COLUMN-BHP, Rio Tinto show commodity game has changed

The latest production reports by Anglo-Australian mining giants BHP Billiton and Rio Tinto show just how much the commodity market has changed in the past year.

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

Click here to read more..

BASE METALS: London copper slipped from near one-month highs as traders booked profits after a tepid U.S. labour report reinforced the metal's weak fundamental outlook. The first jobs report since the partial U.S. government shutdown showed U.S. employers added far fewer workers than expected in September, suggesting a loss of momentum in the economy that will likely add to the Federal Reserve's caution in deciding when to trim its monthly bond purchases.

"It wasn't surprising to see a broad-based rally across most asset classes overnight stemming from the jobs report that suggests tapering is off the table for a little while longer," said analyst Tim Radford of Sydney-based advisor Rivkin.

PRECIOUS METALS: Gold traded near its highest in four weeks after tepid U.S. jobs data bolstered hopes that the Federal Reserve will maintain stimulus policies supportive of bullion prices.

"Gold prices will hold at this level because of poor jobs data and possible delay in tapering until next year," said Helen Lau, an analyst at UOB Kay Hian Securities in Hong Kong.

FOREX: The dollar set an eight-month low versus a basket of currencies after weak U.S. jobs data cemented expectations for the Federal Reserve to keep its stimulus in place until next year, while the yen surged as risk sentiment took a hit.

"It's becoming difficult for the Federal Reserve to reduce its stimulus this year," said Shinichiro Kadota, currency strategist at Barclays.
COLUMN-BHP, Rio Tinto show commodity game has changed

By Clyde Russell

LAUNCESTON, Australia, Oct 23 (Reuters) - The latest production reports by Anglo-Australian mining giants BHP Billiton and Rio Tinto show just how much the commodity market has changed in the past year.

BHP and Rio's quarterly statements underline that mining is now a game of producing the highest volumes at the lowest costs, while at the same time scaling back on spending.

This seems like a logical response to concerns over slowing demand growth from top consumer China, whose appetite for commodities drove a decade-long boom in developing projects to boost supply.

The jury is still out on whether the major resource companies stopped spending in time to avoid a major bust in commodity prices, or whether new supply still in the pipeline will deliver a crashing end to the China-led boom.

Certainly both BHP and Rio made much of their efforts to boost volumes at lower costs, while scaling back capital expenditure.

This change in emphasis came about in the middle of last year when both companies abruptly changed direction from spending massively to boost supplies to curbing costs, selling non-core assets and running existing operations harder.

BHP, the world's biggest mining company, said on Oct. 22 that iron ore output jumped 23 percent in its fiscal first quarter from the same period a year earlier.

The company also increased its forecast for full-year iron ore output by 2.4 percent to 212 million tonnes as it ramped up expansion projects in the state of Western Australia.

In doing so it joins Rio in boosting production of the steel-making ingredient, with the company on Oct. 15 reporting record quarterly output.

Rio, which gets two-thirds of its revenue from iron ore, said it is also on track to ramp annual output to 290 million tonnes by the first half of 2014, and eventually to 360 million tonnes, at which point it would overtake current global leader Vale VALE5.SA.

Rio boosted coal output to a record in the three months to September and said it was on track to increase copper production.

BHP also reported output gains in thermal and coking coal, copper, nickel and aluminium.

The increase in volumes was accompanied by cuts to spending, with Rio saying it would exceed its target of $750 million in 2013, having already achieved $729 million in the nine months to the end of September.

BHP said it is continuing to build on the $2.7 billion in savings achieved in the year to June 2013, "with strong momentum maintained" in the September quarter.

Both BHP and Rio replaced their chief executives this year, trading deal-makers and expansion champions for men with reputations as strong operators.

So far BHP's Andrew Mackenzie and Rio's Sam Walsh have delivered on their commitments to extract more value from existing assets and to scale back new developments.

