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BASE METALS: London copper edged higher after China factory data showed growth slowed more than expected in September and as a week-long holiday there got underway, while a funding deadlock in the United States kept traders on edge.

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China's manufacturing growth edged up only slightly in September, with its official Purchasing Managers' Index (PMI) below expectations and adding to worries that its economic recovery has foundered.

FOREX: The dollar fell to a 1-1/2 year low against the safe-haven Swiss franc and an 8-month low against the euro after the U.S. Congress failed to reach an agreement and led to a government shutdown. Expectations that the shutdown, which in the past has lasted from one day to nearly a month, will hurt the economy and prompt the Federal Reserve to keep policy accommodative weighed on the dollar broadly.

The U.S. currency had already been trading near long-term lows before Monday night's stalemate, however, and some investors remained hopeful of a swift resolution to the standoff. By 0654 GMT, the dollar index was down 0.4 percent at 79.918, its lowest since Feb. 13.
**FEATURE**

**U.S. gov't shutdown begins after Congress fails to break impasse**

By John Whitesides

WASHINGTON, Oct 1 (Reuters) - The U.S. government began a partial shutdown for the first time in 17 years, potentially putting up to 1 million workers on unpaid leave, closing national parks and stalling medical research projects.

Federal agencies were directed to cut back services after lawmakers could not break a political stalemate that sparked new questions about the ability of a deeply divided Congress to perform its most basic functions.

After House Republicans floated a late offer to break the logjam, Senate Majority Leader Harry Reid rejected the idea, saying Democrats would not enter into formal negotiations on spending "with a gun to our head" in the form of government shutdowns.

After missing the midnight (0400 GMT) deadline to avert the shutdown, Republicans and Democrats in the House continued a bitter blame game, each side shifting responsibility to the other in efforts to redirect a possible public backlash.

If Congress can agree to a new funding bill soon, the shutdown could last days rather than weeks. But no signs emerged of a strategy to bring the parties together.

The political dysfunction at the Capitol also raised fresh concerns about whether Congress can meet a crucial mid-October deadline to raise the government's $16.7 trillion debt ceiling.

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The political dysfunction at the Capitol also raised fresh concerns about whether Congress can meet a crucial mid-October deadline to raise the government's $16.7 trillion debt ceiling.

With an eye on the 2014 congressional elections, both parties tried to deflect responsibility for the shutdown. President Barack Obama accused Republicans of being too beholden to Tea Party conservatives in the House of Representatives and said the shutdown could threaten the economic recovery.

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The political stakes are particularly high for Republicans, who are trying to regain control of the Senate next year. Polls show they are more likely to be blamed for the shutdown, as they were during the last shutdown in 1996.

"Somebody is going to win and somebody is going to lose," said pollster Peter Brown of the Quinnipiac University poll. "Going in, Obama and the Democrats have a little edge."

The dollar held steady on Tuesday even though much of the U.S. government was due to start shutting down. S&P stock futures inched up 0.2 percent, unchanged from earlier price action after the cash index fell 0.6 percent on Monday, while U.S. Treasury futures slipped 5 ticks.

Most Asian markets were trading higher on Tuesday.

**POLITICAL POLARIZATION**

The shutdown, the culmination of three years of divided government and growing political polarization, was spearheaded by Tea Party conservatives united in their opposition to Obama, their distaste for Obama's healthcare law and their campaign pledges to rein in government spending.

Obama refused to negotiate over the demands and warned a shutdown could "throw a wrench into the gears of our economy." Some government offices and national parks will be shuttered, but spending for essential functions related to national security and public safety will continue, including pay for U.S. military troops.

"It's not shocking there is a shutdown, the shock is that it hasn't happened before this," said Republican strategist John Feehery, a former Capitol Hill aide. "We have a divided government with such diametrically opposed views, we need a crisis to get any kind of results."

In the hours leading up to the deadline, the Democratic-controlled Senate repeatedly stripped measures passed by the House that tied temporary funding for government operations to delaying or scaling back the healthcare overhaul known as Obamacare. The Senate instead insisted on funding the government through Nov. 15 without special conditions.

