29 February 2012/ Number 9241.3

Metal Bulletin Daily

Wednesday

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Analysis BHP Billiton's plan was to develop third-party trading

Glencore-Xstrata must go further than BHP Billiton

LONDON
BY ALEX HARRISON

"[It will have] the low-cost production of a miner, the marketing skills of a trader, and the financing capability of a bank," one senior metal marketer told Metal Bulletin.

But he was not talking about the plan to merge Xstrata and Glencore into a $90 billion producer-trader powerhouse, as revealed earlier in February. Instead, he was talking about BHP Billiton, the powerhouse that arrived in June 2001 after the merger of BHP and Billiton.

And while today, much is being made of the global producer-trader power that could be unleashed by the merger of Mick Davis's Xstrata with Ivan Glasenberg's Glencore, the marketer highlighted that Marius Kloppers, now ceo of BHP Billiton, had just such a vision more than a decade ago, when he was chief marketing officer.

"The BHP Billiton plan at the time was that you should develop third-party trading to know your market better, and develop that market," he said.

The strategy paid off so well, at first, that as early as March 2002 copper smelters admitted they were "afraid of the market power" that they saw BHP Billiton accruing.

"But how far BHP Billiton actually got with implementing its plan is a different question," the former BHP executive said.

Will Glencore-Xstrata learn from the past?

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TOKYO

Japan's aluminium buyers stunned by premium rates

Japanese aluminium buyers were surprised at a push by suppliers for second-quarter premiums as high as $132 per tonne.

Negotiations for the next quarter have begun with expectations on both sides wide apart, sources said.

Suppliers have touted $132 per tonne cif Japan, while some on the Japanese side are talking about $115 per tonne.

"Quite frankly, when producers came up with the figure of $132 per tonne only days after one producer had settled a deal at $115 per tonne, everybody was astonished. Many buyers were expecting a small rise, but nothing like this," one buyer said.

"It's a price logic that is based on Southeast Asian demand prospects, not Japanese ones," he added.

Demand in Japan has begun to improve, with the automobile sector, the supply chain and construction activity much livelier.

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LONDON

ArcelorMittal to buy steel slab as Florange idles

ArcelorMittal plans to purchase a large quantity of steel slabs for its Ghent and Bremen steel plants, members of the trade union associated with the group told Metal Bulletin on Tuesday February 28.

ArcelorMittal announced plans to purchase 60,000 tonnes of steel slab at a central works council meeting on February 23. Russian producer Severstal will supply the slab, Metal Bulletin heard.

Trade unions have criticised the company's need to buy steel from its competitors. The move presents "an additional argument to justify restarting [at] Florange", they said.

The purchase plan "feeds union fears about jobs and the industrial risks of ArcelorMittal's strategy, which allows most competitive plants to operate [but] lets the others [fall] idle to maintain margins", the unions told Metal Bulletin.

The steelmaker is "banking on the fact that this move will provide an extra billion dollars per year", the unions claimed.

"This [purchase] has to do with a short-term situation which meant that more supply was required on account of harsh winter conditions, which caused [a] temporary loss of slab production at our own plants," an ArcelorMittal spokesman told Metal Bulletin on February 27.

The works council meeting was originally called to discuss concerns raised by the extension to the temporary idling of part of ArcelorMittal's Florange works into the second quarter of 2012.

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Non-ferrous metals

Indonesia considers ore export ban from May 6

JAKARTA
BY MEGAWATI WIJAYA

Indonesia may ban mineral ore exports from May this year, earlier than the 2014 deadline, government officials confirmed.

Miners were called to attend a briefing in Jakarta on Tuesday February 28 to discuss the country's plans to restrict exports of unprocessed ore.

The government is considering a ban on all such exports by mining permit holders from May 6, Thamrin Sihite, a senior official at the ministry of energy, resources and minerals resources, said at the meeting.

"The miners have been trying to beat the 2014 deadline, by exploiting as much as possible before the ban is in place," said Sihite, who is director general of the ministry department responsible for metals and mineral resources.

"Since the new Indonesian mining laws came out in 2009 till 2011, exports of nickel, manganese, and copper ores have increased by 800%. Mining permit holders are largely behind this great amount of exports," he said.

"We are considering banning all ore exports by mining permit holders from 6 May 2012," Sihite said.

But there would be exceptions to the rule.

The government has asked mining permit holders to submit a detailed plan on how they are going to comply with the in-house ores processing.

"We will consider [the] case-by-case situations," Dede Suhendra, director of the mineral, coal, and geothermal resources department said.