This was largely done at the behest of equity analysts, who had criticised both companies and competitors such as Anglo American for not delivering returns to shareholders from the extended commodity boom.

While both the share prices of BHP and Rio have gained since last year's lows, they are still some way below their post-2008 recession peaks.

BHP is up 24.4 percent since last year's low on July 18, while Rio has gained 33 percent since its bottom on Aug. 30.

However, both shares are around levels that prevailed in 2007. In contrast, the S&P GSCI index of commodities, which is a good comparison for BHP as it contains a significant energy component, has risen 29 percent since mid-2007.

However, the index is up 13.2 percent since its low last year on June 21, meaning BHP has outperformed the benchmark in the past year.

The spot Asian iron ore price has gained 124 percent since pricing started in November 2008, and 53 percent since the 2012 trough, reached on Sept. 5.

This means Rio is still underperforming against the commodity from which it derives the bulk of its earnings, and while BHP is doing a little better, neither are exactly stellar performers.

The benchmark Australian stock index, the S&P ASX 200, has jumped 35 percent since its 2012 low in June, and by 7.8 percent since mid-2007, meaning it has produced higher returns than the resource giants over both the last 12 months and the last six years.

It appears both Mackenzie and Walsh have gone some way to convince equity investors that the shift in strategy was a good decision, but the market isn't quite ready to reward their companies with share prices that outperform.

Disclosure: At the time of publication Clyde Russell owned shares in BHP Billiton and Rio Tinto as an investor in a fund, and may own other shares mentioned in this article as an investor in a fund.

--Clyde Russell is a Reuters market analyst. The views expressed are his own.--
India's third biggest gold fund reopens to investors

SINGAPORE, Oct 23 (Reuters) - India's third biggest gold fund will begin accepting fresh investments again after shutting off new buy-ins three months ago to support government efforts to curb bullion demand and control a rising trade deficit.

Reliance Gold Savings Fund, which manages about $300 million according to Lipper data, will begin accepting subscriptions from Wednesday after suspending inflows on Aug. 1, according to a notice sent to investors.

The government and the central bank launched a series of measures this year to curb the country's appetite for gold as India battled a ballooning trade deficit and a weak currency. Gold is the biggest item on India's import bill after oil.

The gold fund is part of Reliance Capital, controlled by billionaire Anil Ambani. It is India's third biggest gold fund after exchange-traded funds run by Goldman Sachs and Reliance.

Reliance cited the "current macroeconomic environment" for the move to reopen the fund to investors, but did not elaborate.

India's trade deficit narrowed last month following lower gold purchases and an increase in exports, supporting the rupee. Gnanasekar Thiagarajan, a director with Commtrendz Research, said the drop in gold imports and the current account deficit could have prompted Reliance to reopen the fund for business.

"However, the biggest challenge will be to find gold supplies as it is not available in the market," he said.

The government's measures to slow imports have caused premiums in India to jump to $120 an ounce over London prices as supplies have been unable to meet demand. Earlier this year, Reliance said it would close the fund to fresh investment and suspend sales of physical gold to support the "policy objectives" of the government and the Reserve Bank of India. It was the only fund to do so.

India's trade deficit narrowed last month following lower gold purchases and an increase in exports, supporting the rupee. Gnanasekar Thiagarajan, a director with Commtrendz Research, said the drop in gold imports and the current account deficit could have prompted Reliance to reopen the fund for business.

"However, the biggest challenge will be to find gold supplies as it is not available in the market," he said.

The government's measures to slow imports have caused premiums in India to jump to $120 an ounce over London prices as supplies have been unable to meet demand. Earlier this year, Reliance said it would close the fund to fresh investment and suspend sales of physical gold to support the "policy objectives" of the government and the Reserve Bank of India. It was the only fund to do so.

India has imposed a 10 percent duty on imports of gold, and tied imports to exports. Imports have fallen to a mere 7 tonnes in September from a record 162 tonnes in May.