Whether the shutdown represents another bump in the road for a Congress increasingly plagued by dysfunction or is a sign of a more alarming breakdown in the political process could be determined by the reaction among voters and on Wall Street.

"The key to this is not what happens in Washington. The key is what happens out in the real world," said Democratic strategist Chris Kofinis. "When Joe Public starts rebelling, and the financial markets start melting down, then we'll see what these guys do."

A Reuters/Ipsos poll showed about one-quarter of Americans would blame Republicans for a shutdown, 14 percent would blame Obama and 5 percent would blame Democrats in Congress, while 44 percent said everyone would be to blame.

An anticipated revolt by moderate House Republicans fizzled earlier on Monday after House Speaker John Boehner made personal appeals to many of them to back him on a key procedural vote, said Republican Representative Peter King of New York.

After Boehner made his appeal, House Democratic Whip Steny Hoyer called on him to permit a vote on a simple extension of federal funding of the government without any Obamacare add-on. "I dare you to do that," Hoyer roared.

**THE Fallout**

The potential fallout has some Republican Party leaders worried ahead of the 2014 mid-term elections and the 2016 presidential race, particularly given the Republican divisions over the shutdown.

Republican Senator Ted Cruz of Texas, who commandeered the Senate floor for 21 hours last week to stoke the confrontation and urge House colleagues to join him, sparked a feud with...
fellow Republicans who disagreed with the shutdown and accused the potential 2016 presidential candidate of grandstanding.

"Whether or not we're responsible for it, we're going to get blamed for it," King told reporters on Monday. "They've locked themselves into a situation, a dead-end that Ted Cruz created."

It was unclear how long the shutdown would last and there was no clear plan to break the impasse. The Senate on Tuesday planned to recess until 9:30 a.m. (1330 GMT), at which time Democrats expect to formally reject the House of Representatives' latest offer for funding the government.

The shutdown will continue until Congress resolves its differences, which could be days or months. But the conflict could spill over into the more crucial dispute over raising the federal government's borrowing authority.

A failure to raise the $16.7 trillion debt ceiling would force the country to default on its obligations, dealing a potentially painful blow to the economy and sending shockwaves around global markets.

Some analysts said a brief government shutdown - and a resulting backlash against lawmakers - could cool Republican demands for a showdown over the debt limit.

"A lot of this is political theater. It's not about real policy. Part of this is taking a stand for their constituents," said Julian Zelizer, a historian at Princeton University.

"If there is fallout from a shutdown and there is a big enough shock, maybe they will be willing to move on to other issues," he said.

Obama says negotiating over the demands would only encourage future confrontations, and Democrats are wary of passing a short-term funding bill that would push the confrontation too close to the deadline for raising the debt ceiling.

"The bottom line is very simple - you negotiate on this, they will up the ante for the debt ceiling," Democratic Senator Chuck Schumer said.

### GENERAL NEWS

**Newmont joins race for Glencore’s Las Bambas mine**

Oct 1 (Reuters) - Newmont Mining Corp, the biggest gold miner in the United States, has joined the race for Glencore Xstrata's GLEN.L copper mining project in Peru, the Financial Times reported in its Tuesday edition.

Newmont's Chief Executive Gary Goldberg told the Financial Times that Glencore's Las Bambas mine was "an interesting prospect".

"The thing that is interesting is that it is further down the development path, it is closer to production," Goldberg told the newspaper.

"Clearly we wouldn't do that on our own. We would look at doing something with other partners," he was quoted as saying.

A spokesman for Newmont Mining said the company does not comment on rumors.

Glencore agreed to sell Las Bambas earlier this year to meet demands from China's antitrust authorities after its takeover of mining group Xstrata. The regulator feared the tie-up handed the newly formed commodities powerhouse too much clout in copper.

**U.S. gold coin Sept sales down 81 pct and safe-haven bids weak**

NEW YORK, Sept 30 (Reuters) - Demand for U.S. gold coins fell 81 percent in September on a year-over-year basis, as political turmoil in Syria failed to rekindle retail buying that has slowed after months of exceptional bargain hunting, data on the U.S. Mint website showed on Monday.