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LME Stocks (tonnes)

Copper	fell	1,625	to	298,850
Tin	unchanged		at	10,250
Lead	fell	2,825	to	365,350
Zinc	fell	75	to	867,650
Aluminium	fell	2,350	to	5,113,425
Aluminium Alloy	rose	240	to	137,960
Nickel	rose	1,044	to	98,442
NASAAC	unchanged		at	156,900

Comex Gold Feb	$1,773.60
Comex Silver Feb	$35.524
Nymex Platinum Apr	$1,712.80
Nymex Palladium Mar	$705.30

London Precious Metals

Gold am	$1,774.75 per oz
Spot Silver midday	$3,560.00 per oz
Platinum am	$1,710.00 per oz
Palladium am	$708.00 per oz

Barclays Bank

$/£	1.5848 -1.5849
$/£ 3 months	1.5838-1.5839
£/YEN	127.49-127.66
€/$	1.3449-1.3450

JAKARTA

Newmont's Indonesian unit attacks ore ban

Indonesia's ban on raw materials exports will reduce the country's competitiveness in the global copper market, Newmont Nusa Tenggara (NNT) ceo Martiono Hadianto said.

"The average cost of processing of copper ore into copper concentrates and copper is 11 cents per lb," Hadianto told Metal Bulletin.

"If the government forces all copper ores to be processed before exporting, can smelters in Indonesia do that with the similar costs? We are worried that Indonesia will lose its competitiveness in the global market [after 2014]," he said.

NNT, the Indonesian unit of Newmont Mining, exports largely unprocessed ores from its Batu Hijau mine, which produced 122,000 tonnes of copper and 364,000 oz of gold in 2010.

LONDON

Noble 2011 revenues rise, operating income falls

Noble Group's metals, minerals and ores business achieved record yearly revenue, the company said in its 2011 full-year results statement on Tuesday February 28, as volumes increased at its aluminium and iron ore divisions.

Operating income from supply chain fell 64% year-on-year as price volatility continued and led to reduced market opportunities and eroded margins.

Total tonnage for the division as a whole for the full year came to 54.8 million tonnes, up 2% compared with 2010.

Revenue, meanwhile, was up 48% to $10.9 billion, while operating income from supply chain plummeted to $114.2 million, compared with $314.3 million in 2010.

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LONDON

Impala strike losing Xstrata 1,000 tpd chrome ore

Xstrata Alloys is losing 1,000 tpd of chrome ore through its offtake agreement with Impala Platinum because of industrial action in Rustenburg, South Africa, the company told Metal Bulletin.

The lost production is minimal and it can feed its ferro-chrome smelters with ore from other sources, the company said.

"The lost supply relating to the strike is minimal – about 1,000 tonnes of UG2 ore a day – but we have sufficient supply from alternative sources to meet our immediate [ferro-chrome] production needs," a spokesman for Xstrata Alloys told Metal Bulletin.

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LONDON

Rusal completes stage one of Nadvoitskiy revamp

United Co Rusal has completed the first stage of modernisation of its Nadvoitskiy aluminium smelter and increased its alloys production.

"The installation of new equipment – a 30-tonne mixer and two casting conveyors with total capacity of 14 tonnes per hour – is complete at the [Nadvoitskiy] casting complex," the company said on Tuesday.

"The launch of this equipment will enable the smelter to increase its alloy production capacity from 15,000 tpy to 45,000 tpy."

The total investment in the smelter's modernisation has reached $2.3 million to date. It is part of Rusal's long-term strategy to increase the proportion of value-added products in its overall output.

LONDON

Base metals prices keep rising in LME officials

Base metals continued to firm in official trading on the London Metal Exchange on Tuesday, as the euro took strength from the European Central Bank's long-term refinancing operation (LTRO), which is expected to see good demand.

The consensus among analysts is for the uptake of the three-year LTRO to be in the area of €500 billion ($671 billion), made attractive due to its 1% interest rate.

The euro was trading at around $1.346 during the officials, from lows of around $1.320 on Monday.

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Iron and steel

Coking coal swaps market to 'take off in next year'

BEIJING

The coking coal swaps market will "take off" in the next twelve months if term mill-to-mine contracts are linked to independent index-based prices, according to Credit Suisse's Philip Killicoat.

Speaking to delegates at Metal Bulletin's 9th China Iron Ore conference in Beijing on February 28, Killicoat said steel consumers and coking coal miners will use coking coal swaps contracts to hedge price risk as part of a larger portfolio of independent, index-based derivatives, which will include iron ore swaps and futures and steel swaps.