Freeport beats Street, looks at sales but in no rush

By Allison Martell and Nicole Mordant

Oct 22 (Reuters) - Freeport-McMoRan Copper & Gold Inc reported better-than-expected third-quarter results on Tuesday, lifting its shares 4 percent, and the company said it was still looking at asset sales but was not under any pressure to do them quickly.

Freeport, the world's No. 1 publicly listed copper producer, repeated that it was considering ways to reduce its debt levels, through asset sales, joint ventures or adjusting capital spending plans.

"We are in a position where we ... don't have to do anything," Chief Executive Officer Richard Adkerson said on a conference call. "Anything we do ... will be done in a way to enhance shareholder value."

The Phoenix, Arizona-based company has said it aims to cut its debt load to $12 billion over the next three years.

Debt levels spiked after Freeport earlier this year bought energy companies Plains Exploration & Production Co and McMoRan Exploration Co for $9 billion. Total debt as of Sept. 30 was $21.1 billion, little changed from $21.2 billion as of June 30.

Freeport said in July that it had started a sale process for some of its newly acquired oil and gas projects in the Gulf of Mexico. Although the sale process was continuing, company officials said on Tuesday, it might make more sense to not immediately sell some of these assets, such as conventional oil and gas assets on the shelf of the Gulf of Mexico.

"We are debating entirely whether we just might be better to continue to operate those fields for a while and get those big wells on and sell some at a later date," said James Flores, chief executive and president of Freeport-McMoRan Oil & Gas.

A later date could be "within months" or "maybe next year," he said.

GRASBERG AGREEMENT

Adkerson said Freeport overnight had signed a two-year labor agreement with workers at its massive Grasberg copper and gold complex in Indonesia. A tentative deal at Grasberg, the world's second-biggest copper mine, was reached earlier this month.

"The good news with that is that we avoided any kind of work stoppage. The strike two years ago was a major negative for all the stakeholders involved," Adkerson said. The company agreed to increase base salaries by 10 percent in both 2013 and 2014, he said.

Adkerson said Freeport hoped that it could resolve by year-end long-running contract talks with the Indonesian government. Jakarta is pushing miners, especially foreign-owned operations like Freeport's unit, to add value to Indonesian exports by building smelters.

Freeport's current contract to operate Grasberg, in Papua province, expires in 2021. Contract renegotiations have rumbled on for more than a year, with the government seeking bigger royalty payments, commitments on domestic processing, and stake sales by foreign miners so as to increase domestic ownership.
EARNINGS BEAT

Freeport's third-quarter earnings beat came on the back of a good performance from its recently acquired oil and gas operations and despite lower metals prices that weighed on profits.

"A very big quarter for them," said Garrett Nelson, an analyst with BB&T Capital Markets. "The beat was mainly driven by the oil and gas segment, where sales, realizations and production costs all came in better than what we had estimated."

Sales of copper, gold and molybdenum rose in the quarter, but the prices of all three metals fell from a year earlier.

Net income slipped to $821 million, or 79 cents a share, from $824 million, or 86 cents, a year earlier. Revenue rose to $6.17 billion from $4.42 billion, boosted in part by the oil and gas acquisitions.

Analysts had expected earnings of 62 cents a share on revenue of $5.7 billion, according to Thomson Reuters I/B/E/S.

Freeport kept its full-year sales forecasts unchanged at 4.1 billion pounds of copper and 1.1 million ounces of gold.

Zambia suspends 10 pct duty on unprocessed metal exports

LUSAKA, Oct 22 (Reuters) - Zambia has suspended a 10 percent export duty on exports of unprocessed metals after mining firms said they had accumulated too much stock because of limited local smelter capacity.

Finance Minister Alexander Chikwanda said in a notice dated Oct. 4 that the suspension of the tax would take immediate effect on exports of resources such as copper, iron, cobalt and nickel.

“These regulations shall cease effect on 30th September, 2014,” the notice stated.