Total sales of American Eagle gold bullion coins for investors were 13,000 ounces versus 68,500 in September 2012, and compared with the monthly average of almost 90,000 ounces for the first eight months of this year.

September coin sales came in slightly above the 11,500 ounces in August, the lowest monthly tally in six years. Coin sales are highly seasonal, with demand typically weakest in summer months before a pick up near year end when jewelers in India buy ahead of the Hindu festival of Diwali, a major gold-buying event.

Demand for gold coins picked up in the last two weeks of August, as economic uncertainty stirred by talk of military strikes against Syria by Western powers prompted investors to seek gold as a safe haven.

However, the pace has slowed as many coin investors who seek safe haven in gold and silver have already bought earlier this year, said Brad Yates, a trader at precious metals dealer Elemetal Capital.

"I think there is some fatigue around geopolitical events, to be honest," he said.

Bullion posted a record two-day $225 drop in mid-April, which prompted retail investors to buy a massive amount of physical gold and silver products from coins to bars as long-term investments.

Sales of the American Eagle silver bullion coins totaled 3,013,000 ounces, down 7 percent from 3,255,000 ounces in September 2012.
"I don't think we will see strong physical demand this year unless silver threatens to drop below $20," Yates said.

South African miners rally as Amplats strikes enters fourth day

By Ed Stoddard
RUSTENBURG, South Africa, Sept 30 (Reuters) - Around 2,000 striking South African miners from Anglo American Platinum AMSJ.J rallied on Monday to protest planned job cuts at the world's top producer of the precious metal.

Now in its fourth day, the strike at Amplats has hit production at the mining company, which is still reeling from labour unrest last year and has said it needs to drastically cut jobs to return to profit.

Amplats wants to cut about 4,800 jobs. It originally aimed to eliminate as many as 14,000, but scaled back its plans after fierce criticism from the government and unions.

Police in armoured vehicles looked on as miners marched and waved sticks in a barren field near the company's Thembelani Mine near the mining town of Rustenburg, northwest of Johannesburg.

Union leaders were meeting with management at 1400 (1200 GMT) in Johannesburg for talks and the union planned another rally on Tuesday, officials for the hardline Association of Mineworkers and Construction Union (AMCU) said.

"If they do not meet us at least half way, the strike will continue," Thebe Maswabi, an AMCU branch chairman, told Reuters.

A solution does not look easy. Amplats' return to profitability hinges on an overhaul of its Rustenburg mines, where it plans to drastically cut back production.

But jobs are a sensitive issue in South Africa, where four in 10 adults are without work and the ruling African National Congress faces elections next year.

AMCU has emerged as the dominant union on the platinum belt after poaching tens of thousands of members last year from the ANC-allied National Union of Mineworkers in a bloody turf war.

The union fighting led to a wave of violent wildcat strikes last year that left dozens of people dead and weakened investor confidence in Africa's top economy.

Banca d'Italia says gold reserves key to cenbank independence

By Jan Harvey and Clara Denina
ROME, Sept 30 (Reuters) - Keeping gold reserves is a key support to central banks' independence, an official from Banca d'Italia told a bullion industry conference on Monday, dampening talk that it might sell some of its holdings.

Speculation has emerged since the financial crisis hit the euro zone that Banca d'Italia might be pressured to leverage or even sell some of its huge gold reserves - the fourth largest among the world's central banks - to help prop up its economy.

Regulations covering central bank independence restrict them from using bullion reserves this way, but concerns grew after an assessment of Cypriot financing needs prepared by the European Commission showed Cyprus under pressure to sell gold to raise around 400 million euros (341.1 million pounds) to help finance its bailout.

In a keynote address to the London Bullion Market Association's annual conference, Salvatore Rossi, director general of the Italian central bank, told delegates that gold plays a special role in central banks' official reserves.

"Not only does it have the vital characteristic of allowing diversification, in particular when financial markets are highly integrated, in addition it is unique among assets in that it is not issued by any government or central bank, so its value cannot be influenced by political decisions or by the solvency of any institution," he said.