Coking coal producers are not yet directly participating in the coking coal swaps market, but contracts are traded on at least a weekly basis by banks, trading houses and investment funds.

The coking coal swaps clearing was launched by the Chicago Mercantile Exchange (CME) Group last summer.

Credit Suisse and a major coking coal market participant participated in the first traded coking coal swap on August 31, and brokerage firm Freight Investor Services (FIS) concluded the first brokered coking coal swap, which also numbered Credit Suisse as one of its counterparties, in September 2011.

CME told Metal Bulletin in January it had cleared 100,000 tonnes of coking coal swaps since launching the contract last summer.

Hedge funds and other exchanges, including the Singapore Mercantile Exchange, have said that they are interested in participating in the market.

Coking coal prices have been even more volatile than iron ore prices over the past three years, Killicoat noted, making the need to manage price risk for coking coal market participants all the more urgent.

"Coking coal has made iron ore prices look stable in recent years," Killicoat said.

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MOSCOW

Mechel suspends New Olzherassk mine again

Russian coal and steel producer Mechel has suspended work at its New Olzherassk coal mine for a second time this month, due to coal in the mine self-heating, the company said late on February 27.

Mechel said the current suspension will not affect coal deliveries to its customers, as it has enough material in the warehouse to meet its contractual obligations.

Coal from New Olzherassk, in south-western Siberia, is exported to the EU, Brazil, Turkey and Ukraine, mostly in the form of pulverized coal injection (PCI) product.

Mechel said the mine's infrastructure – including its transport, ventilation and power – is in working condition and safe. It added that work at the mine will only resume after the self-heating problem is solved.

New Olzherassk has mined more than 250,000 tonnes of coal so far this year.

Work at the mine was earlier suspended by the safety regulator on February 10, and resumed on February 16. The reason for that suspension was not disclosed but Mechel's spokesman said on Tuesday that coal self-heating was not a factor.

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BEIJING

Spot 63.5% Fe iron ore price up to $147-148 cfr

China's imported iron ore market gained $1-2 on February 28, shrugging off concerns that downstream demand was still weak.

Prices of 63.5% Fe content Indian fines stood at $147-148 per tonne cfr China through Tuesday, up from $145-147 cfr on Monday.

"Offers of imported iron ore stockpiles at ports rose by 10-20 yuan [$1.60-3.15] today, but transaction volume is modest," an iron ore trader in Shandong said.

Deals for Australian tenders were heard at $146 cfr for Newman fines and $141.50 cfr for Mining Area C fines, sources said. But there seems to be little room for iron ore prices to rise further, several traders said.

"Spot prices of 62% Fe fines are likely to face great resistance at $145 cfr, as downstream demand is still not good," a Liaoning-based iron ore trader said on the sidelines of Metal Bulletin's iron ore conference in Beijing.

Steel prices continued to rise this week but any room for further price rises was limited by the fact that China's steel capacity had not been fully used yet, he added.

"Domestic steel production remains flat, suggesting that there is no improvement for iron ore demand," a Shanghai trader said.

China's crude steel output decreased slightly during the second ten days of February, according to the China Iron & Steel Assn. Daily production averaged 1.699 million tonnes, down by 0.3% from the first ten days of the month.

LONDON

Italian, Spanish rebar exporters pass on $20 price hike to Algeria

Italian and Spanish rebar exporters have increased prices by $20 to consumers in Algeria, European market sources told Metal Bulletin.

Rebar deals took place this week at $680-690 (€510-515) per tonne fob main EU port for March production, up from deals concluded last week at $660-670 fob.

Traders, re-rollers and stockists in Algeria want to secure deals at $700-710 per tonne cfr but southern European exporters are reluctant to sell at that price.

"Algerians still want $700-710 cfr but there is no way that we can sell at that price. Especially with the high dollar-euro exchange rate," a trader told Metal Bulletin.

Rebar demand in Algeria remains vibrant and consumers are replenishing their inventories for March and April, Metal Bulletin heard.

Most southern European rebar exporters are focusing their production on North Africa to tap into booming demand for long products in a region where governments are funding several multi-million-dollar investments in infrastructure and housing.

MUMBAI

JSW Steel's January crude steel output up 4.68%

India's JSW Steel achieved a raft of production increases in January, the company reported on February 28.

Crude steel output increased by 4.68% month-on-month to 805,000 tonnes, compared with 769,000 tonnes in December.

The company's flat steel production also increased, up by 2.58% at 595,000 tonnes against 580,000 tonnes in December.

Long products tonnages were higher as well, up by 7.85% to 151,000 tonnes for January compared with December production of 140,000 tonnes.

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