The government introduced the export tax on raw metals in November 2011 in a bid to encourage the development of local industry to add value to the economic chain in Africa’s top copper producer.

Foreign mining companies operating in Zambia include Canada’s First Quantum Minerals, London-listed Vedanta Resources and Glencore.
crowns in the quarter, up from a loss of 4 million a year ago, while analysts had expected the division to earn 102 million.

Chinese iron ore futures fall for 3rd day on low mill buying

SHANGHAI, Oct 23 (Reuters) - Chinese iron ore futures fell for a third consecutive session on Wednesday, undermined by a lack of significant restocking by steel mills as the demand outlook remains soft.

Steel mills face falling orders in winter due to sluggish consumption in northern regions as the cold halts construction work.

"Mills are having a very hard time and using all means to save costs by keeping iron ore inventories low and buying on a hand-to-mouth basis," said an iron ore trader in Beijing, adding that relatively low stock levels could prevent a sharp fall in prices.

The most active iron ore contract for May delivery on the Dalian Commodity Exchange dropped to a session low of 942 yuan ($150) a tonne, down 1.5 percent from Tuesday, the lowest since the listing of the contract on Friday.

This is equivalent to about $127 after stripping out the 17-percent value-added tax and other costs.

The benchmark spot price for seaborne iron ore fell 0.8 percent to $133.3 a tonne for delivery to northern China's Tianjin port on Tuesday, according to data provider the Steel Index.

"Mills are struggling with tight cash flow and we are having big difficulty selling stockpiles and may have to take losses," said an iron ore trader in coastal Shandong province.

The most traded rebar contract for May settlement on the Shanghai Futures Exchange stood little changed at 3,638 yuan a tonne by the midday break. It earlier touched a near one-month high of 3,661 yuan, the highest since Sept.24.

Outokumpu asks EU to let it keep Italian steel plant - sources

By Silvia Antonioli and Maytaal Angel

LONDON, Oct 22 (Reuters) - Finnish stainless steel maker Outokumpu has asked the European Commission to let it keep the Italian steel plant the company agreed to sell to gain approval for its purchase of ThyssenKrupp's Inoxum unit.

The Acciai Speciali Terni plant has been valued at more than 500 million euros ($677 million) by Outokumpu, but is now expected to sell for less than that due to weakness in the global steel market.

Two sources familiar with the matter told Reuters that Terni, one of Europe's biggest and most modern plants, will lose 80-100 million euros this year, and that Outokumpu believes it is not anti-competitive to keep it under current conditions.

The Terni plant, about 100 km (62 miles) north of Rome, was valued by one analyst at up to $1 billion over a year ago.

"They have been trying to convince the EU that they should keep Terni since the market situation has completely changed from last year - the sector got much worse," an industry expert said.

Refraining from selling the plant could allow more flexibility in valuing it, the expert said, leading to a lower writedown in the company's books.

"On Outokumpu's books they put it at 560 million but probably it will go at 100-200 million euros," he added.

Outokumpu has twice asked the Commission, which regulates mergers, acquisitions and competition in the EU, to postpone the deadline for selling Terni because the company thought the bids were unsatisfactory.

It has now been given until the first quarter of 2014 to complete the sale, according to a source with knowledge of the situation.

SHORT SHRIFT

The request not to sell is expected to receive short shrift in Brussels.

"The successful and timely sale of AST (Terni) ... is essential for the Commission. The Commission is of the view that the divestiture should occur as soon as possible within the timeframe foreseen," said Antoine Colombani, spokesman for EU Competition Commissioner Joaquin Almunia.

The Commission previously said it would appoint a divestiture trustee to sell AST if Outokumpu failed to find a buyer, in an effort to allay fears that further delays could damage the plant.

An Outokumpu spokesman declined to comment, but said the company would give an update on Nov. 1 in conjunction with its third-quarter earnings.

