

Bernard Swanepoel has been appointed as a senior consultant to Prairie International as it moves forward with its joint venture with Central African Mining and Exploration Co (Camec).

Swanepoel was previously ceo of Harmony Gold.

Camec and Prairie, which is headed by Israeli diamond tycoon Dan Gertler, agreed their joint venture in November last year. As part of the joint venture, the companies will own, develop and operate Mukondo Mountain, the world's largest cobalt deposit, in the central Katanga region of the Democratic Republic of Congo (DRC) (MB Nov 7).

"Mr Swanepoel will play a lead role for Prairie in the company's planned joint venture with Camec... Mr Swanepoel will be appointed as a non executive board member in the planned joint-venture company on behalf of Prarie," Prairie said on Tuesday.

Swanepoel resigned as ceo of Harmony Gold in August last year on the same day the company announced that it expected to make a loss of between R520 million and R640 million ($74-90 million) for the quarter that ended in June (MB Aug 6).

Rhenium firms as business picks up

LONDON

Rhenium prices have firmed since the beginning of the year on healthy demand from catalyst makers and the aerospace sector, market participants told MB on Monday.

While supply has not increased, the market was given a boost in the first two weeks of the year by a spate of enquiries from consumers.

"Rhenium is definitely firmer, there's nothing sold below $9,000. I wouldn't sell below $9,200, the range is closer to $9,500-9,600," said one trader.

"There's really, really big demand this year," agreed a second.

Rhenium metal pellets basis 99.9 percent are now selling at $4,200-4,600 per lb in-warehouse Rotterdam, up from $4,000-4,500 per lb last week, while ammonium perrhenate (APR) catalytic grade is changing hands at $9,100-9,600 per kg rhenium content in-warehouse Rotterdam compared with $8,800-9,200 per kg previously.

This compares with $3,400-3,600 per lb for pellets and $7,000-7,500 per kg for APR when MB began quoting its rhenium price at the beginning of March 2007.

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Santa Rita nickel reserves estimated at 508,000t

SINGAPORE

Mirabela Nickel Ltd's Santa Rita mine in Brazil is estimated to have 508,000 tonnes of contained nickel, making it one of the world's largest open-cut nickel sulphide reserves.

Perth-based Mirabela announced on Tuesday Santa Rita's maiden proven and probable reserve of 84 million tonnes at 0.61 percent nickel grading.

"Santa Rita now has the world's third-largest open-cut nickel sulphide reserve after BHP Billiton's Mount Keith deposit and Vale's Voisey Bay deposit. And we are still finding more," said md Nick Poll in the statement.

ConsMin delists after Palmary takeover

LONDON

Consolidated Minerals Ltd (ConsMin) will delist from the Australian Stock Exchange (ASX) on January 22 following its takeover by Ukrainian-owned Palmary Enterprises.

The manganese, chromite and nickel miner was acquired by Ukrainian millionaire Gennadiy Bogolyubov's mining investment company in December.

Following the takeover, ConsMin expects to accelerate its expansion plans, it said in a statement to the ASX and to London's Alternative Investment Market (AIM).

ConsMin now hopes to become a "leading global diversified mining house... with a view to potentially relisting in the medium term", said md Rod Baxter in the statement.

The company will focus mainly on expanding its manganese and nickel businesses through both mergers and expansion of existing projects, it said.

Gold rises after US rate cut

LONDON

Gold moved higher on Tuesday after the surprise interest-rate cut by the US Federal Reserve sparked expectations of further dollar weakness.

Gold jumped to $875 per oz in the afternoon fix from a morning fix of $862 per oz. The prices went above $880 in some afternoon spot deals.

Silver's daily fix slipped to $15.57 from $15.77 per oz previously.

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Iron and steel

Liège strike was 'first warning' says FGTB

LONDON
BY PHILLIP PRICE

Monday's strike at ArcelorMittal's Liège works was a "first warning" to ArcelorMittal over its failure so far to restart the No 6 blast furnace at the works, a source at the FGTB union told MB.

ArcelorMittal announced recently that it plans to restart the furnace, abandoning a previous plan to idle all hot metal production at the Belgian steelworks. But the company has so far been unable to secure the carbon dioxide emission permits it needs to make this possible.

"Faced with this unfulfilled promise to reignite the blast furnace, the FGTB union decided to strike as a first warning," said the source.

ArcelorMittal said the company is continuing to try to find a solution to the problem and restart the furnace, but blamed the difficulties on the European emissions trading scheme (ETS).