"These features, coupled with historic ... and psychological reasons, stand in favour of gold's importance as a component of central bank reserves," he said. "Gold underpins the independence of central banks in their ability to (act) as the ultimate bearer of domestic financial stability."

Italy holds 2,451.8 tonnes of gold in its reserves. A slim majority of Italians polled by the World Gold Council in March believed their government should use the country's gold holdings to offset high public borrowing costs, although they did not believe they should sell them.

Italy used gold to collateralise bonds in 1974, when it received a $2 billion bailout from Germany's Bundesbank and put up 500 tonnes of metal as a collateral.

EUROPEAN BANKS WON'T SELL

Other European central banks including the Bank of France and the Bundesbank said at the conference that they will not sell their gold reserves, as they can provide a level of confidence, an element of diversification and can absorb some volatility from the central bank's balance sheet.

"We have no plan to sell gold," Bank of France Alexandre Gau-tier, director of market operations department, told delegates in a presentation. "We are still active in the lending market, but not retail loans. We can see some yields that are attractive, but we realise that we can't lend gold without collateral."

Number two holder Germany also said at the meeting that it will keep its 3,390 tonnes of gold.

PRICE ACTION IMPACTS CENBANKS DECISION

Gold price volatility this year has impacted the buying decisions of emerging countries' central banks like Argentina, Juan Igna-
cio Basco, deputy general manager at the Central Bank of Argentina, said.

Bullion fell by $200 an ounce in two days in its sharpest slide in 30 years in April before hitting a three-year low in June and then regaining 13 percent from that level.

"It's very difficult to decide when to enter the market as we don't follow trends ... (but) the recent volatility in prices has changed the way we have look at gold," Basco said.

"That's why we have started with the product options because volatility in the market is not good for us."

Argentina slowly re-started to rebuild its gold reserves in 2000s after selling them at the bottom of the market in December 1997 to buy U.S. Treasuries. It currently holds 61.7 tonnes of the metal, representing seven percent of its assets.

"We are accumulating slowly ... and we have to move slowly," Basco said. "We must remember that we are like elephants."

**Noble, TPG back ex-Xstrata boss's new mining venture**

LONDON, Sept 30 (Reuters) - Trading house Noble NOBG.SI and private equity group TPG have each invested $500 million in a private mining venture led by Mick Davis, the former head of Xstrata, hoping to cash in on low valuations and a dearth of buyers for mining assets.

Davis set up his new venture, named in a statement on Monday as X2 Resources, earlier this year, after he was ousted from Xstrata following the miner's acquisition by trading giant Glencore, its largest shareholder.

Under the original takeover deal, Davis had been due to be chief executive of the combined Glencore Xstrata group, but a dispute over executive pay and an eventual improvement of Glencore's offer meant the end for the South African boss after a more than a decade at the helm of Xstrata.

After that abrupt exit, Davis, known as a dealmaker, moved swiftly, using Xstrata's former offices to set up what he and his investors hope will become a second Xstrata - a diversified miner he is credited with building into one of the world's largest, up from a $500 million collection of zinc and ferrochrome assets.

Davis is one of a number of mining bosses ousted in a wave of change in the sector over the past 12 months, as prices cooled, boom-year deals soured and investors began to demand austerity. Many of them, like Davis, have remained in the industry with private investment companies - hoping to cash in as major miners shed unwanted assets and few queue up to buy.

In a statement on Monday, the companies said X2 Resources planned to create a "mid-tier diversified miner and metals group", whose output would eventually be marketed by Noble, a rival of Glencore's.

**Russia's Norilsk co-owners agree on new dividend policy**

MOSCOW, Oct 1 (Reuters) - Russia's aluminium giant Rusal 0486.HK said on Tuesday it had agreed on a new dividend policy for Norilsk Nickel GMKN.MM, in which it holds a stake, with another Norilsk co-owner, tycoon Vladimir Potanin's Interros.

Under the new policy Norilsk, the world's largest nickel and palladium miner, will pay 2013 and 2014 dividends equal to 50 percent of its earnings before interest, taxation, depreciation and amortisation (EBITDA), but not less than $2 billion per year, Rusal said.