A consortium led by steelmaker Aperam, a company floated by ArcelorMittal in 2011, is the only party to make a binding bid last spring for the plant, and it remains interested.

The other three parties in the race are Taiwan's Yieh United Steel Corp (YUSCO), one of Asia's largest stainless steel producers, as well as U.S. private equity funds Apollo and JP Morgan's One Equity Partners.

If the Commission continues to insist on a sale, Outokumpu is expected to go into negotiations with one party within the next month.

Workers at Terni and local authorities recently expressed concern about an extension of the sale process, which could worsen the situation of the plant in one of Italy's unemployment blackspots.

The Terni plant employs almost 4,000 people directly and indirectly.
ANALYTIC CHARTS (Click on the charts for full-size image)
MARKET REVIEW

METALS-London copper eases from near one-month top

By Melanie Burton

SINGAPORE, Oct 23 (Reuters) - London copper slipped from near one-month highs as traders booked profits after a tepid U.S. labour report reinforced the metal's weak fundamental outlook.

The first jobs report since the partial U.S. government shutdown showed U.S. employers added far fewer workers than expected in September, suggesting a loss of momentum in the economy that will likely add to the Federal Reserve's caution in deciding when to trim its monthly bond purchases.

While the prospect of extended loose policy is supportive for metals, sluggish demand growth in the U.S. is doing little to improve copper's demand outlook amid rising oversupply. The market is seen in a surplus both this year and next.

"It wasn't surprising to see a broad-based rally across most asset classes overnight stemming from the jobs report that suggests tapering is off the table for a little while longer," said analyst Tim Radford of Sydney-based advisor Rivkin.

"The USD index was down quite sharply also, which is helping to support a lot of the commodities out there. But copper continues to be stuck within the range and it's hard to see any upside for the time being," he added.

Three-month copper on the London Metal Exchange slipped 0.8 percent to $7,276.25 a tonne by 0258 GMT, eroding 1.2 percent gains from the previous session.

Copper prices hit the highest since Sept. 20 on Tuesday at $7,350 a tonne but remain trapped in a broader $7,000-$7,420 band in place since early August.

The most-traded January copper contract on the Shanghai Futures Exchange erased early gains to trade at 52,270 yuan ($8,600) a tonne, up 0.11 percent. ShFe zinc hit its highest since Aug. 28 while ShFe lead hit the loftiest since Sept. 4, both tracking overnight gains in London.

Most U.S. primary dealers polled by Reuters on Tuesday believe the Federal Reserve will not start cutting its monthly bond purchases until March next year and said the recent government shutdown and standoff over raising the U.S. debt ceiling had a significant impact on the Fed's timing.

Bond buying helps to prop up commodities by allowing greater liquidity for both business and investors, while weakening the dollar, which makes greenback priced commodities less expensive for holders of other currencies.

The dollar wobbled near a two-year low against the euro on Wednesday.

In China, worries of a credit crunch if the government tries to clamp down on soaring house prices have fuelled financing demand for copper.

China signalled concern on Tuesday that ample credit could fuel inflation as a report showed house prices jumped the most in nearly three years, with double-digit gains in major cities.

Chinese investors who buy copper as collateral for short-term loans have started using London Metal Exchange warehouse stocks for the practice, driving up spot market premiums amid fears of a year-end credit crunch, traders said.

PRECIOUS-Gold near 4-week highs on hopes U.S. will keep stimulus

By A. Ananthalakshmi

SINGAPORE, Oct 23 (Reuters) - Gold traded near its highest in four weeks after tepid U.S. jobs data bolstered hopes that the Federal Reserve will maintain stimulus policies supportive of bullion prices.

U.S. nonfarm payrolls in September increased by a lower-than-expected 148,000, raising fears about economic recovery amid a budget battle in Washington.

Spot gold XAU= eased 0.3 percent to $1,344.46 - the highest since Sept. 20. U.S. gold was trading near its three-week high.