"It is our intention to restart the blast furnace in Liège, but before making a final commitment we need confirmation that we will have the appropriate amounts of CO_2 credits to operate the furnace within the current period of the carbon credit emission trading scheme," an ArcelorMittal spokeswoman told MB.

"This was our prerequisite right from the beginning and without assurances that it would be matched, we would not have been in a position to initiate this move," she added.

But the company's position has failed to convince the plant workers, who have insisted that ArcelorMittal should find a solution to the difficulties or face more industrial action.

➔Click here for full story

LONDON

CIS CRC export offers approach $800 fob

CIS cold rolled coil producers are pushing offer prices closer to $800 per tonne fob Black Sea ports, setting up a tense face-off with buyers, market sources told MB.

Buyers reported last week that offer prices from Russia's Severstal and Novolipetsk Steel (NLMK) had hit $750 fob Black Sea, but this week traders have claimed offer prices from NLMK and Magnitogorsk Iron & Steel Works (MMK) are closer to $800 per tonne fob.

One international trader said he received CRC offer prices from MMK at $760-780 fob Black Sea and a source close to NLMK said 25,000 tonnes of production in March will be offered at around $800 fob Black Sea.

A statement by NLMK blamed steel price rises on an increase in basic raw material costs. The company expected continuing rises throughout the first half of 2008, followed by a flattening in the middle of the year, it said.

"No one predicted that the prices would rise this high. But there is no new material coming out of China, freight costs are very high, raw material costs are rising and there is also speculation," said a major international trader.

LONDON

Russian HRC export offers top $700 fob

Russian hot rolled coil producers are offering material at $700 per tonne fob and above from Black Sea ports, market sources said.

Magnitogorsk Iron and Steel Works (MMK) and Novolipetsk Iron and Steel Works (NLMK) are offering the highest prices among CIS producers, according to sources close to the companies.

MMK has reportedly told buyers it will not accept less than $700 per tonne fob Black Sea for new orders, while a source close to NLMK said the company would not accept less than $750 per tonne fob Black Sea for March production.

"It is a bullish market and there is no cheaper material around," said one major international trader. "Everyone is pushing prices up and it will be difficult to refrain [from buying] for end-users."

A source at Ukraine's Zaporizhstal revealed that around 55,000 tonnes of hot rolled coil is being offered at $665 fob Black Sea for February production.

"Most of that will be gone in the next couple of days," said the source. "Next month, we may see a bigger rise of around $10-20. We have had a lot of offers; it is a nice position to be in."

TEHRAN

Iranian I-beam bookings rise despite cold snap

Domestic Iranian I-beam prices have risen despite declining demand for long products from the construction industry, which has been forced to reduce activity by the cold weather.

Traders said longer-term fundamentals supported the price move, citing the large number of infrastructure projects announced by the government in the past two years, as well as the high level of investment in residential developments.

The latest bookings were completed at 8.35-8.45 million rials ($905-915) per tonne ex-stock Tehran, up from 8-8.15 million rials last week and from 7.58-7.85 million rials at the end of last year.

According to figures recently released by the Iranian central bank, the number of licences issued for residential construction has increased by around 80 percent in Tehran and around 60 percent in other Iranian cities compared with last year.

Iran has imported 967,000 tonnes of I-beams so far in the current Iranian year that began in March, compared with 263,000 tonnes in the corresponding period of the previous year, according to figures from the country's customs authorities.

LONDON

Blast hits reheat furnace at Corus Port Talbot

Corus's Port Talbot works in Wales was hit by a minor explosion in a reheating furnace at its hot rolling mill.

The explosion occurred in one of the two reheat furnaces at the mill on Monday, a company spokeswoman told MB.

"At this time we do not know what caused the explosion," she said.

"The reheat furnace [A] that was affected had been offline due to scheduled maintenance and was at the time of the incident being brought back on, so we are able to continue using the second reheat furnace [B] that was in use, until the damaged furnace is repaired in a couple of days," she continued.

The second reheat furnace is still operating and Corus expects the affected furnace to be operational again within the next few days.

The explosion also caused some damage to pipework in the surrounding area. An investigation into the cause of the explosion will now be carried out.

Iron and steel

India's iron ore export prices heading for fall

MANGALORE
BY GILBERT LOBO

Export prices of Indian fines of 63.5 percent iron content have reportedly fallen to $120-125 per tonne fob and may tumble to $110-115 per tonne fob by March, said some producer-exporters. Deals were transacted at $135-140 per tonne fob last week.

"I am now flooded with calls from small mine owners offering me material for export, compared with very poor offerings earlier," one exporter told MB.