Collahuasi, the world's No. 3 copper mine, was hit last year by problems that included lower ore grades and accidents.

Operations and production had improved at Collahuasi, Glencore Xstrata, which owns a stake in the mine, said last week. Compared with July 2013, copper production rose 2.6 percent, the national statistics agency said.

Output of molybdenum, a metal used to harden steel, jumped 21.5 percent in August to 2,918 tonnes from a year earlier.

**Russia's Norilsk agrees to possible lower 2013-14 dividend**

MOSCOW, Oct 1 (Reuters) - The main shareholders in Russia's Norilsk Nickel, aluminium giant Rusal and a group belonging to tycoon Vladimir Potanin, have agreed on a possibly lower dividend for Norilsk for 2013-14 due to weak metals markets, Rusal said on Tuesday.

Norilsk has already paid $1.9 billion in dividends for 2012 and was expected to declare at least $3 billion for 2013 and the
same amount for 2014, with further payouts equal to 50 percent of its core earnings.

This was agreed in late 2012 in a deal that ended a five-year boardroom battle at the company. The dividends are important for all the company's shareholders, including Rusal, which has net debt of around $10 billion and is struggling with a weak aluminium market.

Norilsk, the world's largest nickel and palladium miner, will now pay 2013 and 2014 dividends equal to 50 percent of its earnings before interest, taxation, depreciation and amortisation (EBITDA), but not less than $2 billion per year, Rusal said in a statement.

In respect of 2015 and to be paid in 2016, Norilsk will pay an amount equal to 50 percent of EBITDA, plus the difference between $7 billion and the actual amount of dividends paid in 2014 and 2015, provided that Norilsk may reduce the resulting 2015 dividend by no more than 20 percent.

For 2016 it would return to shareholders half of its EBITDA, plus the amount of dividend reduction made in respect of 2015, if any; and in respect of 2017 and subsequent years in an amount equal to 50 percent of EBITDA, Rusal said.

The agreement also included the previously announced aim that Norilsk Nickel distribute up to $1 billion of the proceeds from the planned disposal of its foreign and non-core energy assets to shareholders.

Potanin's investment vehicle Interros and Norilsk Nickel were not able to comment immediately.

In glum steel market, Abenomics-inspired Nippon Steel is upbeat

By Yuka Obayashi

TOKYO, Oct 1 (Reuters) - Nippon Steel & Sumitomo Metal Corp 5401.T says it is on track to meet a target of shedding 300 billion yen ($3.05 billion) of unwanted assets in the current business year, 18 months ahead of schedule.

Despite a glum Asian steel market, the company is upbeat about the impact of Japan's "Abenomics" stimulus programme and expects to benefit from the awarding of the 2020 Olympics to Tokyo, Chairman and Chief Executive Officer Shoji Muneoka said.

Prime Minister Shinzo Abe's push to fix the world's third-biggest economy with his mix of hyper-easy monetary policy, fiscal spending and a growth strategy has "significantly" helped improve the business environment, Muneoka told reporters.

Nippon Steel merged with smaller peer Sumitomo Metal Industries last October after they had suffered several years of sliding profits, hit by a strong yen and competition from fast-growing and lower-cost Asian rivals such as POSCO.

"Thanks to several reasons including Abenomics, we've had a better-than-expected first year," Muneoka said. Tokyo's Olympic success had also brightened the outlook for construction demand and improved overall business confidence, he added.

Under its three-year business plan unveiled in March, Nippon Steel aims to cut annual costs by 200 billion yen ($2.04 billion) from merger synergies by 2015/16 and raise its pre-tax profit ratio to 5-10 percent from a mere 1.8 percent in 2012/13.

"We want to meet our targets ahead of schedule. For example, we aim to achieve our target to cut assets by 300 billion yen this business year," Muneoka said.

He said cumulative reductions in inventories and disposals of shares in other companies already totalled 220 billion yen by end-September. The original target to cut assets by 300 billion yen was set for the middle of the 2015/16 year, three years after the merger.