A continuation of the Fed's $85 billion monthly bond purchases would burnish gold's inflation-hedge appeal.

"Gold prices will hold at this level because of poor jobs data and possible delay in tapering until next year," said Helen Lau, an analyst at UOB Kay Hian Securities in Hong Kong.

"The reason why they will postpone tapering is because the Fed needs reliable jobs data to make their decision and this data will be distorted temporarily by the October shutdown."

The jobs data on Tuesday indicated that the economy was losing its momentum even before a 16-day shutdown earlier this month that will likely dampen October numbers. Fed officials have said they need to see strong recovery in the labour market before they begin any tapering.

Most U.S. primary dealers polled by Reuters on Tuesday believe the Fed will not start cutting its monthly bond purchases until March of next year and said the recent government shutdown and standoff over raising the U.S. debt ceiling had a significant impact on the Fed's timing.

PHYSICAL DEMAND

Gold premiums in India hit $120 an ounce to London prices on Tuesday as the domestic market failed to get enough supply to meet strong festive demand.

In China, Shanghai spot prices were trading at a premium of $7 an ounce.

Gold demand in China could increase as higher home prices stoked inflation fears, said Lau of UOB Kay Hian.
MARKET REVIEW (Continued)

FOREX-Dollar hits fresh lows on Fed stimulus view; yen surges

By Masayuki Kitano

SINGAPORE, Oct 23 (Reuters) - The dollar set an eight-month low versus a basket of currencies after weak U.S. jobs data cemented expectations for the Federal Reserve to keep its stimulus in place until next year, while the yen surged as risk sentiment took a hit.

The dollar touched a fresh two-year low versus the euro in the wake of the disappointing jobs data, and extended its losses versus the yen in the Asian afternoon as a drop in regional shares dented risk sentiment. Chinese equities fell 1.2 percent.

The dollar fell to as low as 79.137 against a basket of currencies, nearing this year's trough of 78.918 set in early February. The greenback came under pressure after data the previous day showed U.S. employers added far fewer workers than expected in September, suggesting the economy may have lost some momentum even before the 16-day partial shutdown of the federal government this month.

"It's becoming difficult for the Federal Reserve to reduce its stimulus this year," said Shinichiro Kadota, currency strategist at Barclays.

The euro rose to as high as $1.3793 on trading platform EBS, just slightly exceeding Tuesday's peak to reach its highest level since November 2011. The euro last fetched $1.3773, down 0.1 percent on the day.

A majority of U.S. primary dealers polled by Reuters now believe the Federal Reserve will not start cutting its current $85 billion a month bond buying until March.

"I think there's certainly a high possibility that dollar weakness might extend a bit further, but I'm not really sure that it changes the medium-term dollar picture," said Sim Moh Siong, FX strategist for Bank of Singapore.

In the near-term, the dollar could see further weakness against other major currencies such as the euro and sterling, Sim said, adding that the euro may rise towards levels around $1.39.

One near-term focal point is the Fed's Oct. 29-30 policy meeting, which could provide clarity on whether there has been any substantial change to Fed policymakers' views on the economy, Sim added.

The dollar fell 0.8 percent against the yen to 97.34 yen. The dollar is now testing support at its 200-day moving average, now at about 97.27 yen.

The yen rose broadly, with the euro falling 0.9 percent to 134.09 yen EUR, down from Tuesday's four-year high of 135.52 yen. The Australian dollar slid 1.3 percent to 93.96 yen AUD, down from a four-month high of 95.67 yen set on Tuesday.

Earlier on Wednesday, the Australian dollar had scaled a 4-1/2 month high against the U.S. dollar after a higher-than-expected domestic inflation reading reduced the chances of further interest rate cuts from Australia's central bank.

The Aussie rose to as high as $0.9758, its highest level since early June. The Aussie, however, later reversed course and turned negative, and was last down 0.6 percent on the day at $0.9654.