Rahul Baldota, president of the Federation of Indian Mineral Industries and director of Mineral Sales Pte Ltd, a prominent producer and exporter of iron ore from Karnataka, was reported in the local press as saying that prices are at $120-125 and might slide to $110.

Baldota was not available for further comment, and other market participants said no transactions have been made at these prices.

"It is depressed sentiment rather than an actual fall in prices," said a second exporter, while a third said no deal had been concluded at $120 or lower.

The industry may be overreacting to lower demand enquiries from China, which is nearing its new year holidays, said an analyst.

Chinese mills are also refraining from making offers as the period for contract negotiations arrives and they do not want to show undue eagerness, said the analyst.

Others felt that talk of falling prices was prompted by fears that a proposed increase in export ore duty could shave their profits.

"Perhaps it will become a business of miners only, with the traders left out of the export trade," said another exporter.

The market is expected to stabilise from mid-March when the Chinese are expected to resume their purchases.

SINGAPORE

FMG targets Rio's Robe River rail for open access

Fortescue Metals Group (FMG) has applied for Rio Tinto's Robe River Railway in Australia's iron ore-rich Pilbara region to be opened up to third-party use.

The railway runs from Rio's Mesa J (Deepdale) mine to its Cape Lambert port.

FMG has been campaigning to open up railways owned by Rio as well as BHP Billiton to relieve the infrastructure squeeze in the region and make viable more iron ore deposits.

"Fortescue is seeking to open the tremendous transport logistics synergies available in the Pilbara to all Australian mining companies," said FMG's executive director Graeme Rowley.

"There are numerous stranded iron ore deposits in the Pilbara, which alone may not be of sufficient scale to support their own infrastructure, yet could become viable with access to existing infrastructure such as the Robe River Railway," he added.

FMG's wholly owned subsidiary The Pilbara Infrastructure Group (TPI) lodged the application with the National Competition Council last Friday.

SHANGHAI

Shagang set for 15-day maintenance in March

China's largest private steelmaker Shagang Group will shut down two rolling mills for 15 days of maintenance in March, a stoppage which could reduce output of hot rolled strip by about 150,000 tonnes and plate by up to 60,000 tonnes.

"Our maintenance is set to start on March 20, and the hot rolled strip mill and plate mill will both be overhauled," a company official told MB.

"The output loss is not small: this will certainly affect the market."

Some traders expect the effect on supply to help the weakening domestic hot strip market, as Shagang is an important player in the eastern Chinese steel market.

"The domestic hot rolled coil market has been softening in the run-up to Chinese new year. Shagang's maintenance will curtail available material in the market and help prices edge up somewhat," one Shanghai-based trader told MB.

But other traders suspect the timing is too late to help the current market out of its weakening trend.

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MANGALORE

Ministry backs Bailadila lease for NMDC plant

India's steel ministry has urged the Chhattisgarh government to allocate a 100 million tonne Bailadila iron ore deposit to the National Mineral Development Corp (NMDC).

"During my meeting with the Chhattisgarh chief minister, I asked him to expedite the allocation of deposit 1V at the Bailadila mines to enable NMDC, Sail and RINL to build a 4 million tpy steel plant with an investment of Rs 160 billion [$4 billion]," steel minister Ram Vilas Paswan told the press.

He said he assured the Chhattisgarh government that output from the deposit would not be exported.

NMDC signed a memorandum of understanding last August with India's two largest state-owned steelmakers, Steel Authority of India and Rashtriya Ispat Nigam (RINL), to put up the steel plant (MB Aug 17).

This is the first non-mining project for state-owned NMDC, the country's largest mining company. It wanted to diversify to hedge against falling ore prices, it said.

All three companies are controlled by the steel ministry.

NMDC already owns a number of ore deposits in Bailadila but requires an additional deposit for its proposed steel project.

LONDON

Pudong Steel to build another Corex iron plant

China's Shanghai Baosteel Pudong Iron and Steel Co (Pudong Steel) plans to raise crude steel production at its Luojing site in Shanghai with the addition of a new Corex iron-fed steel meltshop.

Siemens Metals Technologies (SMT), which has been contracted to supply the new works, said that it will be built alongside a similar steel plant which was recently commissioned.

SMT has branded the ironmaking plants 'Corex C-3000'.

"In order to increase the output of hot metal to approximately 3 million tpy at the Luojing site, Baosteel decided to install a second Corex C-3000 facility next to its existing facility," SMT said. "This will allow for optimised plant infrastructure and raw materials logistics at the new Luojing iron and steel works."