PROFIT BOOST

The Tokyo-based steelmaker expects a nearly four-fold rise in profit in the current business year to next March as it bets aggressive cost-cutting, stronger local demand and higher profit margins from its exports will outweigh market gloom caused by China's massive crude steel output and its softer economy.

Backed by the solid earnings outlook, its share price has more than doubled since the merger, boosting its market capitalisation to over $34 billion, the highest in the steelmaking sector, beyond POSCO's $26 billion and ArcelorMittal's ISPA.AS $23 billion.

Some investors are still bullish.

"Due to the yen's plunge, Abenomics, larger fiscal spending to refresh old infrastructure among other things, Japanese steel makers will enjoy the Japan-only steel boom for a while," said Masayuki Kubota, senior fund manager at Daiwa SB Investments Ltd.

"Most overseas steelmakers are suffering from oversupply, but Japanese makers are regaining competitive edge thanks to the weaker yen and their focus on high-end products which cannot be supplied by most other rivals."

GLOBAL STRATEGY

Despite rising local demand for steel, Nippon Steel will not increase steel output capacity in Japan, Muneoka said. "Any increase will come from our overseas bases," he said.

The company has been stepping up global expansion, mainly through building new local plants to supply high-end automotive steel products to Japanese automakers. Nippon Steel's overseas production capacity will rise by 50 percent this year to 14 million tonnes, Muneoka said.

Japan's top steelmaker will consider adding facilities in North America, Indonesia and India, areas where Japanese automakers are accelerating their production. But it is not in hurry to build a blast furnace, he said.

"We still want our own blast furnace in ASEAN. But the oversupply problem in Asia may last for another 10 years and we need
to be prepared to survive and improve our competitiveness," the 67-year-old CEO said. "We don't need to rush".

Rival POSCO, by contrast, is keen on overseas expansion through building bigger steel mills outside its domestic South Korean market where it generates nearly 60 percent of its sales volume and is losing share to smaller rival Hyundai Steel Co, backed by automaker Hyundai Motor.

POSCO plans to start production at its 3-million tonne steel mill in Indonesia by the end of this year, while in Brazil, the steel-maker is partnering with Vale SA and Dongkuk Steel Mill Co Ltd for a 3-million-tonne mill to produce slabs starting 2015.

"I don't envy what POSCO is doing," Muneoka said.

"We do want to increase sales and output of our-brand products to 60-70 million tonnes in the future, but we are not just seeking larger scale. We want to beat our rivals in terms of ability to offer high-quality products which our customers want."

Steel firm Outokumpu should help itself -Finland's state fund

By Jussi Rosendahl

HELSINKI, Sept 30 (Reuters) - Steel company Outokumpu should try to solve its own problems even though its heavy debts have raised the prospect it might need more money from shareholders at some stage, the head of Finland's state investment fund Solidium said.

While Finland is often listed among the most innovative economies and remains triple-A rated, government funding is still badly needed in the country of 5.4 million people which has a limited pool of private capital.

Kari Jarvinen, Solidium's managing director, told the Reuters Nordic Investment Summit that the fund was making its long-term investment decisions independent of political pressure to help out troubled Finnish companies.

"It is better that the company tries to sort out its problems by itself. The company already had a 1 billion (euros) rights issue only one-and-a-half years ago," Jarvinen said when asked about Outokumpu's finances. "It is paramount that these companies find ways to be profitable in the future."

Solidium holds stakes worth in total 7.7 billion euros in 11 Finnish listed companies including paper maker Stora Enso and investment and insurance group Sampo.

Founded in 2009, its mandate is to invest government money in businesses deemed to be of national importance, while avoiding political interference.

Solidium invested 314 million euros ($425 million) in Outokumpu's share issue last year when the company needed money to buy ThyssenKrupp's stainless steel unit Inoxum. Solidium is now Outokumpu's second-biggest shareholder with a stake of around 22 percent.

But Outokumpu might need more cash. The company, like other steelmakers in Europe, has faced weak demand as a result of customers holding back from purchases because of falling steel prices. At the end of the second quarter, Outokumpu's debt-to-equity ratio was almost 121 percent, compared with 103 percent at the end of March.

RETURNS

Solidium earlier this year backstopped a share issue of Talvivaara, lifting its ownership in the troubled miner to 17 percent.

The move helped the company's nickel mine to keep running, but raised questions among the public and the media over whether the fund should be keeping alive such a troubled business.

Jarvinen dismissed suggestions the fund was being driven by political objectives.

"We are looking for returns... any other angle into our portfolio would be wrong," he said. "We took a calculated risk in Talvivaara, let's see how it goes."

However, he said Solidium was not a portfolio investor seeking quarterly returns, but rather a long-term owner.

"Our view is to look at companies in the longer term and if we see there is a potential to change the company and its performance, we will stay and work together with the company."

Jarvinen noted that many large institutional investors had taken money out of Finland since the 1990s, and that pension funds' investments would also start diminishing due to increasing pay-outs for an ageing population.

Jarvinen also commented on the Helsinki bourse's poor record in attracting new listings. Once the hot-bed of technology listings, the exchange has in recent years only seen companies spun off from others or dual-listings, while its latest fully-fledged main-list initial public offering took place in 2007.

"It is a very worrisome development ... We should do all we can to make sure the Helsinki Stock Exchange remains vibrant and is attractive to new companies to be listed here."

Japan Oct-Dec crude steel output may rise 8 pct y/y

TOKYO, Oct 1 (Reuters) - Japan's crude steel output is expected to rise 8 percent in the October to December quarter from a year earlier, the country's trade and industry ministry said on Tuesday.

Demand for steel products including those for export in the fourth quarter is forecast to rise 5 percent to 24.6 million tonnes from a year earlier, the ministry said, citing an industry survey.

Exports are expected to increase 4 percent to 8.51 million tonnes, the ministry said.
MARKET NEWS (Continued)

Nyrstar agrees European zinc marketing deal with Noble

BRUSSELS, Oct 1 (Reuters) - Nyrstar, the world’s largest zinc smelter, said on Tuesday it had agreed a deal with Noble Group Limited NOBG.SI under which the trading house would sell Nyrstar’s European zinc and also take a 1 percent stake in the Belgian company.

Under the agreement, running for four years from the start of 2014, Nyrstar would set aside 200,000 tonnes per year of commodity grade and continuous galvanising grade zinc for Noble. Nyrstar would receive the market price plus a benchmark premium per tonne, with a profit-sharing mechanism for any upside. Nyrstar said it had decided to limit the tonnage covered by the agreement with Noble and was in talks with other would-be partners for the remaining 150,000 tonnes of commodity grade zinc produced in Europe.

As part of the deal, Noble would also take a 1 percent stake in Nyrstar, buying treasury shares for 6.4 million euros, or 3.76 euros per share, a 5 percent premium to their three-day weighted average on September 27.

Nyrstar was looking for a new partner after commodity firm Glencore agreed to drop its marketing deal with Nyrstar, in place since 2008, in order to gain EU regulatory approval for its takeover of Xstrata. The sale of commodity grade zinc and lead produced from Nyrstar’s smelters outside Europe - Clarksville in the United States and Hobart and Port Pirie in Australia - will continue to be covered by an off-take agreement with Glencore Xstrata.
ANALYTIC CHARTS (Click on the charts for full-size image)
MARKET REVIEW

METALS-London copper edged higher on China holidays, U.S. deadlock

By Melanie Burton
SINGAPORE, Oct 1 (Reuters) - London copper edged higher after China factory data showed growth slowed more than expected in September and as a week-long holiday there got underway, while a funding deadlock in the United States kept traders on edge.

China's manufacturing growth edged up only slightly in September, with its official Purchasing Managers' Index (PMI) below expectations and adding to worries that its economic recovery has foundered.

"Chinese copper demand growth shrank in the first part of the year but now Chinese demand is stabilising ... statistics will look better in the second half of the year," said Matt Fusarelli, an analyst at consultancy AME Group in Sydney.

China is the world's top copper consumer, accounting for around 40 percent of refined demand this year.

AME Group has kept its fourth quarter copper price forecast unchanged at $7,050 a tonne.

Three-month copper on the London Metal Exchange CMCU3 pared early losses to stand little changed at $7,301 a tonne by 0307 GMT from the previous session when it finished nearly flat.

Copper prices rose to their highest in 10 days on Monday at $7,330 a tonne, but have remained in a wider $7,000-$7,500 range since early August.

"SHFE is now closed and will not reopen until next week. In the meantime, technical considerations are likely to be the main market drivers here," broker Sucden said in a note.

"Generally, the technicals are looking fairly positive and so prices will probably lift marginally, albeit inside their well-established ranges." Turnover was extremely thin with less than 500 lots changing hands.

The U.S. Congress, still in partisan deadlock on Monday over Republican efforts to halt President Barack Obama's healthcare reforms, was on the verge of shutting down most of the U.S. government starting on Tuesday morning.

Still, there is a less than 10 percent chance that Washington's budget feud will lead to the United States defaulting on any of its debt, according to a majority of economists polled by Reuters since Friday.

RPT-PRECIOUS-Gold ticks up as U.S. government shutdown begins

By A. Ananthalakshmi
SINGAPORE, Oct 1 (Reuters) - Gold edged higher as the U.S. government shut down some of its operations after Congress failed to agree on a spending bill, but gains were limited as investors believe the stand-off will likely soon be resolved.

After missing a midnight deadline (0400 GMT), U.S. federal agencies were directed to cut back services because of partisan deadlock in Congress over Republican efforts to halt President Barack Obama's healthcare reforms by using a temporary spending bill.

The impasse also raised concerns over whether Congress can meet a more important deadline in mid-October to raise the debt-ceiling limit.

Gold gained early on Monday on safe-haven bids surrounding the shutdown, but pulled back as buying slowed despite a weaker dollar. Spot gold was up 0.13 percent at $1,328.70 an ounce by 0606 GMT on Tuesday.

"Should the political wrangling continue over the debt-ceiling negotiations mid-month, this could provide the impetus for gold to break out of its $1,300 to 1,350 range," said Victor Thianpiriya, an analyst at ANZ in Singapore.

"The market is not putting on a big net position which makes me think that when we get a breakout, it is likely to be sizeable." A Sydney-based trader said gold was not seeing much safe-haven buying as the issue was likely to be resolved soon and there was not much upside to gold beyond that.

The last time the U.S. government shut down in 1995/96, gold -- which was then trading at less than $400 an ounce -- gained about 3 percent.

However, failure to raise the $16.7 trillion debt ceiling by mid-October would have a much bigger impact as it would force the United States to default on some payments - an event that could cripple its economy and send shockwaves round the globe.

When the debt ceiling issue came up in 2011, an agreement was reached only in the last minute and gold hit an all-time high of $1,920 an ounce, in part because of the uncertainties surrounding a deal.
MARKET REVIEW (Continued)

SLOW PHYSICAL DEMAND
The Perth Mint's sales of gold coins and bars in September more than doubled from the previous month but they were still 17 percent lower than the same period last year. Demand for U.S. gold coins fell 81 percent in September on an annual basis, as political turmoil in Syria failed to rekindle retail buying that has slowed after months of exceptional bargain hunting, data on the U.S. Mint website showed on Monday. Markets in China, the world's second biggest gold consumer after India, were closed for the National Day holiday.

Dollar down on U.S. shutdown in European trade

LONDON, Oct 1 (Reuters) - The dollar fell to a 1-1/2 year low against the safe-haven Swiss franc and an 8-month low against the euro after the U.S. Congress failed to reach an agreement and led to a government shutdown.

Expectations that the shutdown, which in the past has lasted from one day to nearly a month, will hurt the economy and prompt the Federal Reserve to keep policy accomodative weighed on the dollar broadly.

The U.S. currency had already been trading near long-term lows before Monday night's stalemate, however, and some investors remained hopeful of a swift resolution to the standoff. By 0654 GMT, the dollar index was down 0.4 percent at 79.918, its lowest since Feb. 13.

The dollar fell to 0.9004 francs, its lowest since early April 2012. The dollar's woes lifted the euro to its highest level since Feb 6, rising to $1.3580, up 0.4 percent on the day.